

# THE STATE OF FINTECH INDUSTRY IN INDIA

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# Objective



As the COVID-19 pandemic continues to create uncertainty, many Fintechs are under stress on a number of fronts. But, as the broader economy shifts from “**respond**” to “**recover**”, new opportunities may be created for some Fintechs. A key question is how Fintechs may **leverage their unique assets** and skills to **seize new opportunities** in the future. It could be an opportune time to **think big** and **act boldly**.



The **objective of this white paper** is to highlight the **impact of Covid-19** across **Fintech industry** and identify the:

- Increase of Digitization
- Disruption
- Challenges
- Future outlook



Hunt Partners recently carried out a survey targeted at the Fintech Professionals & Leaders to get their expert views.



# Introduction

The Fintech sector in India is following a trajectory similar to that of its global counterparts, with a maturing payments subsector, significant disruptions in lending (particularly to new-to-credit segments) and innovations in related sectors of InsurTech, WealthTech and EnablingTech. Strategic moves by the regulators to create ‘[Technology Guardrails](#)’ that facilitate such innovation such as UPI, GST, TReDS, Account Aggregator framework to name a few have further facilitated this growth.

The COVID-19 pandemic also has had a significant impact, given the strong need for digital and contactless delivery of financial & non- financial services. Fintech services of the future will be tasked with transforming the financial landscape to make it safer besides more efficient, accessible, and affordable.

# Introduction

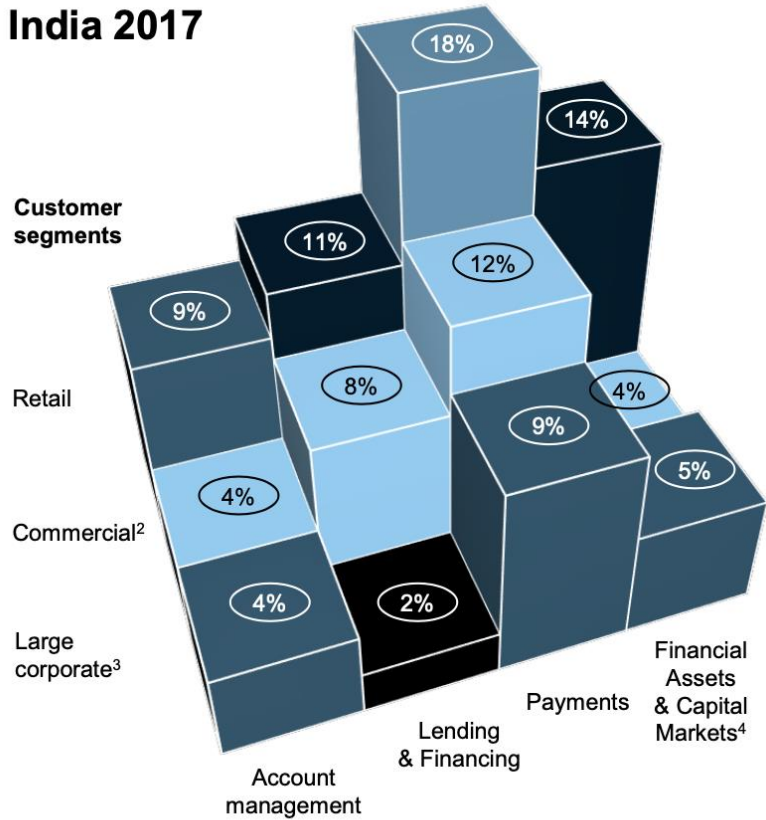
With 2,000+ companies, India has one of the largest FinTech markets in the world after US, China and UK. FinTech players have led the innovation agenda, introducing and popularizing several ‘**first-for-industry**’ across new propositions, experiences and digital-first operating models, while enabling access to un-served/ under-served segments (e.g., 10mn+ merchants now accept digital payments, ~35% of equity market participants are customers of FinTech cos).

The younger generation is driving adoption of fintech applications in a range of jurisdictions, while new emerging technologies are increasing trust and making it easy for the older population to ride the digital money wave.

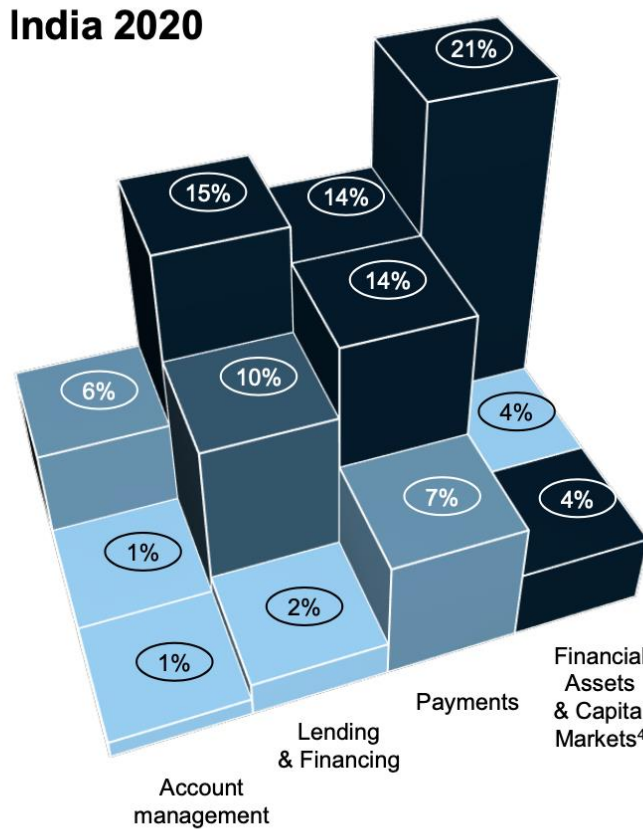
# Indian FinTech reflects the Global distribution

ESTIMATES

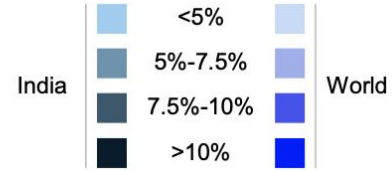
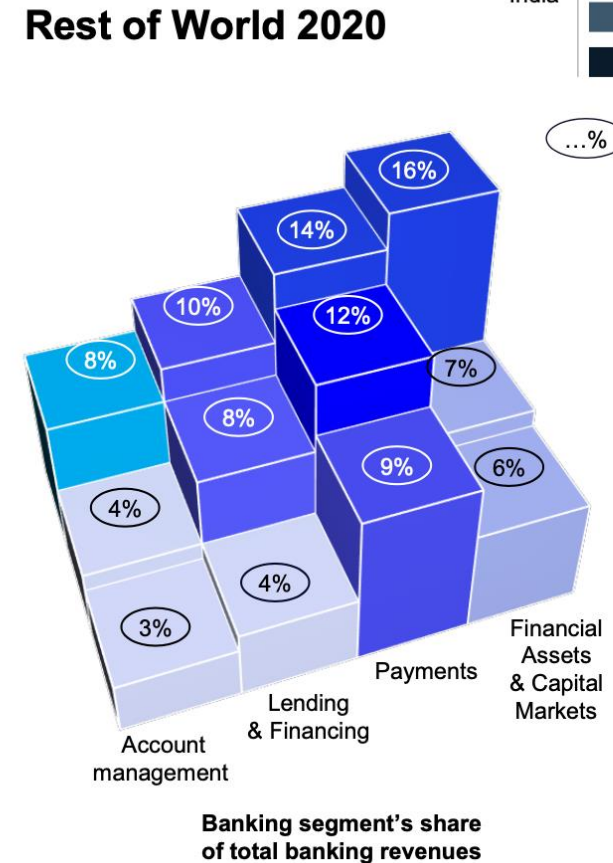
**India 2017**



**India 2020**



**Rest of World 2020**



...% # of startups and innovations as % of database total<sup>1</sup>

**Products / Capabilities**

- Includes Small and Medium Enterprises
- Including Large corporates, Public Entities and financial institutions
- Includes Investment Banking, Sales and Trading, Securities services, retail investment, Non-CA deposits and asset management factory

# Increase of Digitization

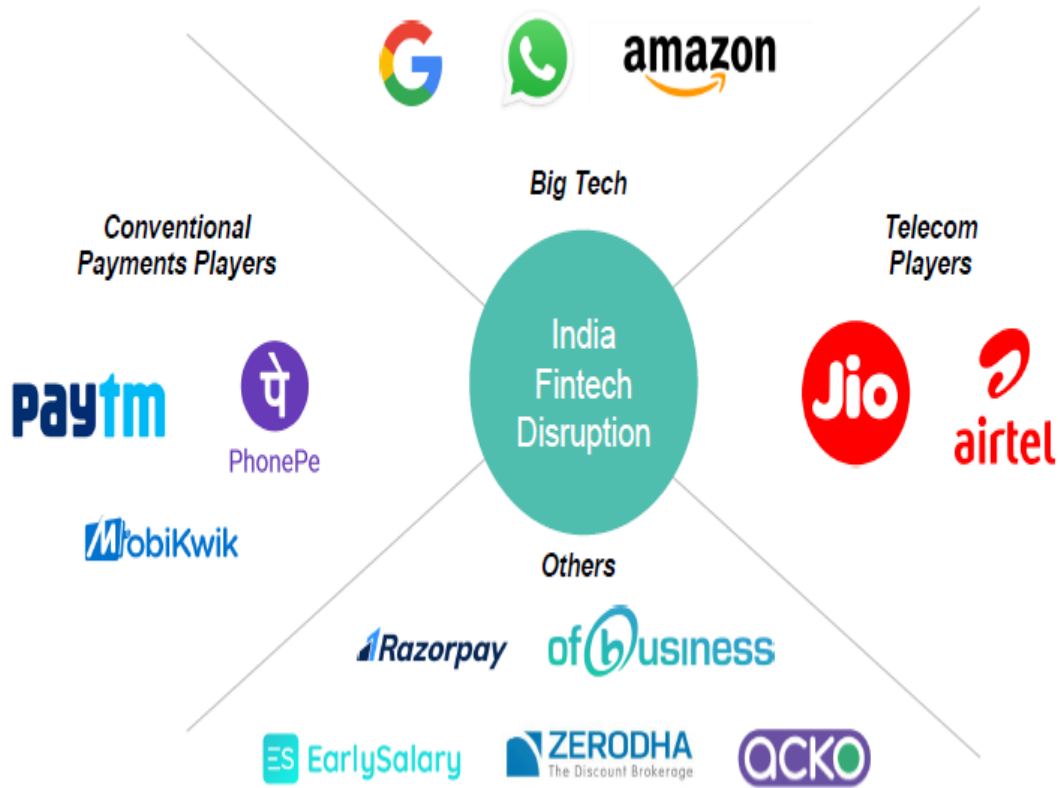
Increasing digitization is driving convergence of access points for various products and services and multiple ecosystems forming; financial services are increasingly being embedded in the end-use journeys across these ecosystems.

- Incumbents are accelerating their digital transformations and increasingly showing greater intent to partner with FinTechs to gain access to next-gen digital solutions and infrastructure (with multiple Bank & FinTech contracts/acquisitions being signed). ICICI Bank- Phonepe, Axis Bank-Freecharge, SBI-Jio JV, Jio Payments Bank- WhatsApp pay
- Insurance, Wealth Management and Brokerage players– Shift in consumer behavior leading to increase in active client transacting base (50+% higher), overall AUMs (25%+) and new policy issuances (25-30%).
- Regulatory interventions- Aadhar KYC, Sandbox framework, e-NACH mandates have all been positive and will support long term growth in the sector.

Growth also being driven by new online commerce segments (e.g., Gaming, EdTech, Entertainment/ OTT), proliferation of micro transactions, and digitization of traditionally offline segments i.e., offline supply chains (e.g., FMCG), govt. payments and agriculture.

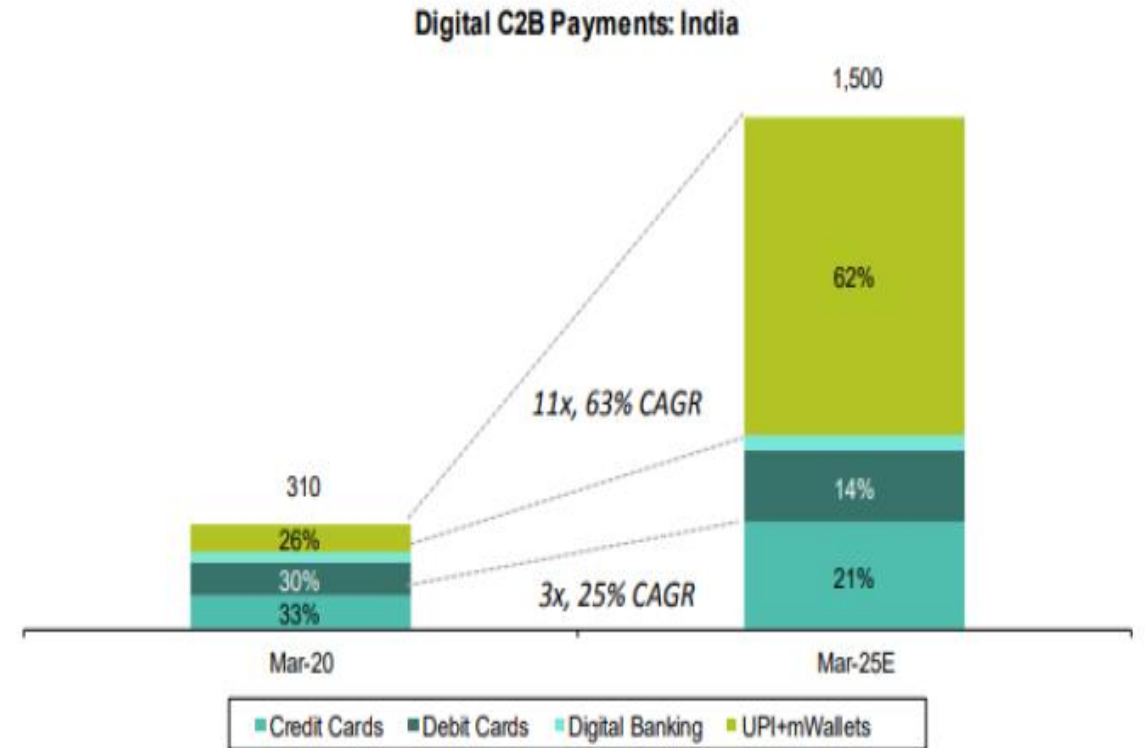


# Indian Fintech Disruption



## Digital Payments

Expected to grow 5x in 5 years



Source: Bernstein analysis

# Impact of the Pandemic

Digital Payments are witnessing a second growth spurt (after Demonetization in 2016) with at-scale adoption being witnessed across demographic segments and businesses:

- Transaction volumes are already ~90% of pre-COVID-19 levels (in Sep 2020), and expected to grow faster in the coming months.
- UPI volumes 2 billion transactions milestone in October, up 80% from year-ago; value nears Rs 4 lakh CR.
- Post pandemic, higher penetration in offline merchants expected as people would prefer to reduce contact as much as possible.

## Lending FinTechs [Significant disruption]

- Dramatic drop in disbursal volumes (down by 80-90%), expected increase in NCLs (60%+) and short-term increase in borrowing cost (50-100 bps higher).
- While there are early signs of recovery, with improvement in disbursal volumes, collections efficiency, the post-moratorium impact on asset quality is yet to play out.

## Payments players [Medium disruption]

- While transaction volumes dropped in the early periods of the lockdown (by 20-50%) and pace of new customer acquisitions reduced (lower by 5%), players have witnessed a rise in average transaction size(10%+) and a recovery of volumes as economic activity begins to pick-up.

## Insurance, Wealth Management and Brokerage players [Positive disruption]

- Shift in consumer behaviour leading to increase in active client transacting base (50+% higher), overall AUMs (28%+) and new policy issuances (25-50%)



# Technology/Regulatory driven formalization of the Economy unlocks Access



## Data transformation and digitization across core sectors

**Governance** – UMANG, Open Data Platform India

**Agriculture** – e-NAM

**Transportation** – Parivahan portal

**Healthcare** – National health ID

**Education/skilling** – e-Pathshala, SWAYAM



## Creation of at-scale digital transaction platforms

Public/Private digital networks connecting consumers & business at scale

- **G2B platforms** – GeM
- **B2C platforms** – Amazon, JioMart
- **C2C platforms** – eBay, Olx, Uber
- **B2B platforms** – Bizongo, IndiaMART, TradeIndia



## Deployment of inter-operability enablers

**Credit** – OCEN

**Health** – National Health stack

**Payments** – UPI

**Financial consent** – Sahmati

**Data** – DigiLocker, Open data platform

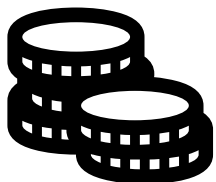
**Identity** – Aadhar, KYC Setu

**Smart City** – India Urban Data Exchange



# Challenges

WHILE MANY PLAYERS HAVE ACHIEVED SCALE, PATH TO SUSTAINABLE PROFITS AND VALUE CREATION REMAINS UNCERTAIN.



Demonstrating a **sustainable business** model could be critical to continue attract funding



Given under-penetration, acquiring the next wave of **new-to-digital-payments** customers may require significant **capital outlay**

While B2B payment companies (e.g., PGs) have built a sustainable revenue model, B2C payment companies are still on the journey to **achieving profitability** (adjusting to reduction in MDRs, investments in changing form-factors). The potential routes include:



- Monetizing the core by charging transaction fees (from customers or merchants) in exchange for **superior product/ experience**, while reducing dependence on cash-backs and discounts to drive ongoing engagement
- Expanding to adjacent value pools by **cross-selling value-added-services**, embedding lending (launch credit products), or distributing other financial services products (e.g., mutual funds, insurance, digital gold/assets etc.)
- Supported by a regulatory policy that balances **short term adoption** (e.g., zero MDRs for transactions less than certain ticket size) & long-term sustainability of business model.

# Outlook

Disruptions will continue to unlock **new business models** e.g., OCEN can do to lending what UPI did to payments i.e., boost inter-operability, reduce cost-to-acquire, eliminate friction, unlock access and for FinTechs reduce the dependence on balance sheet to scale.

While few players aim to offer a broad range of products to a cross-section of customers, others are focused on specific niches with specific segment (e.g., SMB, blue-collar workers) or product focus (e.g., Cards, Payroll-linked loans).

**PAY LATER:** This has seen a lot of traction last year, affordability is used to drive customer walk-in for retailers and better purchasing power for consumers. This space will continue to grow aggressively for Fintech's with an est. opportunity of over USD 25 bn over the next 2-3 years.

# Outlook

Banks are increasingly collaborating with FinTechs to learn from them while capturing the large opportunity at hand through a range of models (e.g., co-lending, technology sourcing, joint propositions).

Fintech innovation and increased demand for digital services are the breakout Covid-19 impact with the morphing and expansion of online & digital platforms into Credit and Payments solutions. Another massive opportunity being Cross Border Remittances.

In retail lending, **consumption-led financing** driven at the point-of-sale to grow rapidly with new segments/ categories emerging e.g., EdTech, Insurance finance.

Automation and innovation in KYC will provide the breakthrough in retail including innovation in brick & mortar Banking model.

In small business lending, we're likely to see the **revival of lending to 'traditional businesses'** who have proven businesses models and stable cash-flows, with FinTech lenders bundling context-specific services.

# Talent Trends

*FinTech sector continues to grow at a rapid pace, aided by the right ingredients, the key one being **talent**. Whilst demand for talent with experience in FinTech remains strong, acquiring the **right talent from outside** can go a long way in **enabling growth**. Here are some of the **key trends** we see-*

- The sector continues to attract capital from the investors, and both the new and existing players are seeking growth. We see an increase in demand for **Operating roles** as there is a need to execute the **expansion strategy** for high growth, both in online and off-line/hybrid formats.
- Post pandemic **economic surge** is widely anticipated. Driving penetration becomes a key criterion for the business and we anticipate lateral hiring in the **Sales along with Operations functions, possibly from other sectors such as Consumer, Insurance, AMC and Banking**.
- Regulatory oversight is getting tougher, and the robustness of the products is paramount. We believe it will continue to drive demand for **Technology and Engineering talent**. **Compliance** is another critical area that we believe will be in high demand.
- We also expect a few large Fintech players getting ready for an **IPO** in the next 1-2 years. Hence strengthening the **Finance function** becomes an imperative. There will be demand for senior experienced finance professionals to help get the organization ready.

# SURVEY AND FINDINGS

# Survey Findings

**Fig 1: Opportunities or Threats**



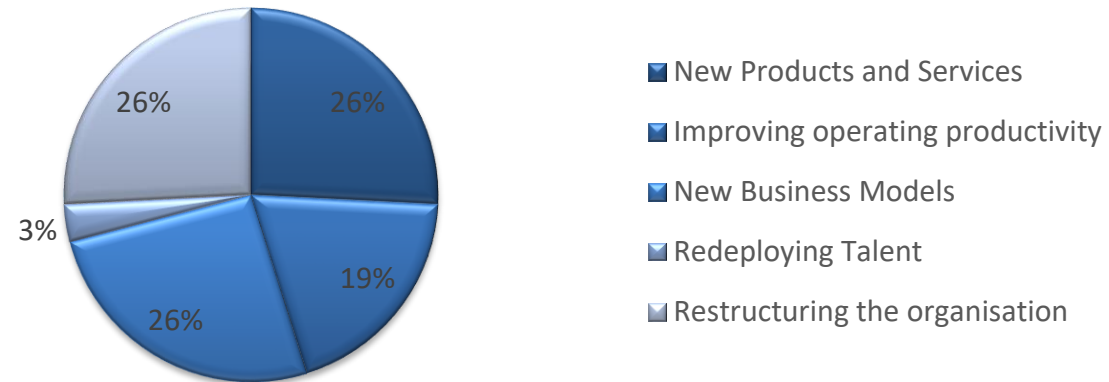
'Regulatory & Compliance regulations' are seen as the biggest threat. Followed by changes in consumer behaviors and emergence of new fintech players.

On the other hand, technology upgradation & innovation and growing areas of investments are seen as opportunities.

**Fig 2: New approaches that suit business needs the most**

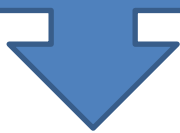
Innovation, Products & Services provided, and improving Operating Productivity/Efficiency would be the best suited approach that Fintech companies need to adopt.

Whereas, redeploying talent seems to be the least favored.

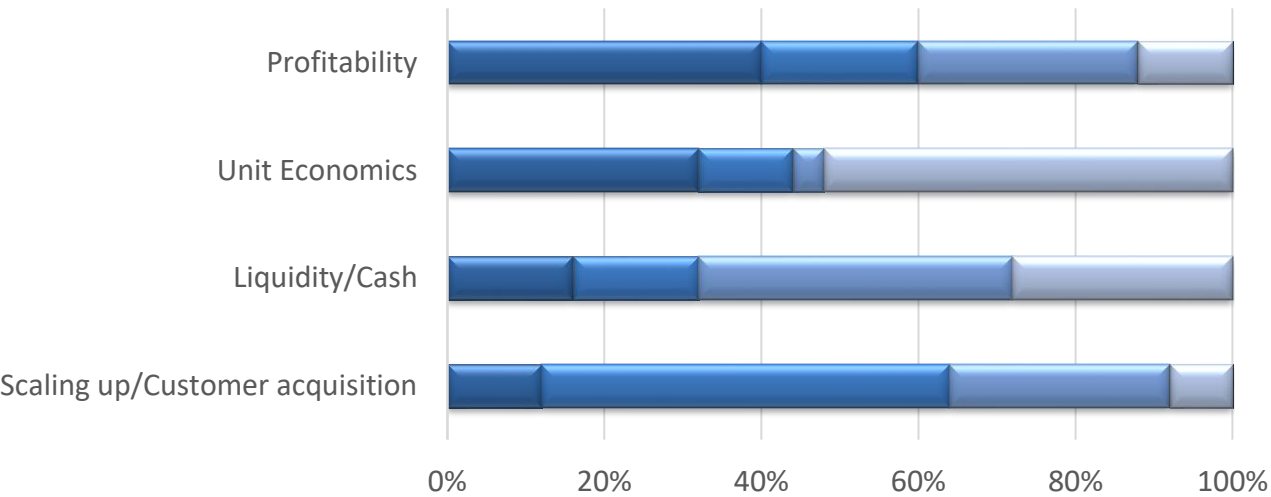


# Survey Findings

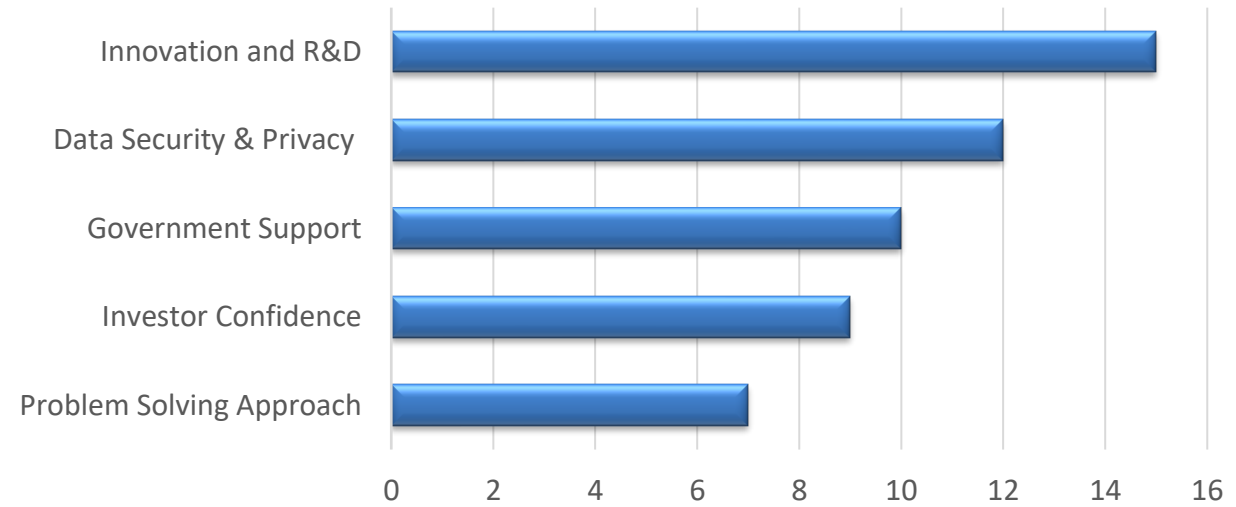
Post COVID, increasing profitability needs highest attention, followed by customer acquisition and scaling up.



**Fig 4: Order of importance for business post COVID**



**Fig 3: Most important factors for a Fintech Business to Succeed**



Continuous Innovation and R&D has come out as the critical need for success followed by Data Security & Privacy.

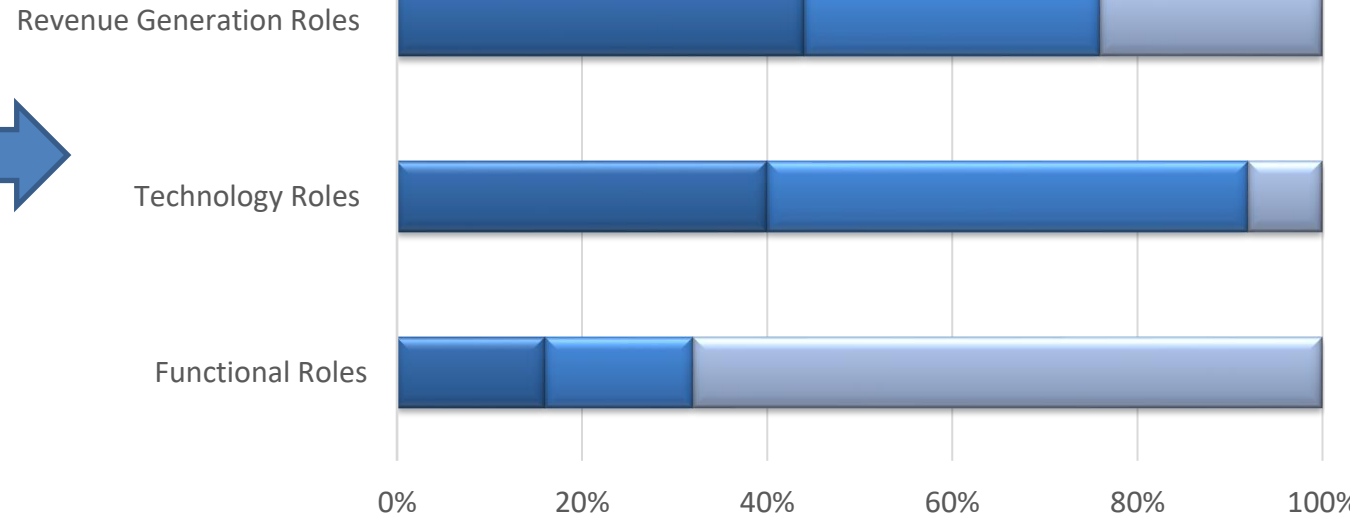


# Survey Findings

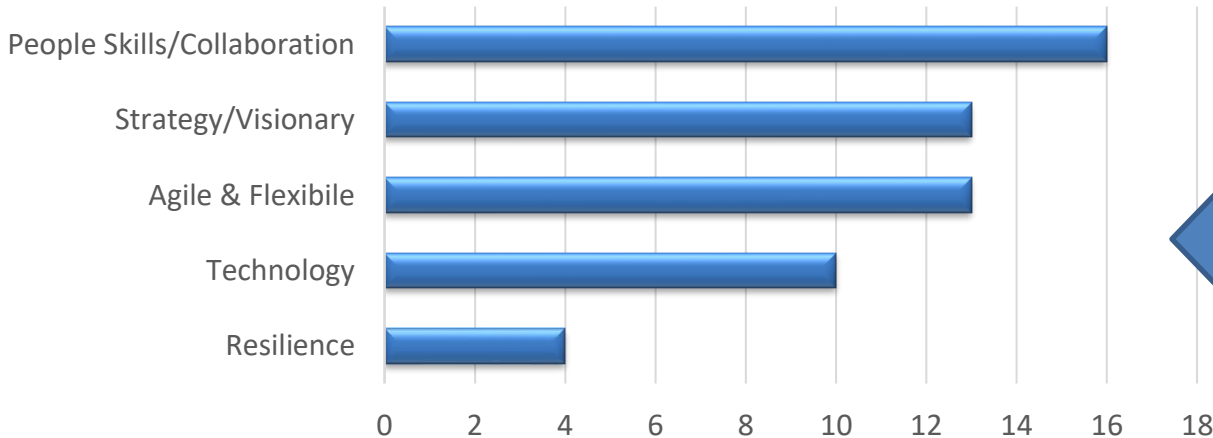
Hiring for Revenue generating roles would be highest in this year, to stabilize the business turbulence faced during the COVID times.

Closely followed by Technology roles due to the increase in digitization across all industries and spheres.

**Fig 5: Hiring Needs in the next 1 year**



**Fig 6: Top qualities to look for in Senior Leadership/Talent**



People management and collaborative skills were rated highest followed by strategic vision and agility.

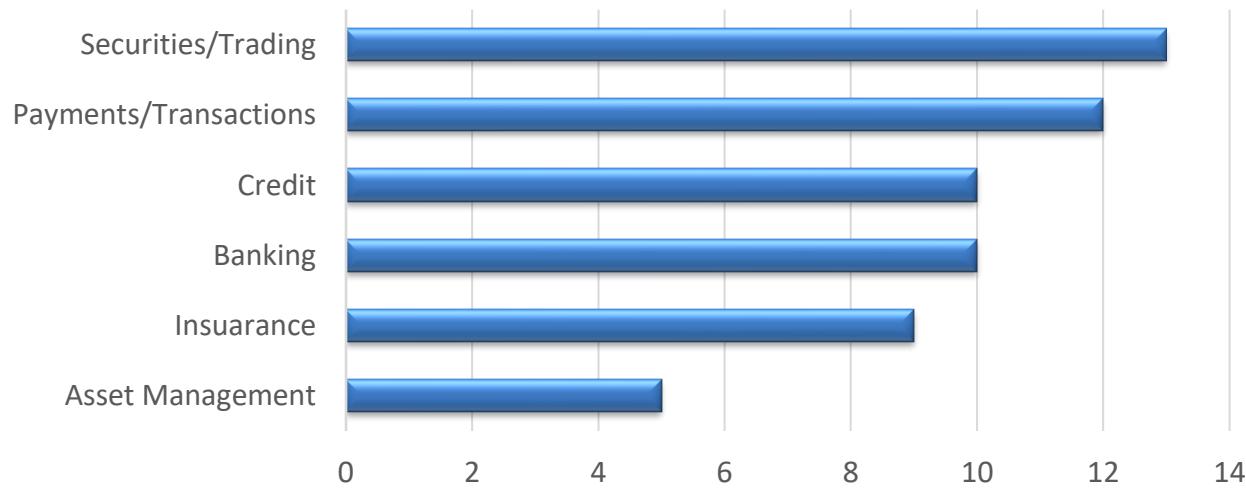
During testing times, a leader's ability to adapt and withstand the unpredictable circumstances is being examined. Similarly, leaders are expected to be more far-sighted and show flexibility in difficult situations.

# Survey Findings

Findings suggest that the sub-sector of securities & trading along with transactions shows more probability to be supported by automation tools and digitalization, whereas Asset management seems to be least benefited.



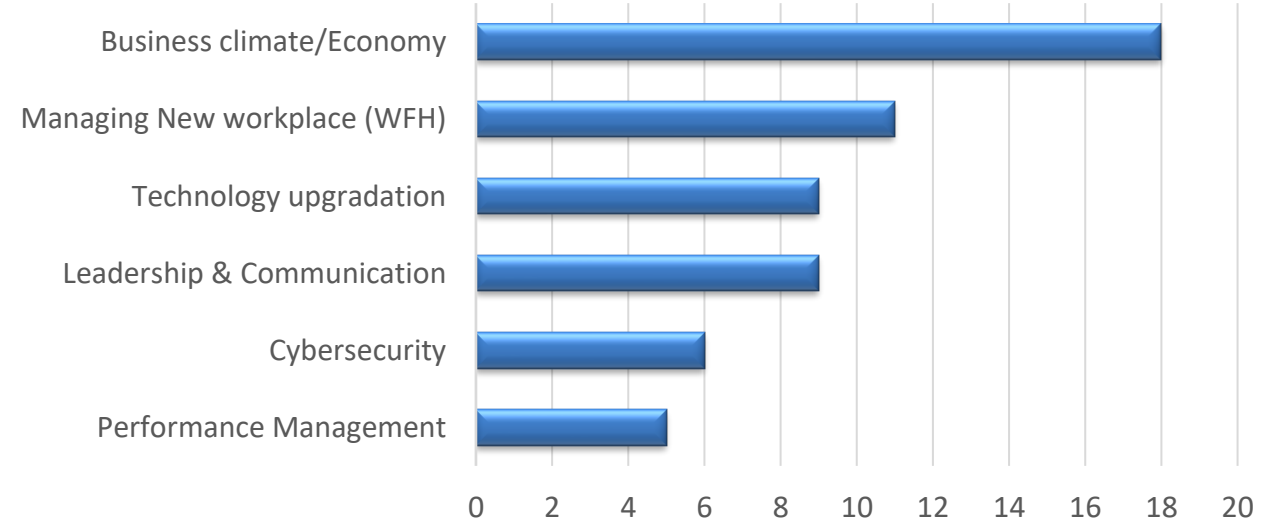
**Fig 7: Sub-sectors most likely to be supported by automation/digital tools**



Stabilizing the business in the unpredictable economic climate appears to be the biggest challenge that the Fintech industry is likely to face. Since the pandemic has led to remote working being accepted as the new normal, managing workforce efficiently in the new working space poses yet another difficulty for this industry.



**Fig 8: Critical challenges that Fintech industry is likely to face in the next 1 year**



**THANK YOU.**