A Study on the Scope of the Virtual Wallets in Indian Market - Issues and Challenges

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Abstract:
Now-a-days it is hard to find a person or even becoming difficult to imagine one without a Smartphone. Almost all the mobile users are well connected with Internet which leaves a huge opportunity for the organizations to grab the market provided if they bring in a bit of innovation in the way they operate. One such innovation in the recent times is the Virtual Wallet which in near future might replace the physical wallet usage. Our generation at least a few who grew up in remote villages in India have seen the transition from the barter system also, then physical money, very recently to Credit and Debits cards with most of the transactions online using net banking. With the arrival of the Virtual wallets, the shopping experience of the consumers became very easy right in both the modes either online or offline purchases.

This paper has made an attempt to cover the topic at length which can additionally help as a ready reckoner for all the recent happenings in the industry. The researcher has proposed a model which will appropriately directs the way the Virtual wallet companies can think through for better customer adoption. EARN Model, E – Empathize, A – Adoption, R – Reiterate, N – Nexus has been presented by the researcher to facilitate the future studies in this area and happy to allow this model to be considered as a reference for empirical study.

The paper aims to present the Virtual wallet mechanism in India, scope of the Virtual wallets also further analysing the advantages and disadvantages, issues and challenges of Virtual wallets. Finally giving the recommendations that can be considered for quicker penetration and adoption of the Virtual wallets to the consumers.

Key Words: Virtual Wallets, Mobile Wallets, Digital Wallet, Thin-wallet, E-wallet, Indian Market, Currency, EARN Model

Introduction: The arrival of the smartphones and mobile internet changed the world and the way we live, People almost feel handicapped without internet. One of the disruptive changes that we have seen very recently is the Virtual wallets. Though the terms to refer are many like Mobile Wallets, Virtual Wallets, E-wallets, Thin-wallet, Digital Wallet but the concept is the same. The fundamental solution that revolves around the Virtual wallets is the user need not carry cash / all the Credit / Debit cards that one possess, instead if the mobile application is downloaded on to the smart phone, initially respective cards needs to be registered further on the wallet can be used to shop online / pay bills / transfer funds depending upon the services that are offered by the provider with only punching in the user name and password.
Figure 1.1 details about the transaction shift that had happened right from the Barter system to the Virtual wallets or Electronic wallets. As represented in the diagram, it can be noticed that the transactional method has been changed four times if classified broadly. Barter System, where people used to transact goods with each other basically for survival, and then the economy shifted to the copper coins, further currency then onto the operational banking. If we quickly recall the days where to withdraw the amount from a bank we will have to stand and pass through the long queues where all the transactions in the branch banking were manual. Then came the Computerization of the banking system where all the on premise business became bit faster. Further appeared the Debit Cards where customers can withdraw the amount at their comfort from automated teller machines (ATMs) and the Credit Cards through which they can perform all the online transactions.

With the advent of the Plastic Money and Internet banking the aspect of struggle to carry when huge amounts are needed disappeared, also it created more security for high value transactions. Even though the physical level abuse is largely controlled using Plastic Money and Online transfers, but the rise in the cloning of the credit and debits cards, Internet banking password hacking increased. All these triggered towards Virtual wallets, where user has to download the application in mobile via secured mechanism, say android users from Play store or through the official websites. With this as the Virtual Wallets are providing both the security and convenience, they are gaining popularity these days.

Objectives of Study:
- To understand the Virtual Wallet mechanism in India
- To examine the scope of Virtual wallets in India
- To study the advantages and disadvantage of the Virtual wallets
- To study the issues and challenges of Virtual wallets market in India
- To apprise the proposed EARN Model for the benefit of forthcoming researches

Methodology:
- The study is conducted based on secondary data base and it is conceptual research study.

Virtual Wallet Mechanism and Scope in India: Virtual Wallets are nearly areplacement for the Physical wallets, where users once have this downloaded it in his/her smart phone can start...
using it instantly, with different loading options. These Virtual Wallets can be considered as prepaid instruments where different companies give various options for the customers. Few of the wallets offer only to load the money and transact, where others give the option to reuse it after reloading the wallet, also some offer wallets where user can tag them to bank account and start using them till the permitted limits. In all the three cases, it is not allowed to withdraw the cash. There are very few which allow withdraw cash either from the kiosks, respective merchant locations or retailer outlets.

The fundamental idea is simple, it provides a solution for the user not to carry the heavy wallet everywhere or every time a purchase is done. The mobile based Virtual wallet after downloaded to your smartphone, next step is to register with the details and then pre-load certain amount into it. Upon which one can start using it in the merchant location, e-commerce sites, booking a cab, ordering food, transferring money to friends, paying Utility bills based on the services that are offered by the provider. Anyway money is being paid from the money that is pre-loaded or the credit / debit card that is added while registering.

The advantage here is one need not touch the bank account directly for the normal transactions which is very good from security perspective.

Figure 1.2 briefs various payment options that a user can choose while performing a transaction. As we notice apart from the credit / debit card and online net banking there are many players in the virtual wallet space to choose from based on the services that are being offered. The most relevant reason as per research is that it is the convenience that these Virtual wallets provide.
right from rewarding from the usage to the security of the transactions. Apart from the security that the Wallet companies provide Reserve Bank of India (RBI) also imposes certain rules on the operations, say like the maximum amount that one can park in these wallets is Rupees Ten Thousand only. Also all the companies come under the strict scanning of the RBI which isolates the risk of a user losing the money in case of a rare fraudulent transaction.

**Figure 1.3 Payment Options**


Figure 1.3 gives an overview of how a Virtual wallet works. Initially user has register onto the Virtual wallet either downloading the mobile application or via the website, in most of the cases it will be on their smart phone only. Depending upon the Wallet one choose and the kind of services they offer, either the money is pre-loaded or credit/debit card details are provided as a base for the immediate transactions. Now as and when the customer purchases and initiates a transaction, the e-wallet will check the money or card details availability, if those are found successful, then the money will transferred to the said account and the transaction is a success. User will be notified of the details for future reference, anyways as the details are maintained online, one can always login to the account history and check for the older details, if needed.

**Types of Virtual Wallets:** In India, if we broadly classify the Virtual wallets that are available, they can be categorized into four types. These are: 1) Closed Wallets, 2) Semi-Closed Wallets, 3) Open Wallets, and 4) Semi-open Wallets. Figure 1.4 below describes the same:

i. **Closed Wallets:** Closed wallets are the wallets that allow you to just store or load the money only once and can be used only for the transactions. If we look at the Indian scenario, it is a mix of all where the Ride hailing companies like Ola have started their
own wallets – Ola Money which is a Closed Wallet, once the money is loaded to the account it can only be used to ride the Ola Taxies.

ii. **Semi-closed Wallets**: Semi-closed wallets are the ones that can be replenished for transactions and will not allow any withdrawal of money as no bank account is linked to them. MobiKwik, PayU, and Airtel Money are the best examples under this category of e-wallet.

iii. **Open Wallets**: open wallets are those where a customer can withdraw, transfer, and reload the account multiple times, however within the permitted limit specified by RBI. There are few of the Open wallets services that are operating in coordination with the bank like M-Pesa by Vodafone and ICICI.

iv. **Semi-open wallets**: Semi-open wallets are those which have an underlying bank account and transactions allowed multiple times but with no transfer possible to savings account. Airtel Money is a Semi-Open wallet which allows user to perform transaction where Airtel have got the prior agreement.

![Figure 1.4 Types of Virtual Wallets](source: A Guide to Mobile Wallets by Kumar Saurav published in Times of India Tech dated 23.August.2015)

Now the most popular one among the different Virtual wallets is PAYTM which is aggressively capturing the market due to:
Early entry in the market.
Flawless service.
Dynamic adaptability.
Good customer care service.
Tie ups with some of the famous merchandises (like UBER, ZOOMCARS etc)
Availability of various discount coupons (which attract most of the Indians)
Easy to use this (PAYTM) app.

Advantages and Disadvantages of Virtual Wallets: As we are well aware that virtual wallets services have been existed to provide a financial covenant services to their customers, with this e-wallet services customers need not worry about to carry/hold cash to meet their routine needs. Virtual wallet services have been offering though high security system and upgrading based on the new requisites of the customers. However they are some advantages and disadvantages against to any services. Let us see the advantages and disadvantages of virtual wallets.

A) Advantages of Virtual Wallets:
• The greater benefit of using the Mobile Wallet especially for the smaller transactions is the security, as there is a cap on the amount that can be parked, say ten thousand rupees at a time and also a monthly limit on the transactional amount, it is relatively safe against the fraudulent trails as the savings bank account is not touched at the time of the transaction.
• As few of the wallets have their own e-wallet applications, it is convenient to complete the transactions even if one doesn’t have a credit card by transferring the required amount via net-banking, or even if no internet banking option, can fill the account by visiting any of the kiosks set up the company.
• For repeated transactions like prepaid mobile minute recharges and Taxi-bookings these are quite useful as it is almost a single touch via mobile as against the credit card or net banking payment which requires an OTP, often delayed SMS due to network issues and further Transactional password to complete the payment.
• As all the transactions are recorded and stored online, user can check and download them anytime for reference, even as Weekly / Monthly Statements.
• As the Account is created based on the Mobile number or individual Email id which is unique to each user, there is lesser possibility of duplication as in case of the credit card / debit card cloning.
• Top it up when you need can be other convenient facility, as the users are allowed to reload the wallets according to their need.
• Once the User is registered on E-Wallet it is lifetime valid as against the Credit / Debit card which is offered usually for a limited period.
• At any point of time user can easily monitor the balance available in their wallet which gives more control on his/her spending. Also few of the applications offer the spending
analysis for the month to analyse where the money is going, allowing them to restructure their finances.

- Another biggest advantage of E-wallet from practical perspective is it makes one free from micro-payment related head-aches, Imagine you are in a hurry and about to get down a cab and driver says no change, or when you are crossing a toll-gate and the teller handovers a biscuit packet instead of a five rupee coin, and finally one more when you are paying in a super-market and the teller gives you a candy in place of a rupee, which is quite annoying. E-Wallet is the answer for all these trivial issues, you can even pay 396.78 rupees or 498.62 also.

- With Virtual Wallets you will never run out of money as you are digitally performing the transactions, when compared to the Bank withdrawals or Automated Teller machines withdrawals.

- Available 24*7 and 365 days as the transactions are online with no impact during bank holidays.

B) Dis-advantages of Virtual Wallets:

- According to the research, the fear of the security when performing the transaction online is more from user perspective which is true, as the technology is improving to provide additional security so as the methods to hack them. With this the Virtual Wallet providers need to constantly review their security online.

- As the Electronic wallet services provided are via cloud, chances are that the system might go down sometimes or when on a planned maintenance registered users might not be able to progress with the transactions.

- If the Mobile data network is not good, it is a challenge to complete the transaction in those places.

- Most of the new users might not feel as comfortable with the usage as this is an application on the mobile needs certain tech literacy.

- In India, the Cross-Virtual Wallet transfer is not yet in, which is a compelling situation to the user to use the amount in the same Wallet registered.

**Virtual Wallets - Issues and Challenges:** Virtual Wallets market is one the growing market in India with high rate of penetration. As we stated earlier most of the Indians are accustomed to use of Smartphone, its good amount of feature and services offering. A virtual wallet service is one of the prior demand services which cater the needs of customers in small payments regularly and on-demand.

The research has had the opinion that it is time to examine the issues and challenges that Virtual wallet companies are facing today.

- Not so good Customer Service available in case of the dispute resolution is causing an issue and making companies to lose few of the customers.
• Most of the Urban users are sensitive about the notifications as it will drain their Smart phone batteries, this is one of the challenges the companies of facing to stay on the users smart phone for a longer period.

• Government Organizations like Reserve Bank of India should form a governing body to create a sense of security backing, which is not yet in place is causing little lower growth in this space.

• Market Penetration is tough where Internet connectivity is not proper or where there are less number of smart phone users.

• From security perspective, as the registration to these wallets are based on either mobile number or personal email id, companies should work with the mobile operators and email providers, to build a robust safety mechanism securing the customer data in all the cases of misuse, say if an email id is compromised or mobile is lost, the system should be able to block or protect the cash parked in the Digital wallet.

• The biggest challenge before the E-Wallet companies today is User Acceptance. Though the companies are trying their best to make customers understand the concept as this is relatively new it is bit difficult to take it to all types of users. As there is a clear future for the Virtual wallets, organizations should focus more on the user adoption.

**Proposed Earn Model:** The EARN Model proposed by the researcher is a logical model which answers the Customer adoption problem that the Virtual wallet companies are facing now and serves as a tool for the companies to focus further to capture the market as in future most of the online transactions are undoubtedly via Virtual Wallets.

![Proposed EARN Model by the Author](source)

*Source; Figure 1.5 gives a snapshot of the EARN Model Proposed by the Author. Below is the detailed information with a supportive example for better understanding.*
1. **Empathize**– Initial step that the E-Wallet companies are advised is to perform a quick survey in understanding the mind of the customer. As this is related to the finance this survey part is bit crucial as collecting the data is sensitive. With a clear understanding of who their customers are and what are the features that they can offer to the user in the mobile application, Next step is to make the users aware of all the services and clear benefits that they can derive registering with the company. If the customers the concept right the higher the chances of them becoming the users immediately.

2. **Adoption** – The more the user relates to the services that are being offered by the company, the more are the chances that he/she will accept it immediately. For the user to accept the companies should make themselves more transparent with the terms and conditions with no hidden costs or technical jargon that are confusing.

3. **Reiterate** – Once the user is registered, the companies should effort to constantly reinforce the benefits and services that are being offered, so that the retention and the average consumption in the wallet increases steadily. If any new features are introduced in the application, the users should be made aware of them immediately clearly explaining the advantage and value add they get from this new feature.

4. **Nexus** – The Company to thrive in the future and not to leave any of its customers to its competition, it should continuously innovate. At the same time it should become the interface between various other companies to offer variety of services in the same application to the user. Step by step it should increase the services connecting the different categories making the application a one stop for all the needs.

As we know that PAYTM is the leading virtual wallet, which is aiming to expand its user base by five hundred million by the end of 2020. Also the company is constantly reiterating the new features that are made available as soon as they are introduced. Further it is leveraging the merchant partnerships to increase its revenue steadily. As on February 2016, PAYTM has one twenty Million active users and one lakh fifty thousand merchants on its platform. Also the company’s strong operational capability in bringing new merchants and services into the network is making it march towards becoming the market leader.

**Managerial Implications against Virtual Wallets:** Having covered and discussed extensively on the Virtual Wallets, below are the few of the recommendations that can be considered for implementation for the betterment.

1. Introduction of the Reward points, Payback discounts, and Cashbacks and loyalty programs will increase the customer adoption as this a new and trending concept in the Indian Market.
2. Mobile Applications should be made user friendly, so that not so technology savvy customers will also use the wallet easily, which will increase the traffic.
3. Constantly bring in the innovative ideas that are feasible into the application, also the new merchants and services into the network so that it will become single go application for all requirements from the User perspective.
4. Also few improvements in the Mobile application perspective say relevant notifications based on the recent user searches, making the application less battery hungry will help users stay on the network.

Conclusion: Virtual Wallets in near future are for sure going to disrupt both the online and offline business. The Companies that will foster are those which will quickly align their business model and strategies aligning them to the changing trends. It is not a distant day where we will see most of purchase happen either by flashing our mobile cameras scanning against the teller to pay the bills for purchases via Virtual wallets. In Parallel to the implementation of the technology in the mobile application, it is also equally important to educate the customer so that the quicker adoption will increase the user base. This paper tried to cover the Virtual Wallet market mechanism and scope in India, further discussing the advantages, disadvantages, issues and challenges. The EARN Model proposed by the author helps the future researches showing a direction in finding ways to better the services of Virtual wallet companies.

References