

SECTORIAL REPORT ON FINTECH

BY



2019



❖ Introduction:

- India's evolution as a progressive FinTech nation is not a miracle. It happened at the back of executing a four-point approach.
 - Solving for identity in the form of Aadhaar for formalization.
 - Getting everyone a bank account or equivalents (PMJDY) to store money.
 - Building scalable platform(s) to move money (IMPS, UPI, etc.). And
 - Allowing banks and FinTechs and wealth/insurance/lending players also to access platform like UPI to innovate.

This framework has led India to FinTech revolution.

- FinTech is more efficient and lower-cost than traditional financial services, increased accessibility of services, it develops innovative models of assessing risks that will help in creating a more diverse, secure, and stable financial services landscape, through digital channels with minimal human intervention, FinTech have reduced the chances of friction and resultant corruption.
- A FinTech company actively participates in the development and deployment of alternative financial products that redefine the existing (traditional) ones.
- FinTech companies directly challenges banks to sell financial services and solutions to customers. But due to regulatory reasons and their internal structures, banks still struggle to keep up with FinTech startups in terms of innovation speed. The relationship between FinTechs and traditional financial institutions has morphed from Competition to collaboration.
- FinTech industry comprises of Alternative Funding, Banking Tech, Crowd funding, Consumer Finance, and Crypto currency, Enterprise Finance, Foreign Exchange, Insurance Tech Investment Tech, Mobile Wallets, Payments and Software for Institutional Investor.
- Technologies included in the FinTech sector are artificial intelligence (AI), Blockchain, cryptography, biometrics and identity management, cyber-security, and robotic process automation (RPA).



❖ The Evolution of Finance and Technology

1. Exclusion

The first step of Finance evolution is the era when there was no technology in the picture. Financial consumers had to wait in long lines in banks to perform any and all type of money related work.

2. Mobile Payments

The next phase was when payments – a small fragment of banking sector came on mobile banking services. Users now standing in queues were making payments of bills, electricity, and water on mobile through apps, that came majorly from non-banking institutions.

3. Mobile Basic Banking

Seeing the ease that this digital revolution in finance was offering to the millions of their user base, a number of banking institutions also entered the space by developing an application for their bank.

4. Full Service Mobile Banking

The time to come is set to move from FinTech to TechFin. The technology-based companies who made an entry in the banking services will only make their presence stronger and the financial institutions will start involving technology at a greater level in their processes.



❖ Indian FinTech Industry

- India's shift to the digital economy has set in motion the emergence of new set of technology companies in the FinTech space.
- The industry is likely to continue its current growth trajectory, with the global FinTech software and services sector predicted to touch USD 45 billion by 2020 at a Compound Annual Growth Rate (CAGR) of 7.1%
- The Indian FinTech ecosystem is the third largest in the world, attracting nearly \$6 billion in investments since 2014. Banks & firms are investing heavily in technology-based solutions, competing with contemporary FinTech companies. This is the key growth driver for the global FinTech market, which will be pinned at approximately USD 305.7 billion by 2023, at a CAGR of 22.17 percent, between 2018-2023.
- According to NITI Aayog, India is one of the fastest growing FinTech markets globally & industry research has projected that \$1 trillion, or 60% of retail and SME (small and medium sized enterprises) credit, will be digitally disbursed by 2029.
- Growth in areas of AI and Blockchain will attract major investments during the period, 2018-2023. AI-oriented FinTech market will expand at a CAGR of 21.72 percent during 2018-2023, followed by Blockchain-based FinTech companies.
- From RegTech, Payment/billing, InsurTech, money transfer/remittance, mortgage/real estate, and others segments (lending, capital market, wealth management), the payment/billing services segment of the FinTech Sector expects revenue generation of USD 207.11 Bn by 2023 globally. RegTech is also expected to grow extensively at a CAGR of 22.05 percent, after payment/billing.

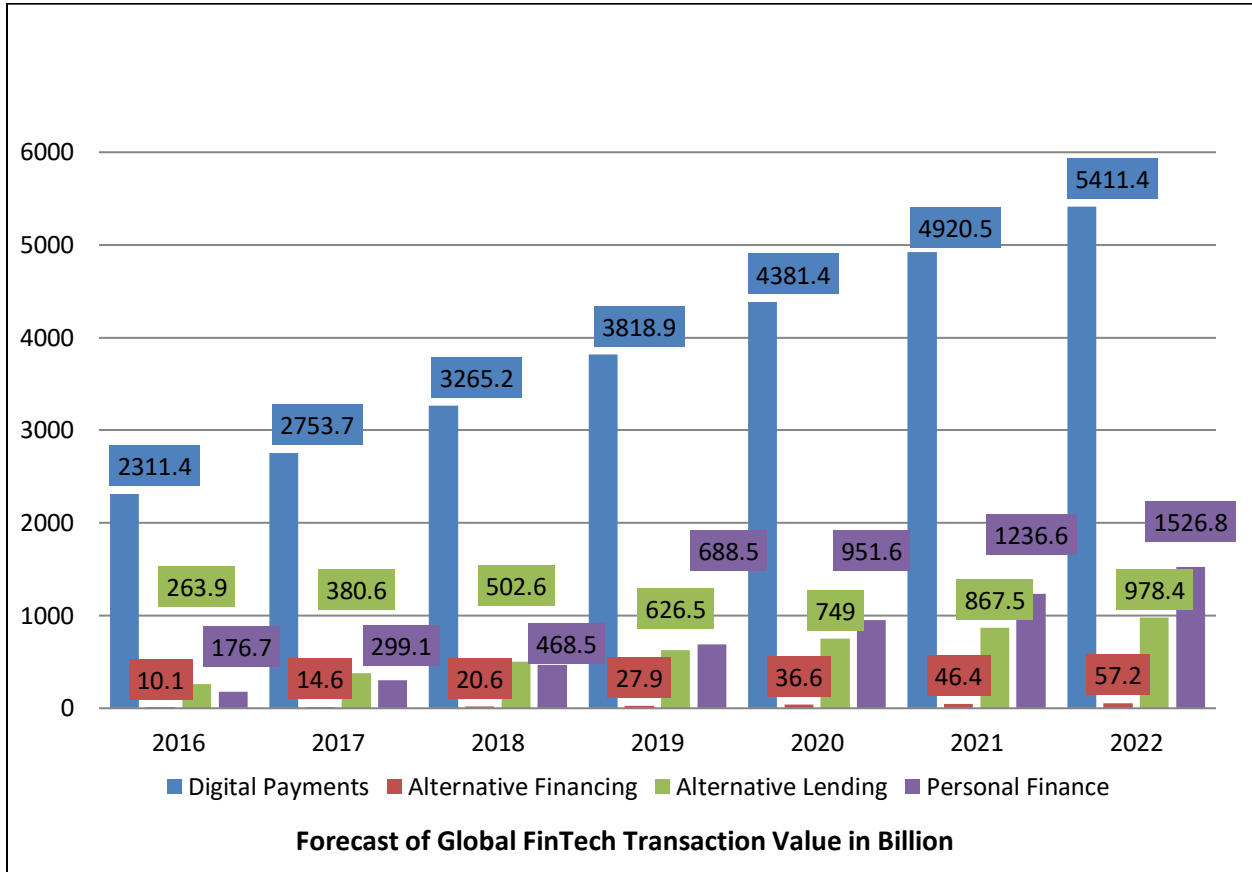


❖ Global FinTech Industry

- FinTech is a large addressable market that has attracted investments by venture capital (VC) funds both globally and India (total ~US\$28bn in 2017).
- The Global FinTech market's transactional value's CAGR is 13.2% over the forecast period of 2019-2024.
- Financing alone should be a US\$1trn opportunity in India's FinTech space over next 5 years, with prospects in payments estimated at another US\$500bn, in our view. The e-wallet transaction market is expected to grow from US\$22bn to US\$120bn over next 5 years.
- The total value of global retail payments transactions at US\$16trn in 2015, which is estimated to increase to US\$21trn by 2020E. Further, proliferation of IoT could potentially accelerate expansion in the payments space. As of 2015, digital payments stood at ~ 8% of global retail payments market, which is expected to increase to 18-24% by 2020E.
- FinTech players in the US (ex-Square, Kabbage, etc.) and BigTech's in China's financial services space have been scaling, with penetration levels for payments touching 69% currently. Globally, business models that have access to customers (BigTechs) and/or are able to build unique channel advantage (Square) have been more successful than others.
- FinTech investment globally more than doubled during 2018, driven in part by a small number of mega deals. 2018 was a year of multiple record highs across FinTech investment, including VC, CVC, M&A and PE.
- North America is leading contributor to the global FinTech market and the market is expected to reach USD 80.85 Bn by 2023. However, the pace of growth in the Asia-Pacific (APAC) region is anticipated to be the highest, at a CAGR of 43.34 percent during 2018-2023.



The Global FinTech Market Will Grow to a Striking US\$8 Trillion By 2022





❖ **The primary drivers of growth for FinTech are:**

Technology reduced operational cost

- Delivering financial services to the masses, is primarily driven by the boom of digital adoption and technology.
- Paper to no paper processes has reduced the lead time, efforts and most importantly costs to the financial institutions.
- It has also increased the accessibility of the services to the consumers even in remote areas, doing away with the need of having a physical establishment.

Strong Governmental Push for a Digital Shift



- Aadhaar mandatory across service industry
- Financial inclusion through rapid increase in number of bank account holders
- Mandatory E-KYC for bank account
- Favorable policies leading to increase in smartphone penetration
- Advocation to adopt digital platforms like social media, mobile apps & telecommunication etc.
- Governmental initiatives for digitalized customer transactions- UPI, GST

Primary Drivers of Growth

Unmet financial needs

- Traditional service delivery models have not been able to address the financial needs of consumers.
- FinTech, with its ease of usage and access, has allowed consumers to get access to these services, typically at lower costs, driving its active adoption.

Increasing Investments

- There has been a significant increase in FinTech startups in India over the last two years, primarily in the payments space (driven by regulatory changes and market demand).
- There is increased willingness by domestic, as well as international VCs/PEs and incubators to heavily invest in this sector in India.



Regulatory Sandbox- A new approach to evaluate FinTech

Live or virtual testing of new products or services in a (controlled) testing environment, with or without any ‘regulatory relief’ is termed a ‘sandbox’. The testing environment could be available to regulated or unregulated firms, or both. Regulator provides the appropriate regulatory support by relaxing specific legal and regulatory requirement, which the sandbox entity will otherwise be subject to, for the duration of the sandbox. A regulatory sandbox can be used to carve out a safe and conducive space to experiment with FinTech solutions, where the consequences of failure can be contained. Sandbox should help to encourage more FinTech experimentation within a well-defined space and duration where regulators will provide the requisite regulatory support, so as to increased efficiency, manage risks better and create new opportunities for consumers. The proposed financial services to be launched under the sandbox should include new or emerging technology, or use existing technology in an innovative way. The proposed financial service should address a problem, or bring benefits to consumers or the industry.

Sandbox is an experiment space. It does two things— gives a sense to the regulator on where changes are required and wherever required, it can be implemented



❖ Challenges that FinTech companies need to be prepared for

The FinTech industry has grown massively over the past couple of years. Though the FinTech revolution has been in full swing for the last few years, there are a number of complex challenges that FinTech companies are yet to resolve:

✓ Regulatory constraints

RBI granted Payment Bank licenses to 11 FinTech startups that provide deposit, savings and remittance services. RBI has issued few regulations in mobile/eWallet & P2P lending space but there is lot more clarity required. P2P lending and payments need to be clarified on a priority basis as public money is involved over there.

✓ Security challenges

With the emergence of FinTech, a plethora of data has become available in digital formats, which makes it easier to analyze and generate insights, but at the same time also makes the data more susceptible to security breaches. This is one of the main factors fueling skeptics to rely on FinTech companies.

✓ Financial Ecosystem

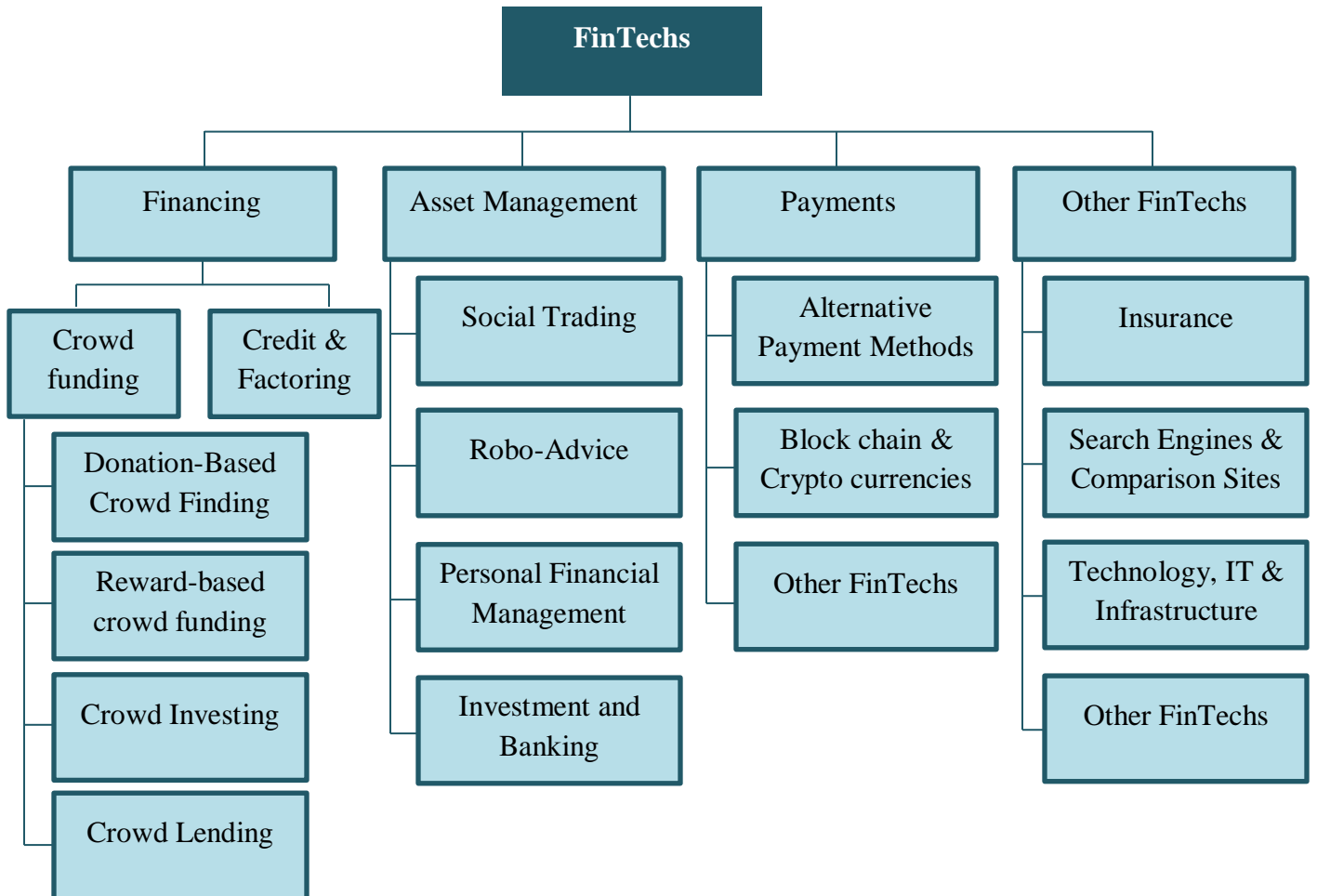
The relationship between FinTech startup and traditional Financial Institution has changed from competition to collaboration. Both have their own set of rules in terms of efficiency, size, acceptance etc. Tradition Financial Institution can't afford to be left out else it's a matter of time.

✓ Lack of awareness

The More than 70% population of India live in the villages and use of these digital payment platforms are done by most of the urban people. This sector needs to make its way through awareness in rural India.



❖ Segments

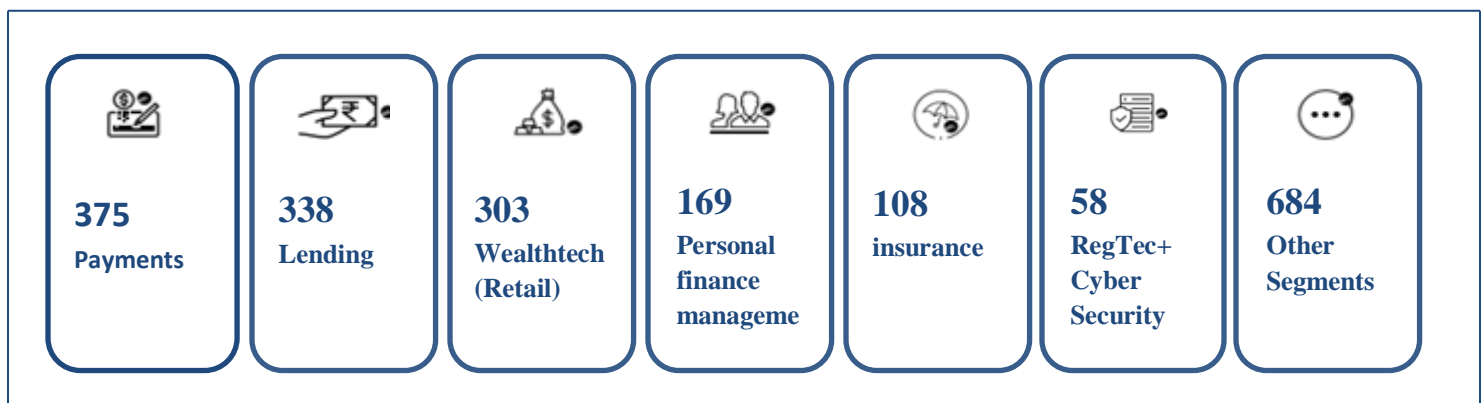




FinTech firms in India can be broadly categorized into the following segments:






Payments	<ul style="list-style-type: none"> • Mobile wallets, • Merchant payments, • PoS and Payment gateway services
Financial Lending	<ul style="list-style-type: none"> • P2P lending, • Marketplace for loans, • Own book lenders
Investment Platforms	<ul style="list-style-type: none"> • Trading and mutual fund platforms, • Crowd funding, • Wealth and Asset management platforms, • Online Financial Advisors
Enterprise Software	<ul style="list-style-type: none"> • Credit scoring and underwriting, • Expense Management, • Financial Planning, • Lead generation, • and customer onboarding, • Process automation
Alternative Currency/Blockchain	<ul style="list-style-type: none"> • Crypto currency trading, • Blockchain driven services

Number of FinTech startups by segments





Top FinTech firms in India

Top FinTech Firms in India	Basic Details
<p>One97 Communications</p> 	<ul style="list-style-type: none"> ✓ One97 runs Paytm, India's largest digital goods marketplace. ✓ Delivers mobile content and commerce services to millions of mobile consumers through India's most widely deployed telecom applications cloud platform. ✓ One97 also invests in early stage mobile companies through the One97 Mobility Fund (OMF).
<p>MobiKwik</p> 	<ul style="list-style-type: none"> ✓ India's largest issuer-independent digital financial services platform, leveraging a sophisticated product and merchant acquisition capabilities. ✓ 2nd player in the mobile wallet space in India and amongst the top 3 players in the payment gateway industry in the country.
<p>Capital Float</p> 	<ul style="list-style-type: none"> ✓ Capital Float is an online platform that provides working capital finance to SMEs in India. ✓ Offer flexible, short-term loans that can be used to purchase inventory, service new orders or optimize cash cycles.
<p>Policy Bazaar</p> 	<ul style="list-style-type: none"> ✓ India's foremost insurance aggregator and a leading fintech player globally ✓ The objective is the same even today -- Customer First and Sustained Profitability for the entire insurance ecosystem.
<p>Razorpay</p> 	<ul style="list-style-type: none"> ✓ It gives access to all payment modes including credit card, debit card, net banking, UPI and popular wallets including JioMoney, Mobikwik, Airtel Money, FreeCharge, Ola Money and PayZapp. ✓ Manage marketplace, automate NEFT/RTGS/IMPS bank transfers, collect recurring payments, share invoices with customers.



Porter's 5 Forces for Fintech Industry

✓ *Threat of New Entrants*

The threat of new entrants in the market is **high** with the rise in the number of Fintech startups and with continuous technology development & innovation new players enter into the market. Further with government initiatives & with favorable business regulations and Banks evolving their functions and collaborating with fintech will result into the rise in the number of players in this industry is expected.

✓ *Threat of substitute products & services*

Traditional Banks and Financial Institutions as well as firms providing financial services will be considered as substitutes of Fintech firms. The level of threat of substitute products in Fintech Industry is **moderate**. But with innovation in this industry the threat level in future can be high with new firms entering into the market. While rural areas in India are still unaware with the fintech services and use traditional banking services but with encouragement in digitization the usage in Fintech services will gradually see an increase.

✓ *Bargaining power of Buyer*

Bargaining power of the buyer becomes high when there are various alternatives available in the market. Bargaining power of the buyers is **moderate to high** with multiple options available in the industry but brand loyalty, technology, switching costs etc. are certain factors which may affect the buyer trends.

✓ *Bargaining power of Supplier*

Bargaining power of the supplier is high when there are few suppliers in the market. When there are few suppliers, they charge high which results into low profitability of the Fintech firm. Fintech includes Technology & Data infrastructure provider, Data security provider, Credit/Debit card companies, Banks/Financial institutions and companies providing financial service. In India, there are large number of supplies but are dominated by few so we can say that bargaining power of the supplier is **low to moderate** in Fintech industry.

✓ *Rivalry among existing competitors*

There are large number of players in its each and every segment of Fintech Industry which shows that the fintech industry in India is **highly** competitive.



❖ Future of FinTech

- The FinTech industry will continue to make finance easier and more accessible to more people. It will continue to expand into new financial areas such as payments, savings management, and loans.
- FinTech apps will be more efficient, more secure, more flexible, and more appealing as the industry adopts new technologies like Blockchain, biometrics, and API integration.
 - **82%** – legacy banks and financial institutions expect to increase partnerships with FinTech start-ups in the next five years
 - **30%** – Of consumers plan to increase usage of non-traditional financial service providers in the near future
- Over the last five years, the sector has grown substantially and FinTech deals in India reached an all-time high in the first quarter of 2018.
- A global digital payment is undergoing rapid transformation and is set to grow four times in value by 2020. India is on an even more exponential growth trajectory. The smartphone explosion will usher in a new era in digital payments in India over the next few years that will see non-cash transactions exceed cash transactions by 2023.
- Total FinTech software and services market in India was around \$8 billion in 2016 and likely to grow 1.7 times by 2020. The Indian FinTech software market alone is expected to touch \$2.4 billion by 2020.
- Another key impact is the presence of big tech brands in India. Facebook, Amazon, Google and Samsung have all introduced payment apps in the country and plan to develop into other financial products. The presence of these established names sends a clear signal to companies large and small, foreign and domestic – India's financial services sector is open for business.
- Experts across the industry had mentioned that the year 2018 could be the base of the future developments expected in 2019. Overall the future of the FinTech Industry is bright.



❖ Useful information

• Glossary

- ✓ PMJDY: Pradhan Mantri Jan-Dhan Yojana
- ✓ IMPS: Immediate Payment Service
- ✓ UPI: Unified Payment Interface
- ✓ RPA: Robotic process automation
- ✓ NITI: National Institution for Transforming India
- ✓ VC: Venture Capital
- ✓ CVC: Corporate venture capital
- ✓ M&A: Merger and Acquisition
- ✓ PE: Private Equity
- ✓ APAC: Asia-Pacific
- ✓ E-KYC: Electronic-Know Your Customer

• Exchange rates

Exchange rates (Fiscal Year)

Year	INR equivalent of one USD
2007-08	40.27
2008-09	46.14
2009-10	47.42
2010-11	45.62
2011-12	46.88
2012-13	54.31
2013-14	60.28
2014-15	60.16
2015-16	65.46
2016-17	67.09
2017-18	64.48
2018-19	69.96



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