

A \$500 bn pot of gold: How Boston Consulting and Google pushed Modi to end the era of cash

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Boston Consulting Group (BCG), the omnipresent US-consulting company, and Google, the global data miner, issued a joint report in July 2016 on the “\$500 bn Pot of Gold”, which is the Indian digital payment market. Even though the authors deny it, the report gives much reason to suspect that the authors knew that something radical was imminent from the Indian government. The report is remarkably honest about the aims of the whole exercise.

There is no statement in the BCG-Google-report “[Digital Payments 2020](#)” to the effect that it is related to the joint initiative of USAID and the Indian ministry of finance, formally established in 2015, to push back the use of cash and promote digital payments. Rather it is presented as a freestanding initiative of BCG and Google. I reached out to one of the authors, BCG’s senior partner Alpesh Shah, to ask about this and he insisted: “This was a joint BCG-Google report, with no connection / relation to USAID/Indian Ministry of Finance.” However, there is much to suggest that there was a connection. First of all, the subject so perfectly fits with the program of that partnership. The subtitle of the report is “The Making of a \$500 bn ecosystem in India”. The steering committee for the report included a representative of Visa, member of the Better Than Cash Alliance together with USAID and affiliate of the partnership of USAID and Indian finance ministry to advance digital payments. It also included PayTM and Vodafone, which are also part of the [CATALYST coalition](#), a project, which according to USAID, is a “next step” in said partnership of USAID and the Indian finance ministry.

The report is a call to arms for all payment service providers. They are alerted that things are going to be shaken up in India. On page three it says:

“We expect the digital payments space to witness significant disruption in the days ahead.”

The disruption came on November 8, when Prime Minister Modi decreed that most of the cash notes by value were no longer legal means of payment. By itself, the remark about the “disruption in the days ahead” might be considered suggestive but weak evidence that BCG and Google knew something of those plans. However, combine this with the fact that they forecast a tenfold increase of digital payments and of the merchant acceptance network by 2020 without giving any real compelling reason why such an unlikely development should come to pass. In fact, the report is pretty heavy on reasons why it will be difficult to get many more merchants on board and says that the acceptance network has more or less stagnated in recent years. From stagnant, the growth rate has to jump to at least 60 percent per year (if you want to start 2015, more if the baseline is 2016) to make the forecast of a tenfold increase by 2020 come true. The only real reason given in the report for the expected stellar increase is mobile payment apps becoming available. This is not a very convincing reason for a large jump in the growth rate, as these apps have been around for a number of years already.

Asked about the apparent improbability of the forecast – barring knowledge of the impending ban of most cash notes – Mr. Shah nonetheless insists that the authors knew nothing of Modi’s plans and adds:

“We saw no option for the country but to try and move digital, and we could see some of the trends in that already.”

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Add to that the Indian governments stated objective of going digital, and we arrived at the conclusion that this was the most likely scenario, with the government incentivising non-cash (as has been seen in many countries)."

BCG and Google did not leave it to the government to follow up on their stated objective, but wanted to help by listing a number of "asks of the government". Instructions included first and foremost that the government build awareness of the cost of cash by talking about the "cost of printing notes, countering counterfeiting (by several means, including periodically introducing new series of currency notes and withdrawing existing ones), and indirect costs (loss of tax revenue, creation / prevalence of black-market money etc.)."

One cannot blame the Modi-government of being disobedient. Modi has been talking of little else with such persistence and resolve as about the cost of cash and the cost of countering counterfeiting and tax avoidance which is facilitated by cash. He made all ordinary Indians feel the "cost of periodically introducing new series of currency notes and withdrawing existing ones".

Forget about that financial inclusion talk

The refreshing thing about this report is that BCB and Google skip all the talk about financial inclusion, helping the poor and all that. The frankness must have to do with their intended audience, which is not the general public, but rather payment services providers and the government. The results of the large survey among merchants and consumers that they commissioned make it plain that those merchants and consumers who do not yet rely on digital payments are not longing for a chance to do so. The survey indicated they are completely happy with using cash and think the requirements for digital payment are too complicated for them.

The study authors leave no room for doubt, that the digitalization drive is all about business and nothing else. One chapter-heading reads, "India Digital Payments – A \$500 Pot of Gold" and the authors calculate that the projected \$500 bn of digital payments a year translates into \$5 bn in revenue. Google would not be Google, if the giant data miner did not have some ideas to make the pot even a little bigger. "Mine customer data to build additional revenue streams" is their advice to payment services providers. BCG and Google promise that mining customer data will help them to get consumers to buy more. "Payments will drive consumption – and not the other way around" is an insight they want to drive home.

The "asks from regulators and government" which BCG and Google list in their report are not part of a non-existent chapter on helping the poor or helping India develop, but part of the chapter "Grabbing the opportunity – the winning agenda". In other words, the government is urged to help Visa and Google to grab the pot of gold.

With a little help from the government

And the government certainly was willing and ready to help.

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In August, one month after BCG and Google presented their report, the government assembled a committee, the Watal-Committee, to see what it could do and have the necessary legal acts readied. The committee came up with a long list of measures, laws and rule that would help the payment industry grab the pot of gold, including exempting imported digital payment equipment from tariffs. Declaring most cash notes void and leaving the population without sufficient cash for months was of course the best thing for enlarging the pot of gold for payments services providers that anybody could have imagined.

All of this, of course, is not just intended to help Google, Visa and the payment services providers from India and Asia on the steering committee of this report. The bulk of the pot can be expected to be grabbed by the payment services industry of the US. As a recent "[Framework for FinTech](#)" issued by the US National Economic Council states (January 26 link replaced "Obama-Archives"-Link as old link no longer worked):

"The United States remains the global leader in fintech as measured by total investments. However, the U.S. leadership position in fintech should not be taken for granted. The U.S. government should continue to develop a policy strategy that helps advance the sector (...) and maintain a robust competitive advantage in the technology and financial services sectors."

The whitepaper refers to "[Recent Trends in U.S. Services Trade: 2016 Annual Report](#)" where we learn that exports of banking services in 2015 have been \$74,2 bn and imports \$17,9 bn, for a very solid excess of exports over imports of \$56,3 bn or 400 percent.

This is what the Indian digitalization effort and the friendly help of USAID, the Gates Foundation, Visa, Mastercard and other seekers of the pot of gold is all about: "a policy strategy that helps advance the sector and maintain a robust competitive advantage" for the US payments industry. [24.1.2017]

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