

A Report on

# Setting up e-commerce in India

Choosing an ideal payment gateway partner

By

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## EXECUTIVE SUMMARY

This report covers the various aspects of payment gateway options available in India. It provides an insight to the costing details along with the other concerned features.

An endeavour has been made to give the statistical and logical dimension to the research. Meanwhile straight forward comparison has been shown to directly interpret the cost differences. Going through the report, one will realize that an equal inclination has been established towards the macro factors like security problems, integration issues, etc.

- It is necessary to have an Indian Bank account for integration with any of the Indian Payment Gateway vendors
- It is necessary to have an registered Indian entity to open an Indian Bank account
- NetBanking – ECS, NEFT form a major chunk of online e-commerce transactions in India
- Operating through PayPal may not be a good option because of the latest news on operational discrepancies developed between them and Reserve Bank of India (RBI) and also they support only credit-cards which is a smaller chunk of the online transaction in India

India as an e-commerce market offers two prominent ways to do the business - 2nd party systems as followed by HDFC & ICICI and 3rd party systems followed by other organizations like CCAvenue, BillJunction, etc. A detailed analysis of each and every payment gateway option has been obtained and presented to further equip the testimony.

With an aim to prove as assistance for evaluating the best alternative, we hope that this report serves its purpose to its fullest extent.

## INTRODUCTION

The internet era has significantly changed the way people and organizations around the world interact with each other. What was earlier only a medium of transferring data or communication has now become the gateway for trade and commerce. Buying products and services are now just a click away. Secure online transactions provided by vendors like Visa and MasterCard as well as net-banking have only added to the confidence of audiences willing to participate in online commerce. The emergence of web 2.0, social networks and group buying has further fuelled this trend. Vendors around the world have started setting up shops over the web. Entire market places for trade and commerce have sprung up online.

The story in India is no different. Slowly trade portals and online travel portals joined the bandwagon. Although by most references India only accounts for approximately 2% of the e-commerce in the Asia-Pacific region, the amount in figures is staggering. It was estimated at around \$2.1 billion in 2008 and predicted to grow to around \$6 billion by 2011 (*data compiled from multiple sources*).

If one were to segregate the e-commerce sector, most transactions would fall into the following categories, which are self-explanatory:

- Business to Users
- User to User
- Online Resource transfer
- Trade portals
- Ad-space sales
- Content Access

In a nutshell - this report aims to answer the following issues to an extent -

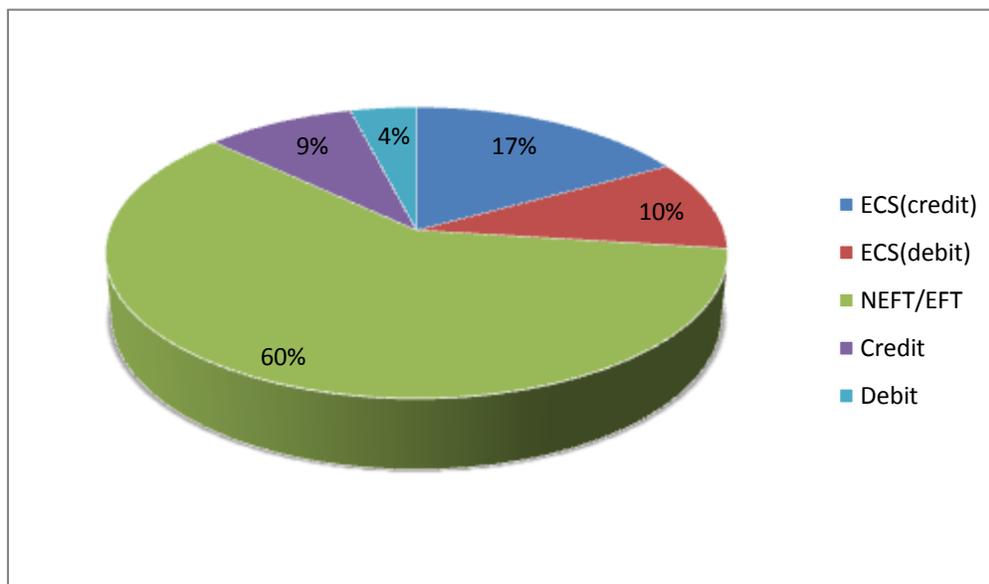
- E-commerce in India – how, what and why
- Statistics of various payment methods in India
- Tools for deciding the paramount among all available payment gateways
- Intricacies of individual payment gateways
- How does the payment get processed?
- Requirements and legalities for setting up an e-commerce business in India

## PAYMENT OPTIONS

Different payment options for Indian online users:

- Net Banking
- Credit Card
- Debit Card
- Cash on Delivery
- Cash Cards

Percentage of people using above mentioned options are as follows:



Electronic Clearing Service (ECS) is a mode of electronic funds transfer from one bank account to another bank account using the services of a Clearing House. This can be used both for making payments like distribution of dividend, interest, salary, pension, etc. by institutions or for collection of amounts for purposes such as payments to utility companies like telephone, electricity, or charges such as house tax, water tax, etc or for loan installments of financial institutions/banks or regular investments of persons.

- ECS (Credit) is used for affording credit to a large number of beneficiaries by raising a single debit to an account, such as dividend, interest or salary payment.
- ECS (Debit) is used for raising debits to a number of accounts of consumers/ account holders for crediting a particular institution.

National Electronic Funds Transfer (NEFT) is a nation-wide system that facilitates individuals, firms and corporates to electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country.

Individuals, firms or corporates maintaining accounts with a bank branch can receive funds through the NEFT system. **It is, therefore, necessary for the beneficiary to have an account with the NEFT enabled destination bank branch in the country.**

The data has been collated from RBI website (<http://www.rbi.org.in>), Ministry of Information and Technology (<http://www.mit.gov.in>) and other authentic websites.

## PAYMENT GATEWAYS - WHAT TO LOOK FOR?

It is always smart to work on the certain criteria for selecting the best among the available options. In our extensive browsing session; we encountered one of such set, which is given as following:

### ***A quick guide to help you "Pick the Oranges from the Lemons"***

- 1. Security and Risk Mitigation:** There are several facets to security that a Payment Gateway must take care of. Starting from physical and data center security (where the Payment Gateway Servers are hosted), OS and Application security, Firewall and Intrusion Detection Systems at the OS and Application layer, Database security, and finally Transaction security. Ideally choose a Payment Gateway which offers you Fraud Detection tools apart from just AVS and CVV2. [RBI Notification on additional security for credit-card transactions](#) *RBI has mandated additional authentication/validation for all VISA and Master card transactions using Verified by Visa and Mastercard SecureCode. These are additional user intervention in the transaction authentication process.*
- 2. Branding and Customisation:** Associating with payment gateways which are known for downtime, vulnerability and slow response can impact company's brand image and user preference to use the platform. The level of customization the gateway offers to integrate the payment feature within the website is also an importance aspect. Make sure to check up on the feasibility of the integration process in detail, before you commit on your Payment Gateway decision.
- 3. Transaction Features:** There are various modes of Transaction that can be performed. Auth-Capture, Sale mode, Reversal, Partial captures, Partial Reversals etc. It is important that the Payment Gateway supports all the transaction modes. Various Business occasions require a combination of one or more of these transaction modes.
- 4. Comprehensive Merchant Interface:** The types of reports available, the interfaces available for Searching transactions, Processing Captures and Refunds, requesting withdrawals etc.
- 5. Technical capabilities and supported platforms:** Many payment gateways support only limited platforms for integration like PHP or JSP or ASP. So depending on your current development platform, its recommended that the technical integration aspect is also verified while choosing your vendor

6. **Hidden Costs:** Most Providers will charge you these fees without disclosing them to you: *Chargeback fees, Reversal fees, Termination fees, Hidden setup charges, Non-Sufficient Funds fees, Statement Fees (more for more services), Customer Support fees, Withdrawal Charges*
7. **Withdrawals:** While most Payment Gateways may maintain reserves for risk mitigation, it is essential to estimate within how much time you will have access to your funds
8. **Technical Support:** Ensure that your Payment Gateway provides round the clock support with well-staffed and trained Helpdesk so that you can provide 24x7 support to your customers as well

## PAYMENT GATEWAYS IN INDIA

Currently, there are 2 types of payment gateway options available:

1. **Merchant account through a major bank:** ICICI and HDFC are some of the major banks which provide this service. Low transactional but high Installation charges make them suitable for big businesses but an expensive option for small ones.
2. **Third party vendors:** In this approach third parties open merchant accounts with various banks and also accept credit cards, debit cards and cash cards. Major companies providing this service in India are:
  - CCAvenue
  - EBS
  - DirecPay

A broad categorization and comparison of the setup fees, transaction and other charges of different payment gateways options available in India:

Company Name	One Time Setup Fee*	Transaction costs(Credit /Debit Cards)	Transaction Cost (Net banking)	Annual Maintenance Cost(AMC)*
CCAvenue	7,500/-	7%	4%	1,200/-
DiracPay	10,000/-	6%	6%	2,400/-
EBS	6,000/-	6%	6%	2,400/-
ICICI payment gateway	30,000/-	3-5%	-	10,000/-
HDFC payment gateway	20,000/-	3-10%	-	10,000/-
BillJunction	40,000/-	2.5%	2.5%	5,000/-

## ANALYSIS OF INDIVIDUAL 3<sup>rd</sup> PARTY VENDORS

Note: All 3rd Party Payment Gateway vendors require the company to have a registered Indian entity with an Indian bank account

### CCAvenue

Type of Scheme	Set Up fees (One time, Non Refundable)	Annual Software Maintenance Cost (ASMC)** (Payable in April)	Transaction Discount Rate (TDR) MasterCard/ Visa/Diners/ Debitcards	TDR AMEX/JCB/ CashCards/ Mobile Payment	TDR Net Banking
Privilege Scheme	40,000/-*	3,600/-*	3%*	5%*	4%*
Premium Scheme	25,000/-*	2,400/-*	5%*	5%*	4%*
Economy Scheme	7,500/-*	1,200/-*	7%*	7%*	4%*

\* Taxes as applicable will be levied on set up fees, ASMC and Transaction Discount Rate (TDR) charged by CCAvenue.

\*\* Annual Software Maintenance Charge (ASMC) is charged on a per month basis payable in advance every year in April. Merchants signing on after April need not pay the full ASMC fee. The ASMC fee will be levied on pro-rata basis.

### EBS

Account Type	One Time Setup Fee	TDR (Cards/Netbanking)	AMC
Starter	6000	6.00 %	2400
Regular	12,000	5.00 %	2400
Silver	18,000	4.00 %	2400
Gold	24,000	3.75 %	2400
Platinum	30,000	3.25 %	2400

Note: Taxes(10.3%) extra on all pricing.

## Direcpay

One Time Setup Fee	Transaction costs(Credit /Debit Cards)	Transaction Cost (Net banking)	Annual Maintenance Cost(AMC)	Credit Cards supported	Banks Supported
10,000	6%	6%	2400	Visa, Card Master	HDFC, ICICI, Kotak, Yes Bank, UTI, IDBI, CBoP, Citibank etc.

Note: Taxes (10.3%) extra on all pricing.

## BillJunction

Particulars	Amount (in Rs.)
System Integration Fee	Rs.40000/- + Service Tax (ST)
All Net Banking Transactions	2.50% + ST
All Credit Card Transactions	2.50% + ST
All Cash Card Transactions	2.50% + ST
Annual Maintenance Fee (AMF)	Rs.5000/-
Security Deposit- Refundable	Rs.5000/-

### Terms and Conditions

- System Integration Fee : 100% along with the Merchant application form & KYC
- Transaction charges will be debited from the Transaction Amount on upfront basis.
- Security Deposit: As approved by the bank
- Any new bank that will be integrated with BillJunction will be added to the existing list.

## PAYPAL AND OTHER VENDORS

PayPal and other similar international payment gateways support payment only through credit-cards which form a smaller chunk of the online transaction in India. They do not support transaction in Indian Currency (INR) and thus have not been primarily adopted by many e-commerce portals operating in India.

Also, there is confusion and false image with PayPal transactions due to the recent operational discrepancies developed between them and Reserve Bank of India (RBI). [Link to RBI Notification](#)

Reserve Bank of India has issued fresh notification on requirements for governing the processing and settlement of export-related receipts facilitated by online payment gateways. So any balance in and all future payments into users PayPal account may not be used to buy goods or services and must be transferred to their respective bank account in India within seven days from the receipt of confirmation from the buyer in respect of the goods or services. This might not affect international service providers. But, going ahead with just PayPal, which supports only credit-cards, for online e-commerce transaction in India is not recommended.

## ANALYSIS OF 2<sup>nd</sup> PARTY VENDOR (HDFC)

Requirements for setting up a Payment Gateway with 2<sup>nd</sup> party vendors (banks)

1. Company should be registered in India
2. Company should be doing revenues/transactions of more than Rs 50 Lac from last 2 consecutive years\*
3. Company should be banking account with HDFC bank Ltd
4. An office set up in India having business activity in place.

Particulars	Details
Setup Fees	Rs 20000 + Service Tax (one time non-refundable)
Payment Options	All Master/VISA credit and debit cards and Net Banking
Per transaction fee	3-10% + Service Tax
Annual Maintenance Charges	Rs. 10000/- (recurring yearly)
Payment (credit to current account with HDFC)	T+1 working days

\* Fixed deposit could be applicable in case the company does not meet the requirement

## How the payment gets processed

Typically all payment vendors offer varied payment cycle ranging from a week to a month and have two primary payment options

1. Direct Pay through net banking
2. Payment through cheque

The transaction process when online payment is done by an user is as follows:

- Visitor places the order on the website and it is sent to the merchant's web server in encrypted format. This is usually done via SSL (Secure Socket Layer) encryption.
- The transactions details are then forwarded to the concerned Payment Gateway.
- The transaction information is then passed on to the merchants acquiring bank by the Payment Gateway.
- Merchants acquiring bank then forwards the transaction information to the issuing bank (one that issued the credit card to the customer).
- Then the card issuing bank sends a response back to the Payment Gateway. The response includes information that whether the payment has been approved or declined. In case of declination the reason is also sent in the response.
- The response is then forwarded by the Payment Gateway to the merchant's server.
- At merchants server the response is encrypted again and is relayed back to the customer. This allows the customer to know that whether the order has been placed successfully or not.
- The entire process typically takes less than 5 seconds. At the end of the bank day (or settlement period), the acquiring bank (or card issuing bank) deposits the total of the approved funds in to the merchant's nominated account.

## Requirements for setting up an e-commerce portal

For a non-Indian entity, pre-requisites in terms of legal issues are almost the same with all the payment gateways.

Concerned issues can be described as following:

1. The concerned company needs to be registered in India as a 'Ltd.' or a business entity.
2. A current account in the companies needs to be opened with any of the nationalized and international bank operating in India
3. The company should have successfully completed one year of operations in India (for 2<sup>nd</sup> party payment gateway or have to setup a Fixed Deposit with the bank)
4. Office of the company should bear an Indian address with business activity

Following is the check list of items which will be required for the registration and setup of the payment gateways -

1. Company profile
2. Date of establishment in India
3. Legal Name of the company
4. DBA name (name which will appear in the credit card statement)
5. Product & Services to be offered on the gateway
6. Website details & URL to be integrated
7. Process flow of the transaction
8. Minimum, average and maximum ticket size
9. Expected Payment Gateway volume
10. Indian Bank account details (Current Account)
11. International Transaction required (YES/NO)
12. Currency required (Transaction currency and Settlement Currency )
13. Existing Payment Gateway Relationship (if any)
14. Office Address
15. Scan copy of 2 yrs financials (P/L and balance sheet)

An exhaustive list of all the required documents is made available at the time of signing the deal/agreement with the concerned payment gateway.

## References

Multiple internet sources have been referred along with many interactive sessions with the concerned parties for the compilation of this report. Regulatory bodies like Reserve Bank of India and Ministry of Commerce websites and other associated organizations are among the top mentions and sources.