

Executive Summary

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Digital payments in India have witnessed a significant surge, fueled by the emergence of new consumer segments. This white paper explores the rapid growth and widespread adoption of digital banking and credit adoption in semi-urban India, drawing insightful comparisons between the market dynamics of **Cat A cities and Cat C+ cities between 2019 to 2024**. Notably, both periods exhibit remarkable growth patterns driven by evolving consumer segments and enhanced digital infrastructure.

Per Visa data, **the number of customers spending more than ₹2 lakh annually using a single card grew by approximately 4 times in Cat C+ cities, compared to just 1.4 times in Cat A cities**. This shift indicates a democratisation of affluence previously concentrated in metropolitan areas, and now contributing to a **substantial 175% increase in card spending in Cat C+ cities since 2019**. With digital payments growing faster in non-metro cities, this analysis examines the evolving financial landscape and highlights the significant opportunities that lie ahead for lenders and businesses.



Key Findings

Among the primary factors driving the rise in digital payment adoption are:



Rising disposable incomes

and purchasing power in non-metros have grown substantially. Cat C+ cities have seen a 175% increase in card spending since 2019.



Expansion of e-commerce

boosted by improved delivery networks, has spurred online spending in these cities, with a marked increase in discretionary purchases.



Enhanced digital connectivity

facilitated by affordable technology and government initiatives like the Digital India program, has expanded access to financial services.

However, formal credit penetration remains low in Cat B and Cat C+ cities, with reliance on informal lending sources. This gap presents a significant opportunity for financial institutions to innovate credit solutions tailored to the specific needs of these consumers. The potential for credit products is substantial, driven by consumer demand for flexible repayment options.

The emerging consumer profile in Cat C+ cities, ranging from affluent individuals to micro-entrepreneurs, is characterized by diverse aspirations and financial needs. Understanding this diversity is crucial for developing customised financial products. As the white paper highlights, key barriers to growth include **affordability**, **trust** in digital transactions, **aspirational** spending patterns, and the need for **user-friendly** digital banking solutions.

Tapping Opportunities

To effectively capture the opportunities in semi-urban markets, financial institutions need to:

- Develop tailored financial products that address the specific needs and preferences of Cat B and Cat C+ consumers as well as small and micro businesses, visibly moving away from a one-size-fits-all approach
- Leverage alternative data for credit profiling to expand access to credit for underserved segments
- Prioritize customer education to build trust and address concerns related to digital payments

As India aims to become a Viksit Bharat by 2047, the insights herein emphasize the need for financial institutions to adapt their offerings to foster inclusive growth and meet the evolving demands of the New Indian consumer in semi-urban markets.



Bridging the gap: Payments in India beyond metros

Beyond the Metros

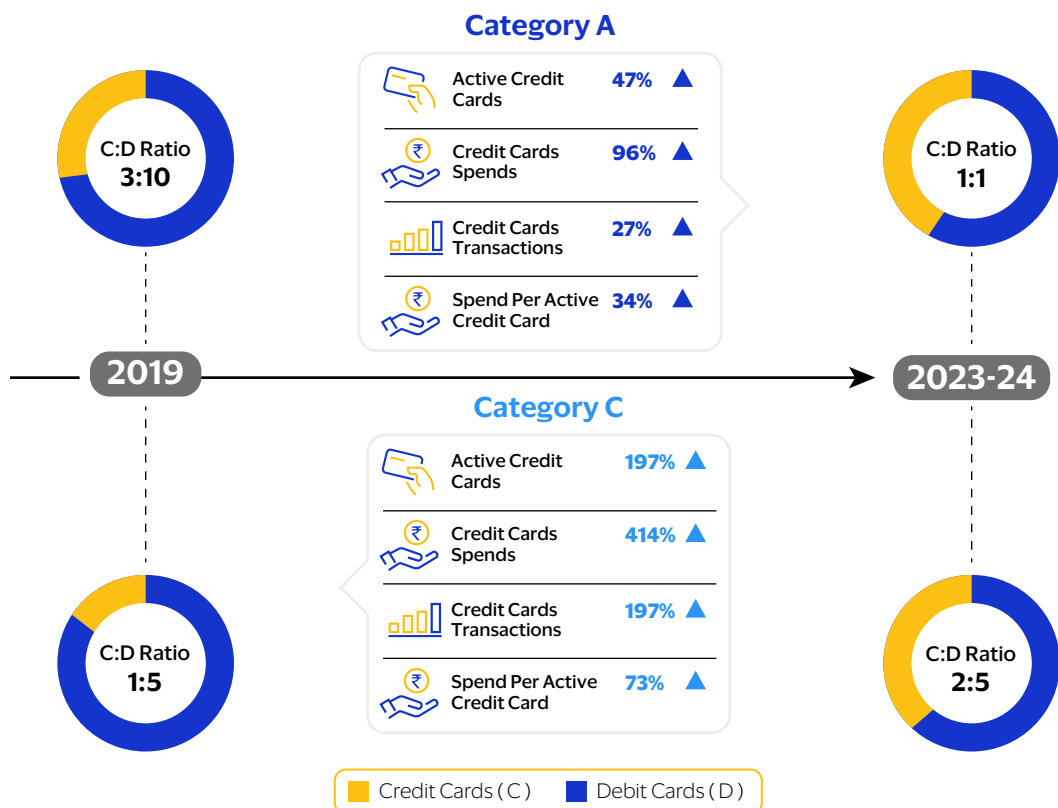
Digital payments in India have grown significantly in the last five years (2019-2024) driven by new customer segments. Card payments alone have grown at a CAGR of ~14%. Credit cards, traditionally a metropolitan phenomenon, have penetrated deeper, beyond the top metro cities, witnessing 414% growth in spending in Cat C+ cities, as per Visa data.

In this white paper, we bring out the nuances of this growth in Cat B and C+ cities (largely non-metros), and the potential opportunity in the next 10 years.



Some key aspects explored are:

- Primary drivers of digital payments and credit adoption
- Characteristics shaping financial behavior and customer preferences in Cat B and C+ cities
- Potential digital banking and credit service needs, and how lenders can better align offerings to meet them



Key growth drivers

Some key factors driving the growth of digital banking and payments are:

1 Rising income in non-metro cities:

Non-metros have witnessed significant increase in their disposable income and purchasing power, with Ludhiana and Agra being among the top 20 cities with the greatest number of millionaires*. Per Visa data, the number of



customers spending more than ₹2 lakh a year using a single card grew by ~4X in Cat C+ cities versus 1.4X in Cat A cities, suggesting a democratisation of the affluence that was earlier concentrated majorly in Cat A cities. This has led to a substantial 175% growth in card spends in Cat C+ cities since 2019.



2 Growth in e-commerce:

Indian e-commerce is experiencing remarkable growth, projected to reach USD 300 Bn by 2030¹. A key driver is the expansion of top e-commerce websites and their delivery networks, which now reach 99% of Indian postal codes. Consequently, the share of online spending in Cat C+ cities jumped from 53% to 73% between 2019 and 2024, per Visa data. Spend behaviour evolved in Cat C+ cities, especially in discretionary categories like apparels and travel, where the bulk of the spending occurs on aggregator platforms rather than merchant websites. This trend mirrors pre-Covid behavior in Cat A cities, with the exception of certain travel merchants, where about 50% of the spend is directly on the merchant's website.



3 Rise in digital connectivity and spending:

According to the Reserve Bank of India, the volume of digital payment transactions increased from 2,071 crore in FY 2017-18 to 13,462 crore in FY 2022-23, exhibiting a CAGR of 45%. This upward trend continued, crossing 16,400+ crore in the last fiscal year². This exponential growth highlights the growing internet economy, which is projected to reach \$1 Tn by 2030³. Several factors contribute to this growth, including the increasing availability of affordable smartphones and data plans, the expansion of online platforms and delivery networks, and the development of local language and voice-based interfaces.

Per Visa data, Cat C+ consumers are spending more on digital services and products, including gaming, digital content, online education, and entertainment, with spends on online gaming growing 16X and digital content 9X in 2024 versus 2019.



4 Government initiatives and policies:

The Government of India has implemented various policies to foster digital banking adoption outside Cat A cities, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), the Digital India program, the Aadhaar project, the United Payments Interface (UPI), and the Goods and Services Tax (GST) regime. These initiatives have empowered millions of individuals and small and micro-businesses to access digital services and products, make and receive digital payments, and utilize mobile phones, bank accounts, and Aadhaar numbers for financial transactions. Such initiatives have also given impetus to the rise of small businesses beyond the metros. Per the RBI, the number of debit cards in circulation in India increased from 861 Mn in March 2020 to 945 Mn in January 2023. About a third of these cards - 334.5 Mn - were in rural and semi-urban areas⁴, aimed to provide universal banking access to the unbanked population.



Credit scenario in non-metros

With a 12.5% year-on-year (Y-o-Y) rise in gross GST collections (₹1,68,337 crore as of February 2024)⁵, India's growth story is gaining momentum, helped along by the formalization and digitization of the overall economy. There's a positive correlation between access to banking products and access to financial opportunities for individuals and families. These products enable financial mobility, accelerating standard of living, facilitating home ownership, business formation, and wealth creation.

Credit is a crucial enabler of digital banking and payments, as it allows consumers and businesses to access and afford various digital services and products. In 2019, formal penetration of credit in metros was 42.4%⁶, compared to 10.5% in Cat B and Cat C+ cities, where consumers tend to rely more on informal sources, such as moneylenders, relatives, and friends. This could be due to credit restrictions based on credit history and products in the Cat B and C+ cities being an extension of existing solutions used for robust, creditworthy customers in Cat A cities.

To address this gap, innovative and affordable payment solutions using alternative data sources and customized products and solutions are needed, to tap into newer customer segments.

Credit cards have served as the entry product (for credit) in most developed as well as developing countries (~59% in the US and 88% in Hong Kong³), but in India, the first credit product has typically been a consumer durable loan (~21%).

US- **59%**

Colombia- **31%**

South Africa- **28%**

Hong Kong- **88%**



India's share of new-to-credit (NTC) millennials in 2021 was much higher at

42%

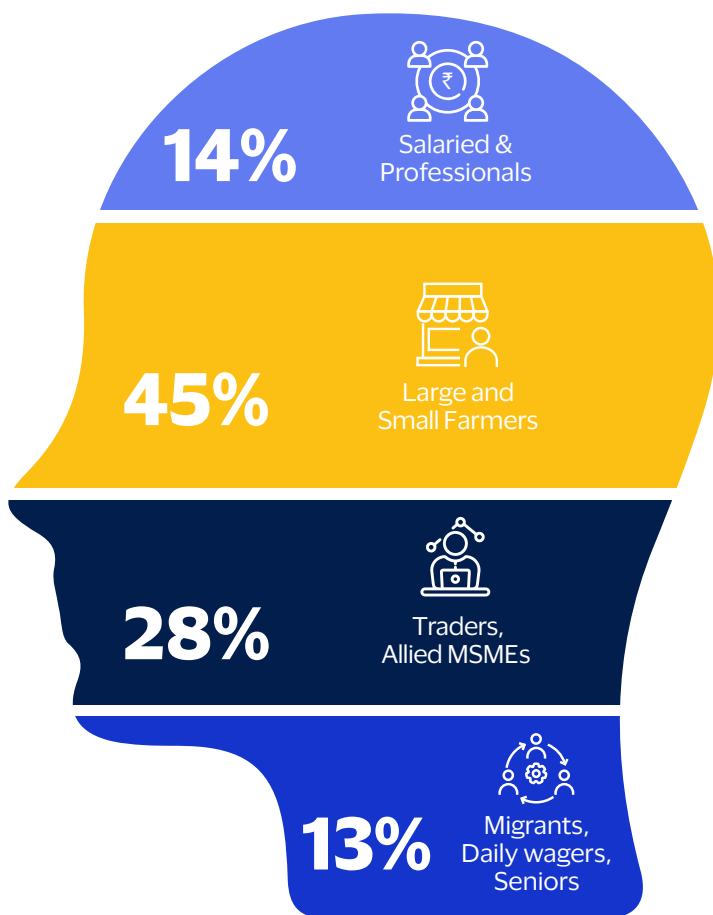
vs. other developing countries, indicating that the opportunity for credit and digital credit is promising⁷.



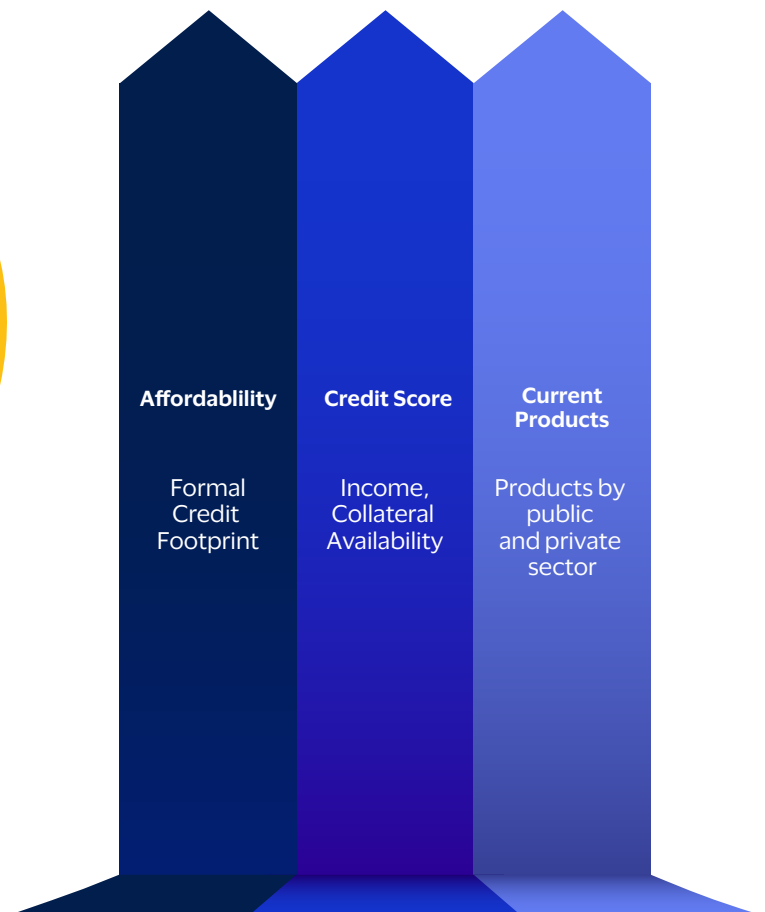
Serving the new non-metro consumer

India's aspirations of becoming the third largest global economy necessitates the development of new products and services tailored to service the new Indian. The segment encapsulates a vibrant and evolving demographic segment, particularly prominent in Cat B and C+ cities, who are at the forefront of embracing digital technologies, driving the surge in digital payments and credit adoption. As part of this

shift, a diverse range of consumer profiles emerge, including affluent individuals seeking to maximize available disposable income, sole proprietors aiming to enhance working capital management, and individuals with varied credit needs such as personal credit, consumer loans, home loans, working capital management, and access to credit for micro- or home businesses.



Distribution of Consumers ^[10]



Factors aiding growth



Addressing the Gap



Affordability:

With the growth of e-commerce and increasing consumer preference for credit, products like BNPL (buy now, pay later) have flourished and are estimated to grow at a CAGR of 32.5% between 2022 to 2026 to reach \$15 Bn in 2026⁸ This growth is likely driven by the need for flexible repayment options at lucrative rates due to income variability amongst a significant section of consumers.

Aspiration:

Cat C+ consumers often exhibit high and unmet aspirations, along with numerous spending opportunities, such as online education, entertainment, gaming, health, and travel. Therefore, they may seek banking and payment products offering aspirational, empowering, and rewarding features, such as credit cards, BNPL services, and loyalty programs.

Convenience:

Convenience and ease of use are crucial factors in digital banking and payment products, especially as many consumers are new to the digital ecosystem and may face challenges such as low digital literacy, language barriers, and network issues. This may influence product preferences towards simple, intuitive, and accessible options like voice-based interfaces (Paytm and PhonePe voice boxes), local language options (regional language OTT), and offline modes.

Trust:

In 2022, India was among the top five countries in terms of the number of cyber security incidents (1.3 Mn), up 315% from 2019⁹. Due to the rapid growth in internet penetration (200 Mn increase in monthly active users in the last five years), new customers, especially from Cat C+ cities, are likely to be at higher risk of fraud, data breach, and cyberattacks, which could deter them from using credit instruments again.

Tailoring financial products to cater to the unique requirements of these consumer segments is crucial for financial institutions to meet the needs of the New Indian and foster inclusive economic growth.



Tapping Opportunities



1. Personalization is Key:

Given the diverse set of needs and types of customers, products and servicing channels need to be tailor-made for the non-metro customers, instead of simply being an extension of products focused on consumers in metro cities. Customers are more likely to prefer customised, adaptable, and inclusive products, with dynamic pricing, flexible tenures, and low-cost options.



2. Data is currency:

Due to limited formal credit history, alternative data inputs can be leveraged for better customer profiling and risk analysis. This will help provide a better credit line to the consumer and more confidence to the lender.



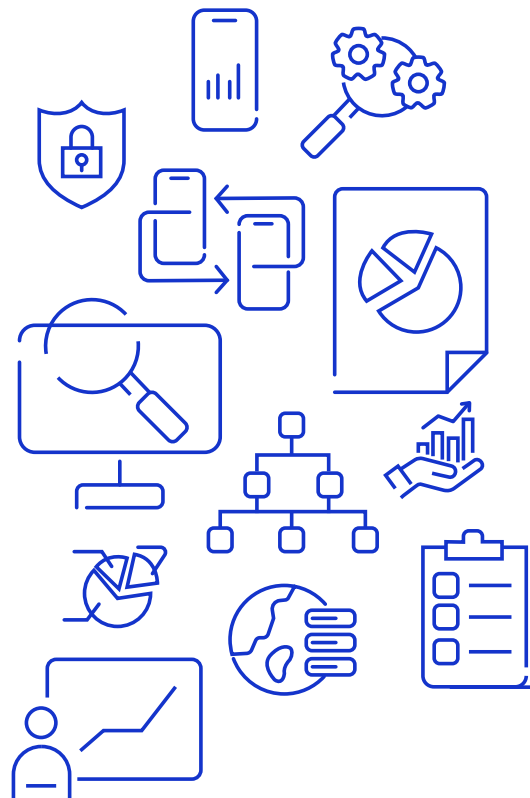
3. Understand your customer:

Regular portfolio reviews to identify and track changing behaviors across cohorts is important to take better decisions and refine strategies – for example, customer education and encouraging spends on newer categories.

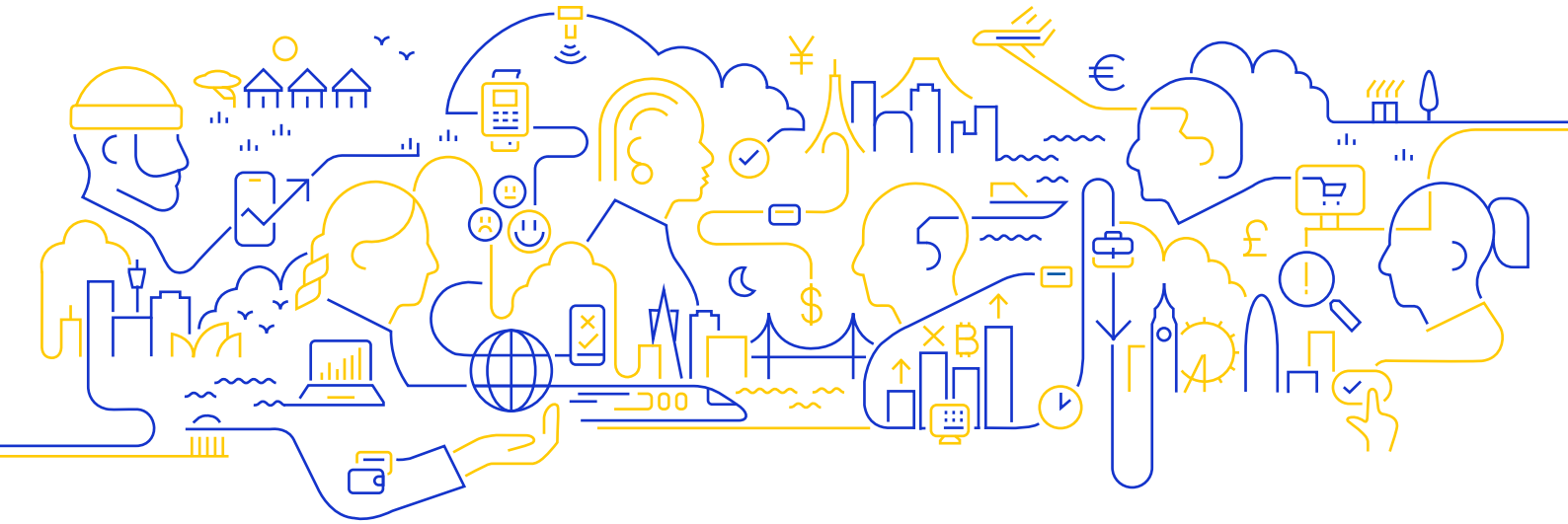
How Visa can help

With global experience, deep analytical capabilities, and a proven methodology, Visa Consulting & Analytics is ideally positioned to collaborate with clients to pursue portfolio expansion, product development and digitization of payments.

We can work directly with individual financial institutions, issuers, and acquirers, to advise how they can benefit from market-wide digitization of payment initiatives, or simply to accelerate the level of payment digitization among their customers.



About Visa Consulting & Analytics



- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry
- Our data scientists are experts in statistics, advanced analytics, and machine learning with exclusive access to insights from Visanet, one of the largest payment networks in the world
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends
- The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions

Report by: **Sushmit Nath, Lakshya Verma, Kaustav Pakira** and **Surbhi Anand**

For more information, please contact your Visa Account Executive,
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References

Source	Description
^{1*} <u>2024 Hurun India Rich List- Hurun India</u>	Annual wealth ranking of India's richest individuals by Hurun.
<u>Invest India</u>	Reports and strategic insights from Invest India.
² <u>PIB Press Release</u>	Official press releases from the Government of India.
³ <u>Bain and Company</u>	Economic and market analysis by Bain & Company.
⁴ <u>PIB Press Release</u>	Official press releases from the Government of India.
⁵ <u>PIB Press Release</u>	Official press releases from the Government of India.
⁶ <u>PIB</u>	General insights and data sourced from the Press Information Bureau (PIB), encompassing government communications, reports, and other official statements relevant to the topic.
⁷ <u>Empowering Credit Inclusion: A Deeper Perspective on New-to-Credit Consumers</u>	Study on new-to-credit consumers and financial inclusion.
⁸ <u>Global Data Study</u>	Data trends impacting businesses and policy-making globally.
⁹ <u>India: number of cyber-attacks 2022 Statista</u>	2022 report on cyber-attack trends in India by Statista.
¹⁰ <u>Employment Generation in India</u>	2024 report on employment generation in India by PLFS

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