

# Study Report – Promoting Cashless Payments during the Grand Kerala Shopping Festival (GKSF) Season 9



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## Executive Summary

India is a cash driven economy. Even with the emergence of multiple cashless payment instruments, cash continue to dominate payments space by a significant margin. Government has taken multiple steps to promote adoption of cashless payments but the progress has been slow especially in rural areas. Centre for Digital Financial Inclusion felt that to alter consumer behavior awareness and incentives can play a huge role.

To test the hypothesis, a digital experiment was conducted in collaboration with Directorate, Grand Kerala Shopping Festival. Digital lottery concept was introduced in this edition of GKSF, where consumers using cashless payments during the festival period were given a lottery ticket (through SMS) as an incentive. In partnership with State Bank of India and Federal Bank, massive awareness campaign to promote digital lottery was undertaken during the shopping festival. Merchants were provided with POS machines by partnering banks. Number of first time card users, total card transactions during the festival” and number of unique merchant ID’s reporting transactions saw a significant spike during the festival period.

The initiative was a huge success and successfully proved that incentives such as digital lottery can go a long way to promote cashless behavior among consumers. CDFI was honored with “The Best Innovation Partner” title for GKSF Season 9 by Chief Minister, Kerala.

## **1 Introduction**

Started in 2007, the Grand Kerala Shopping Festival (GKSF) is an annual event that attracts shoppers from far and near for an exclusive shopping experience. The festival is conducted in the months of December and January by the Tourism Department of Kerala in close coordination with the Industries & Commerce Department, Finance Department and Local Self Government Department. This event is primarily aimed at promoting and developing trade and commerce and the Industrial sector of Kerala by leveraging on its popularity as a Tourist destination.

The GKSF brings together thousands of merchants and millions of consumers. And, therefore, this event could also be seen as the one of the largest aggregation of merchants and consumers for a sizeable period of time, a platform which should be effectively utilized to promote and drive digital payments and financial inclusion. The Centre for Digital Financial Inclusion (CDFI) participated in the 9<sup>th</sup> Edition of the GKSF in partnership with the Government of Kerala precisely for this purpose i.e. to promote and drive digital payments and financial inclusion through GKSF.

This report is a collection of the different kinds of experiments which were conducted during the event to promote adoption of cashless transactions, the experiences and findings thereof and the opportunities available to further digital payments, financial inclusion and financial literacy through such platforms.

## **GKSF Model**

GKSF boasts of a model that advances local businesses with the active participation from the Government. Under the GKSF model, the merchants register for the GKSF by paying a fixed fee to the GKSF Directorate. Merchants get blocks of lucky draw coupons bundled in books of hundred with barcode and hologram (for security) based on fee paid during registration. Merchants can also choose to purchase additional coupons by paying INR 1500 for a booklet of 100 coupons (i.e. at INR 15 per coupon). Merchants use these coupons to incentivize buyers in accordance with a predefined “*Coupon to Purchase amount ratio*” and periodically update the GKSF Directorate on the number of coupons available and issued. Registration fee, coupon sale and sponsorships are corpus generating sources for the Government. A significant portion of this corpus is spent towards promotion and advertising as also doling out various gifts through the lucky draw coupons.

## **GKSF for everyone**

The GKSF is not a concentrated event; rather it attracts merchants from across business categories. Over the years, the number of merchants has increased from one season to the next generating a greater interest in the event. These events have seen participation from housewives to students and professionals in urban centers to rural folks.

## **Increasing the level of participation**

The GKSF employs a “reward based system” through lucky draw coupons (lotteries) to increase the participation by the shoppers and the consumers. Leading brands participating in GKSF also declare attractive discount schemes through the luck draw coupons. The reward based system and discount seeks to heighten the consumer demand and thereby increase the footfalls at the merchants. Heightened consumerism during the event also boosts “Sales with Bills” making it a major VAT and Service Tax revenue grosser for the Government.

## **Kerala – A “digital” first mover**

Kerala has been at the forefront of digital adoption. Kerala ranks highly amongst the States of India in digital connectivity, digital literacy and adoption of e-Governance. Almost 100% of the households in Kerala have a bank account. Most of the Government benefits and payments such as Pension, Salary etc. are paid through the Bank accounts only. The digital and financial infrastructure, demographic factors and a platform like GKSF make Kerala a very attractive destination for furthering digital payments.

## **The 9<sup>th</sup> edition of GKSF**

The 9<sup>th</sup> edition of the GKSF was organized in Kerala between 1-Dec-2015 and 31-Jan-2016 for duration of 62 days. Over 65,000 retail merchants registered for this event. The event saw participation from merchants in the following business categories

Gold / Jewelers	Textiles	Services
Super Markets / Malls	Electrical	Tour operators / Travel Agents
Furniture	Automobiles / Petrol Pump	Traditional Handicrafts
Marble / Granites	Spa / Beauty Parlor	Antique Shops
Industrial Crafts /	Home appliances / Electronics	Hotels / Restaurants / Resorts
Manufacturers / Corporates	/ Consumables	/ Home stay

The 9<sup>th</sup> Edition of the GKSF has tried to make a significant modification to the prevalent GKSF model by deciding to adopt and promote “Digital” Payments. Primarily, the modified model aimed to increase the number of people using cashless payment methods and to familiarize more and more people with cashless transactions. Partnering Financial Institutions offered attractive discounts to merchants who enrolled for Cashless payment infrastructure.

Card payments by consumers were also incentivized by providing additional lucky draw coupons over cashless payments.

### **Benefits of cash-less**

Cashless transactions offer the following benefits

- a. Cashless transactions can reduce the costs associated with reissuance of currency, upgrading security features, pulling old currency out of circulation and replacing it with new currency and logistics involved in making cash available at all places.
- b. Cashless transaction increases velocity<sup>1</sup> of money and reduces friction<sup>2</sup> cost.
- c. Cashless transactions are transparent and therefore provide a greater visibility to the financial flows in the economy
- d. Cashless transactions can reduce the circulation of black and counterfeit money
- e. Cashless transactions can increase the revenue base for the Government by reducing tax evasion

<sup>1</sup>The term "velocity of money" refers to how fast money passes from one holder to the next

<sup>2</sup>A transaction's friction costs include all of the expenses associated with the transaction including commissions, fees, etc.

## 2 Approach & Findings

### 2.1 Problem Statement

Despite the benefits described above, there is a high dependence on cash. Cash remains the dominant choice for making payments against transactions involving purchase of goods and services at merchant establishments. Governments, world-wide are taking steps to discourage the excess use of Cash as cash carries cost and makes tax evasion easy. Still, adoption of cashless transactions is low and slow primarily due to

- a. **Ignorance** – The benefits of using cashless are neither understood by all equally nor are they communicated efficiently. Many people prefer to survive long queues to draw cash for the everyday needs. The need to build a credible financial history which can enable easy access to Institutional finance such as credit is also not well understood by all and more so by the socially and economically weaker sections of society.
- b. **Insufficient Payment Infrastructure at Merchant Establishments** – Merchant Establishments, particularly the smaller establishments, do not have sufficient cashless payment infrastructure. While ignorance is one of the factors, inadequate outreach mechanisms of the Financial Institutions and cost of the Infrastructure act as multipliers. This creates an ecosystem where even informed consumers who may otherwise want to use the cashless mode are compelled to use cash.
- c. **Cash Secular Retail Supply Chains** – Upstream suppliers / distributors of the Retail Merchants accept Cash creating a cash secular retail supply chain where the need to use cashless modes is not usually felt.

Other contributing factors include privacy related concerns, fear of technology, concerns related to cyber security, connectivity, power, digital literacy, fear of falling into tax net etc.

### 2.2 Objective

With favorable factors like digital connectivity, dense availability of financial institutions, high incidence of bank accounts per household, digital literacy etc. in Kerala, a consumer merchant aggregation platform like GKSF could be used as an accelerator in adoption and diffusion of cashless transactions in Kerala. What is required is endorsement of cashless transactions by the Government, financial institutions and large brands, creating sustained awareness for a considerable period of time and increasing the payment infrastructure at the Merchant Establishments, particularly the smaller ones.

To this end, CDFI participated in the Digital GKSF partnering with the Directorate, GKSF to support the following broad objectives

- a. Building partnerships with Banks and other agencies to promote cashless transactions
- b. Promoting Digital GKSF to create widespread awareness amongst consumers and merchants

- c. Enabling Banks to acquire merchants who are yet to place cashless payment infrastructure in their establishments
- d. Incentivizing consumers who opt for cashless transactions with additional luck draw coupons, over and above merchant-offered coupons

## 2.3 Design and Development

### *Banks at the fulcrum of Digital GKSF*

CDFI extended its support to the two lead Banks participating in the Digital GKSF – the Federal Bank and the State Bank of India. Both the Banks created their own platforms for promoting cashless transactions by incentivizing consumer purchases through additional lucky draw coupons which provided consumers an added opportunity to win prizes worth huge amounts (including the grand prize of INR 1.5 Cr.). The models adopted by each of the Banks is highlighted below

#### **a. Federal Bank**

Federal Bank purchased around 20,000 coupons as a regular Merchant of GKSF. Any Federal Bank Kerala customer who made a purchase of INR 5,000 using Federal Bank cards received 1 digital coupon of GKSF.

To maintain and issue digital coupons, Federal Bank developed a Coupon Management System which was integrated to its Core Banking Solution. Any Federal bank card, once it is swiped at a POS would hit the Core Banking Solution of the Federal Bank. If the transaction value exceeded INR 5,000 for a Federal Bank Customer, the transaction was routed to the Coupon Management System. The Coupon Management System would draw a coupon from the repository of digital coupons available with the Federal Bank and issue the coupon by SMS to the customer on his / her mobile phone registered with the Federal Bank.

#### **b. State Bank of India**

State Bank of India targeted both the consumers and the merchants to promote cashless transactions. State Bank of India promoted the m-POS terminals of its partner Ezetap amongst the Merchants. The Ezetap device comes with a magnetic swipe card and a chip card reader. The device communicates over Bluetooth with a Mobile application. The amount of the transaction is entered in the Mobile application. Once purchase is confirmed, the payment information is passed to the Ezetap product into which the card could be swiped / inserted and the card holder could enter the PIN on a touch sensitive keypad. Once the payment is successfully completed, the transaction details are shown on the mobile phone screen which could be sent as an SMS / e-mail to the consumer.

## Government's endorsement of Digital GKSF

The Government of Kerala and the Financial Institutions endorsed Digital GKSF in a big way. Amongst the various channels used by the Government of Kerala are

- a. **Festivals** – Over 100 Festivals across the State were conducted in association with Municipal Corporations, Municipalities and select Panchayats spanning across the 14 Districts of Kerala. In all these festivals, Digital Payments were promoted.
- b. **Focused Sessions** – GKSF District staff held focused sessions on Digital Payments in over 300 meetings of the Merchant Association Units. In these focused sessions, the GKSF District staff promoted installing POS terminals at the merchant establishments and educated merchants on the process and benefits of acquiring POS from the partner banks – Federal Bank and the State Bank of India. A 15 line Call centre was setup to address queries and educate merchants who expressed an interest in acquiring a POS device / IMPS Mobile Payments.
- c. **Digital Media** – The Digital GKSF initiatives were widely published on the official website of the 9<sup>th</sup> edition of GKSF. Collaboration with CDFI to promote cashless transactions was highlighted. Videos highlighting the convenience of SBI / Ezetap m-POS to merchants and consumers, ease of use and safety of transactions were uploaded on the website as part of promotional activities.
- d. **Advertisements** – Advertisements were created and used to promote digital payments and spread the message. Large scale campaigns for promoting digital payments were created and used extensively in the electronic and print media.

Federal Bank spread awareness about digital payments and promoted use of Federal Bank debit cards for shopping. Federal Bank reached out to its over 20 Lakh customers and communicated its message regularly over emails and SMS(s).

State Bank of India created videos of merchants using their m-POS devices and facilitating a hassle free transaction. These videos were uploaded on various electronic channels such as YouTube.

## Acquiring merchants

Several steps were taken to reach out and persuade more and more merchants to install and use cashless modes of transaction. Firstly, the entire database of merchants who registered for the 9<sup>th</sup> Edition of GKSF was shared with the State Bank of India, which was more interested in acquiring merchants. This enabled SBI and its Partner Ezetap to reach out to the merchants in a targeted way and generate interest in the m-POS device. Additionally, facilities such as Call Centre etc. were created to enable merchants having an interest in acquiring cashless payment infrastructure to quickly and easily acquire them. These steps helped to bridge the information gap, improved outreach by the Banks and created a medium for the merchants and the Banks to connect with each other.

To give further impetus, State Bank of India, created a special offer for the GKSF registered merchants who acquired an m-POS device during the event

- a. M-POS devices were given at Zero Rentals for the 1<sup>st</sup> three (3) months
- b. Installation charges were waived off
- c. Merchants were given 100 free digital coupons i.e. an immediate benefit of INR 1500

- d. Merchant Deposit Rate<sup>3</sup> (MDR) was kept nominal

### Incentivizing consumers

Digital Payment Service Providers introduced different incentive schemes for their customers

- a. **Federal Bank** – For every purchase of INR 5000/- or more using a Federal Bank debit card, at any of the merchant locations in Kerala, one (1) GKSF Digital Coupon was given. The number of coupons were limited to a maximum of 5 digital coupons through the Programme
- b. **State Bank of India** – For every purchase of INR 2000/- using a State Bank Group card, at the SBI / Ezetap m-POS device, one (1) GKSF Digital Coupon was given along with electronic payment slip. The number of coupons were limited to a maximum of 5 digital coupons through the Programme
- c. **Citrus Pay** – Citrus Pay offered INR 100 cash back to the Citrus Pay Digital Wallets for customer of Malabar Gold and Bhima Jewelers. About 1,40,000 coupons carried INR 100 cash back to the Citrus Pay Digital Wallets

## 2.4 Evaluation of the Interventions

### Acquired merchants

State Bank of India managed to generate interest amongst more than 2500 merchants (~ 35% of the participating merchants). About 15% of these interests got converted into an acquisition

### Cashless volumes

- a. **Federal Bank** - Federal bank distributed about 20,000 digital coupons against card transactions. Since one (1) digital coupon was given for a purchase value of INR 5000 and above, it can be concluded that at least INR 10 Cr value of transactions were done in cashless mode by Federal Bank customers.
- b. **Citrus Pay** – About 1,40,000 coupons carried a cash back of INR 1000 to the Citrus Pay Digital Wallets. About 35% consumers actually claimed the offer. From the above, it can be concluded that at least 49,000 consumers who visited and purchased from Malabar Gold and Bhima Jewelers either already had a Citrus Pay Digital Wallet or downloaded and registered newly to avail the offer

### Findings

Upon completion of GKSF, data of Federal Bank was collected and analyzed. This data contained information on three (3) digital payments / cash less adoption indicators - the number of first time

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<sup>3</sup> Investopedia defines it as “The rate charged to a merchant by a bank for providing debit and credit card services”

card users, number of card transactions and number of unique merchants reporting transactions and belonged to following periods

- a. 1-Dec-2014 to 31-Jan-2014 – Period of the 8<sup>th</sup> Edition of GKSF
- b. 1-Sep-2015 to 30-Nov-2015 – 3 months Period immediately prior to start of the 9<sup>th</sup> Edition of GKSF
- c. 1-Dec-2015 to 31-Jan-2014 – Period of the 9<sup>th</sup> Edition of GKSF i.e. of Digital GKSF

The data was analyzed. Inferences drawn from the available data cannot be directly attributed to the various initiatives under Digital GKSF. A longer time series data is required to establish such correlation. Other factors such as floating tourist population, festivals, economic growth etc. can also influence the quantum of cash less transactions. Despite these constraints, a positive growth on the above mentioned three (3) digital payments / cash less adoption indicators is still a positive outcome and the contribution of the Digital GKSF initiatives cannot be disregarded.

With due regard to the above mentioned constraints, the following are the key findings

- a. **Number of first time card users** – The average number of first time card users between 15-Dec-15 and 31-Jan-2016 (the period during which the incentive from Federal Bank was in effect) shows a 9.4% increase when compared with the average number of first time card users between 1-Dec-15 to 14-Dec-15 (when the incentive from Federal Bank was not in effect). If we compare data for the similar periods in the 8<sup>th</sup> Edition of GKSF, the difference is small. In fact, the average number of first time card users between 14-Dec-15 to 31-Jan-15 shows a decrease when compared with the average number of first time card users between 1-Dec-14 to 14-Dec-14. This partially indicates that the number of first time card users do not naturally increase between 15-Dec to 31-Jan of the GKSF period.

When the average number of first time card users between 15-Dec-15 and 31-Jan-2016 (the period during which the incentive from Federal Bank was in effect) is compared to the average number of first card users between the same periods of the previous edition of GKSF, an increase of over 28% is observed. This is a substantial increase and cannot alone be a natural year on year growth.

When the average number of first time card users between 15-Dec-15 and 31-Jan-2016 (the period during which the incentive from Federal Bank was in effect) is compared to the average number of first card users between 1-Sep-15 and 30-Nov-15 (the period immediately prior to the start of the 9<sup>th</sup> Edition of GKSF), an increase of over 7% is observed. It is also seen that the average number of transactions between 1-Sep-15 and 30-Nov-15 is closer to average number of number between 1-Dec-15 to 14-Dec-15 than 15-Dec-15 to 31-Dec-16, indicating that Federal Bank initiative may have contributed to the increase in the number of first time card holders between 15-Dec-15 to 31-Jan-16

- b. **Number of card transactions** – The average number of card transactions between 15-Dec-15 and 31-Jan-2016 (the period during which the incentive from Federal Bank was in effect) shows a 10.4% increase when compared with the average number of card transactions between 1-Dec-15 to 14-Dec-15 (when the incentive from Federal Bank was not in effect). If we compare data for the similar periods in the 8<sup>th</sup> Edition of GKSF, the difference is small i.e. a 4% increase.

When the average number of card transactions between 15-Dec-15 and 31-Jan-2016 (the period during which the incentive from Federal Bank was in effect) is compared to the average number of card transactions between the same periods of the previous edition of GKSF, an increase of over 44% is observed.

When the average number of card transactions between 15-Dec-15 and 31-Jan-2016 (the period during which the incentive from Federal Bank was in effect) is compared to the average number of card transactions between 1-Sep-15 and 30-Nov-15 (the period immediately prior to the start of the 9<sup>th</sup> Edition of GKSF), an increase of over 14% is observed. It is also seen that the average number of transactions between 1-Sep-15 and 30-Nov-15 is closer to average number of number between 1-Dec-15 to 14-Dec-15 than 15-Dec-15 to 31-Dec-16, indicating that Federal Bank initiative may have contributed to the increase in the number of card transactions between 15-Dec-15 to 31-Jan-16

The increase in the average number of transactions is far higher than the increase in the number of new first time card users indicating that the growth in the average number of transactions is not entirely due to new first time card users. The number of transactions by regular card users (not first-timers) has also increased during the period.

- c. **Number of unique merchants reporting transactions** - The average number of unique merchants reporting transactions between 15-Dec-15 and 31-Jan-2016 (the period during which the incentive from Federal Bank was in effect) shows a 9.1 % increase when compared with the average number of unique merchants reporting transactions between 1-Dec-15 to 14-Dec-15 (when the incentive from Federal Bank was not in effect).

When the average number of unique merchants reporting transactions between 15-Dec-15 and 31-Jan-2016 (the period during which the incentive from Federal Bank was in effect) is compared to the average number of unique merchants reporting transactions between 1-Sep-15 and 30-Nov-15 (the period immediately prior to the start of the 9<sup>th</sup> Edition of GKSF), an increase of over 10.6% is observed indicating that the average number of unique merchants reporting transactions prior to the start of the Digital GKSF and immediately thereafter until the Federal Bank intervention was nearly same.

While the data available for the above analysis is inclusive of both GKSF and non GKSF consumers and merchants, a clear spike during the Digital GKSF period tends to indicate that Digital GKSF probably had an influence on the number of first time users, number of card transactions and number of unique merchants reporting transactions.

### 3 Conclusion

From the above we can conclude that the interventions have been able to promote digital payments and cash less transactions successfully and effectively. The models adopted by the Government and the Banks are highly replicable. Such models could advance establishment of digital payment infrastructure and induce a gradual behavioral change amongst the consumers and the retailers. However, opportunities exist to improve upon the existing intervention and improve its effectiveness

- a. **Increasing the Participation of other Banks / Payment Service Providers** – To bring a larger number of customers and merchants into the digital payments / cash less transaction fold, it is necessary to expand the participation to all major Banks and Payment Service Providers such as NPCI, Visa, and Master Card etc. Time constraints prevented participation by other Banks in the 9<sup>th</sup> Edition of the GKSF, however, since a beginning has been made, participation from the other Banks and the Payment Service Providers can be expected in further editions of GKSF
- b. **Bank Merchant tie up** – The whole Digital Payments campaign can be made more potent if banks and merchants tie up. Bank - merchant tie ups could increase the number of digital coupons available against digital payments.
- c. **Design of the Experiment** - Since time series data is not available, to establish correlation between the activities and indicators of digital payments / cash less adoption, it is proposed to create identical / near identical experiment and control groups. The similar or differential behavior by these groups can provide deep insights to improve the intervention.
- d. **Incentive Structure** – Different incentive structures can be introduced and the efficacy of each one of them could be measured. Incentive structures could be differentiated by the (a) type of incentive mechanism such as lucky draw coupons, discounts, cash backs, vouchers etc. and (b) the quantum of incentive e.g. fixed amount, % of purchase value, eligible to participate in lucky draws etc.
- e. **Data Collection** – Baseline data from the existing banks and other payment service providers on the key indicators of digital payments / cashless adoption may be collected. This baseline data could be used for comparison post completion of the intervention. Comparison of data across banks and payment service providers, individually and collectively could provide better indications.

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