Prepaid Simpl will lead us to glory

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Executive Summary

Let's allow users to use Simpl by preloading their "Simpl Wallet". This will enable us to break out of the limitations induced by the fact that with ~2% MDR we cannot increase approval rates beyond a point. This will lead us to become a leading payment instrument in India.

As more users use Simpl, it will mark a shift of Simpl being "merchant first" to "user first". This article argues that this shift is a win-win-win - it is good for the users, good for the merchants and good for Simpl.

The rest of the article expands upon the above summary.

1. Discovering the soul of Simpl

We are a two sided network - connecting users and merchants. Let's first discuss why users use us and why merchants use us.

(i) Why do the users use Simpl?

We have 1.5 million monthly transacting users. Why do they use Simpl? There are two textbook reasons:

1. Users use us for convenience

Here are some pointers that suggest users use us for convenience

(a) User survey concluded that 55% of the users use us for convenience. The survey asked users why they use Simpl, and consisted of questions like (i) I use it for credit (ii) I use it for budgeting (iii) I use it for 1 click checkout etc.

(b) Many users make mid-cycle repayment or pay within 1 day of bill generation.

(c) Sagar says around 40% users use us for convenience. This is his opinion, but given his support and collection experience, we give weightage to his opinion.

(d) Around 3% of the users have set autopay for Simpl repayments. These users must be using Simpl for convenience. This gives us a floor of the users who use Simpl for convenience.

2. Users use us for credit
We have ample evidence for this
(a) Many users cite unavailability of funds to be able to repay us
(b) Many users pay us 50% of the due amount. A user who is not able to pay 100% but is able to pay 50% of the amount is having credit problems.

Note that while there is more evidence of (2) than for (1), it does not imply that users for use case (2) are more than the users for use case (1). It is just that it is easier to find the users in bucket (2). The number of sick people can be estimated by people visiting hospitals, but the number of healthy people is harder to determine.

(ii) Why do the merchants use Simpl?

There are two reasons why merchants use Simpl:

1. Simpl provides higher AOV, success rate and frequency. All of these stem from the fact that Simpl is a credit instrument, and credit facility incentivises the users to buy more.

2. Many users use Simpl and merchants would want a popular instrument to be there on their app.

If we can make reason (2) to be the more prominent reason then that would be a better state of affairs for us. Merchants actively don't like CoD, but still use it because users want it. With CC also there is MDR to pay, but merchants have it because users want it.

Driver of Simpl's growth - Merchants or Users?

Traditionally merchants have been the driver of Simpl's growth. We celebrate Faasos as our first merchant, but never care to find who was the first user of Simpl - who purchased using Simpl and also paid us back! (Maybe we should find them and celebrate them)

That was the way Simpl evolved - we needed merchants in order to get users. In fact, merchants are the dominant source of users till today - we get very few users from app onboarding. Most users discover us as merchants.

Our approval models critically depend on the data points provided by the merchants. Getting rich data is challenging, and however rich the data may be, given our inability to tolerate delinquency much beyond 1%, providing Simpl access to a very large number of users is an uphill task.

It is interesting to explore how it would be if users could be the drivers of Simpl's growth.

2. Proposed construct - Simpl prepaid

We propose the following

1. In the Simpl app, users will be able to put money in their Simpl wallet, and get a "credit line" from us. This credit line will be at the minimum equal to wallet value but depending on our risk assessment, can be larger too. To keep the concept pure, in this article we will assume that the credit line is equal to the prepaid amount.

2. Depending on merchant alignment, a fraction of previously unapproved users will be given the option to prepay and get Simpl enabled.

3. There are no repayments, no due dates and no late fines. However, users can still subscribe to select and use billbox, and can come to us for support queries related to their orders.

3. Unit Economics

Let's have a look at the unit economics of postpaid khata vs prepaid khata

	Postpaid khata (what we have today)	Prepaid khata (proposed)
TPV	100.00	100.00
MDR	+1.50	+1.50
Late fee	+1.10	-
Revenue	2.60	1.50
Cost of capital	-0.30	-
Delinquency	-1.00	-0.05
Txn processing cost	-0.05	-0.05
Offers / cashbacks	-0.05	-0.05
CM3	1.20	1.35

A few notable points

1. We lose all the late fee, still end up higher on CM3 since reduced delinquency losses and vanished cost of capital more than make up for late fee.

2. No late fee also means more customer satisfaction, and less support cost. Currently users reach out to us for late fee waivers.

3. No people and no infrastructure needed for collecting money back from users.

4. We have assumed a small delinquency cost with prepaid since there will continue to be ATOs and in some cases we might decide to reimburse the customer for the losses.

5. I don't know the legalities - could we earn interest on the user money parked with us? If that can happen unit economics of prepaid khata becomes better than what is shown here.

4. Some questions and their answers

Q1: Currently, Simpl's moat is that we underwrite users. What is Simpl's moat in the new world? Can't any other company replicate wallets?

There are two ways we can answer this question:

First answer
A1: Consider the following two scenarios the ecosystem may unfold:
<u>Scenario 1: Wallet is not a good idea</u>
If wallet is not a good idea, then we will try it and fail. Other wallet providers will also fail, because there is something fundamentally wrong about the wallet. There is no moat here and no business here.

<u>Scenario 2: Wallet is a good idea</u>
If wallet *is* a good idea, then someone will do it - sooner or later. There are already existing wallets. There may be a moat or there may not be a moat - but if someone does it then many convenience seekers (as opposed to credit seekers) will go to that platform rather than Simpl. So we will get only credit seekers. That's not a good state to be in.

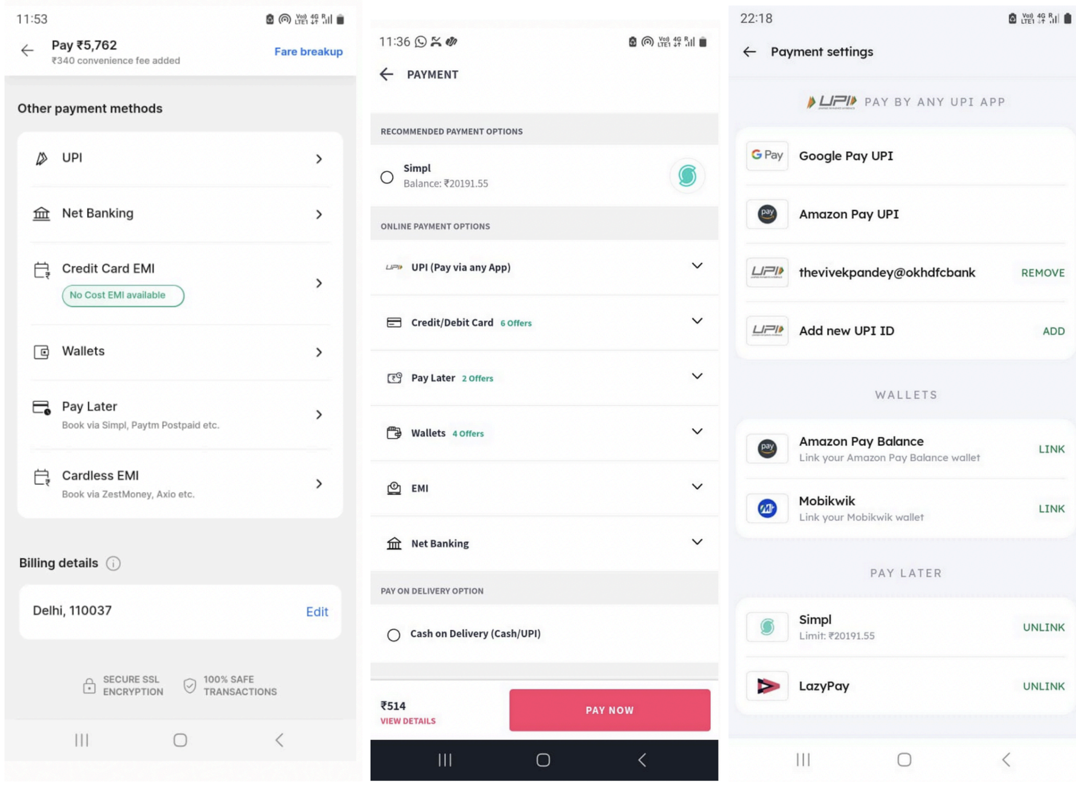
So the gist is - whether or not there is a moat is a moot point. We are a khata and we would like our services to be available to a very large set of customers.

Second answer
Data and underwriting capabilities are indeed what have powered Simpl's growth so far, but given a chance we should use our network as our moat. Users will use us because (apart from being a convenient payment medium), it is present on all the merchants, and merchants will use us because so many users use us.

In other words, we propose that Simpl change its moat from data/underwriting capability to network. That would fuel the next phase of our growth.

Q2: Many merchants use Simpl in the category of "Pay Later". If we implement this, then for some users we will be "wallet", for others we will be "pay later". Does it not cause confusion?

A2: Yes, Simpl comes under the "Pay later" category. See various screenshots of how Simpl is presented on the payment page.



So, if we are no longer "Pay Later", it will cause some confusion. A hybrid of pay later and wallet does not exist. This is one plan: Initially, we do nothing - since a small fraction of our users will be using wallets. As the fraction of users with wallets rise, some merchants may think this is problematic. Then we will work with them on how to have a correct payment page UI. Perhaps they may merge the "Wallet" and "Pay Later" sections. Or else have simpl as a separate category.

From the user's side - different users will have different experiences - some users will continue to have PL experience, and some will have wallet experience. When two such users talk to each other, they will discover these diverging experiences leading to confusion.

This is unavoidable confusion, and we live with it. This is the cost we pay to resolve other confusions that exist today. Even now, some users are able to get credit limit on Simpl and some are not. And when these two users talk to each other they may wonder why Simpl gave a limit to one of the two equally creditworthy users and not to the other creditworthy user. Similarly, currently we block the users and these users wonder why they have been blocked when they have been settling their bills on time.

As wallet expands, above two confusions - (i) some users have limits and others don't (ii) some users are blocked despite their good actions, will vanish - all users have limits and no users are blocked. And a new confusion will arise - why some users are prepaid and others are postpaid.

Overall, confusions exist today and will continue to exist, but new confusion is more conducive for our growth.

Q3: Merchants give us 1.2-1.5% MDR today because we take risk of delinquency. If we become wallet, merchants will come to us and say "why do you need so high MDR if you are a wallet - see xyz wallet charges us lesser"

A: This is a valid point. Our unit economics with wallet is better (as demonstrated previously) and fixed costs are also lower (underwriting models / credit upgrade models not needed, collection efforts / infra not needed, lesser support needed because of lack of late fee).

So, if merchants complain (or maybe, by ourselves!) we can reduce MDRs and pass some of these gains to them.

Q4: Currently, one of the selling pitches of Simpl is that our AOV, or transaction frequency is higher. This is because we offer purchases on credit. As we move to prepaid, this advantage will go away. Will merchants continue to stick with us?

A. Yes, with PL or Pi3, users are more likely to do impulse purchases, or purchase goods of higher value than with a wallet. That makes us less attractive to the merchants. On the other hand, our share of wallet goes up. That makes us more attractive to the merchants. If our share of wallet can grow beyond 10%, then merchants will work with us regardless of AOV reasons. They will work with us because Simpl is a prominent mode of payment in the country.

Another aspect to note is that higher AOV or transaction frequency (compared to other merchants) could be indicative of "beyond the means" spending. That aligns with the fact that a good fraction of our users have difficulty in repaying us. Having the users spend beyond their means is anyway not a good long term strategy - some macro events (like economy downturn) may lead to a higher than usual rate of default.

Q5: Isn't it like OTM? In OTM also any user can get credit limit of any amount that they want. Then why do prepaid Simpl?
A: OTM is mid way between pure PL and prepaid.

On the one hand, OTM is risk less and so it is like prepaid.
On the other hand, the user still needs to do repayment so it is like postpaid.

Despite the similarities, prepaid wallet is worth trying because:

1. Construct is easier for the user to understand. People will more easily understand that they are paying Rs XXX to Simpl which they can then use, rather than the fact that their money is being blocked, and they still need to repay.

Consider this - many OTM users on collection call say that "I have already paid to Simpl, why are you asking me to pay again". These users are confusing OTM for prepaid - in other words they are saying to us "please take prepaid money from me and let me use Simpl". So, we should do that.

2. There is no collection effort involved in prepaid so it is a more cost effective construct for us.

3. OTM involves third parties - NPCI, banks etc, and we may continue facing problems in this area, as we have done in the past. Prepaid is clean and relies on simple payments.

5. Closing thoughts

Prepaid Simpl will help us become much more pervasive. Today, while Simpl is present for me reliably on Zomato and Swiggy and Myntra (low ticket items), whenever I book a ticket on MMT, it is a suspense - sometimes I get IC error and sometimes I don't. I want to use Simpl everywhere and I understand my models are not good enough beyond a point. I am ready to pay prepaid so that I have uniform payment experience across all apps. Just take Rs 50,000 from me in my wallet and make Simpl be present for me reliably everywhere. [More anti fraud work will need to happen so that in case of ATOs losses are lesser - e.g. MMT Rs 20K is okay, but Zomato 20K needs more scrutiny from anti fraud filters]

Every year Jesse comes to Bangalore and asks me "Vivek - when shall we have an infinite limit for our users?" Finally, with this - we will effectively have an infinite limit - a user is allowed to spend as much they want using Simpl.

This is a win-win-win:

1. Users win - All users can use Simpl and enjoy 1 click checkout, seamless bill payments, buyer protection and all that we come up with.

2. Merchants win - Better success rates, more seamless checkouts

3. Simpl wins - more users, better unit economics, lower fixed cost