COMPETITION COMMISSION OF INDIA

(Combination Registration No. C-2022/04/920)

5 September 2022

Notice under Section 6(2) of the Competition Act, 2002 given by PayU Payments Private Limited

CORAM:

Mr. Ashok Kumar Gupta
Chairperson

Ms. Sangeeta Verma
Member

Mr. Bhagwant Singh Bishnoi
Member

Order under Section 31(1) of the Competition Act, 2002

I. Background

1. On 20 April 2022, the Competition Commission of India (**Commission**) received a Notice under Section 6(2) of the Competition Act, 2002 (**Act**), given by **PayU Payments Private Limited** (**PayU India**/**Acquirer**) in relation to the proposed acquisition of 100 percent of the equity share capital of IndiaIdeas.com Limited (**IIL/Target**) (hereinafter, the Acquirer and Target are collectively referred to as the **Parties**). The Notice was filed pursuant to the execution of a Share Purchase Agreement dated 31 August 2021 (**SPA**) by and between, *inter alia*, the Acquirer and the Target.

2. The Commission noted that a notice had been filed by the Acquirer earlier on 13 December 2021 (assigned Combination Regn. No. C-2021/12/889) for the same

transaction. However, on consideration of the notice, the Commission observed that the same was not complete even on the basic aspect of the activities of the parties to a combination. The gaps were pointed out to the Acquirer through a defect letter, and the response to the same confirmed the veracity of the concerns of the Commission regarding the information gaps. It was observed that the information gaps were compounded owing to the Acquirer's approach of responding to the queries in the notice and the defect letter issued subsequently in a general manner and without substantiation through documents or otherwise. Resultantly, it was felt that the Commission is not even in a position to appreciate the complete presence of the Parties, let alone undertake a comprehensive competition assessment. Accordingly, the Commission decided that the notice is not in conformity with the provisions of The Competition Commission of India (Procedure in regard to the transaction of business relating to combinations) Regulations, 2011 (**Combination Regulations**) and therefore, not valid in terms of Regulation 14(2A) of the Combination Regulations. Accordingly, *vide* letter dated 25 January 2022, the Commission directed the Acquirer to file a fresh notice for the proposed transaction after curing the deficiencies pointed out by the Commission. In accordance with the directions of the Commission, the Acquirer filed the present notice on 20 April 2022.

3. In terms of Regulation 14 of the Combination Regulations, *vide* letter dated 5 May 2022 (**RFI**), the Acquirer was required to provide certain information/document(s) latest by 12 May 2022. The Acquirer filed its reply on 3 June 2022, after seeking extension of time (**Response to RFI**). *Vide* another letter dated 21 June 2022 issued under Regulation 14 of the Combination Regulations in continuation of RFI and Response to RFI, the Acquirer was required to furnish the requisite information/documents by 30 June 2022. The Acquirer submitted its reply on 11 July 2022, after seeking extension of time.

4. In terms of Regulation 19(3) of the Combination Regulations read with Section 36(4) of the Act, the Commission also sought information from competitors and customers of the Parties and the National Payments Corporation of India (**NPCI**). The

Commission considered responses received from these entities while forming its opinion in the present matter.

II. Parties to the Combination

The Acquirer and Acquirer Group

5. PayU India is held by PayU Global B.V. (**PayU Global**), MIH India (Mauritius) Ltd. (**MIH Mauritius**) and MIH PayU B.V. (**MIH PayU**). PayU Global is the holding company of both MIH Mauritius and MIH PayU. Each of PayU Global, MIH Mauritius and MIH PayU is an indirect subsidiary of Prosus N.V. (**Prosus**), in which 73.6% voting rights are held by Naspers Limited (**Naspers** or **Acquirer Group**). As submitted, Naspers is a global consumer internet company and one of the leading technology investors in the world. Naspers has a primary listing on the Johannesburg Stock Exchange and a secondary listing on the A2X Exchange in South Africa and has an ADR listing on the London Stock Exchange.

6. The Naspers group comprises:

(a) *Media and internet interests in South Africa*: As submitted, in South Africa, Naspers is one of the foremost investors in the technology sector and is committed to building its internet and e-commerce companies in the country. These include Takealot, Mr. D Food, Superbalist, OLX, Autotrader, Property24 and PayU, in addition to Media24, a leading print and digital media business in South Africa; and

(b) *Internet interests outside South Africa*: Through Prosus, Naspers has internet interests outside South Africa, including companies and investments in online classifieds, food delivery, payments and fintech, e-commerce, travel, education and social and internet platforms sectors, among others.

7. In India, Naspers, through Prosus, has several minority and non-minority investments (including PayU India) (**Investee Entities**). As per the details submitted by the

Acquirer, some of the Investee Entities are involved in the payment ecosystem in India as their main business activity, in different spheres and some of the Investee Entities are not engaged in activities relating to payment aggregation/facilitation.

8. As submitted, of the Investee Entities operating in the payments ecosystem in India, the business activities of PayU India and Wibmo Inc. (through Enstage Software Private Limited and Infinypool Online Payment Solutions India Private Limited, collectively, **Wibmo**) only are horizontally situated to the business activities of IIL. While PayU India primarily provides payment aggregation services that enables merchants to receive payments from their customers across various digital payment methods and enterprise solutions to other market participants, Wibmo is engaged in the provision of payment security and risk-based authentication services, including solutions such as authentication services, payment gateway solutions, fraud and risk management tools, and technology solutions relating to prepaid products.

9. The other Investee Entities of the Acquirer operating in the broader payments ecosystem include: (i) PayU Finance India Private Limited, engaged, *inter alia*, in the activities of provision of unsecured personal loans and Buy Now Pay Later Solutions (**BNPL**) through Lazypay Private Limited (**Lazypay**); (ii) PaySense Services India Private Limited, a technology platform that uses alternative data to underwrite credit in India and also offer personal loans, vehicle loans, loans for consumer durables, etc.; (iii) Primrose Hill Ventures Private Limited, which partners with e-commerce companies to enable financing at checkout, enabling EMI without a credit card; (iv) Dotpe Private Limited, a digital merchant platform that enables offline merchants to transact digitally; (v) Finwizard Technology Private Limited, a wealth tech company which partners with banks, financial institutions and other digital platforms to distribute mutual funds and other financial products to retail investors; (vi) Flat White Capital Private Limited, a digital alternative credit platform offering gold-backed loans, gold savings and gold locker services; and (vii) Vay Network Services Private Limited, a technology platform that facilitates the growth of supply chains for businesses by improving access to finance from banks.

10. The Investee Entities of the Acquirer engaged in diverse business areas outside the payments ecosystem include, inter alia, Bundl Technologies Private Limited (**Swiggy**), Think & Learn Private Limited (**Byjus**), Brainly Inc., OLX India Private Limited, API Holdings Limited, UrbanClap Technologies India Private Limited, etc.

Target

11. IIL is an unlisted public limited company[1]. It uses the name **BillDesk** as its trading/business brand name in India. IIL primarily provides payment aggregation services that enable merchants to receive payments from their customers across various digital payment methods.

III. Proposed Transaction

12. The proposed transaction envisages acquisition of 100 percent of the equity share capital of IIL by PayU India (and potentially an affiliate of PayU Global which will be a newly incorporated company). Pursuant to the proposed transaction, PayU India (and potentially an affiliate of PayU Global which will be a newly incorporated company), together with up to six persons nominated by PayU India (who will each hold one share) (the **Acquirer Nominees**), will hold 100 percent equity share capital of IIL and will exercise sole control of IIL (**Proposed Transaction**).

13. As per SPA, prior to completion of the acquisition of IIL, certain assets of IIL will be excluded from the Proposed Transaction (collectively referred to as **Excluded Assets**) and will not form part of the Proposed Transaction. The Excluded Assets, *inter alia*, include: (i) shares held by IIL in Loylty Rewardz Management Private Limited (**Loylty**) and any loans by IIL to Loylty; (ii) shares held by IIL in Hatio Innovations

[1] The shareholders holding 5 percent or more of the shares or voting rights of IIL include Mr. M. N. Srinivasu, Mr. Ajay Kaushal, Mr. Karthik Ganapathy, General Atlantic Singapore Fund Pte. Ltd, Wagner Limited, Visa International Service Association, Claymore Investment (Mauritius) Pte. Ltd and Clearstone Venture Mauritius.

Private Limited (**Hatio**) and any loans by IIL to Hatio; (iii) shares held by IIL in Jocata Corporation, USA (**JUS**) and any loans by IIL to JUS; and (iv) shares held by IIL in Jocata Financial Advisory & Technology Services Private Limited (**Jocata**) and any loans by IIL to Jocata. The Acquirer clarified that the business activities of the Excluded Assets are non-overlapping with the business activities of PayU in India.

IV. Notice under Section 29(1) of the Act

14. The Commission, in its meeting held on 20 July 2022, considered the information on record, details provided in the notice and the responses filed by the Acquirer, and formed a *prima facie* opinion that the Proposed Transaction is likely to cause an appreciable adverse effect on competition (**AAEC**) in several relevant markets in India. Accordingly, in terms of Section 29(1) of the Act, a show-cause notice dated 28 July 2022 (**SCN**) was issued to the Acquirer, wherein the Acquirer was directed to respond in writing, within 30 days of the receipt of the SCN, as to why investigation in respect of the Proposed Transaction should not be conducted.

15. The Acquirer filed the response to the SCN on 29 August 2022 (**Response to SCN**). As part of Response to SCN, the Acquirer also requested an opportunity to present their case by way of an oral hearing. The request of the Acquirer was granted, and the Commission heard the Acquirer on 2 September 2022 (**Oral Hearing**).

16. The Commission, in its meeting held on 5 September 2022, considered and assessed the Proposed Transaction. Considering the material on record, including the Response to SCN, the submissions made by the Acquirer during the Oral Hearing and factors provided under Section 20(4) of the Act, the Commission formed the opinion that the Proposed Transaction is not likely to have any AAEC in India and accordingly, decided to approve the same under Section 31(1) of the Act. The analysis and findings of the Commission in respect of competition assessment of the Proposed Transaction are given hereunder.

V. Activities of the Parties

17. The Acquirer Group (through PayU India and Wibmo) and IIL are engaged in the provision of various products (pertaining to technological solutions which do not involve processing and handling of funds and are offered to non-merchants such as issuing banks) and services (pertaining to those business activities which involve processing and handling of funds and are offered to merchants) in the broader payments ecosystem in India. The Commission noted the information provided by the Acquirer in respect of products/services offered by PayU India, Wibmo and IIL, and observed that the activities of the Parties can be classified as under for the purpose of competition assessment of the Proposed Transaction.

Overlapping activities

18. The activities of the Acquirer Group and IIL overlap in the following areas/segments:

    i. **Bharat Bill Pay System Services** (**BBPS Services**)[2], comprising services offered as Bharat Bill Payment Operating Units (**BBPOUs**) (i.e., Biller Operating Units (**BOUs**) and Customer Operating Units (**COUs**);

    ii. **Recurring Payment Services**, which imply service offerings provided by payment aggregators to merchants that allow merchants to periodically collect subscriptions and other recurring payments from consumers online;

    iii. **Online Merchant Payment Services**, which imply service offerings provided by payment aggregators to merchants that allow merchants to collect individual/standalone payments online from their customers, i.e., to say that these

[2] BBPS is a Reserve Bank of India conceptualised ecosystem driven by NPCI. It offers integrated, accessible and interoperable bill payment services to consumers across India through a network of agents and online via multiple payment methods such as UPI, credit cards, debit cards, IMPS, NEFT etc. NPCI has been authorised by RBI as the Bharat Bill Payment Central Unit (**BBPCU**) and is responsible for setting business standards, rules and procedures for technical and business requirements for all participants. The BBPCU undertakes clearing and settlement activities related to transactions routed through Bharat BillPay.

services include those enabling merchants to receive payments online other than those covered under Recurring Payment Services and BBPS Services; and

iv. **Access Control Server Products** (**ACS**) for authentication of Card Not Present (**CNP**) transactions[3].

Activities with potential overlaps

19. The activities of the Acquirer Group and IIL have potential overlaps in the following areas/segments:

a. Recurring Payment solutions for enabling management of recurring payment mandates on cards with IIL's existing product **SiHub** and PayU India's product **Zion**, which is yet to be commercialised; and

b. Tokenisation solutions[4] with **TokenHub** offering of PayU India, **Token Vault** offering of Wibmo and **Billdesk Tokenisation Suite** offering of IIL (all pipeline products and not available for commercial use).

Non-overlapping activities of the Parties in the broader payments ecosystem

20. Apart from the aforesaid areas of activities where there are actual/potential overlaps between the Parties, both the Acquirer Group and IIL are engaged in providing certain other products/services in the broader payments ecosystem in India. The same are detailed hereunder:

a. PayU India is engaged in the provision of: (a) **Payouts** service to online merchants and (b) **In-store Merchant Payments Services**;

[3] The Reserve Bank of India has mandated that an Additional Factor Authentication (**AFA**) (minimum of two factors) be set up in order to minimise the risk of fraud in online CNP transactions. ACS products provide a 2FA (AFA) to issuing banks for authentication of CNP transactions.

[4] Tokenisation refers to replacement of actual card details with an alternate code called as 'token', which is unique for each card and could also be unique to the combination of a card and the merchant where such token is intended to be used.

b. Wibmo is engaged in the provision of fraud detection and prevention systems (**Trident FRM**) and certain enterprise solutions, viz., Payment Gateways (**Areion PG**), mobile application platform that provides PPI in a digital form along with associated services to provide one step payment experience across channels (**BankEzy**) and prepaid card lifecycle platform that supports card issuance and management of virtual/physical prepaid card programs (**Aero Prepaid**). Wibmo is in the process of building an online identity verification solution which would help financial institutions digitise their customer onboarding process (**Video KYC**); and

c. IIL is engaged in the provision of a software solution based on NPCI's prescribed application programming interface (**APIs**) to entities operating as BBPOUs in the BBPS framework (**Hexagon**).

21. The Commission observed that the Parties are engaged in the provision of services which form part of the broader digital payments ecosystem and, more specifically, retail digital person-to-merchant (**P2M**) payments, which is understood as payments made by consumers or businesses for purchase of goods and services across use cases, such as grocery, electronics, entertainment, e-commerce, bill payments, travel, ride hailing, food delivery, etc., to various merchants. The retail digital P2M payments ecosystem comprises a host of enabling services which need to act near simultaneously to ensure that merchants are able to receive payments from their customers through digital payment methods. Thus, the retail digital P2M payments ecosystem comprises multiple complementary enabling services and correspondingly comprises multiple participants/stakeholders, each providing a specific product/service or each providing multiple complementary products/services necessary for effecting a retail digital P2M payment.

22. The Commission noted that the Parties have a multi-layered presence in the payments ecosystem with their engagement in activities relating to payment aggregation, risk management, and technology solutions/services, etc. The Commission accordingly assessed the Proposed Transaction, considering the dynamics of each service (in the

corresponding relevant market delineated) as well as the dynamics of the combined portfolio of complementary services offered by the Parties in the payments ecosystem.

23. Certain non-overlapping products which, *inter alia*, include Aero Prepaid, Areion PG (offered by Wibmo) and Payouts have not been assessed at the segmental level considering lack of overlaps and/or presence of the Parties. Similarly, pipeline products such as tokenisation solutions, where there are potential overlaps, have not been assessed separately.

24. The assessment is structured as under:

a. Competition assessment of payment aggregation/facilitation services comprising BBPS Services, Recurring Payment Services, Online Merchant Payment Services and In-store Merchant Payment Services;

b. Competition assessment of Enterprise Solutions offered by Parties, viz., payment solutions for enabling management of recurring payments mandates on cards, Risk Management Products, Fraud Detection and prevention solutions and Provision of a software solution for BBPOUs (**Hexagon**) in the BBPS framework; and

c. Portfolio/Complementary Effects Analysis

VI. Competition Assessment: Payment aggregation/facilitation services comprising BBPS Services, Recurring Payment Services, Online Merchant Payment Services and In-store Merchant Payment Services

25. Of the aforesaid four service segments, the activities of the Parties overlap in BBPS Services, Recurring Payment Services and Online Merchant Payment Services, while there is no overlap in In-store Merchant Payment Services.

26. The Commission observed that one aspect which is common to all the aforesaid four service segments is that these are part of retail digital P2M payments. Amongst these four service segments, one aspect which is further common to three of the four aforesaid segments, viz., BBPS Services, Recurring Payment Services and Online Merchant Payment Services, is that these involve payments made online, which means and includes payments made using consumers electronic device when a merchant and customer are in different locations (hereinafter, BBPS Services, Recurring Payment Service and Online Merchant Payment Service are collectively referred to as **Online P2M Payments Services**). In case of In-store Merchant Payments, a digital payment is made in person, when the merchant and consumer are in the same location, using the customer's or merchant's electronic device. Further, each service segment has its own specific characteristics and use cases, which differentiate it from the other service segments.

27. The Commission observed that the first step in the assessment of the Proposed Transaction for these segments is to delineate the relevant market(s) for these services with the plausible markets being the market for all retail digital P2M payments services, narrower segment comprising Online P2M Payments Services and even narrower standalone service segment level.

A. Delineation of Relevant Market(s)

Submissions of the Acquirer

28. As regards the aforesaid four service segments, viz., BBPS Services, Recurring Payment Services, Online Merchant Payment Services and In-store Merchant Payment Services, the Acquirer proposed the scope of relevant market as "*market for retail digital person to merchant (P2M) Payments in India*" (**Broad Relevant Market**/**BRM**), encompassing all the aforesaid service segments.

29. On a without prejudice basis, the Acquirer proposed the scope of relevant market as *"market for online P2M payments in India"* (**Narrow Relevant Market/NRM**), which excludes In-store Merchant Payment Services from BRM.

30. Further, again on without-prejudice basis, the Acquirer proposed competition assessment at the even narrower segment level, i.e., BBPS Services, Recurring Payment Services and Online Merchant Payment Services.

31. The key submissions of the Acquirer in support of including the In-store Merchant Payment Services as part of the BRM are:

    i. *Convergence in payment methods used online and in person and consequent convergence of payment aggregation/facilitation service providers:* As stated, to enable merchants to receive payments from customers in traditional brick-and-mortar retail stores through digital methods, digital payment service providers provide POS terminal machines or smart POS or mobile POS (**mPOS**) services to merchants. The Acquirer submitted that, traditionally, POS terminal machines provided by banks enabled only card (credit card/debit card)-based transactions; however, in recent times, demand for smart POS and mPOS services, which enable merchants to accept various digital methods of payments, including card, wallet, UPI and net banking, has increased. According to the Acquirer, the change has led to a convergence in online payments and in-store payments in terms of payment methods. It has also been stated that there has been a development of payment solutions such as Scan and Pay, Bharat QR, Pay by Link, Aadhar Enabled Payments System (**AePS**), etc., which have led to enhanced options to pay online while being in store. To illustrate the convergence of payment aggregation/facilitation service providers, it has been stated that players such as Pine Labs, which started out as an in-store digital payments player, have now progressed to providing other Online P2M Payments Services to meet all the requirements of merchants pertaining to digital payments;

    ii. *Same core functionality*: The Acquirer submitted that the fundamental product offerings of the payment service providers remain the same in case of In-store

Merchant Payment Services and Online P2M Payment Services, i.e., to enable merchants to accept payments from consumers across all payment instruments while providing robust backend operations (settlements, dashboards, reporting, service and dispute handling, etc.);

iii. *Difference in infrastructure is not important*: In this regard, the Acquirer stated that what is important are the different payment methods provided by the payment facilitators (including aggregators) in BRM and NRM and not the infrastructure underlying these payment methods. When a customer makes a card payment, either in-store or online, the information on the card must be transmitted to the appropriate authorising entity, i.e., issuing bank. In the case of in-store transaction, the information is transmitted through a POS machine, and in the case of an online transaction, it is transmitted through a web-enabled interface. Hence, technically, a distinction in processing between POS-based card transactions and web-enabled card transactions is not appropriate, since the activity of processing POS and web-enabled interfaces (e-commerce) transactions are the same;

iv. *Convergence in fee for payment methods*: The Acquirer stated that the fees for the processing of POS terminals and online platforms are similar across payment methods (except the POS terminal rental fee); and

v. *Increasing trend of omnichannel services*: As submitted,

   a. Merchants are increasingly becoming omnichannel since they are looking to offer their products/services through online platforms as well as brick-and-mortar stores and consequently, demanding integrated payment acceptance solutions across such channels; and

   b. Given this scenario of increased adoption of online channels by both merchants and customers, along with existing face-to-face channels, retail digital P2M payment service providers are looking to optimise solutions for merchants with omnichannel presence.

32. The key submissions of the Acquirer in support of including the BBPS Services, Recurring Payment Services and Online Merchant Payment Services as part of the BRM/NRM are:

   i. *Same core functionality*: As submitted, all the service components, viz., BBPS Services, Recurring Payment Services and Online Merchant Payment Services, are functionally similar, in that they facilitate merchants to offer convenient digital payments methods to customers so that merchants can receive payments; and

   ii. *Regulatory Environment*: The regulatory landscape prescribed by RBI for all these services is well-defined, interlinked and evolving. There are separate notifications/guidelines issued by the RBI for payments through BBPS, and an authorisation under the Guidelines on Regulation of Payment Aggregators and Payment Gateways issued by RBI (**PAPG Guidelines**) has now been prescribed as a requirement for providing other online payment services, whether processed on a recurring or one-time basis.

Analysis of submissions of the Acquirer and delineation of relevant market(s)

33. As per Section 2(t) of the Act, relevant product market means *"a market comprising all those products or services which are regarded as interchangeable or substitutable by the consumer, by reason of characteristics of the products or services, their prices and intended use".*

34. Thus, for the Broad Relevant Market to be consistent with the definition of relevant product market as contained in Section 2(t) of the Act, each of the four services included in BRM/NRM should be regarded as substitutable by the consumer in terms of characteristics, prices or intended use. Further, the overall key factor in market definition in the context of competition assessment of M&As is identifying the most relevant competitive constraints for the combined entity.

35. This assessment of consistency of BRM/NRM with the definition of relevant market as contained in the Act can be undertaken in two stages, viz., (i) assessment of

plausibility of including In-store Merchant Payment Service in the same market as Online P2M Payment Services and (ii) assessment of plausibility of including various segments of Online P2M Payment Services in the same relevant market.

36. The Commission observed that there are a few specific aspects relating to the payments ecosystem which are relevant to the delineation of relevant market(s) which need to be examined and clarified before proceeding to delineate the relevant market(s). The same are detailed hereunder.

Meaning of the term 'online payment'

37. The first aspect which needs to be clarified is what is meant by 'online payment'. A payment can be looked at from two aspects. The first is when 'online payment' is used to refer the locational aspect of the transaction and payment. In this sense, an online payment means a payment made using a consumer's electronic device when a merchant and customer are in different locations, and an in-store payment means a payment made in person, when the merchant and consumer are in the same location, using the customer's or merchant's electronic device. The second aspect is in terms of payment mode or payment method. In this sense, an online payment would mean a payment made using an online payment method such as scanning a QR code, regardless of whether the payment has been made online or in-person (in locational context). The Acquirer categorised the Online P2M Payments and in-store payments, considering 'online payment' as a payment method. Accordingly, if the payment is made using an online payment method (i.e., any digital payment method apart from payments made using cards through a POS terminal), the same has been considered a part of NRM, with the result that the distinction between NRM and BRM is only with regard to inclusion/exclusion of services facilitating in-store payments made using cards through a POS terminal.

38. *Prima facie*, the approach of the Acquirer appeared self-contradictory. While, on the one hand, distinction is made between payment service facilitating an online transaction and payment services facilitating an in-store transaction in the locational

context, this distinction is immediately blurred by considering all services facilitating online payments (whether in-store or online) as part of online payments only. The Acquirer, in this regard, submitted that certain methods of payment, such as UPI and PPI, cannot be compartmentalised into strictly online and in-person payments, as they are used in an extremely fungible manner, and therefore, the market sizing submitted by the Parties depicts such fungibility of digital payments by virtue of their intended use, since these payment methods can be used interchangeably.

39. It is understood from the response of the Acquirer as well as other stakeholders that there are realistic issues in compartmentalising online payment methods such as UPI/PPI into in-person and online payments in the locational context. However, the Commission was of the *prima facie* view that the same is a market sizing issue which needs to be factored in the assessment of market shares, and any limitation in the availability of data for market sizing cannot be a basis of defining relevant markets. Accordingly, the Commission, while forming *prima facie* opinion on the competition impact of the Proposed Transaction, observed that market delineation should give regard to the distinction between in-store and online payments in the locational context, and payment aggregation/facilitation services need to be considered accordingly.

40. The Acquirer in its Response to SCN broadly reiterated its submissions on the inclusion of all In-store Payments Services and, consequently, inclusion of In-store Payments Services made by using online payment methods. While the issue of inclusion of In-store Payments Services enabling payments by POS terminals in the relevant market is discussed subsequently, it may be said that the relevant market is defined to include the most relevant competitive constraints, and accordingly, demand-side substitutability is the key consideration for the same. From demand perspective, the requirements of an in-store merchant are different from the requirements of a merchant who seeks to avail payment services on its website, and the same is enough to merit a narrow relevant market definition. The same approach anyhow implies the inclusion of those competitors in the relevant market who are actually offering services to online merchants. At the same time, competitors who are presently offering online payment services to in-store merchants and may gradually offer payment services to online

merchants can more appropriately be assessed separately as potential competitors. Thus, the Commission has considered 'online payments' in the locational context in its assessment of the Proposed Transaction.

TPAP Services vs. Payment Aggregation Services

41. The Commission further observed that the Online P2M Payment Services can be further classified depending on the point of initiation of a transaction. Online transactions can be carried out on the merchant website/app by utilising payment aggregation services provided by payment aggregators (**PAs**) such as the Parties. Apart from the same, another business model which has evolved is the merchant integrating itself on a third-party app (**TPAP**), wherein the transactions are initiated on the TPAP app. The services of TPAP to a merchant spans activities from onboarding to transaction and payment processing (**TPAP Services**). As per the Acquirer, TPAP Services are also interchangeable with the services of the PAs, as both services enable merchants to transact in goods and services and receive payments online.

42. The Commission sought the views of merchant stakeholders in this regard. Most of the merchant stakeholders submitted that they do not consider integrating a PA platform on their website/app and services and integrating their store on a TPAP to be interchangeable. Various reasons were also cited for the same, including, *inter alia*, higher cost implications for the merchant, need for high level of monitoring, success rates and transaction management by merchant, concern of discoverability, need for a merchant to integrate with multiple TPAPs in order to provide users with varied options, lack of control over payment logic, lack of data insights, etc. It was also pointed out that the PAs typically come pre-integrated with different payment methods, making it easier for merchants to integrate with a couple of PAs and provide their users with the option of varied payment methods as opposed to integrating separately with multiple TPAPs. Thus, based on responses received from stakeholders, it appeared that merchants do not consider TPAP Services to be a substitute of PA services. Accordingly, the Commission was of the *prima facie* view that the scope of Online

P2M Payments Services is required to be restricted to only PA services, which enable receipt of payments on merchant website/app.

43. The Acquirer in its Response to SCN referred to the submissions of TPAPs to the Commission, wherein they said that they are engaged in providing payment aggregation Services. The Acquirer submitted that, considering the express clarification provided by TPAPs in relation to the range of services provided by them, the Commission ought to have granted greater consideration and weightage to such responses, as these statements are much more credible than the statements by other third-parties who are not involved in the provision of PA services. The Commission noted the submissions and is of the opinion that, while the submissions of the Acquirer are again made from the supply perspective, the concerns and findings of the Commission primarily factor demand side factors. The submissions of primary customers of the Parties, viz., online merchants, regarding whether they consider TPAP Services as a substitute of payment aggregation/facilitation services on their website, in fact, are to be and have been given weightage. Again, this approach does not cause any distortion in analysis, as those TPAPs who are engaged in provision of payment aggregation/facilitation services are considered competitors of the Parties and accordingly are included in the relevant market.

44. Against the aforesaid backdrop of the scope of In-store Merchant Payments and Online P2M Payments, the Commission considered the issue of delineation of relevant market(s).

Assessment of plausibility of including In-store Merchant Payment Service in the same market as Online P2M Payment Services

45. The relevant market framework considers the product/service offered by the parties to a combination and their target consumers as a starting point. Thereafter, the competing products/services which are regarded as interchangeable by the consumer considering characteristics, price and intended use are added to the relevant market. The process continues till all competing products which are capable of exercising direct and

effective competitive constraints are added to the relevant market. As against the same, the BRM proposed by the Acquirer includes services required by two distinct merchant groups, i.e., two different set of consumers, viz., online merchants and in-store merchants. The online merchants seek payment aggregation/facilitation services for receiving payments on their website/apps, while in-store merchants seek payment aggregation/facilitation services for receiving payments in person in their store.

46. Each consumer group appears to have its own requirements in terms of payment services, and the requirements of these two groups are not substitutable per se and do not warrant expansion of relevant market. The mere overlap, that too, limited, in underlying payment methods which may be offered by online payment aggregators and in-store payment facilitators is not sufficient to expand the relevant market. It is important to note that the market and the Proposed Transaction is not primarily about payment methods, but the same is about payment aggregation services to merchants. With the Parties acknowledging that their products/services are principally provided to online merchants, the online merchants are the relevant consumer, and the services considered by them as substitutable shall form part of the relevant market. Thus, the Acquirer appears to have sought to bring two altogether different consumer groups in the same segment, which has the effect of introducing those participants in the market definition which may not offer any competitive constraints. For example, going by the Acquirer's approach, the providers of In-person Merchant Service by using the POS terminals, become part of the same relevant market as providers of payment aggregation services to online merchants even though they cannot plausibly serve online merchants.

47. The Acquirer's contention appears to be borne out of misplaced importance on payment methods instead of giving credence to the services required by the target consumer segments. The Proposed Transaction is not about integration of payment methods. The subject matter of the Proposed Transaction is not about substitutability of payment methods but rather, the substitutability of payment aggregation/facilitation services which allow the merchant to receive payments from multiple payment methods online. From a merchant perspective, it would seek to maximise the payment

options and consequently seek to avail the services of players engaged in the provision of various payment methods. The same is more reflective of the complementarity of the payment methods rather than substitutability.

48. The evolution of POS terminals has enabled the use of online payment methods for use in-store, which implies that some online payment methods may be considered substitutable by an in-store merchant, but the opposite is not true, in a sense that the services enabling payments through POS terminals cannot be considered substitutable by online merchants. The basic requirements of the two consumer segments are distinct, and there cannot be any demand substitutability between the two. The Acquirer has referred to certain payment methods which can be used both online and in-store and concluded that the confluence/overlaps of some payment methods is enough to include online payments and in-store payments in the same relevant market. As stated earlier as well, the fallacy of this submission appears to be that even providers of payments through POS terminals are included in the relevant market, even though an online merchant cannot use such services regardless of competition dynamics in the market for online payment aggregation/facilitation services.

49. Notwithstanding the critical lack of demand side substitutability between the services of online payment aggregators/facilitators and in-store payment facilitators and the consequent absence of direct competitive constraints between the two segments of service providers, the Commission considered the submissions of the Acquirer from the perspective of indirect competitive constraints as well.

50. The Acquirer had made reference to the increasing omnichannel trend, convergence in payment methods and cited examples where primarily in-store payment service providers are positioning themselves in online payments and where online payment service providers are positioning for in-store payments. The Commission examined whether the evolving need for omnichannel services has reached a state where the distinction between online and in-person payments gets blurred. Based on the response of the Acquirer to the query on the extent of demand for omnichannel services, the Commission observed that the in-store payments constitute an insignificant proportion

of PayU India's total TPV, and IIL is not present in in-store payments. When there is a larger degree of confluence in somewhat related but distinct segments, the market structures also begin to exhibit some convergence. Thus, if omnichannel services have reached a stage where it can be considered that there is convergence between online and in-store payments, the same will also be reflected in the market structures. In this regard, it is observed that the key players and their positions are very distinct in the aforesaid two segments. To illustrate, PayU India and IIL, which are amongst the most significant of the online PAs, have negligible and no presence, respectively, in the in-store payments. These differences further point to in-store and online payment services being separate relevant markets in their own right, and the demand for omnichannel services has not evolved to a stage where it leads to a notion that in-store and online payments are part of the same relevant market.

51. This issue was also posed to stakeholders. While some of the stakeholders supported the Acquirer's submissions and made submissions on some confluence in two segments, the same has been opposed by others. The stakeholders opposing BRM have pointed out differences arising from target audience, product offerings and players, differences in processing/framework for both segments and differences in capabilities, particularly in terms of lack of substitutability between hardware and software requirements, etc.

52. The Acquirer in its Response to SCN pointed to the submissions of the stakeholders who have submitted that the in-store and online payment services can form part of the same relevant market. Again, as in case of TPAP Services, the Commission noted, that firstly, the submissions referred are the responses of the competitors which reflect the supply perspective, and secondly, even those responses from the supply perspective have been mixed. Further, it is noted that these players do not even fulfil the requisite conditions to be even considered as potential competitors from the supply side perspective. In this regard, the following observations are made:

a. The submissions of stakeholders regarding backend mechanisms and technological framework and capabilities, hardware and software requirements, etc., indicate that even if POS terminal service providers are considered potential entrants into the online payments space, POS terminal service providers may not be capable of any such immediate potential entry in the market for payment aggregation/facilitation to online merchants, which may constrain the actions of online payment aggregators;

b. Further, another condition for considering constraints from the supply side is that switching production should be without incurring significant costs or risks in response to small and permanent change in relative price. Considering that the dynamics of online merchant payments differ significantly in terms of target audience, technological framework and hardware and software requirements, potential entry cannot be assumed to be without significant cost;

c. The question of entry is not just based on possessing requisite technology, economics of entry is an equally relevant aspect, i.e., the effectiveness of likely entry needs to be considered. Online payment aggregators compete not only on price but also on choice of payment methods, payment options for each payment method, rails with other players in the online payments ecosystem, etc., which cannot be taken as given to an entrant. Thus, given the dynamics, it is hard to assume potential entry as an effective deterrent for incumbents from exercising market power.

No specific submissions have been made by the Acquirer in its Response to SCN on the aforementioned aspects.

53. Thus, keeping in view the complete absence of demand-side substitutability from the online merchant perspective, no case being made out for supply-side substitutability for the reasons discussed above, lack of degree of confluence or convergence between the two segments, broader response of the stakeholders and Parties' primary product offerings catering to online merchants, the Commission considered that it would be appropriate to exclude in-store payments from the relevant market, i.e., reject BRM as proposed by the Acquirer. Further, as is applicable in the case of TPAPs, this approach does not have any potential to distort the assessment as the providers of In-store

Merchant Payment Services who have forayed into the provision of online payment aggregation services become part of Online P2M Payment Services, and the NRM (and any segment thereof) would be able to factor the degree of competitive constraints posed by them.

Assessment of plausibility of including all segments of Online P2M Payment Services in the same market

54. After assessing the plausibility of including In-store Merchant Payment Services in the same relevant market as online payment services, the Commission assessed whether the various segments of Online P2M Payments Services, viz., BBPS Services, Recurring Payment Service and Online Merchant Payment Service, can be included in the same relevant market, i.e., whether the NRM delineated by the Acquirer is consistent with the relevant market as defined in the Act or further segmentation is required.

55. As regards BBPS Services, the Acquirer submitted that BBPS Services are also substitutable with the Online Merchant Payment Services and Recurring Payment Services. In support of the same, the Acquirer has submitted that:

   a. Digital payments by the same customer to same merchant not processed through BBPCU anyhow form part of either Online Merchant Payment Services or Recurring Payment Services, and the existence of alternative transaction flow implies that the services be considered interchangeable;

   b. BBPS authorisation is available upon completion of basic documentary requirements (on-tap in case of banks) and meeting the minimum net worth requirements. The submission has been made to emphasise that BBPS authorisation requirement should not be the basis of considering BBPS Services as a distinct segment; and

c. BBPS is different only in the processing of a transaction being through a defined network (i.e., BBPCU), while the (i) merchants (receiving the payment), (ii) payment methods and (iii) players participating remain the same.

56. As regards Recurring Payment Services, it has been stated that these services enable businesses and merchants to collect subscriptions and other payments from their customers on a periodic basis without the customer having to input AFA for every payment. However, (i) merchants using recurring payment services are the same that use the overall retail digital P2M payments services; (ii) providers of recurring payment services are the same entities as those who provide other online payment services; and (iii) the underlying payment methods and networks used for processing are also the same.

57. The Commission sought views of the stakeholders as regards whether they consider BBPS Services, Recurring Payment Services and Online Merchant Payment Service (offered by way of a checkout process on merchant website) as separate markets in their own right or whether these can be said to belong to overall online payment aggregation/facilitation service markets. A mixed response has been received from the stakeholders. Some stakeholders have submitted that these segments are part of the same market while others have submitted that only BBPS is a different segment while Recurring Payments and Online Merchant Payments Service can be considered part of the same market. One stakeholder has submitted that all services have specific use cases and distinct play and market engagement, which make each service different.

58. The Commission observed that there are some overlaps and some elements of independence in each of these services; however, BBPS Services appear quite different from other online payment services, viz., Online Merchant Payment Service and Recurring Payment Service, considering the distinct regulatory framework, requirement of payments to be processed through the BBPCU, BBPS authorisation requirement for rendering BBPS Services, the operating framework comprising BOUs and COUs with their specific roles and mandates, etc.

59. The Commission considered the submissions of the Acquirer and other stakeholders regarding BBPS services and observed that:

a. The alternative transaction flow has been cited as one of the factors of substitutability of BBPS Services with other online payment services. However, from the merchant perspective, the different avenues which allow for collection of payments may not be strictly substitutable; rather, they may be complementary, as the merchant would always look to offer all payment channels to its customers. Considering that the BBPS framework has its own stream of benefits for merchants, it may not be appropriate to consider other options as strictly substitutable with BBPS Services;

b. The second submission of the Acquirer is 'on-tap availability' of BBPS authorisation. In this regard, it would be appropriate to note that market dynamics are not decided just by authorisation. An authorised entity has to create the requisite infrastructure to initiate operations. The infrastructure requirements in all the segments of Online P2M Payment Services require significant time, cost and effort. Accordingly, it does not appear correct to consider service providers of other online payment services as potential competitors to the extent of expanding the relevant market;

c. The Commission does not agree with the submissions of the Acquirer that the differences between BBPS Services and other online payment services are limited just to transaction processing. The participants, including BOUs, COUs, AIs, role of NPCI as a BBPCU, dynamics relating to setting fee for services, etc., differentiate BBPS Services from other online payment services; and

d. Even within BBPS Services, the dynamics need to be captured in the COU and BOU segment separately considering that COUs/BOUs cater to separate consumer segments of AIs and billers respectively.

60. With respect to Recurring Payment and Online Merchant Payment Service, the Commission noted that the only difference between them is the frequency of payment

and need to register mandate for automatic payment of the same. Thus, based on the aforesaid, the Commission was of the *prima facie* view that Recurring Payment Services and Online Merchant Payment Services appear to be part of the same relevant market, while BBPS Services appear to be a separate relevant market. The Acquirer reiterated its submissions in the Response to SCN and again pointed out the mixed responses of the stakeholders and accordingly, argued for consideration of the other view. The Commission, considering the totality of factors, has only carved out BBPS Services from NRM as a separate relevant market while considering Online Merchant Payment Services and Recurring Payment Services as part of the same relevant market. BBPS Services have their own operational framework, which differs markedly from other payment aggregation services, implying significantly different competitive conditions. Accordingly, the Commission is of the opinion that Recurring Payments Services and Online Merchant Payments Services be delineated as one relevant market and BBPS Services be delineated as a separate relevant market.

61. Considering the operational landscape, regulatory framework, etc., the Commission agrees with the Acquirer’s proposal on relevant geographic markets to be pan India.

62. Thus, considering the aforesaid, the following relevant markets are delineated:

a. Market for online payment aggregation services for retail digital P2M payments on the merchant websites/apps as a part of checkout process [standalone and recurring] in India; and

b. Market for BBPS Services: (a) as BOU; and (b) as COU in India.

B. Competition Assessment of Market for online payment aggregation services for retail digital P2M payments on merchant websites/apps as part of the checkout process [standalone and recurring] in India

63. The Proposed Transaction relates to the payments ecosystem. The activities of the parties working in payments ecosystem inter-se have multiple layers of relationships and also there are certain specificities of the payments ecosystem which need to be considered in competition assessment. As stated above, one such aspect is fungibility of certain online payment methods. The other relevant factor which is observed is that the competitors of the Parties are also their customers for certain services which may or may not be part of the payment aggregation/facilitation services. Another relevant factor can be the differences in specific competitive advantages/disadvantages resulting from factors specific to each entity's primary area of operations and business model followed. While all these aspects need to be examined, the first aspect to be considered is the assessment of the presence of the Parties and the impact of the Proposed Transaction on the level of concentration. Some of the factors discussed above are relevant to the estimation of market shares and potentially distort the results. Nonetheless, considering that market shares are not an end into themselves as far as competition assessment is concerned, the Commission considered the estimation of market share of the Parties in the relevant market even though the analysis had its own limitations.

64. The Acquirer provided estimates of market share of the Parties and their competitors in BRM, NRM and for each of the three segments in terms of value (TPV) and volume (number of transactions processed). The estimates were based on Parties' actual figures and market size derived from data on Payment System Indicators published by RBI in respect of the payments undertaken through IMPS, NEFT, UPI, debit transfers (including NACH), cards (credit card and debit card) and PPIs. The Acquirer submitted that, while payment modes such as debit cards, credit cards, UPI and wallets are intuitively understood as modes of payment for goods and services, IMPS has been included as it is the underlying payment mode for net banking payments in online transactions, and NEFT is included as it is used for high-value payments such as educational fees and credit card bill payments.

65. The detailed methodology adopted by the Acquirer for the estimation of market size is given hereunder:

a. TPV and volume in respect of cards (debit/credit) was taken from RBI data;
b. UPI P2M value and volume was taken from NPCI data;
c. 100 percent of PPI value/volume was considered;
d. 100 percent of NACH debit and ECS debit, NETC and BHIM Aadhar Pay value/volume was considered;
e. NEFT and IMPS were considered proxy of netbanking, for which no market size information is available. The Acquirer made two estimates of market size. The first estimate considered 10 percent of IMPS and NEFT value/volume as P2M, and the second estimate considered 15 percent of IMPS and NEFT value/volume as P2M.

66. The Acquirer submitted that, as banks report both P2P and P2M bank-based transfers with no separate segregation for NEFT and IMPS, they have taken UPI payment value contribution to P2M as the benchmark to arrive at the estimate for NEFT and IMPS payment value contribution to P2M. The Acquirer submitted that the characteristic features of NEFT/IMPS in terms of customers making payments through debit to bank accounts is similar to UPI, and further, UPI payments constitute the largest pool of retail digital payment transactions and represent a stable segregation of P2P and P2M payments using bank accounts. It was stated that, as currently, P2M payments account for 15 percent of UPI payments by value and 42 percent of UPI transactions by volume, the same proportion of around 15 percent has been used for arriving at the share of NEFT/IMPS in P2M. It was further submitted that, to be conservative, the Parties have also considered another scenario (smaller market) at 10 percent of NEFT/IMPS transactions.

67. As per the aforesaid approach considering 10 percent of IMPS and NEFT value/volume as P2M and further considering the information regarding TPV/volume given by the Acquirer for the market comprising Online Merchant Payment Services and Recurring Payment Services, the combined share of the Parties for FY 2021 is estimated to be in the range of [15-20] percent in terms of value and [20-25] percent in terms of volume, with an increment of [0-5 percent] in terms of both value/volume. The estimates also

indicated a decline in the combined market share of the Parties from [20-25] percent in terms of value and [30-35] percent in terms of volume considering their presence in FY 2019.

68. The Commission observed that, for the reasons given above in relation to the scope of the term ‘online payments’, inclusion of 100 percent value/volume of PPI transactions and 100 percent value of UPI P2M payments to some extent overstated the market size, considering that the same includes payments made on websites/apps as well as in store. Further, the estimation of netbanking market size based on applying the same percentage or a little lower percentage as that of UPI P2M to NEFT/IMPS may potentially distort the overall estimates, given the wide difference in the range of payment size. The NEFT/IMPS transactions for FY 2021 as per RBI data are estimated at USD 3846 billion, almost seven times that of UPI TPV of USD 562 bn.

69. The Commission observed that the aforementioned estimates in terms of value/volume, *inter se*, also appear to suffer from the limitations of assumptions. The value estimates seemed to underplay the presence of the Parties due to a potentially higher proportion of market attributed to netbanking, and the volume estimates seemed to underplay the presence of the Parties due to the inclusion of all UPI P2M and PPI transactions, a substantial part of which may be made in person and is estimated to be high volume and low value and comprises a segment characterised by the presence of other specialised players.

70. Accordingly, the Commission requisitioned information in respect of TPV/volume of transactions processed directly from the competitors identified by the Acquirer in their market share estimates for FY 2021 and FY 2022. The information received accounted for around 91 percent of the market volume in terms of market share estimates submitted by the Acquirer for FY 2021. Considering that the information received from all competitors for FY 2021 and FY 2022 seemed to be more representative in terms of volumes, the Commission *prima facie* considered market share in terms of volume. Accordingly, the actual volumes for FY 2021 and FY 2022 were proportionately scaled up to reflect 100 percent of market volumes.

71. Based on the information obtained, the Commission calculated the combined share of the Parties in the market for online payment aggregation services for retail digital P2M payments on merchant websites/apps as part of the checkout process [standalone and recurring] in India. The same was estimated to be in the range of [45-50] percent with an increment of [5-10] percent for FY 2021 and [35-40] percent with an increment of [10-15 percent] for FY 2022.

72. The Acquirer in its Response to SCN submitted that the aforesaid market share estimates overrepresent the presence of the Parties. It was submitted that the market size obtained on the basis of outside-in approach (i.e., by considering the RBI data on payment indicators) is more reliable. The Acquirer expressed concern that the inside-out approach of estimating market shares based on information collated from each competitor may suffer from limitations. There may be a lack of uniformity in the manner in which the third-parties understood the query regarding furnishing of TPVs and volume information, and consequently, there is no clarity as to the payment methods which have been included/excluded (such as netbanking, NACH, etc.) by the competitors in arriving at the information in respect of their TPVs and volumes transacted.

73. The Acquirer stated that, considering that, primarily, the ambiguity is regarding the size of netbanking, the market shares of the Parties may also be calculated by excluding net banking from both the TPV numerator as well as the market size denominator. In this regard, the Acquirer further submitted that, on an arguendo basis, if the market size suggested by various reports available in the public domain, including the Jefferies Report (approx. USD 300 billion), is accurate, then, based on the market sizing methodology (of only including card, UPI and PPI payments), the Parties' market share will continue to remain less than 25 percent, provided that the TPV of the Parties (i.e., numerator) is based on the same methodology and same components.

74. The Commission considered the submissions of the Acquirer and observed that there are varied approaches to estimate market size considering the nature of the relevant market, and accordingly, there are varied estimates of market share of the Parties and their

competitors. Further, it is important to note that market shares are a quantitative screen and may under or overrepresent competition intensity, and accordingly, regardless of the findings of the market share analysis, the Proposed Transaction need to be examined in terms of other relevant factors. In this regard, one factor which is relevant is the trend of change in market shares. The trend analysis, regardless of market share estimates, reveals that the combined market share of the Parties has been declining in general and declined substantially in FY 2022 over FY 2021. Even as per the Commission's estimates, the decline is in the range of [5-10] percent. This decline in market shares (calculated in terms of volume) is also reflected and validated by considering the changes in TPVs reported by the Parties and their competitors in FY 2022 over FY 2021. It was noted that, while the increase in the weighted average increase of TPV of the combined entity is estimated to be around [25-30] percent, the leading competitors of the Parties have experienced a significant change in TPVs with the least increase demonstrated being in the range of [10-15] percent and the highest increase demonstrated of more than 500 percent and weighted average increase in the range of [55-60] percent on an year-to-year basis.

75. Based on the same, the Commission is of the view that, while the Parties are strong players in the relevant market, their presence at least in terms of market shares, is not as significant as it appeared *prima facie*. Further, whether the presence of the combined entity can potentially cause any appreciable adverse effect on competition also depends on other factors, beyond market shares. The same have been assessed subsequently.

Competitive landscape and position of the Parties

76. The Commission observed that the competitors included in the aforesaid market share estimates are a diverse lot with some 'pureplay' PAs such as the Parties, some banks and some players which are primarily TPAPs. Considering the diverse mix of competitors, the Commission assessed the operational dynamics in the form of competitive advantages/disadvantages of these categories of market constituents at a broader level to examine the actual state of competitive constraints.

77. The Commission observed that the Acquirer has noted diversified business, payment rails, superior backend operations (reconciliation and settlement processes) and strong relationships across the ecosystem as core strengths of a payment business in its internal documents. Based on the information available on the websites of various PAs, the Commission also observed that the PAs strive to differentiate their offerings in terms of offering greater number of payment methods, for each payment method offering maximum payment partners, ease of integration, on demand scalability, etc. The Acquirer was asked to submit how the market constituents as noted above fare on these aspects vis-a-vis PAs such as the Parties.

78. The Acquirer provided a comparative position of the banks, TPAPs, PPI and PAs in terms of parameters such as ease of integration, extent of diversification, number of payment methods, etc., and submitted that each of the factors is in fact a manner of competing for various kinds of PAs and that none of the factors are individually crucial/central to the services of a PA; however, a combination of such factors makes the PAs' offering more attractive to merchants. The Acquirer submitted that this is best reflected and assessed by the demand that PAs are able to generate in general (i.e., the market shares of the Parties) and need not be considered separately.

79. The Commission observed *prima facie* that while it may be appropriate to consider that a combination of factors makes the PAs' offering more attractive to merchants and needs to be seen accordingly, it may not be accurate to state that this is best reflected in market shares. Though the Commission had, in its own estimates of market shares, considered the presence of these players only to the extent that it corresponds to the provision of payment aggregation services on merchant websites, this understanding of competitive landscape is crucial to the assessment.

80. In that context, based on the submission of the Acquirer itself, the Commission observed *prima facie* that the pureplay PAs are competitively better positioned than other categories of competitors included in the market share estimates on all the crucial parameters, viz., payment rails (methods), ease of integration, scalability, etc. This observation was buttressed by the submissions of the stakeholders, most of whom

indicated that other pureplay PAs (and not TPAPs, PPIs or banks) are the only substitutable options to the Parties, which implies that the merchants catered by the Parties, i.e., which constitute the target audience of the Parties, primarily consider only pureplay PAs as their potential suppliers.

81. Apart from general competitive advantage in favour of pureplay PAs, two more key parameters emerged during the review process, viz., (i) some of the PAs do not own payment aggregation platforms and avail such solutions as a white label solution or by way of co-branding or co-partnership from other PAs and (ii) even pureplay PAs may depend on each other for sourcing payment methods, particularly netbanking.

82. As regards the issue of PA platforms, the Commission first examined the criticality of the same from the merchant perspective. The stakeholders were asked to respond on the aspect of the significance of owning a PA platform in overall operations. Almost all the competitors have submitted that owning a PA is an important competitive advantage, with reasons ranging from capability of providing "superior service", "holistic solution" and "multiple payment modes". PA platform providing "direct interface with merchants" has competitive advantages in the form of customisation of products and services, tighter control on success rates, ability to directly negotiate rates and better control over profit margins and better risk and compliance management. Some of the merchant customers also pointed out their preference to engage a PA which owns a PA platform. The reasons cited include broader aspects of trust and safety to more specific issues of disintermediation and hops being a crucial element in payments, wherein the addition of players to get to the issuer or higher hops adds complexity to the transaction and negatively impacts approval rates. The other reasons cited include better integration, controls and data security, etc. Overall, it appears that owning a PA platform does offer a significant competitive advantage over others.

83. The stakeholders were also asked to indicate whether they own a PA platform or avail the solution from some another source. Based on the responses received, a difference in operational dynamics of pureplay PAs and other PAs is again evident to some extent. It

is observed that pureplay PAs largely have their own PA platform, while others are partnering with technology service providers for whole or part of their service offerings.

84. As regards the sourcing of payment methods from each other, most of the stakeholders have submitted that the same is an ordinary course of activity for PAs. However, as the merger review is futuristic, the Commission considered it appropriate to review the position of the Parties and the combined entity going forward.

85. Considering the aforesaid aspects, the Parties and their competitors were asked to provide details of the TPVs (value/volume) derived from rendering online PA services to an organisation providing platform/payment services to their merchants. Based on the information received from the Parties and competitors, it was observed that the Parties have a significant presence in this area.

86. The aforesaid market shares and consequent position of strength of the combined entity was validated to some extent by the Parties' response to their presence in the activity of provision of payments methods to other PAs. As submitted, PayU India is providing such services to [redacted] entities, and IIL is providing such services to [redacted] entities, which include various banks and PAs. As regards the query on such arrangements availed by the Parties, it was submitted that neither PayU India nor Billdesk avail any payment methods from other PAs.

87. Considering the aforesaid, the Commission, *prima facie* observed that the Parties are close competitors and, to some extent, only significant substitutes for PAs who wish to seek payment methods for further provision to their merchants. Accordingly, the Commission formed a *prima facie* view that the Proposed Transaction will eliminate one option and confer near monopoly position on the combined entity.

88. The Commission accordingly undertook further assessment of this aspect.

89. The Acquirer in Response to SCN submitted that the retail digital P2M payments market is regulated stringently by RBI and that RBI has mandated interoperability as part of its

policy to increase the adoption of digital payments in India. The Acquirer further submitted that open architecture and interoperability are cornerstones of India's digital payments and, as a result, there is no dependence of merchants (or their customers) on the Parties or the Resulting Combined Entity, given that it is an interoperable regime based on open architecture. The Acquirer further submitted that players who earlier had only one-to-one integrations only can now access the entire space to grow their business, given the rise of interoperable payment systems.

90. The Commission noted the submissions of the Acquirer and observed that the digital payments sector has indeed witnessed the growth of interoperable payment systems. Initiatives such as BBPS System and UPI services have eliminated the need for one-to-one integrations. Overall, for an entity desirous of providing payment aggregation services, there does not appear to be any significant barriers in terms of provision of various payment methods such as cards and UPI, and the only area of concern, as stated above, is the area of netbanking which still requires one-to-one integrations or seeking integration from other PAs. The Commission further examined this aspect for any potential ability or incentive on the part of the combined entity to deny access to other competitors.

91. On the aspect of ability to foreclose payment methods, the Acquirer in Response to SCN submitted that the integrations are used as a matter of redundancy and/or convenience and PAs can choose and are free to create direct integration (for example, with banks, in case of net banking) instead of relying on their competitors. In this context, the Acquirer submitted that several players use the integrations from other competitors (such as CC Avenue, Razorpay, etc.), as the integrations are available at a minimal time and cost and it is likely that, with time and increase in scale, other PAs will create direct integration with banks.

92. Based on the submissions of the Acquirer and other stakeholders, it is confirmed that the Parties are not engaged in the provision of any exclusive service, and there are other providers of such integrations of payment methods. Further, the option of obtaining a direct integration from the concerned bank is also available, and therefore, obtaining a

payment method from other PAs such as the Parties appear, more of a question of commercial choice rather than any compulsion. This negates a possibility of summary denial of access. However, the Commission further examined the position in light of the incentives of the Parties as well.

93. Before going into the analysis in terms of incentives of the combined entity to deny payment methods to other PAs, examination of another related aspect is critical. The same is the possibility of multi-homing and assessment of switching costs and resulting countervailing buyer power, if any.

94. The Acquirer submitted that merchants have the ability to decide which players they choose to retain from the bouquet of payment options offered to them. As submitted, merchants may also use the services of different service providers for the same payment methods and, at any point in time, most merchants have integrations with multiple payment facilitation (including aggregation) service providers. Further, it was stated that merchants have the ability to move from one payment facilitator to another while incurring negligible switching costs due to: (i) non-exclusive nature of contracts (without any tie-in cluse); (ii) easy and quick onboarding process; and (iii) easy and quick switching option for merchants without any technology barrier. Basis the aforesaid, it was stated that there exists a substantial degree of countervailing buyer power exercised particularly by merchants.

95. The submissions of the parties are partially supported by the responses received from stakeholders as well. Most of the merchant customers have submitted that they onboard multiple PAs. However, their responses on ease of switching are mixed. Some of the PAs have said that it is not that easy and highlighted concerns such as technology and operations related overheads, time horizon for switching being 3-6 months and requiring resources across several teams to work in tandem, usage of proprietary technology, dependence on outgoing PA for refunds for some time period etc., while some others have stated that switching is not very difficult and that they have switched due to unsatisfactory service or for better commercials. However, the Commission observed that, on an overall basis, it appears that the merchants do multi-home, and switching from

one PA to another is not that difficult and the merchants may do it under relevant circumstances.

96. While the findings on multi-homing and low switching costs are relevant and, to some extent, do signify countervailing buyer power, the same are also considered relevant for defining the relationship between the PAs *inter se* for sourcing and provision of payment methods. Considering that merely acquiring a merchant is not enough to earn revenue and, for the same, the PA must get involved in a payment transaction, the natural incentive for PAs appears to be expanding their reach in terms of transactions and not just the number of merchants. The merchant base of any PA desirous of obtaining integration of a payment method is thus likely to be viewed as a potential revenue opportunity incentivising the provision of access. This is more plausible considering that other PAs such as TPAPs and PPIs have their own niche consumer sets, which may be significantly difficult to acquire with limited power in terms of denying a particular payment method. As far as banks are concerned, banks have a peculiar presence in the payments ecosystem and are likely to exercise significant countervailing power in their dealings with PAs, such as the Parties.

97. Thus, based on the aforesaid, the Commission is of the opinion that the combined entity may not have any incentive to deny access to a payment method, and accordingly, as confirmed by majority of stakeholders, the provision and sourcing of payment methods is an ordinary course activity at present, and considering the aforesaid, the same is likely to remain an ordinary course activity even after the Proposed Transaction.

98. As far as other competitive advantages of pureplay PAs as against the TPAPs, banks, etc. are concerned, the Commission observed that, as submitted by the Acquirer and noted above as well, the banks and TPAPs/PPIs have their own set of advantages and disadvantages when it comes to merchant acquisition, and though pureplay PAs can be said to have some advantages over the other PAs, these cannot be considered a competition concern specific to the Proposed Transaction. The other PAs have gained entry in the relevant market and, based on the information on record, have witnessed strong growth and achieved strong volumes which, to a large extent, is demonstrative of

either the market growing at a pace where every entrant has an opportunity to expand its presence or the pureplay advantages not being of the manner and strength to stop the growth of other PAs, or it is representative of certain advantages of such other PAs in their own right. Under all the circumstances, the Proposed Transaction is not likely to cause any concerns relating to creation of barriers to entry/expansion.

Conclusion

99. Overall, the Commission is of the view that the Proposed Transaction is not likely to significantly change competition dynamics in the market for online payment aggregation services for retail digital P2M payments on the merchant websites/apps as part of the checkout process [standalone and recurring] in India, as reflected in the aforesaid analysis.

C. Competition Assessment of Market for BBPS Services: (a) as BOU; and (b) as COU in India

100. BBPS was conceptualised by RBI with the objective of integrating the fragmented bill payments market in the country and offer interoperable and accessible bill payment services to consumers via digital (bank channels) as well as through a network of agents and bank branches. RBI appointed NPCI as the BBPCU (now NPCI Bharat BillPay Ltd (**NBBL**) for (i) setting standards for the operation of BBPS, (ii) ensuring adherence by various operating units to the standards set for BBPS and (iii) undertaking clearing and settlement activities related to BBPS, among others.

101. BBPS has the following participants as a part of its framework:

a. Authorised BBPCU: As stated, NBBL acts and performs the functions as the authorised BBPCU.

b. Customers (who need to pay bills)

c. Bharat Bill Payment Operating Units (BBPOUs): BBPS guidelines mandate that only certain entities, meeting the threshold criteria provided thereunder, can connect to the BBPS platform and provide services thereunder. These entities are referred to as BBPOUs. BBPOUs can be segmented into two buckets: (i) COU and (ii) BOU. A COU primarily acquires consumers who wish to make recurring bill payments on channels such as mobile app/website, and a BOU primarily acquires billers who receive the payments from end customers.

d. Agent Institutions (**AIs**): These are customer-facing entities which are onboarded on the BBPS ecosystem by existing BBPOUs to facilitate the bill payment services for their customers

e. Billers/merchants

102. The Commission observed that, considering the specificities of the BBPS framework, the presence of a player needs to be assessed in three different roles, viz., as a BOU, as a COU and as an Agent Institution. The parties to the Proposed Transaction are operating in the BBPS framework as a BOU and a COU while, as submitted by the Acquirer, Lazypay, an Investee Company of Naspers, may be introduced as an Agent Institution under the BBPS framework.

103. Given that there are three main participants, viz., BOU, COU and AI, it would be important to first evaluate their significance in the BBPS framework before proceeding to take note of the position of the Parties.

104. Parties have stated that the NPCI has made the entire system (i) regulated, with a defined and standardised role for each participant, along with detailed regulatory oversight on all aspects and (ii) interoperable and accessible, inasmuch as NPCI as BBPCU routes the transaction from COU to BOU. As a result, a COU has no control over who the BOU is in a transaction, and vice versa. On the other hand, a strong COU position is reflective of ease of access of their touchpoints (either direct or through Agent Institutions) and preference of their channel by customers. For COUs that offer other services directly to retail customers (e.g., HDFC Bank, PhonePe, Paytm, etc.), it increases the level of customer engagement and enhances their ability to offer/cross-sell other products and services to such customer base. This results in a virtuous cycle by which customers can conduct more and more transactions on their platform.

105. As per the Parties, the flow of transaction is controlled at initiation by AIs as they are the customers' first point of contact to initiate BBPS payments, other than for payments where the BBPOU (COU) has its own direct customers (e.g., HDFC Bank, PhonePe, etc.) and there are no AIs. Given that AIs control the flow of transactions to BBPOUs, the transactions are commoditised by the AIs *qua* the BBPOUs. It has been stated that AIs have high bargaining power and have very limited dependence on any particular BBPOU (such as the Parties). An AI can be integrated with a maximum of two BBPOUs. AIs also have a choice to apply for BBPS authorisations and process transactions directly by themselves as BBPOUs. In this regard, the Parties have referenced PhonePe's evolution in BBPS. PhonePe, which was an AI until March 2021, now processes several of its transactions through its own BBPOU (as a COU) and has gained a 44 percent market share in the COU segment.

106. The Parties submitted their market shares and of their competing BOUs and COUs based on the volume of transactions processed by each of the players as a COU or a BOU considering that, in the BBPS framework, the fixed fee per transaction is charged and the fee is not charged on *ad valorem* basis (except in the limited case of telecom/DTH recharge, where it is *ad valorem* consistent with the telecom industry distribution practices). Accordingly, as submitted, the volume of transactions is a primary metric and is also followed by the NPCI for calculation of market shares on its website. As regards data for market share estimates for each of the financial years from FY 2019 to FY 2021, data on total volume of transactions processed under BBPS published by NPCI was used to estimate the overall size of the segment, while the estimates of market share of the competitors were based on internal estimates of the Parties. As NPCI has started publishing market share details from FY 2022 on a month-on-month basis, the data for FY 2022 was provided accordingly.

107. As per the data, the combined market share of the Parties for FY 2021 as a BOU stands in the range of [20-25] percent, with IIL's share in the range of [15-20] percent and PayU India's share in the range of [5-10] percent. The monthly combined market share of the Parties for the period April 2021 to January 2022 has been in the range of [20–35]

percent, with Billdesk's shares ranging from [20-30] percent and PayU India's share ranging from [0-5] percent. The other significant competitors on the BOU side include PayTM Payments Bank, with monthly shares for FY 2022 (till January) ranging from [10-20] percent. There are other players, viz., Axis Bank and Airtel Payments Bank, with shares ranging from [5-10] percent. Looking at the market share trends over a longer period of three years from FY 2019 to FY 2021, it is observed that IIL's share has gone down from [30-35] percent to [15-20] percent, while PayU India's share has gone up from [0-5] percent to [5-10] percent.

108. The combined market share of the Parties for FY 2021 as a COU stands at [45-50] percent (with PayU India's share being negligible). The monthly combined market share of the Parties for the period April 2021 to January 2022 have been in the range of [15-35] percent with PayU India's share being negligible. The other significant competitors on the COU side include PhonePe, with monthly shares for FY 2022 (till January) increasing from [15-45] percent. There are other players, viz., PayTM, with shares in the range of [15-25] percent. Looking at the market shares trend over a longer period of three years, from FY 2019 to FY 2021, it is observed that IIL's share went up from [30-35] percent to [45-50] percent (before decreasing in FY 2022), while PayU India's share has been negligible.

109. At the *prima facie* stage, the Commission, apart from the aforesaid market share estimates in terms of volume, had also considered market shares in terms of active billers onboarded by the Parties as BOUs and AIs onboarded by the Parties as COUs. While the Commission was of the *prima facie* view that the market shares estimates in terms of volume of transactions are not indicative of competition concerns, given the insignificant presence of PayU India, the Commission had concerns regarding the futuristic presence of the combined entity, as it was felt that the long-term volume-based market presence is likely to follow the position in terms of billers/AIs onboarded.

110. As regards the specific concern of the Commission, the Acquirer in its Response to SCN submitted that that number of billers onboarded is not the appropriate metric for evaluation and does not provide any competitive advantage to the combined entity, given

that each biller may nominate more than one default BBPOU, in line with the guidelines of NPCI and, as such, the competitors of the Parties can (and do) onboard the same billers, thereby negating any potential competitive advantage.

111. The Commission also noted the submissions of the Acquirer made during the course of review of the Proposed Transaction that the NPCI as the BBPCU routes the transaction from the COU to the BOU, and, as a result, a COU does not have control over who the BOU is in a transaction, and vice-versa.

112. The Commission observed that the position in terms of active billers/AIs onboarded would have been more relevant in the absence of the provisions to allow one biller to nominate more than one default BBPOU and when the COU had control over who the BOU would be in a transaction. In absence of the same, a COU/BOU may not be assumed to gain any market power by virtue of mere onboarding of billers/AIs. Further, it is also relevant that the long-term revenue is ultimately linked to the transactions actually processed rather than mere onboarding of billers/AIs. Accordingly, the actual presence as reflected in market share estimates (by volumes) may be considered indicative of actual competition dynamics. As noted above the same is not reflective of any competition concerns, primarily due to insignificant presence of PayU India and consequently, insignificant incremental change in market position resulting from the Proposed Transaction and further considering that the presence of IIL has been reducing in both the BOU/COU segments.

113. Apart from the concern regarding the position of the combined entity in terms of billers/AIs onboarded, another concern of the Commission at the *prima facie* stage was related to the combined entity envisaging introducing Lazypay as its own AI. Accordingly, the Commission *prima facie* was of the view that the same can change competition dynamics.

114. In this regard, the Acquirer in its Response to SCN submitted that Lazypay has a much smaller user base (~3 million users) compared to larger applications such as PhonePe, Google Pay and Paytm (each of which has onboarded more than 100 million users). The

Acquirer submitted that the introduction of Lazypay as an AI will not lead to any significant change in the position of the combined entity on the COU side. Further, it was submitted that, in any event, it is not even necessary for a COU to onboard AIs, as the COU can directly acquire customers and, in that context, an AI is merely an additional touchpoint for the end-consumer.

115. Based on the aforesaid, and again considering the aspect of lack of control of COU over the flow of the BBPS transaction, the Commission is of the view that, even though Lazypay as AI may have some advantages, given the presence of the combined entity as a BOU and a COU, the same would also be subjected to competitive constraints from other AIs and their existing linkages in the BBPS. The BBPS is indeed interoperable and allows the entities to play multiple roles as well, and considering the same, it may not be appropriate to conclude that mere entry of an entity with linkages to existing BOUs/COUs can distort competition. The fact of long-term revenue being linked to the transactions actually processed rather than mere onboarding of billers/AIs is also relevant here, as the same implies that any preferencing to Lazypay by the combined entity can be counterproductive, meriting response from existing AIs, which are contributing to the presence of the Parties. Accordingly, the Commission is of the view that it does not appear plausible to consider that introduction of Lazypay as an AI may in itself cause any competition distortions in the market.

Conclusion

116. Overall, the Commission is of the view that the Proposed Transaction is not likely to significantly change competition dynamics in the market for BBPS Services (a) as BOU and (b) as COU in India.

VII. Competition Assessment of Enterprise Solutions viz., payment solutions for enabling management of recurring payments mandates on cards, Risk Management Products, Fraud Detection and prevention solutions and Provision of a software solution for BBPOUs (‘Hexagon’) in the BBPS framework

A. Payment solutions for enabling management of recurring payments mandates on cards

Understanding SiHub and where SiHub fits in the value chain

117. In India, recurring payment services can be facilitated through the following modes:

a. Direct debit to bank account: Through NACH (e.g., for Mutual Funds Systematic Investment Plans). The NACH debit service is currently operated by NPCI and was earlier operated by the RBI and termed ECS-Debit;

b. Debit and Credit Card Payments: Charge through card e-mandate (using card number) (e.g., for OTT subscriptions); and

c. Debit to bank account: Through UPI AutoPay

118. IIL's SiHub and Payu India's Zion relate to the recurring payment services through the debit/credit cards.

119. Prior to 1 October 2021, recurring payments were initiated and conducted by merchants who could store their users' payment instructions/mandate to initiate payment requests in such frequency as was agreed upon between the merchant and the customer.

120. On 21 August 2019, RBI had issued a circular under Section 10(2) of the Payment and Settlement Systems Act, 2007 titled "Framework for Processing of E-mandates for Recurring Online Transactions' (**RBI Recurring Payment Circular**) that dealt with the process using which recurring payments ought to be initiated. As per the prescribed framework regarding card based recurring payments, the onus was shifted from the merchants to the issuing banks. Merchants are now only allowed to enable their consumers to opt in to set up the recurring payment on their website/app. Thereafter, the subsequent management of the standing instruction and approval of the resultant transactions ought to be done by the issuing banks in compliance with the requirements of the RBI.

121. However, due to a complexity of implementation requirements and based on stakeholder representations, RBI extended the timelines for implementation of the above framework, and ultimately, through the 31 March 2021 circular, implemented the framework for registering e-mandates from 30 September 2021.

122. In 2020, IIL launched SiHub as a solution for issuing banks to store, manage and process card based standing instructions in a manner compliant with RBI requirements. Thus, SiHub is a solution that has been developed to provide issuing banks with the ability to manage various processes related to such recurring payments in compliance with the extant regulatory framework. SiHub acts as a bridge between the issuing bank and the merchant (acting through its payment aggregator) with respect to various pre-payment transaction aspects. The payment transaction itself is an independent process and handled by the merchant in their regular manner without reference to the SiHub solution.

Competition assessment

123. At the outset, the Commission considered it appropriate to ascertain the presence of SiHub in the payments ecosystem. In this regard, the Parties submitted that the computation of market shares for SiHub as a solution, based on any metric, is not feasible at present, as only about nine months have elapsed since the implementation of the solution as per RBI guidelines. It was stated that the players in the market, the merchants as well as issuing banks, are still in the process of comprehending and complying with the requirements and the various approaches that may be followed, and accordingly, the determination or evaluate market shares as premature and not commercially prudent. As regards Zion, it was stated that the product has not yet been commercialised.

124. In this regard, the Commission noted that market share estimates indicate the presence of the Parties and are not conclusive on competition assessment by themselves. Regardless of the fact of small period over which the solution has been provided, it is relevant to ascertain the presence of SiHub.

125. Based on the information available on IIL's website, the Commission observed that SiHub covers over 80 percent of credit cards issued in India. The statement available on Billdesk website notes that, "*Large merchants pan-India, have already been enabled by multiple Payment Aggregators over SiHub, and are accepting recurring instructions. Over 80 percent of credit cards issued in India are now covered on the SiHub Platform*"[5]. This statement was clarified by the Acquirer in Response to SCN to mean that the banks issuing 80 percent of the credit cards in India are customers of IIL. As such, this does not translate into IIL servicing 80 percent of credit cards issued in India. The Acquirer further submitted that there are only 78 million credit cards in India as opposed to 921 million debit cards (which are also (more widely) used for recurring payments mandates).

126. The Commission further observed that, considering that SiHub was the industry first, it had the first mover advantage. This point has been accepted by Parties as well. The Acquirer submitted that "*SiHub may be said to have an initial implementation advantage and remains subject to regular competitive developments from other solution providers and regulatory changes*". The point of SiHub having strong presence was also made by many stakeholders.

127. The Commission next examined substitutes of SiHub. The Commission observed that Razorpay introduced MandateHQ as a competitor of SiHub within six months of the launch of SiHub. Razorpay has been cited as a competitor by many stakeholders as well. As per the Acquirer, in addition to SiHub and MandateHQ, there are several other players, including In-solutions Global, that have developed similar solutions to enable card based recurring payments, but the same could not be verified.

128. Considering that SiHub is an enabling technology, the same was assessed in terms of creating entry barriers or denying access on technological aspects. In this regard, the Parties have submitted that, given that SiHub and its competing solutions are used by

[5] http://billdesk.com/web/sihub_announcement

issuing banks[6] and solutions are in accordance with network specifications, they are, by design, open and interoperable. It has been clarified that merchants can continue working with their existing payment aggregator and setup a recurring payment feature in their customer offerings. On the part of the PAs, it has been stated that a payment aggregator can offer recurring payments services to any of its merchants and accept recurring instructions from any of such merchants' customers (i) without having any recurring payment solution of its own (and irrespective of whether Zion is taken to commercial deployment or not) and (ii) accept recurring payment mandates in favour of any issuing bank (irrespective of whether such issuing bank is integrated on IIL's SiHub or on Razorpay's MandateHQ or any other provider's solution).

129. Based on the aforementioned clarification in respect of interoperability, the Commission is of the view that the presence of the combined entity in this segment is not likely to confer it with any ability from the technological side to cause any denial of access or to create any barrier of entry/expansion.

130. The Commission *prima facie* had only one concern with the SiHub. The Commission was of the opinion that switching from SiHub to another product will not be easy, and accordingly, notwithstanding the introduction of MandateHQ, SiHub, which has a strong presence in the payments ecosystem, may continue to maintain the same going forward. This observation was based on the premise that a merchant prefers a steady stream of revenue and would resist any move which requires the merchant to obtain a fresh recurring payment mandate from the consumer, as the merchant can perceive some risk of losing the customer. Similarly, it was felt that even the issuer banks would be hesitant to switch given the same issues.

131. In this regard, the Acquirer in its Response to SCN clarified that when an issuing bank switches to another platform (from SiHub), the merchant does not need to obtain a fresh mandate from the customer and that banks are free to split their usage across various solutions or seamlessly switch the eMandate data/information from one solution to

[6] Even though the Acquirer has submitted that SiHub is used by issuing banks, the Commission has come to understand that the same is also availed by some of the competing PAs.

another. It was submitted that this is a backend process and therefore, does not affect the customer's user experience or the merchant's revenue stream.

132. The Commission further noted that, while the presence of the parties in other levels of the payments ecosystem may have some advantages in both the development and promotion of enterprise solutions such as SiHub, there is some merit in Acquirers' submissions for a software-based solution, where the characteristics and end-use are well defined by regulations and that, in such a commoditised solutions market, it is likely that new entrants will develop similar solutions going forward, a trend which is already visible with the introduction of substitutes of SiHub.

133. Based on the same, the Commission is of the opinion that the service offering of SiHub and potential entry of Zion is not likely to result in any significant position of strength to the combined entity, which can potentially raise competition concerns.

B. Risk Management Products

134. PayU India (through Wibmo) and IIL are also engaged in business activities in relation to specific products for risk management of digital payment transactions. The risk management solutions at a broader level can be classified as the authentication solutions and fraud detection solutions. Both these sub-segments of Risk Management Products have been assessed hereunder

*Authentication Solutions - Access Control Server Products (**ACS**) for authentication of Card Not Present (**CNP**) Transactions*

135. RBI has issued the Digital Payment Security Master Directions dated 18 February 2021, as per which, all kinds of banks have been directed to follow a set standard for maintaining security and mitigating fraud relating to digital transactions by using the standard authorization and AFA. One such AFA service is also for online card-based payments, particularly where the payment instrument is not physically verifiable (i.e., CNP transactions). Wibmo and IIL are engaged in providing risk management solutions

for CNP transactions through ACS Products. ACS is a server, using which, issuing banks, when processing digital payments, can authenticate the transactions. An end-user assists the issuing banks by authenticating the transaction by providing their credentials (such as username and password, card number and OTP, biometric, etc.), which is then verified through ACS by the issuing bank.

136. The Acquirer provided estimates of market share in the segment of Authentication Solutions, which is defined as including all kinds of AFA solutions provided for securing the digital transaction. As per the estimates provided by the Acquirer, their combined market share is likely to be in the range of [5-10] percent, which is insignificant to cause any change in competition dynamics.

137. The Acquirer considered players like PayTM, FSS, HDFC Bank, SBI, FIS, etc., as their competitors for the provision of authentication solutions. However, in response to a query in the Notice regarding the strengths and weaknesses of competitors, the Acquirer acknowledged that HDFC Bank, SBI, PayTM and Axis Bank have either had limited opportunities to externalise the product or have not externalised the product at all. By the Acquirer's own submissions, these players were accounting for a substantial part of the market.

138. Further, in support of the limited market presence, the Parties provided information in respect of [redacted] RFPs issued by banks in which Wibmo participated in the last three years. As per details, Wibmo won [redacted]. IIL participated in [redacted] the buyer power to some extent, but the same has equal relevance for all competitors, and thus the Commission was of the *prima facie* view that winning the bid [redacted] continues to reflect the strength of Wibmo.

139. The responses of the stakeholders on competition dynamics are mixed. Some stakeholders submitted that Wibmo is a strong player, with a significant number of large banks deploying Wibmo, and it accounts for a significant percentage of card transactions. The other stakeholders indicated that, while Wibmo is a large player in this space, there are multiple service providers who provide similar services such as FSS, FIS, Euronet, Arcot-CA, Zeta and ISG.

140. The Commission, considering the mixed responses of stakeholders and the factors of lack of external presence of major players indicated as competitors by the Acquirer and bidding data had, *prima facie*, concerns regarding the actual presence of the Parties. It was plausible that the narrowing down of the relevant market, coupled with eliminating captive consumption estimates from the market size, may accentuate the presence of the Parties. However, in this regard, the Commission observed that, regardless of the way the market is defined or market size is adjusted, it is clear that IIL has minuscule presence in this segment, as reflected in (i) the number of customers for Billdesk ACS, (ii) percentage of revenue which IIL derives from such solutions and (iii) the position of IIL as reflected in the participation in the bids for ACS Solutions and its performance. The Acquirer also submitted that this is not an active area of focus for IIL and that IIL does not promote and prioritise its business in relation to risk management.

141. Considering the aforesaid factors on an overall basis, the Commission is of the view that (i) while Wibmo is a strong player, there are other significant options available and (ii) IIL has very limited presence, and the Proposed Transaction cannot be said to remove an effective competitor. Considering the same, the Commission is of the opinion that the Proposed Transaction is not likely to result in any competition concerns in the segment of Authentication Solutions.

Fraud Detection and Prevention Solutions

142. The solutions that assist in detecting fraud of an online transaction through various means constitute the segment of Fraud Detection and Prevention Solutions. Wibmo offers a Fraud Detection and Prevention Solution named Trident FRM for use by banks (issuer).

As submitted, Trident FRM, at present, has only two clients and processes minuscule transaction volumes. IIL is not present in this segment. Further, as submitted by the Acquirer, DronaPay, FSS and Zeta are new players who have started providing Fraud Detection Solutions to the banks recently.

143. Based on the aforesaid itself, it is clear that the presence of Wibmo in the area of Fraud Detection and Prevention Solutions is limited, and further, the activity does not overlap with those of IIL. Accordingly, the Commission is of the view that the Proposed Transaction is not likely to result in any significant change in competition dynamics, at least at the segmental level of Fraud Detection and Prevention Solutions.

C. *Provision of a software solution for BBPOUs (‘**Hexagon**’) in the BBPS framework*

Hexagon and where it fits in the value chain

144. As stated above in the BBPS segment, the BBPS framework includes participants such as BBPOUs, BBPCU and Agent Institutions. RBI and NPCI have prescribed certain requirements for participating in BBPS. Hexagon is a technology solution which comprises modules to offer and manage BBPS services to agents and BBPOUs. It provides APIs that can be used by authorised BBPOUs to offer bill payment solutions to billers and customers onboarded by them, in line with the standards set by NPCI under the BBPS framework.

145. Hexagon comprises the following three modules:

a. BOU Module: This enables the technical capability to integrate and manage merchants (billers) for receiving payments through BBPS.
b. COU Module: This enables the capability to integrate and manage agents/customers for offering the service to make payments to merchants on BBPOU.
c. BBPOU Module: This enables interaction with the BBPS network.

146. As submitted, across the above modules, Hexagon provides functionalities related to merchant on-boarding, transaction processing, reconciliation, settlement, dispute management and billing, and where any part of the technology modules is sought to be used by any other entity (e.g., a bank) in bolstering their BBPS offering, IIL as a technology service provider [redacted].

Competition assessment

147. The first issue for examination in this regard is the aspect of horizontal overlap. It has been submitted that PayU India does not offer any solutions similar to Hexagon, which enables authorised BBPOUs to facilitate bill payments. Thus, the Proposed Transaction does not raise concerns of further strengthening of position horizontally in this segment, at least in the segmental context.

148. The second issue for examination is whether the ability or incentive of the combined entity will be different from that of IIL at present in terms of offering this service to AIs and BBPOUs, given that IIL and PayU are both BBPOUs as well.

149. The key to this examination is dependence on the product. In this regard, the Acquirer has submitted that the requirements are standardised and well known to all BBPS participants, and accordingly, such solution that supports the features and specifications of BBPS can be developed and implemented easily by participants and their service providers. It has been stated that many other BBPOUs have developed the technology platforms, whether developed in-house by themselves or outsourced through vendors that compete with Hexagon. It has been stated that similar solutions have been developed by competitors such as Setu, Mindgate Solutions, ZuelPay, Ingenico ePayments, etc. It is also observed that PayU India has also developed its own in-house solution to facilitate bill payments as a BOU and COU for its own captive consumption.

150. Further, it has been stated that many of the BBPOUs that use Hexagon use it on a modular basis, which is to say that they use some functionalities of the Hexagon platform to

complement their existing bill payment platform, which could be either an in-house platform of such BBPOU or outsourced by them from other vendors.

151. The aforesaid submissions of the Acquirer are also validated by the data in respect of usage of Hexagon by the top 20 BOUs and COUs. As submitted, [redacted]. This shows that most large BBPOUs have, in fact, joined the BBPS framework independently (i.e., through in-house development or other third party solutions).

152. As a part of stakeholder comments, it was pointed out that Hexagon as a platform has the largest aggregation of billers and banks, and by virtue of this arrangement, a large part of transactions also flow through this platform, which is also a competitive disadvantage for other players in this space. However, on an overall basis, considering the aforesaid submissions of the Parties and analysis of the Commission, it does not appear that there is any dependence on Hexagon for participating in the BBPS framework or it can create any strategic competitive advantages for the combined entity. Accordingly, the Proposed Transaction is not likely to result in any competition concerns in relation to the provision of a Hexagon software for BBPOUs.

VIII. Portfolio/Complementary Effects Analysis

153. The Commission's *prima facie* findings had indicated that the Acquirer and IIL both had significant presence in certain segments of the payments ecosystem such as payment aggregation services and BBPS Services, which may witness direct loss of strong competitive constraints leading to adverse effect on competition. Further, the Commission was of the view that while, prior to the Proposed Transaction, PayU India and IIL had different areas of strengths and weaknesses[7], the combined entity may have a position of strength in more layers of the payments ecosystem. Accordingly, the

[7] For example IIL, prima facie, was assessed to have had a significant presence in certain enterprise solutions like SiHub and Hexagon, PayU India was prima facie found to have had significant presence in the segment of Risk Management Products

Commission was concerned about the potential of the combined entity benefitting from complementary/portfolio effects and gaining an ability/incentive to create barriers to entry/expansion for others, leading to adverse effect on competition.

154. The Acquirer in this regard submitted that multi-layered presence is a common industry practice followed by several players, including incumbent banks such as HDFC Bank and Axis Bank, and players such as Razorpay, PayTM, PhonePe, Pine Labs, CC Avenues, Worldline, etc. The Commission noted that this was pointed out by a few stakeholders as well and is also supported by the functioning and evolution of payments ecosystem. In this regard, the Commission observed that different players are trying to gain multi-layered presence and trying to develop business models which confer them with at least some strategic advantages. Thus, under the circumstances, this expansion also appears to be a basis to compete and grow and accordingly, can be considered inherent to the functioning of payments ecosystem.

155. Accordingly, while the Commission's concern was never on multi layered presence per se but on the degree of such presence, considering the aforesaid observation on multi layered presence, the Commission observed that, unless the presence is very strong across multiple levels, the same cannot be viewed adversely. Accordingly, the Commission assessed the likelihood of the Proposed Transaction leading to any complementary/portfolio effects.

156. The Commission noted that, while *prima facie* assessment had indicated that the Parties (together or individually) have position of strength in certain areas, further assessment has revealed that the combined entity is not likely to have a position of strength in any of the layers of the payments ecosystem which confers it with the ability or incentive to create any barriers to entry/expansion. It is important to note that the key for triggering complementary effects/portfolio effects is the significant position of strength in at least one segment which can act as the source of leveraging the presence of the entity in other segments of the ecosystem. Considering that further assessment of the Proposed Transaction did not indicate any concerning changes in competition dynamics in any of the aforementioned segments of the payments ecosystem, the likelihood of any triggering

of complementary/portfolio effects reduces significantly. Accordingly, while the Proposed Transaction will enable greater presence of the combined entity, the same is not likely to be accompanied by the degree to the extent which raises any competition concerns.

157. Considering the aforesaid, the Commission decided that the Proposed Transaction is not likely to result in any complementary/portfolio effects.

158. Considering the material on record, including the details provided in the Notice, Response to SCN and the submissions made by the Acquirer during the Oral Hearing and the assessment of the Proposed Combination based on the factors stated in Section 20(4) of the Act, the Commission is of the opinion that the Proposed Combination is not likely to have any appreciable adverse effect on competition in India. Therefore, the Commission approves the Proposed Combination under Section 31(1) of the Act.

159. The order may be revoked if, at any time, the information provided by the Acquirer is found to be incorrect.

160. The information provided by the Acquirer shall be treated as confidential in terms of and subject to the provisions of Section 57 of the Act.

161. The Secretary is directed to communicate to the Acquirer accordingly.