Fast Forward, Rewind:

A Look Back at India's Golden Decade in Fintech

The Fintech Meetup | FINVU | GLOBAL FINTECH FEST

FOREWORD

Abhishant Pant
Founder
The Fintech Meetup

I started my career as a banker in the early 2000's and saw the waves of

- Core Banking Implementation
- 3-in-1 Demat accounts
- Mobile Banking

To

- Loan in seconds
- API economy
- UPI

And much more. Last 6 years as an entrepreneur have also kept me on edge in terms of speed on change. So what's next for Indian Fintech by 2030?

- Sometime in late 2026 India will hit Bn txn a day on UPI
- AA Data play will mature in a similar time frame of 24-30 months

To my mind, it is these plays that will multiply possibilities (beyond payment) of Indian Fintech from the current 8-10 crore Indian to approx. 40 Cr.

Between 2027 to 2030

- Grassroot Play in Secured Credit: In my view 27-30 will witness a similar period of exponential growth in secured credit as 2019-2023 for unsecured. MSME cashflow-based lending will finally have its inflection point.
- the share of currency in circulation (CIC) to the gross domestic product in India should go below 10 percent
- Tech-Fin from India will be far more global (I will possibly call it the early Infosys moment in Indian Fintech) and we will potentially see 3-5 Tech-Fin (Intralayer) IPOs between 2026-2030.

While all of this will happen India will also be hit by

- Large instances of cybercrime, and frauds in absolute value will grow (driven by the growth of the digital economy) and we will need far more robust real-time txn level fraud monitoring
- RBI's regulations' first hawkish approach will mean a far lesser number of young entrepreneurs (most will be experienced bankers), though they do have a tough job between Innovation and consumer protection

How Indian Fintech will go beyond the Urban world and explore India beyond 40-50 Crore to the next Billion will be a big piece yet to unfold. Will the next Billion be catalyzed by PMJDY 2.0 or something new in DPI or ONDC?

I as an eternal dreamer in the possibility of our Nation will continue to believe 2024-2030 will be years when we will be well pass inflection point and fly. If all goes well and the above levers work without any black swan event we will potentially Impact a Billion Indian's life by bringing them above poverty line.

“सिर्फ हंगामा खड़ा करना मेरा मकसद नहीं,
मेरी कोशिश है कि ये सूरत बदलनी चाहिए।

मेरे सीने में नहीं तो तेरे सीने में सही,
हो कहीं भी आग, लेकिन आग जलनी चाहिए।”
~Dushyant Kumar

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THE FINTECH MEETUP - INDIA'S LARGEST EARLY STAGE FINTECH ECOSYSTEM

The Fintech Meetup

The Fintech Meetup convenes startup founders, government bodies, strategic investors, and financial institutions to learn more about the changes that will bring about the next generation of financial services. It is founded by Abhishant Pant, a Mumbai-based India-Market Fintech expert and Ex-head of FI and New Banks for India & South Asia with VISA.

THE FinTech yatra

Fintech Yatra: A 10,000 km go road journey focused on meeting early stage Fintechs across 15+ Indian cities.

Monthly Fintech Breakfasts & Regular large scale Fintech Mixers.

Community

Work closely with & engage with the senior management of 50+ BFSI Institutions

Fintech Guftagu: A 2-day residential program with 15+ industry veterans under one roof.

Coverage

YATRA ANGEL Network

We progressively fund top 1-2% of the startups from our community via -

YAN: A SEBI - Registered CAT - 1 AIF run and managed by TFM along with 180+ Angel Investors as part.

30+ VC partners

Capital

Yatra Angel Network "YAN" is India's first fintech focused early-stage investment firm based at Mumbai. It enables impactful investments in the fintech industry where angel investors will not only contribute capital but also bring subject matter expertise (SME), network, mentorship, potential customer/partner/vendors and more to a startup, as the case may be with each member.

Backing Early-Stage Fintech Entrepreneur's

M2P	Riskcovry	PhiCommerce PayPhi	ShopSe	Zimyo
one card	PayGlocal	savart	Tartan	42CS
FINVU	data sutram	converj	Niro	kiwi
KiVi	ZERON	OneStack	RADIAN FINSERV	

FINVU - MARKET LEADING NBFC : ACCOUNT AGGREGATOR

One of earliest NBFC AA license awardee from RBI, Finvu is a funded company, currently growing with multiple partners,

Founded in 2017 by Munish Bhatia, Manoj Alandkar and Praveen Prabhu, the Pune-based fintech startup is a RBI-licensed NBFC account aggregator. It facilitates in securing shared users' data between financial institutions. Once a user gives consent to share his/her financial information, then the app encrypts that data while transferring it from one financial institution to another. Finvu AA additionally helps financial institutions to collaborate on the account aggregator (AA) ecosystem and create online financial solutions for streamlining customers' experiences.

14M+	100M+	<5%	60+	~130k
accounts	API calls	Minimal rejection rate	Institutional Partners	Current daily Consents

Early adopters with active participation in various working groups in the account aggregation ecosystem, including ReBIT and Sahamati

Empowering Indian finance and banking sectors stakeholders with easy access to financial data.

Our Partners

\+ More

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PLAY
2024

INDIA'S FINTECH TAKES CENTRE STAGE

Market Size
$111 Billion

Credit Cards Crosses
10 Crore

Registered Fintechs
7800 +

UPI Crosses
100 Billion

Indian Fintech Ecosystem Rank
3rd in World

Unicorns
26

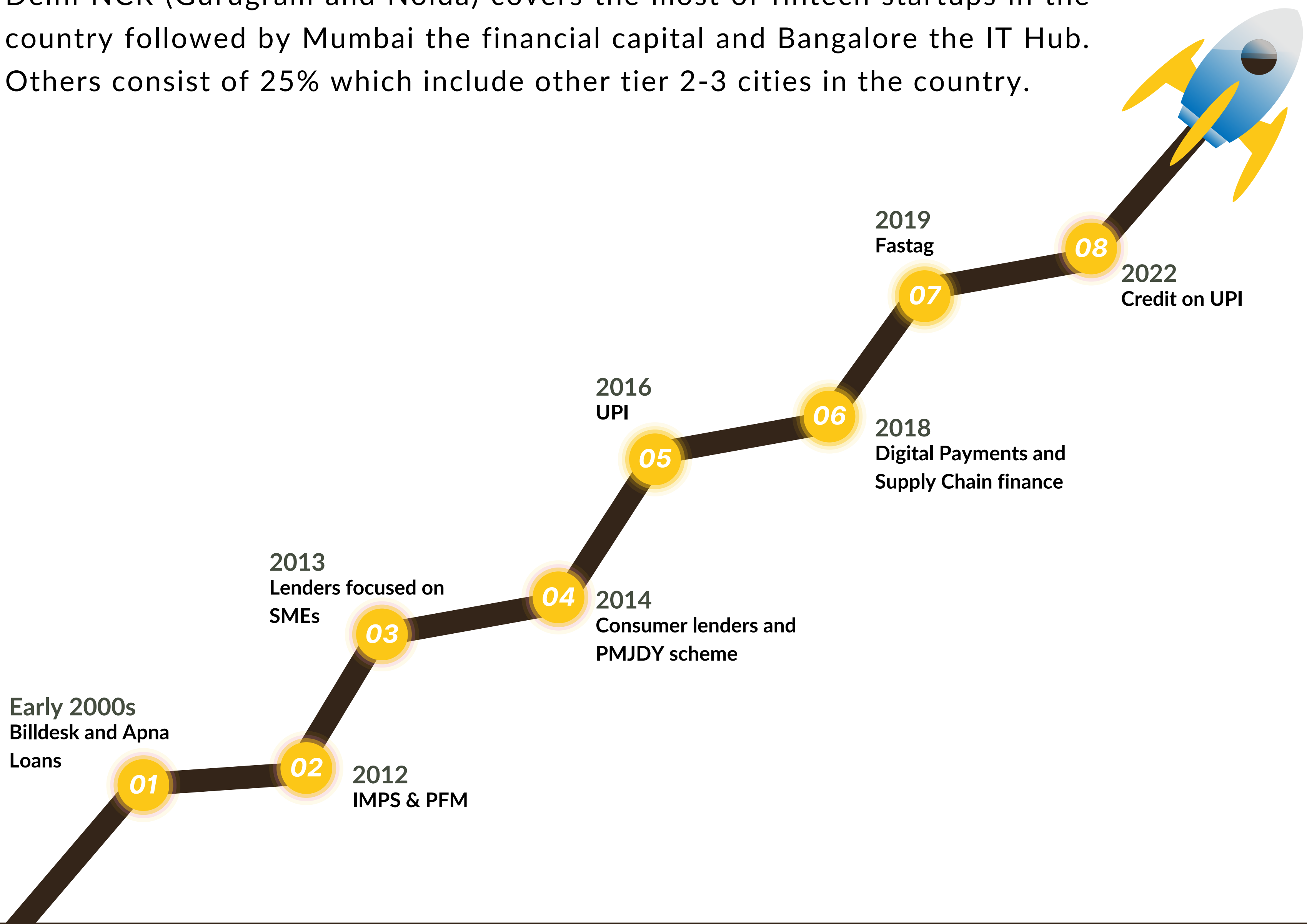
Listed Fintechs
6

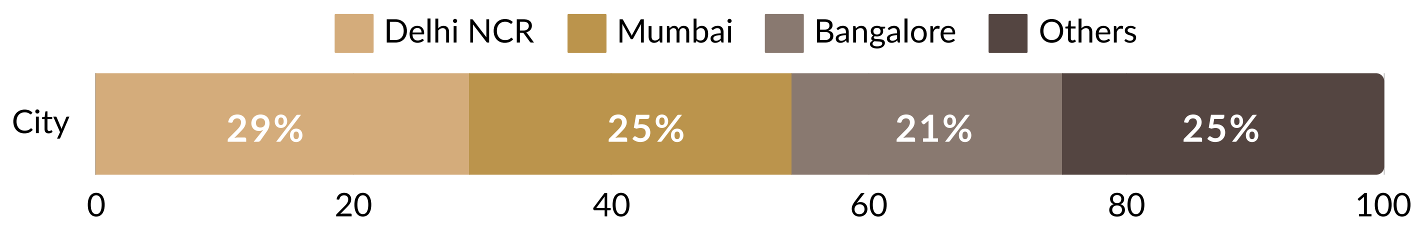
Soonicorns
22

In last one decade fintech landscape has gone through various changes with market size reaching at $111 Bn and having 26 Unicorns.

The Indian fintech ecosystem now ranks 3rd in world and 2nd in deal volume. With only 48%(1.5-2K) active fintech startups and 1500+ startups raised one round of funding showcase a clearly visibility of the ever evolving changes and rise in competition.

Delhi NCR (Gurugram and Noida) covers the most of fintech startups in the country followed by Mumbai the financial capital and Bangalore the IT Hub. Others consist of 25% which include other tier 2-3 cities in the country.





Number of Startups Registered

Source : Tracxn


REWIND
2008-2017

FORCES PROPELLING FINTECH'S METEORIC RISE

Lets break down the forces that have propel the fintech meteoric rise into three categories

OBVIOUS

- Jam Trinity: Jan Dhan-Aadhaar-Mobile integration driving financial inclusion.
- India Stack: A set of APIs enabling digital infrastructure and services.
- Growth Drivers: Key factors propelling economic and technological advancement.
- Bank Licenses: Regulatory frameworks and policies governing banking operations

TANGENTIAL

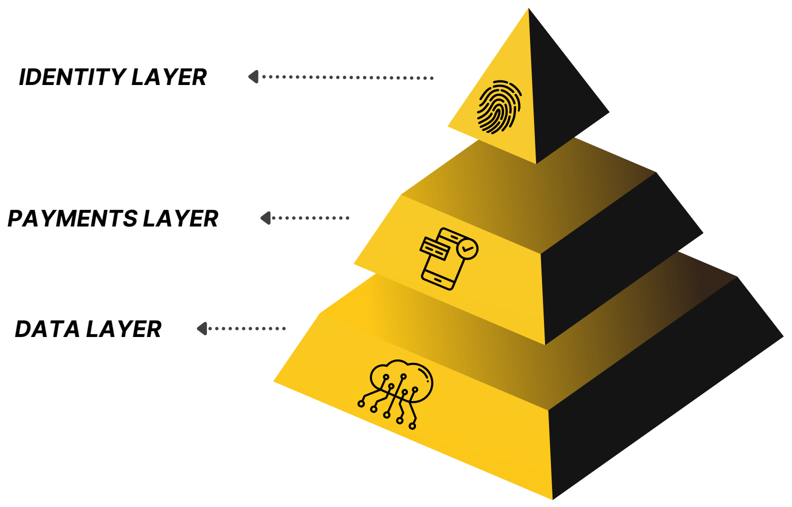
- Venture Funding: Investment dynamics fueling startups and innovations.
- API Integration in BFSI: The role of APIs in transforming banking, financial services, and insurance sectors.
- Data Charges: Costs associated with data usage and their impact on digital services.
- Budget 2017 : Further curb circulation of black money and promote digital payments.

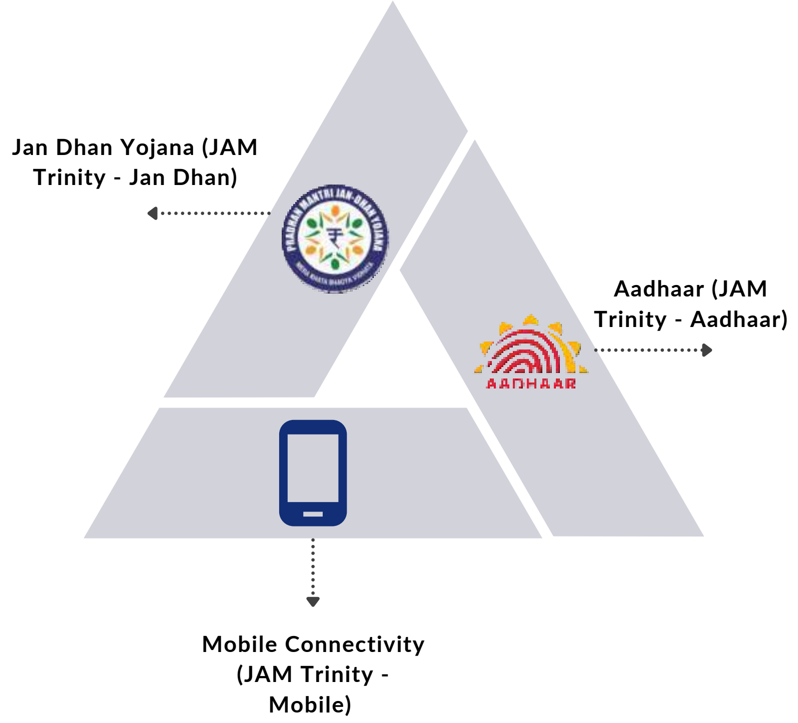
BLACK SWAN

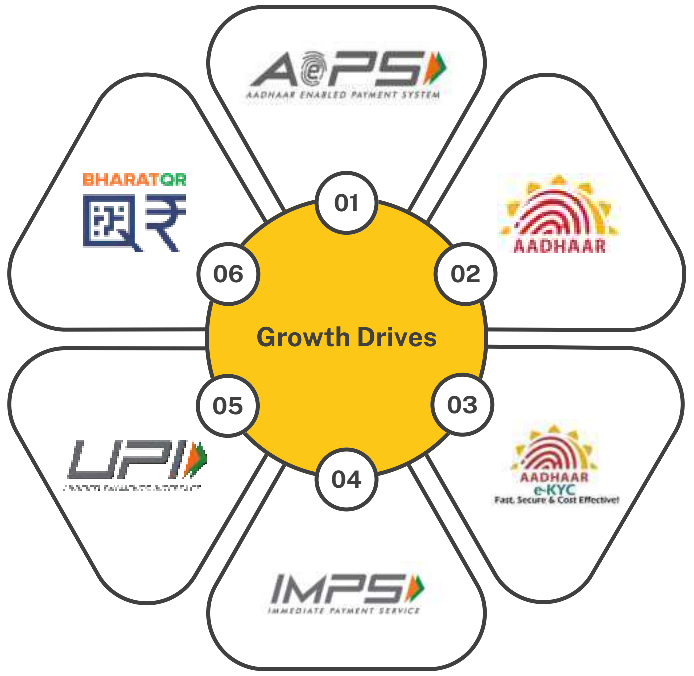
- COVID-19 Pandemic: A global health crisis with profound economic and societal impacts.
- Demonetization: Sudden currency invalidation affecting liquidity and economic behavior.

FORCES PROPELLING FINTECH'S METEORIC RISE

OBVIOUS







Fino Payments Bank
AU SMALL FINANCE BANK
Jio Payments Bank Ltd.
Utkarsh Small Finance Bank
NSDL Payments Bank
Capital Small Finance Bank

India Stack

The Government of India's India Stack programme offers a collection of open APIs that are revolutionising the fintech industry by facilitating digital integration and cross-sector service innovation. Consent, Cashless, Paperless, and Presence-less are its four fundamental levels, which promote digital services and financial inclusion.

JAM Trinity

The JAM trinity (Jan Dhan Yojana, Aadhaar, Mobile) has transformed India's digital landscape, driving financial inclusion by enabling direct government transfers into citizens' bank accounts. Fintech advancements and startups have extended banking services to rural areas through initiatives like Micro ATMs.

Growth Drivers

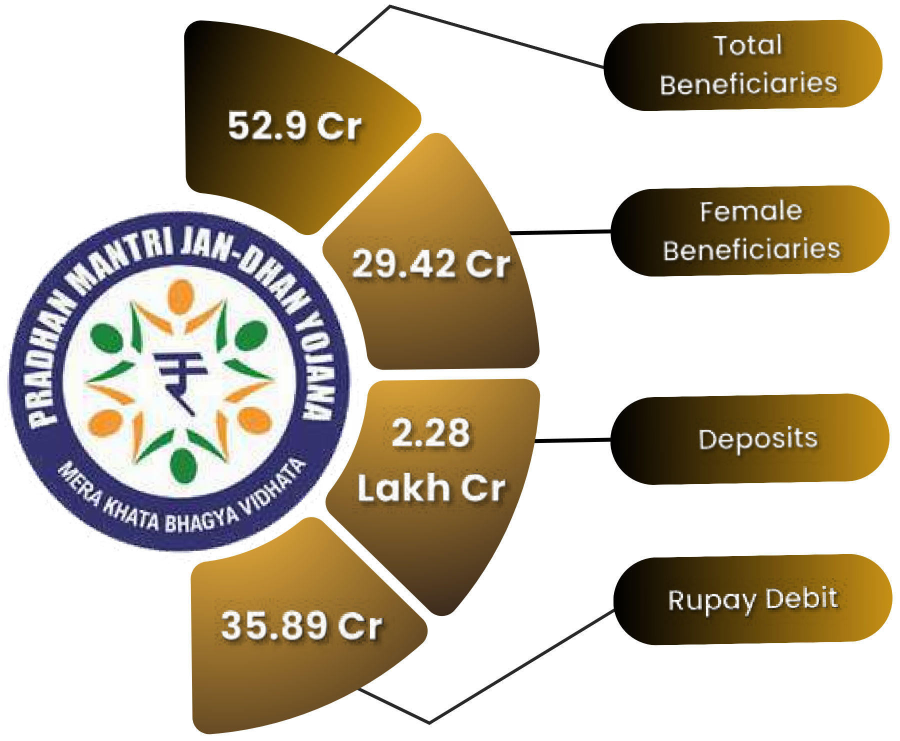
The digital infrastructure, India Stack has transformed India's digital landscape. The four components - Presence - less layer (Aadhaar Authentication), Paperless layer (Digi locker, e-sign, etc), Cashless layer (UPI) and Consent layer (AA, Open personal Data Store) have propelled the growth of Fintech in India. It not only fostered innovation but also highlighted efficiency and accessibility as a critical driver for fintech story success in India

Payment Banks

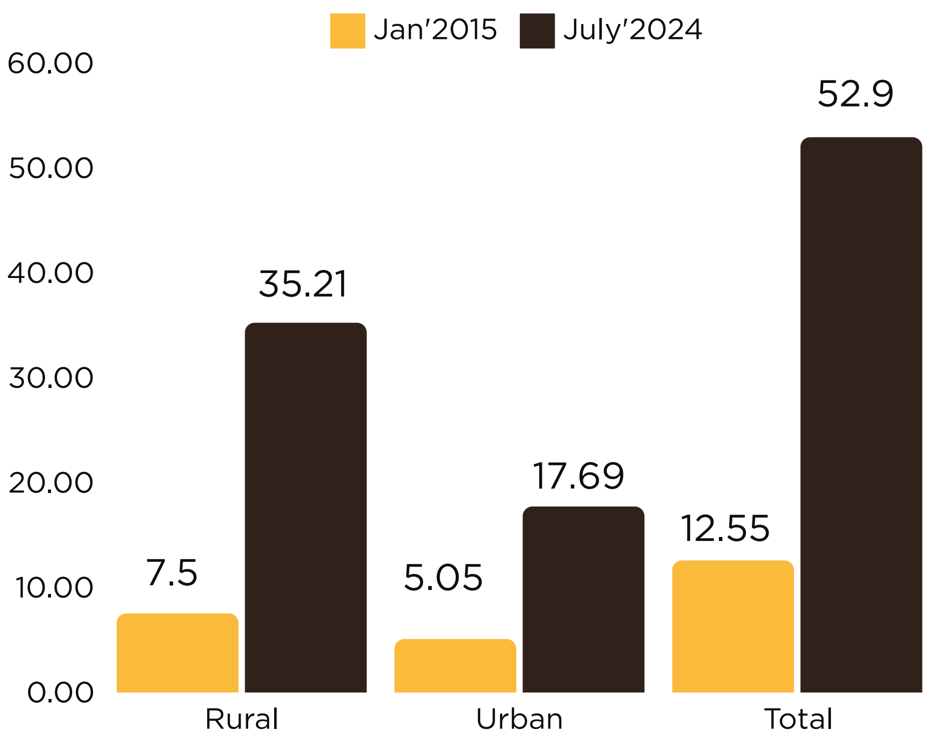
In 2015, the Reserve Bank of India launched Payment Banks to enhance financial inclusivity, providing basic banking services to underserved populations. This initiative has significantly increased access to banking products like deposits, fund transfers, and insurance across remote areas. The RBI also granted in-principle licenses to 10 entities to establish small finance banks.

FORCES PROPELLING FINTECH'S METEORIC RISE

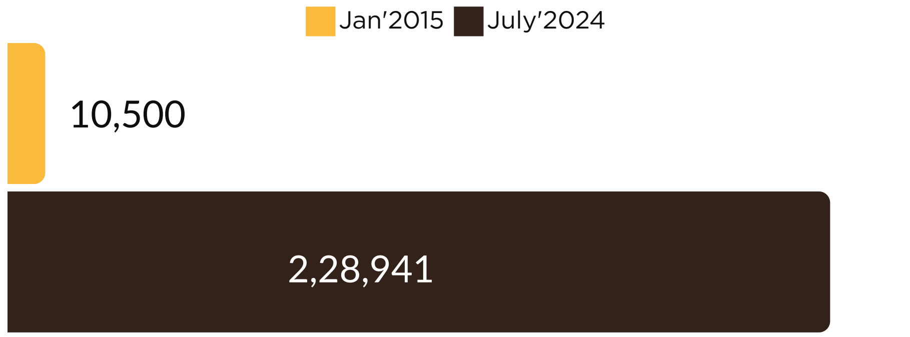
10 YEARS OF PMJDY : AUG 2014-AUG 2024



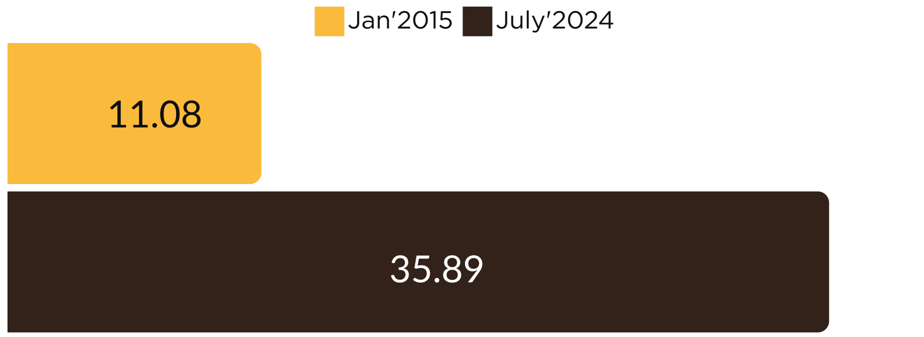
BENEFICIARIES (IN CRORE)



DEPOSITS (IN CRORE)



RUPAY DEBIT (IN CRORE)



The Impact of PMJDY in these past ten years is showcased by the clear reflection of the below statistics and what the relentless pursuit of a vision can achieve, leading to overall card penetration in India crossing 100 Cr.

- 52.90 Cr beneficiaries (July 2024) vs. 12.54 Cr in January 2015.
- 35.89 Cr Rupay Debit cards vs. 11 Cr in January 2015.
- 2.28 lakh crore in account deposits vs. 10,499 Cr in January 2015.

Now that significant outcomes have been achieved, the question arises: what's next for PMJDY by 2030? What does PMJDY 2.0 look like?

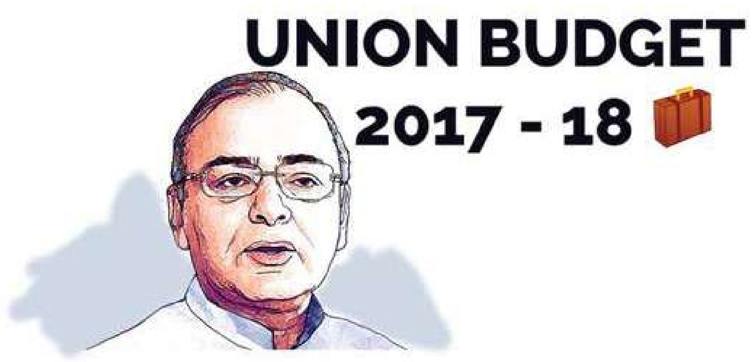
1. **Pulse Polio Style Adoption and Awareness Campaign:** A national campaign akin to Pulse Polio. This would involve utilizing MFI ground staff, anganwadi workers, RRB and India Post, NGOs involved in skilling, NRLM, etc., to drive greater adoption of the RuPay card, already in the hands of 35 Cr people, and BHIM. Given the rise in frauds, equal emphasis should be placed on raising awareness about how to use these financial instruments safely.

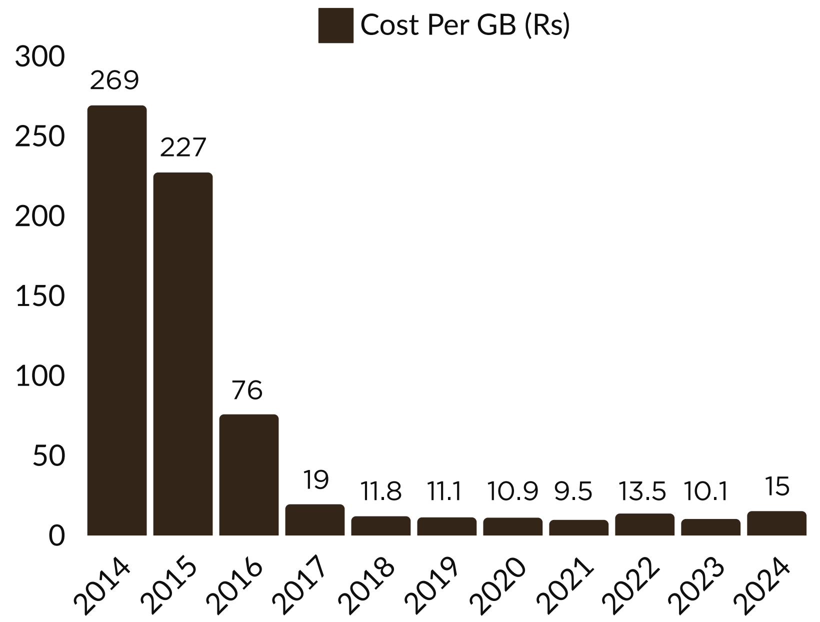
2. **Digital Transaction Literacy:** Over the past decade, it has been argued that traditional financial literacy sessions are ineffective, benefiting only NGOs and middlemen without creating measurable impact. Instead, the focus should shift to empowering people to conduct ten relevant daily transactions and understand ten ways to safeguard against transaction frauds.

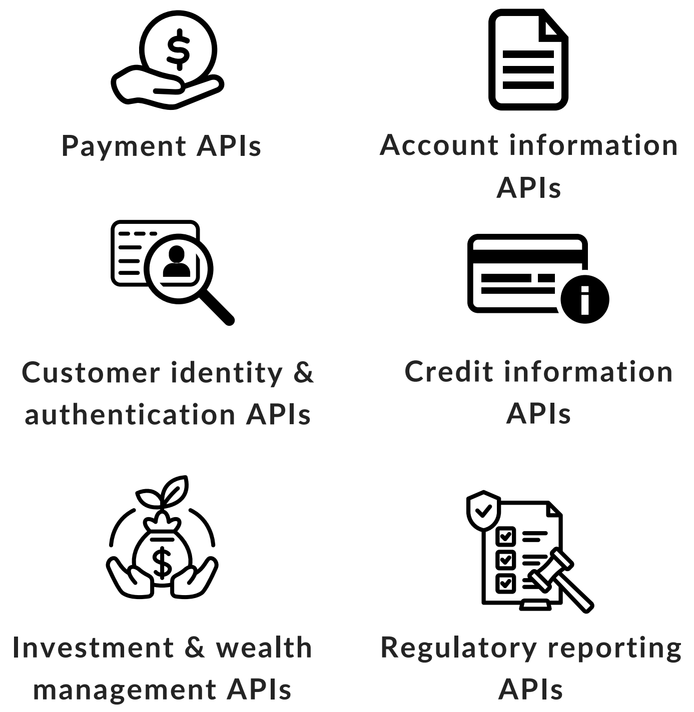
Source : PMJDY

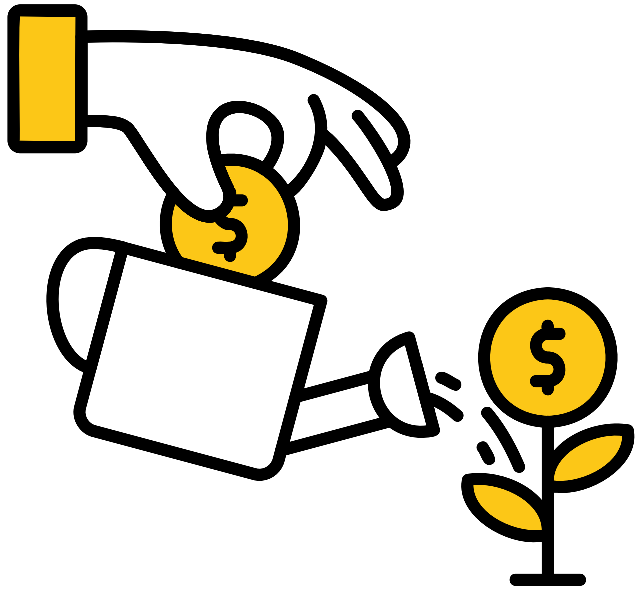
FORCES PROPELLING FINTECH'S METEORIC RISE

TANGENTIAL









BUDGET 2017

To further curb circulation of black money and promote digital payments, the Budget-2017 presented by the Former FM Mr. Arun Jaitley, Digital Economy was one of the 10 central themes for establishing speed, accountability and transparency in the system, a step towards making India a global exemplar in cashless society.

Data Charges

Reducing data costs in India has democratized digital financial services, leading to increased adoption of fintech platforms for digital payments, lending, and insurance. This has improved financial inclusion in underserved rural areas and enabled fintech companies to use big data and AI for personalized financial products, enhancing customer experience and efficiency.

API Intergration

API integration has transformed the BFSI sector in India, allowing fintech firms to access banking data securely and create personalized financial products. This has improved customer experiences by offering tailored solutions and streamlined processes. APIs have also enabled the rise of Banking-as-a-Service, driving competition, efficiency, and financial inclusion in the country.

Venture Funding

In the last ten years, venture capital investments have significantly impacted the fintech industry in India. The support from global and domestic investors has created a competitive ecosystem and led to the emergence of numerous successful fintech unicorns. India's fintech sector remains resilient and continues to attract significant investments despite global economic challenges.

FORCES PROPELLING FINTECH'S METEORIC RISE

BLACK SWAN

Demonetization

In 2016, India demonetized ₹500 and ₹1000 banknotes to combat black money, counterfeit notes, and promote financial transparency, leading to increased adoption of digital transactions. This move spurred rapid fintech sector growth and enhanced financial awareness and digital literacy in India.

Covid-19 Pandemic

The COVID-19 pandemic has had a significant impact on the fintech sector in India, leading to increased digital adoption and transformed financial services. Demand for contactless payments, digital banking, and online financial services surged during lockdowns. Fintech companies quickly adapted by improving digital platforms and expanding service offerings, leading to collaboration between traditional banks and fintech firms to innovate and improve financial inclusion. Despite challenges, the sector emerged stronger and more resilient.

FAST FORWARD

2018-2024

FINTECH YATRA: UNVEILING 6 YEARS OF ON-GROUND TRENDS

Fintech Yatra is a cross-country road travel that ranges the complete length and breadth of India. Its mission is to quicken the development of early-stage fintech startups. innovation providers (startups) with innovation seekers (financial institutions, venture capitalists, and large corporations). Over the course of 60 days and 20 cities, this 12,000-kilometer travel engages with more than 350 fintech new companies. Over the past five years, Fintech Yatra has seen an energetic change in India's fintech environment. Eminently, certain fintech fragments have shown concentrated development in particular cities.

Mumbai

As the financial capital of India, Mumbai holds a 50% concentration of exchange back and cross-border-focused new companies. Its vigorous framework and network make it a perfect center for worldwide trade-related fintech wanders.

Chennai

Recognized as the SaaS (Software as a Service) capital of India, Chennai is domestic to high-quality fintech startups. These ventures is driven by experienced founders, focused on B2B solutions and bootstrapping their growth.

Pune

As the fourth-largest fintech powerhouse, Pune has an assorted set of fintech companies. Its vicinity to Mumbai, coupled with a pool of cost-effective tech ability, contributes to its development as a flourishing fintech center.

Bangalore

Frequently alluded to as the Silicon Valley of India, Bangalore has a differing cluster of fintech companies. Known for its early selection of patterns developing from the West, the city is a hotbed for developments in Web3, cryptocurrency, AI, blockchain, and tokenization.

Delhi NCR

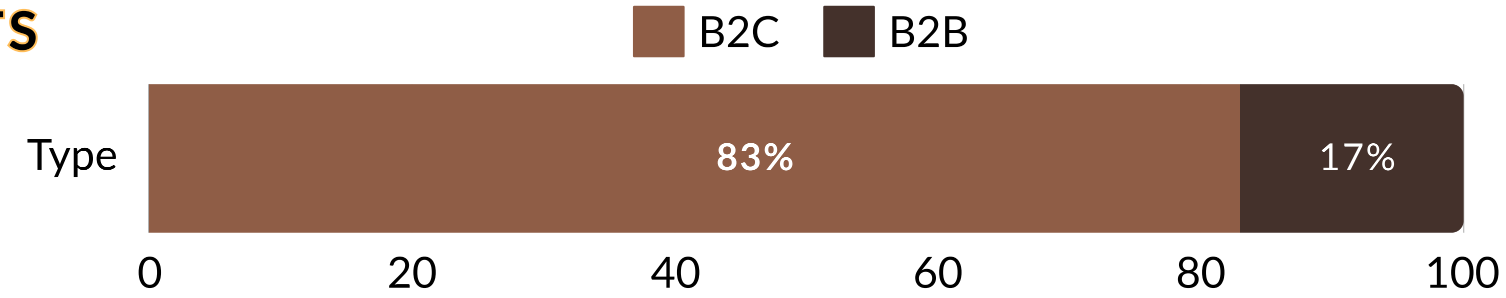
The national capital of India, houses the largest number of fintech new companies within the nation. Notably, 70% of these ventures focus on lending technology and supply chain solutions.

Hyderabad

Emerging as Deccan India's capital for fintech, wealth management and B2C services. New businesses here cater to well-off clients, emphasizing personalized solutions.

2018-2020 : CONSUMERS FIRST! FINTECH FOCUSES ON PAYMENTS POWERHOUSE

There was high concentration of B2C new companies compared to B2B-focused ones. Payments and Cards was the driving segment.



2021-2022 : FINTECH FLIPS THE SCRIPT - B2B BOOM AND BEYOND CASH

We saw a shift towards more B2B businesses than B2C. New companies who wandered into businesses like Jewelry, Transportation, and Pharma, steadily begun building their financial innovation (FinTech) layers. Retailers, cafes, and eateries, particularly those set up within the past 2-3 years, were clearly moving absent from conventional POS (point-of-sale) machines in favor of QR or UPI-based payment acceptance.

This represents a leap from hardware/card based systems to wireless payments. The experience level of entrepreneurs in the Banking, Financial Services and Insurance (BFSI) sector has increased significantly. About 65% of founders have more than 15 years of experience. Hyderabad has emerged as the fourth largest hub for fintech startups, supported by initiatives such as T-Hub and IIIT-CIIE.

FY 2020-21 Snapshot

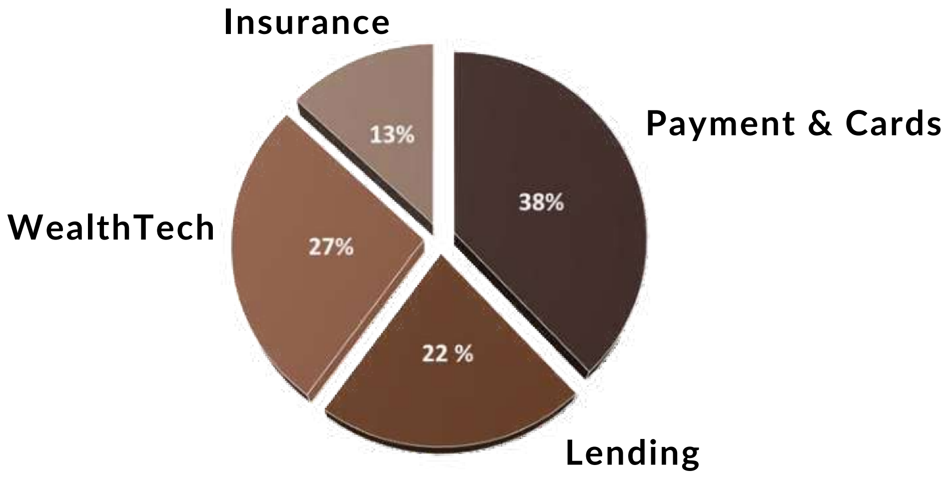
UPI

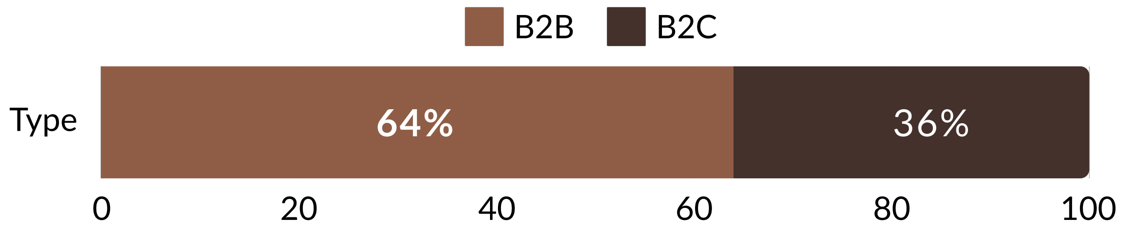
2,233 Crore
Volume

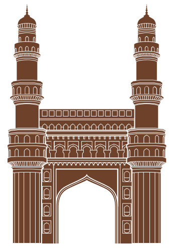
Volume
Debit Cards - 401 Crore
Credit Cards - 176 Crore

47.20 Lakhs
Number of POS Terminals

In Circulation
Debit Cards - 90 Crore
Credit Cards - 6.2 Crore







Hyderabad
4th Largest Fintech Hub

Source : RBI, Tracxn

2022-2023: FROM FREEWHEELING TO FINE-TUNED - REGULATIONS RESHAPED INDIAN FINTECH

The wave of regulations that hit the fintech landscape in June 2022 affected areas such as prepaid financial products, the Digital Lending Guidelines (DLG), FLDG, and enhanced consumer credit tightening. These regulations have transformed the Indian fintech scene over the past 18 months. Historically, global fintech value chains have focused on regulatory innovation. However, a new dynamic is emerging as India moves towards a regulation-first approach.

Fintech companies now fall into one of three categories: Regulated Entities, Direct Selling Agents, and Technology Service Providers

The Growth of First Loss Default Guarantee (FLDG)

Dr. Mor's introduction of the FLDG in the early 2000s gave access to capital to microfinance institutions (MFIs). MFIs that started as Self Help Groups (SHGs) have grown rapidly. Many of today's small and medium-sized banks (SFBs) were born from this journey. The interplant shade model allows for greater growth.

In 2021, the Reserve Bank of India (RBI) initiated discussions on risk-sharing arrangements for regulated entities (REs). Of particular concern is that some REs relied heavily on FLDG to transfer credit risk to unlicensed third-party manufacturers. This arrangement allowed RE to seek additional coverage beyond expected losses and accurately reflect its assessment of credit risk.

Changes implemented by RBI in June 2023.

01 — FLDG exposure limit for non-RE

- Non-RE (eg fintech companies) limited to 5. Percentage of portfolio size exposed to FLDG contracts.
- This limit allows RE to perform independent credit risk assessments, reducing reliance on external agencies.

02 — Increased scrutiny of fintech companies

- As FLDG restrictions tighten, RE has scrutinized its fintech partners.
- Fintech companies must demonstrate risk management practices to maintain these approvals.

03 — Revenue sharing activities

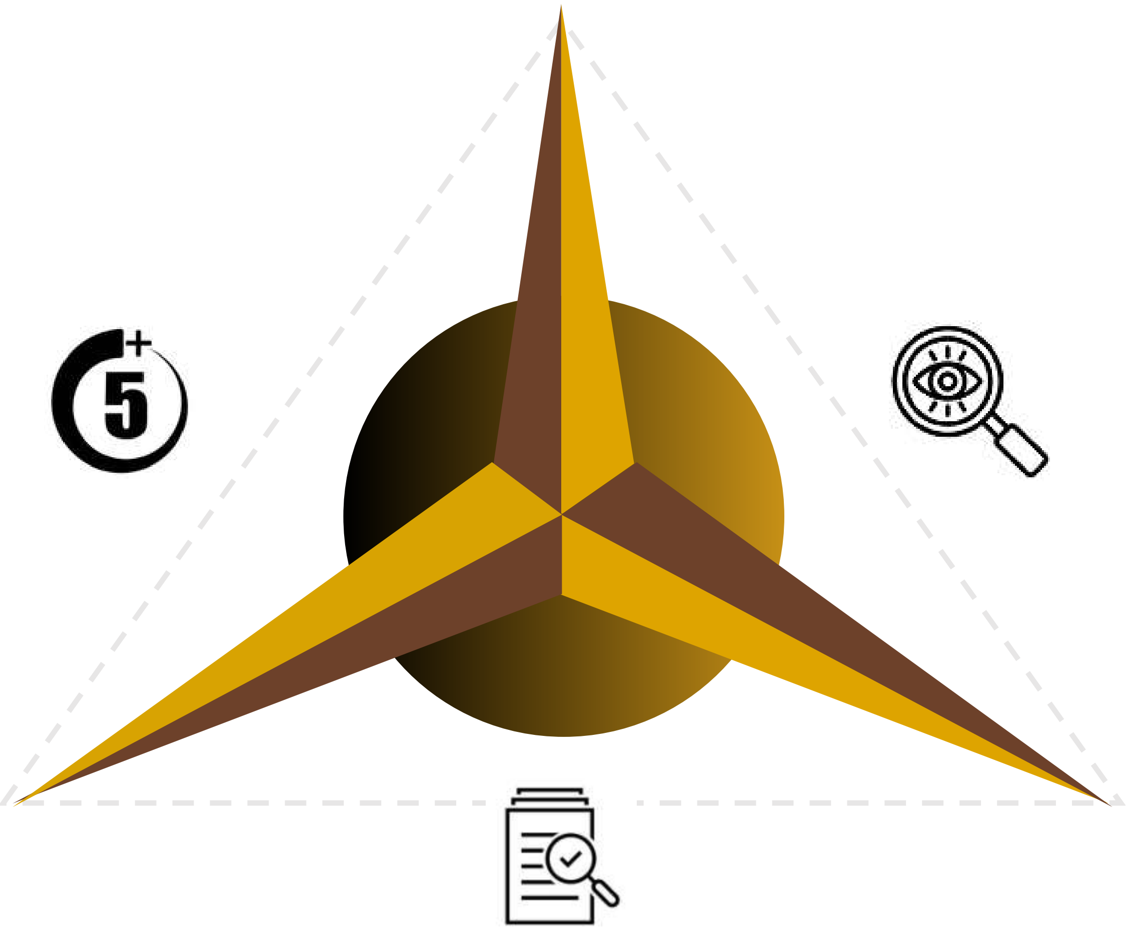
- RE increased control of FLDG contracts and negotiated better terms.
- Fintech companies are working hard to improve their revenue sharing models.

04 — Total NPA Allocation

- Earlier, non-performing assets (NPAs) were reduced to FLDG provided by the issuer.
- Now RE has to keep track of NPAs, which have reached their balance sheet.
- For example, if FLDG coverage is 10% and NPA is 12%, only 2% is flagged as NPA.

5% Conundrum

- While fintechs initially celebrated the 5% cap (which granted them leverage over equity), REs remained cautious.
- RE proposed a way to balance these requirements by sharing interests and costs.
- Interaction: Increased inspections, increased investment in sales, increased opportunity for RE.
- While lenders may not agree at first, this move is expected to stimulate the market.



Acceleration of Risk, Assurance & DLG Coverage

- Regulators (RE) were able to reduce technology transfer in risk-sharing agreements by 5%. However, some players have tried to increase their risk distribution.
- This delicate balance between risk and trust leads to mistrust. The director's position is clear. Failure to comply can have consequences, including damaging your company's reputation.
- The guidelines make it clear that it is the responsibility of REs to recognize and provide personal loan assets as NPAs, regardless of DLG coverage.

Validation of the Fintech partnership

- The Board of Directors approved the FLDG and Fintech Agreement.
- The lender, which previously terminated this relationship, has reconsidered its position.
- The FLDG guidelines aim to strike a balance between optimal risk allocation and prudent risk management.
- This allows REs to conduct credit risk assessments and improve their understanding of the financial ecosystem.

2023-2024: FROM HYPE TO HUSTLE - FINTECH PRIORITIZES PROFIT IN A NEW ERA

Crowded Areas

Fractional Investments are struggling with Total Addressable Market (TAM) limitations, while Generative AI (Gen AI) is currently in a hype cycle. Electric Vehicle (EV) financing is another crowded space.

Supply Chain Finance

This sector continues to attract investors with more than 15 interactions in this category. Similar to CFO solution, staying ahead of the competition is a big challenge.

CFO Solutions and Loan Advisory Services (LAS)

This is the most popular area of interest and around 10% of the startup base is focused on them. Bangalore alone has at least 20-25 startups in the CFO solutions sector, making it a very crowded space with little potential for diversification.

Founder Experience

Regulatory changes are making the Fintech landscape clearer for savvy entrepreneurs. A combination of strict licensing requirements, associated costs and processing times, and the need for banking networks has led to a decline in the number of entrepreneurs under the age of 30.

Senior Banker Influx

For the first time, Bangalore saw the entry of senior banks from Mumbai and Delhi to set up ventures in the city. This figure was sub 5% two years ago, but has increased to 45%.

Founder Caution

Founders are highly discouraged. They are more cautious and more reliable, which can be attributed to the dual effect of tighter regulations and slower funding. As a result, profitability is a top priority from the very beginning.

SUB-50K UNSECURED LOANS GUIDELINES IN JAN ‘24

Significant changes occurred in the retail banking and financial services sector in January 2024, especially in the sub-50K unsecured loan market, which resulted in the following important developments:

The trends in the loan market: Personal loans are an important part of the global market. In the stock market, volumes are down 60-70% and values are down 15-20%. Investors looking for a small loan have more problems.

NBFC Reconciliation: Non-Banking Financial Companies (NBFCs) have initiated the reconciliation and reconciliation process. The impact was particularly pronounced in the sectors with double-digit growth (+90%) since the end of December. The reorientation of the portfolio resulted in significant balance sheet changes.

Digital-only lenders and risk management: Digital-only lenders and single-line players already strategically manage risk in the under-50,000 segment. Others have shifted their focus to small equity-backed loans or loans to individual businesses.

Lender Priorities: Personal loans in sub50K were prioritized, followed by unsecured business loans up to 1Lakh (high demand), small consumer loans, and credit card issuance.

Interest rate changes: Although the amount of loans decreased, those who were able to get loans had higher interest rates (around 2-3%).

Switch to Secured Assets: The market has switched to Secured Personal Assets (range 1 to 5 Lakh) and other backed funds (range 5 to 25 Lakh). These changes have affected mobile money lenders and spurred new startups focused on this security sector.

Income categories most affected: Across regions, those earning between 15,000 and 30,000 per month were most affected by this change.

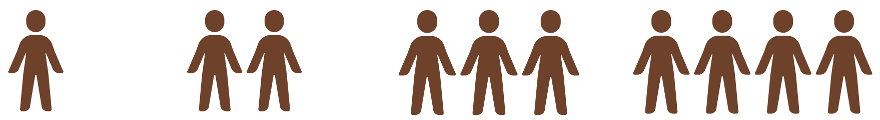
Root Cause: The systemic problem caused by the exposure of large banks to NBFCs needs to be addressed. The high interest rate combined with low inflation-adjusted incomes has resulted in very high interest rates (some borrowers have 5 or 7 percent debt). This pain was evident in the portfolio, although it was an area hidden by the underlying effects.

Regulatory Impact: Fintech companies celebrated the 5% FLDG (First Loss Default Guarantee) regime, which facilitated NBFC-bank partnerships. Simultaneously, regulatory clampdowns occurred within months

Moving forward: Fintech companies with established lending models, especially those with branch networks, have adapted quickly. Structured small and medium business loan providers have changed their strategies. Data and analytics companies have a lot to do to accelerate these changes.

FY2023 & FY2024 SNAPSHOT

Founder Peculiarities

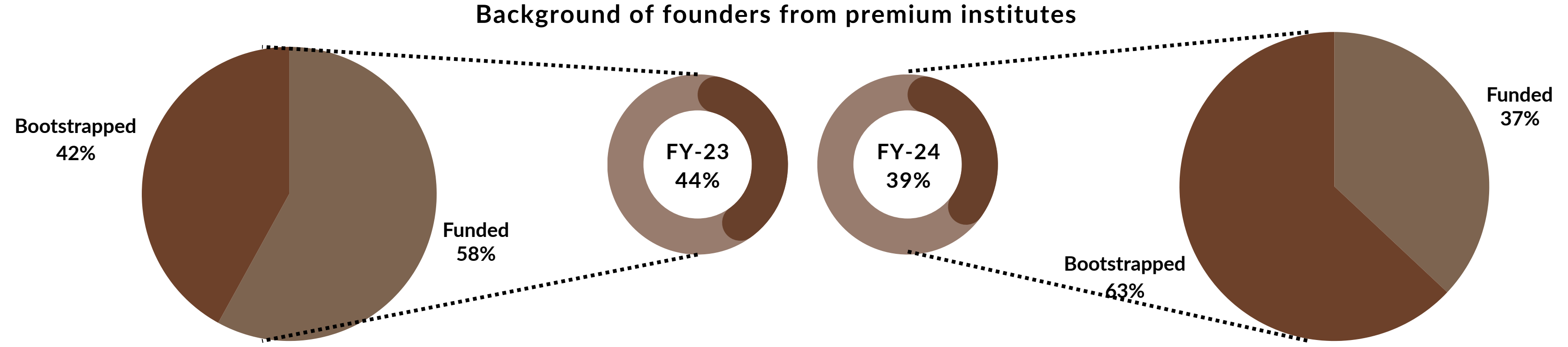


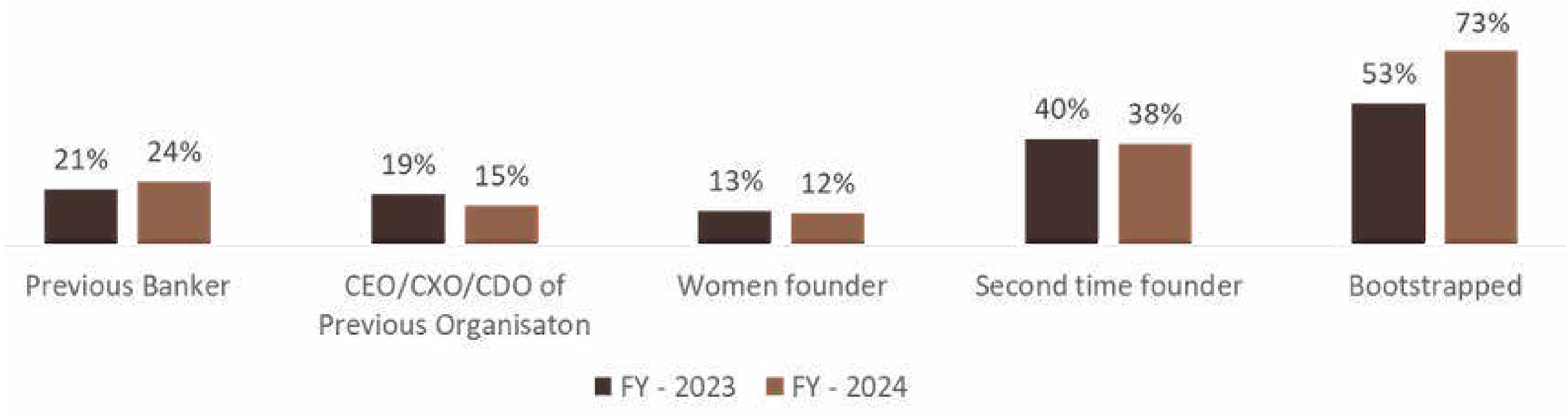
Number of Co-founders

Avg Founders Age - 40 years

Avg Work Experience - 15+ years

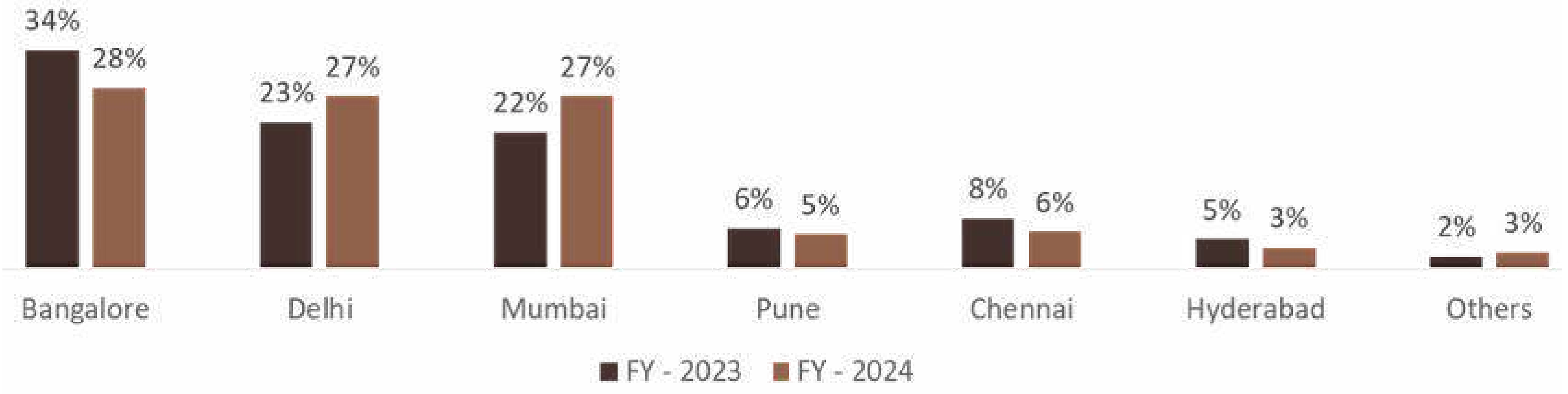
Background of founders from premium institutes

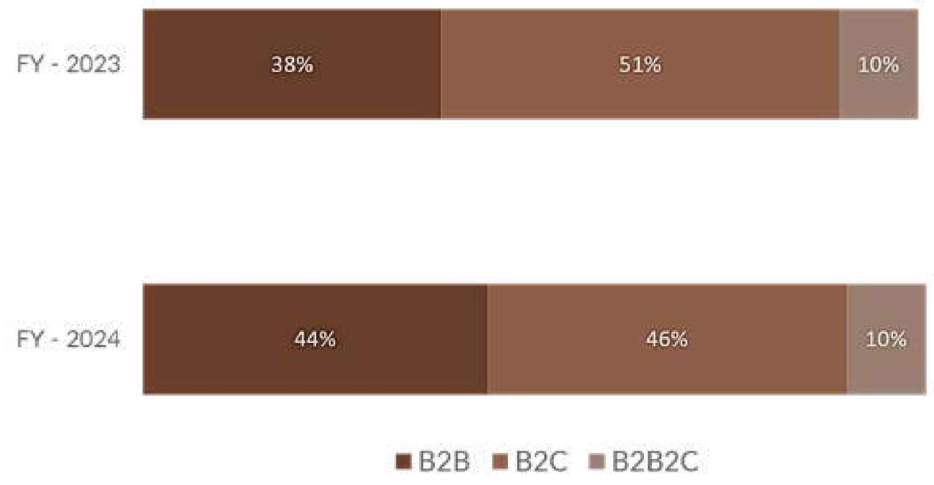


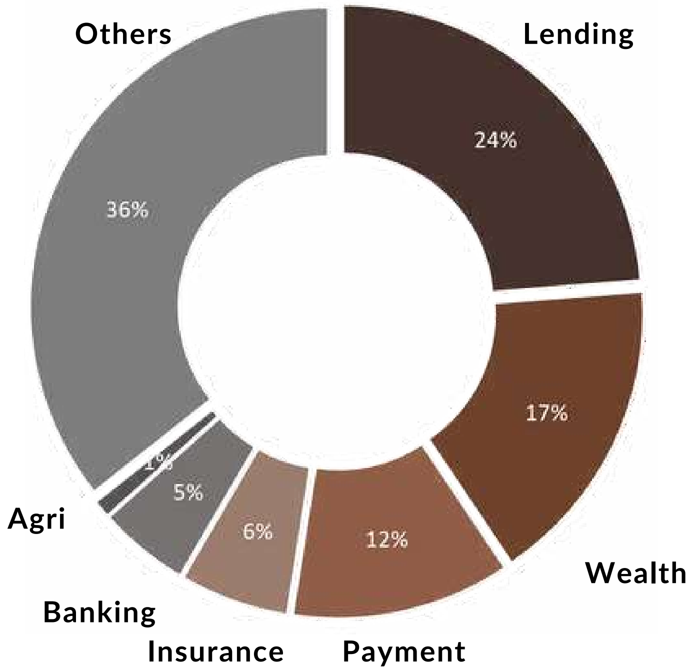


Startup Peculiarities

FY 23 & 24 % of Startups met by City







Source : The Fintech Yatra

2024: THE INSIDE SCOOP - UNVEILING THE GROUND REALITY

Over the past 18 months, there has been a substantial learning curve for the Indian fintech ecosystem. A number of major themes have surfaced.

REPLICATION DOES NOT WORK

Efforts to replicate western models, like the idea of a standalone Neo Bank, have not succeeded in India.

AVOIDING LOOPHOLES

Taking advantage of legal gaps to obtain an advantage, also known as regulatory arbitrage, is no longer a viable strategy. It is recommended that fintech companies obtain the necessary licences for the domain they have selected and function as distributors or technology service providers (TSPs).

INFRASTRUCTURE IS KING

Building a robust infrastructure has proven to be the most economical course of action, while requiring a large amount of work on the ground. Remarkably, Indian fintech solutions are the most exportable to other emerging markets because of this concentration of infrastructure.

PHYSICAL + DIGITAL

The credit products market is gradually moving towards a hybrid "Physical + Digital" model.

LONGER FUNDRAISING CYCLES

Finally, fundraising cycles are lengthening, and valuations are no longer inflated by hype, reflecting a more mature and realistic investment landscape.


REWIND
1990-2024

SWIPING THROUGH HISTORY: PAYMENTS EVOLUTION

Over the decades, India's payment landscape has gone through a significant transformation, driven by factors like regulatory changes, technological advancements, and changes in customer needs and preferences. In this segment, we will dive deeper into the evolution that happened in India's payment landscape between the late 1980s to Q1 2024.

1. The Dawn Era - between 1987 to 1994

The First ATM cash withdrawal transaction happened in 1987, which was a stepping stone in the journey of India's electronic banking system.

By early 2000, this introduction turned out to be the most prominent phase in the Indian banking sector, leading to a ubiquitous acceptance of Debit cards and ATMs. This evolution secured a greater experience in banking services compared to traditional banking.

2. The Boom Era - between 1994 to 2014

This decade experienced a substantial proliferation and Inventiveness in India's Banking sector with the adoption of Core Banking Solutions; expansion of the POS network; establishment of Private Sector Banks; launch of variants of Debit cards in the premium segment and the introduction of RuPay Card by NPCI to compete with international networks like Visa and MasterCard.

All these factors streamlined the shift from cash-based payment to card-based payment, enabling a seamless experience for both consumers and merchants from a payment perspective. The Government of India also played a significant role in this era by introducing initiatives like Pradhan Mantri Jan Dhan Yojana (PMJDY) to promote financial inclusion to a wide population and give access to bank accounts to every citizen in the country. This also helped RuPay gain momentum.

3. The Uncertainty and Projections Era - between 2014 to 2016

India's Payment landscape weathered an eminent shift and challenges during the 2014 to 2016 era. Cash continued to dominate the retail transactions by accentuating the ingrained traditions of the Indian payment landscape. It also showcased the preferences of consumers, as to avail instant monetary benefits, they were tempted by features like cash discounts, etc.

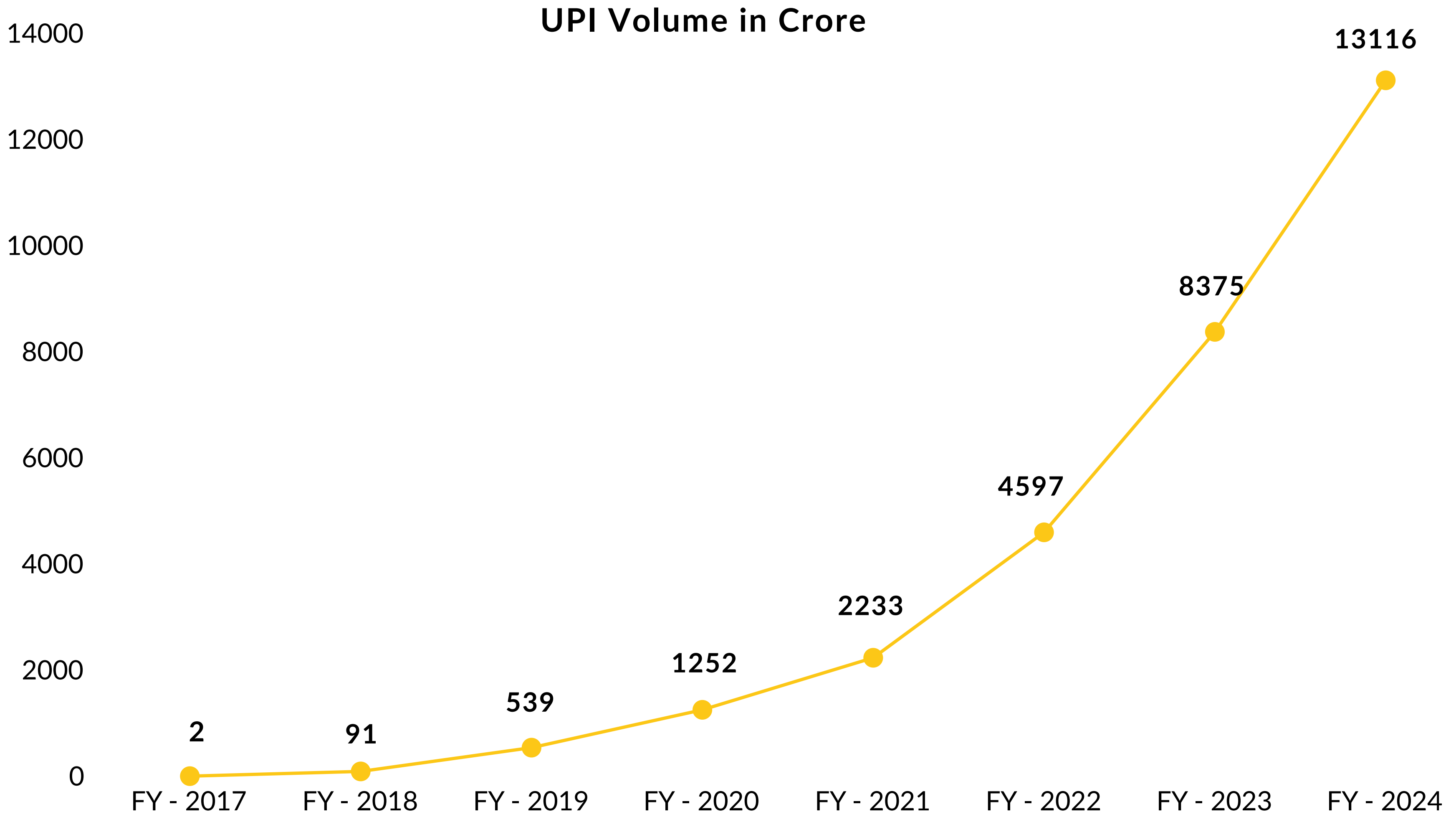
Digital wallet purveyors were also not safe from the uncertainty brooding over the digital payment ecosystem. This was also the phase where wallet players started to explore micro-lending services as an alternate revenue stream. Regardless of all the efforts, online transactions remain subdued as fewer than one-tenth of users were engaging in transactions over ₹100 monthly. Even the payment industry was going through a prolonged deliberation between closed loop versus open loop payment systems, during which payment banks were also facing challenges to outline their demographic and market segment to broaden their vision of financial inclusivity.

4. The Transformational Era - between 2016 and 2017

November 2016, can be termed as an epochal shift in India's payment landscape which surged in digital adoption of transactions. This was the time when the Government of India led an initiative called Demonetisation to control illicit funds which furthermore boosted acceptance of digital transactions. Additionally, this maneuver led to a shift in payment behaviors among consumers and also escalated the usage of cards at Point-of-Sale (POS) terminals.

Continuing the deployment, in 2017 NPCI launched Unified Payment Interface (UPI) which expedited the spike of online transactions, making it more convenient and instant among peer-to-peer transactions.

Keeping the vision of seamless payments across various networks and improving merchant inclusion, Bharat QR evolved as a regulated and uniform QR code solution in the country.



Source : RBI

5. The Repositioning Era - between 2018 to 2020

This era witnessed the long-term impact of demonetization and the emergence of subsequent economic reforms such as Goods and Services Tax (GST) which furthermore restructured India's Payment Landscape. Acknowledging the regulatory changes and streamlining operations, small businesses have gradually adopted digital payment. With the emergence of UPI and QR, the contribution of debit cards to overall retail payments experienced a downturn and decline, irrespective of the rising circulation of debit cards.

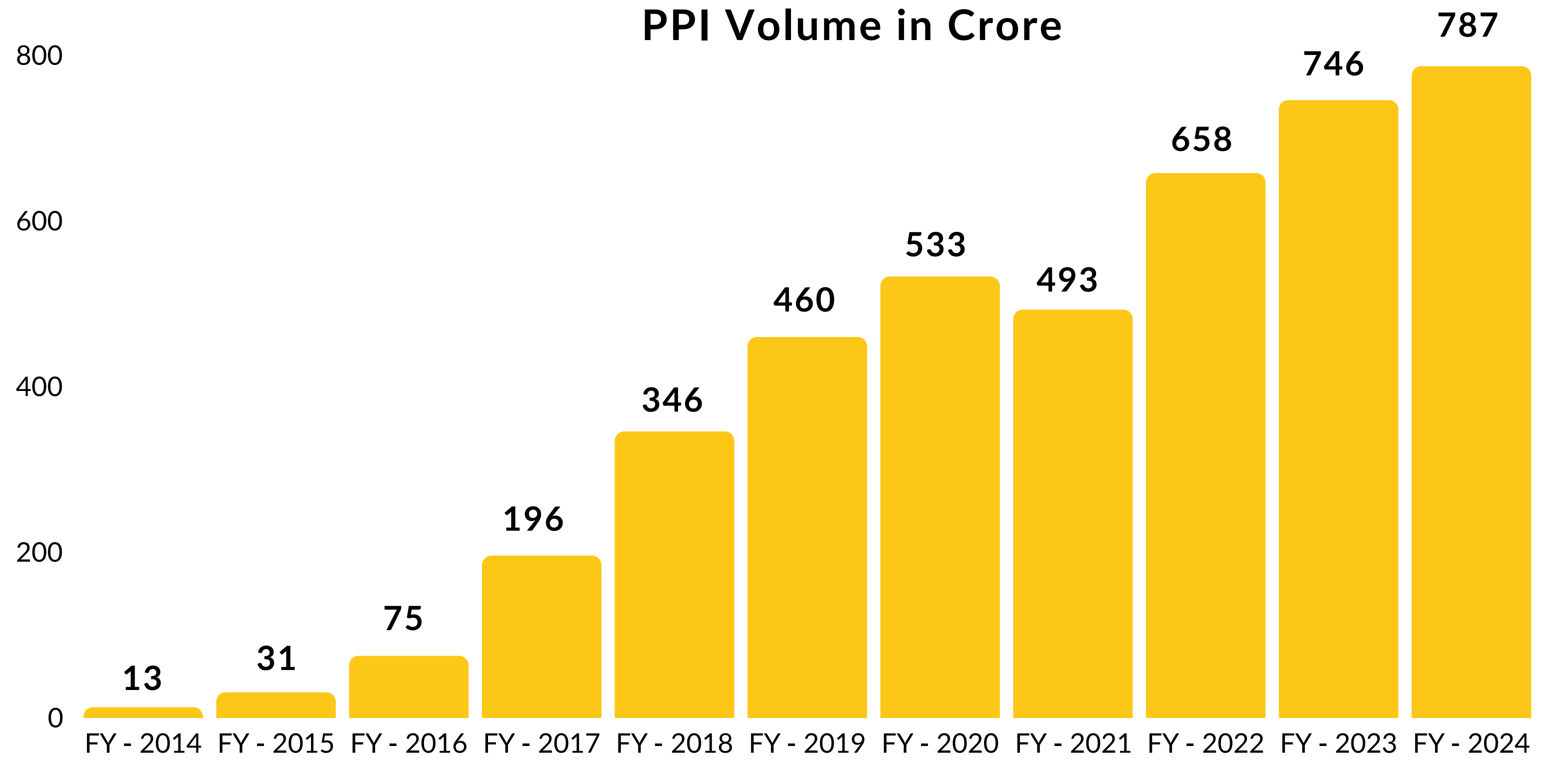
Synchronously, this period observed the arrival of Prepaid Payment Instruments (PPI) which offered customers with enhanced adaptability in managing their finances by assimilating credit lines. This signaled a shift towards alternate payment methods.

UPI
13,113 Crore Volume

Volume
Debit Cards - 229 Crore
Credit Cards - 356 Crore

89.03 Lakhs
Number of POS Terminals

In Circulation
Debit Cards - 96.49 Crore
Credit Cards - 10.18 Crore



6. The Present-Day Era - between 2021 to 2024

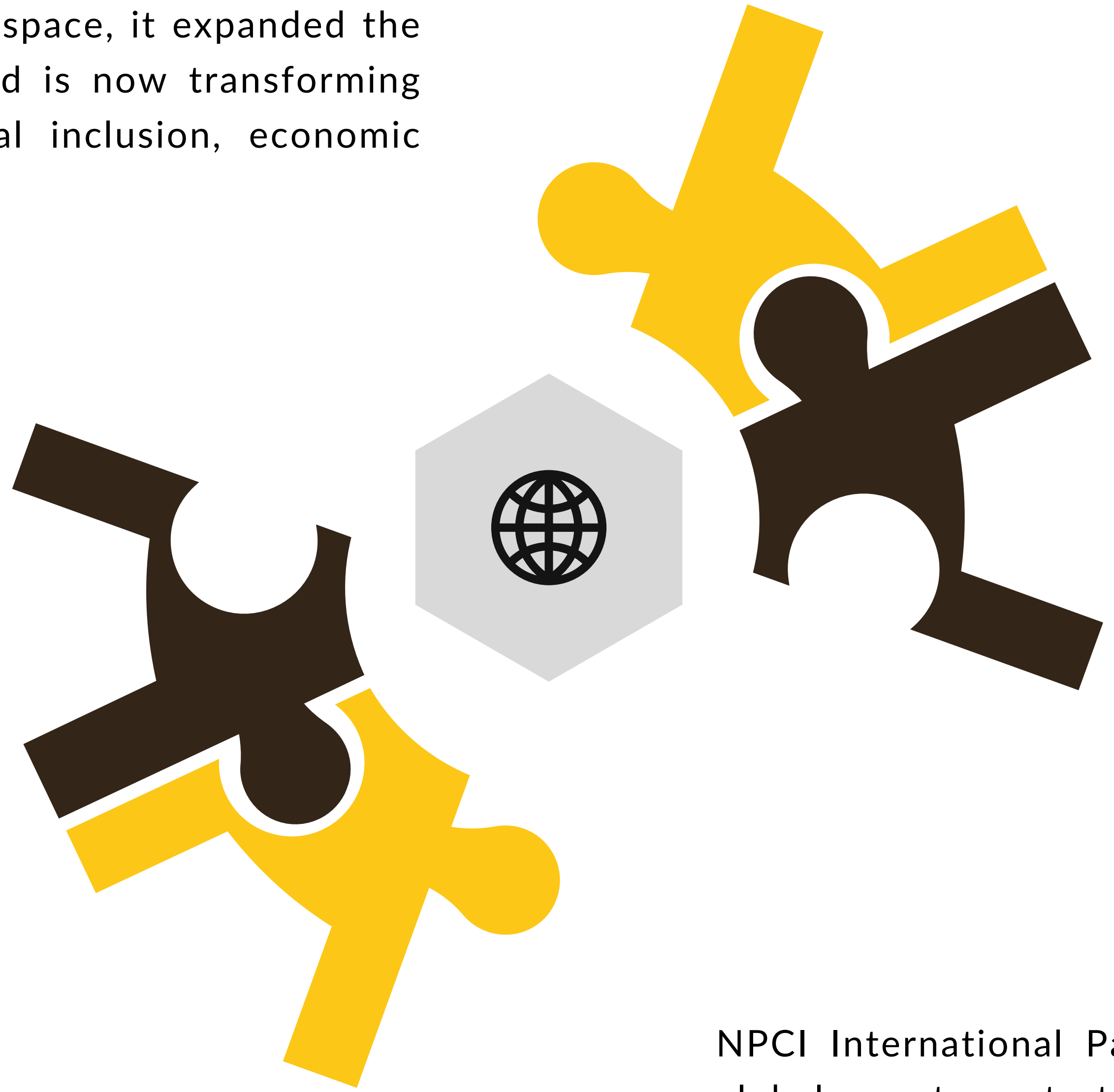
In the last four years (to be precise more than 4 years) the transition the Indian Payment Landscape has witnessed is humongous and commendable. In recent years, this expansion has propelled further digital adoption across India via different spreads like acceptance of touch points, contactless payments, QR codes, and many more.

Moreover, this has hastened the convenience and availability of the payment methods providing consumers and merchants a seamless experience. This has also forced us to modernize India’s payment ecosystem further by adapting the constantly evolving consumer behaviors and preferences and technological developments in a thriving economic landscape.

Source : RBI

GLOBAL EXPANSION: INDIA'S UPI & RUPAY

Global evolution of the genius digital payment infrastructure of India: UPI is a successful showcase of India's innovation and technological prowess to the world. The impact of UPI catapulted India into a global leader in digital transactions - a gold standard of the real-time payment space, it expanded the digital payment pie for India by more than 7 times and is now transforming economies of the 21st century by catalyzing financial inclusion, economic growth, & digital transformation



White label

Helping foreign economies to deploy UPI in their countries to replicate UPI's success in India

Facilitating tourism

Enabling NRO and NRE account holders to make payments with an International mobile number and facilitating a wallet feature for P2M transactions for foreign travelers, without the need to exchange currency notes

Cross Border Trade

Internationalizing the UPI framework to onboard international merchants to the UPI framework

Inward remittances

Utilizing UPI for Indian diaspora residing overseas for convenient inward remittance transfers with lower fees

NPCI International Payments Limited (NIPL), has been actively engaging with its global counterparts to facilitate the global acceptance of BHIM UPI QR codes in international markets- forging partnerships with international payment service providers (PSPs) & international payment networks.

UPI & RUPAY: INDIA'S DIGITAL DUO CONQUERS THE WORLD

July 2021

Bhutan

This partnership enables the acceptance of UPI powered apps and RuPay cards in Bhutan for payments at select merchant locations

Aug 2021

Malaysia

Partnership with Merchantrade Asia in August 2021 enabled inward remittances to Indian beneficiary banks through UPI IDs, showcasing the interoperability and reach of UPI.

Sep 2021

North & South east Asia

A pivotal collaboration with Liquid Group in September 2021 facilitated UPI QR-based payments acceptance across 10 countries, spanning North and South-East Asia. This integration underscores UPI's potential to transcend geographical boundaries.

Oct 2022

EU

The worldline partnered with NIPL to set up QR based payments, to be implemented in BENELUX and Switzerland.

Dec 2022

Oman

The Central Bank of Oman (CBO) was signed on October 4, 2022. Acceptance of Indian RuPay cards issued by banks in India at all OmanNet network ATMs, POS & E-commerce sites; as well as reciprocal acceptance of Oman cards/MPCSS in the networks of NPCI in India.

Feb 2023

Singapore

The UPI-PayNow linkage enables users in India and Singapore to make convenient, safe, instant, and cost-effective cross-border funds transfers using their respective mobile app. This partnership empowers Indians to make payments safely and conveniently at select merchant locations in Singapore using UPI powered apps and RuPay card

Mar 2023

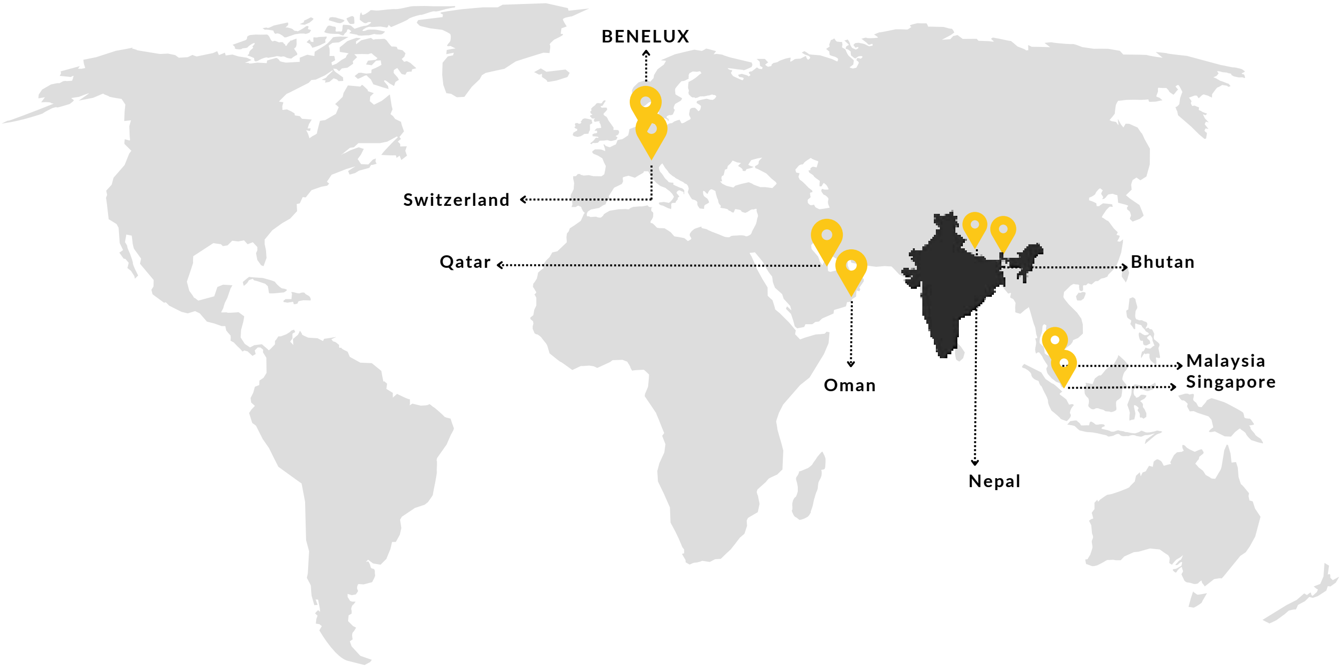
Qatar

Commercial Bank launches UPI remittance service for instant transfers to India

Dec 2023

Nepal

With this collaboration Indian travellers can pay via their RuPay cards at select merchant locations in Nepal



Source : NPCI

SWIPING THROUGH HISTORY: PAYMENTS EVOLUTION

Feb 2024

United Arab Emirates (Abu Dhabi)

This partnership empowers millions of Indians travelling to the UAE to safely and conveniently make payments using UPI powered apps at select merchant locations

Feb 2024

France

NPCI International Payments Limited (NIPL) in partnership with Lyra, a French leader in securing e-commerce and proximity payments, has announced the acceptance of Unified Payments Interface (UPI) payment mechanism in France starting with the iconic Eiffel Tower

Feb 2024

Sri Lanka

The digital payments connectivity with Sri Lanka will enable Indian travellers to make QR code-based payments at merchant locations in Sri Lanka using their UPI apps. Lanka Pay

Feb 2024

Mauritius

An Indian visitor visiting Mauritius would be able to use UPI to make payments to local businesses because of this connectivity. In a similar vein, a Mauritius tourist using the Instant Payment System (IPS) app would be able to accomplish the same thing in India.

May 2024

Namibia

NPCI has signed an agreement with the Bank of Namibia to support them in developing an instant payment system like Unified Payment Interface (UPI) for Namibia.

Jun 2024

Peru

Peru becomes the first country in South America to adopt the Unified Payment Interface (UPI) technology joining hands with Central Reserve Bank of Peru (BCRP).

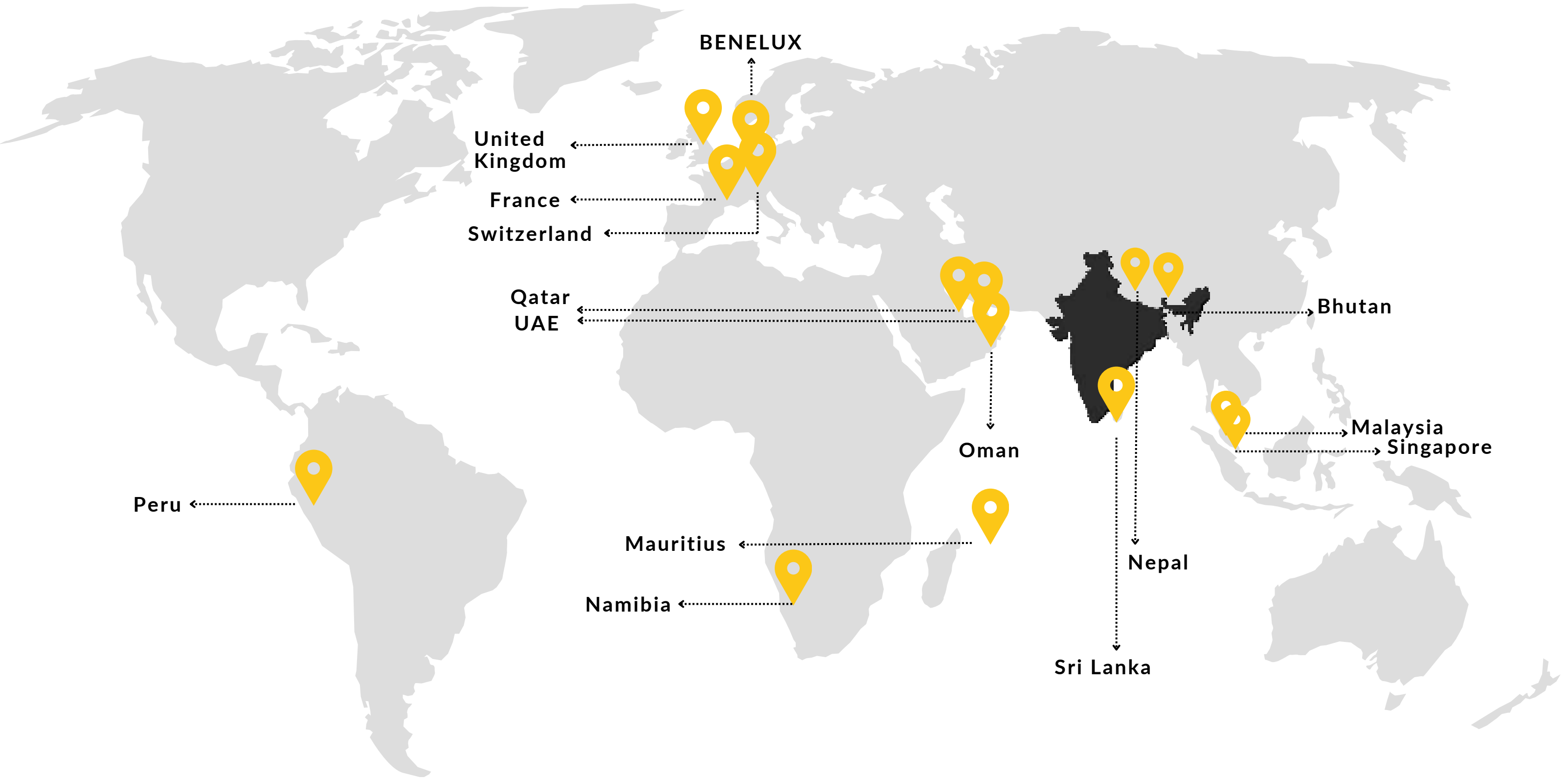
Ongoing

United Kingdom

A partnership with PayXpert in August 2022 paved the way for UPI and RuPay acceptance in the UK, offering seamless payment solutions to a broader audience.

UPI ONE WORLD

A cut of the UPI involvement was made for abroad voyagers through UPI One World. It is the Paid ahead of time installment instrument connected to UPI given to remote nationals/ NRIs coming from G20 nations. They can stack PPI wallets to pay at any shipper areas that acknowledge QR-based UPI installments. At first elite to travelers from G-20 countries, these wallets will be realistic at particular Indian airplane terminals. The RBI has permitted two banks. At first select to travelers from G-20 countries, these wallets will be reachable at particular Indian airplane terminals. The RBI has permitted two banks and two non-bank PPI backers to supply this benefit to abroad nationals exterior the airport premises. Within the future, this include may be extended to incorporate all outside nationals traveling to India. This activity is expected to incredibly increment the volume of UPI exchanges by empowering UPI transactions for travelers. This illustrates India's skill within the computerized installment segment and its part in progressing the country



Source : NPCI

BANKING BOOM: FROM BRICK-AND-MORTAR TO BYTES

The Indian Banking Sector too has undergone significant changes and evolution along with the Indian Payment landscape. This has been driven by the industry adapting to changing customer behavior, technology and regulatory reforms. It has seen a shift from physical bank branches to digital - first services and no branch banking in the last four decades.

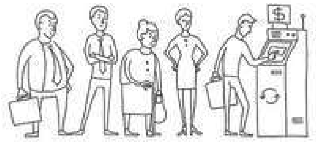
1962

Taj Hotel in Mumbai allowing American Express overseas card members to use their Amex cards and Kali Mody issuing Diners Club.

1987

The first ATM in India launched by HSBC in Kolkata in 1987 was a big step towards technological revolution and modernization in Indian Banking.

1990



The only way to get customer service was by physically visiting branches, queuing up for hours, and then getting the service. Indian Banking was heavily dependent on physical branches with no core banking system and limited connectivity.

1990-2000

During this period, banks like Axis Bank and IndusInd Bank received their banking licenses as part of the new guidelines issued by the Reserve Bank of India (RBI) in 1993. The new licenses also brought in competition and innovation which led to advancement and expansion of the core banking system.

2000-2008

At the beginning of the century, the Banking sector saw a big surge in mobile and web banking and ICICI Bank introduced a 3-in-1 account, combining Demat, Trading, and Bank Account for customer convenience. This period also saw the entry of early fintechs in the country with players like Bill Desk, Apnaloan.com, and mChek who started offering solutions that catered to changing consumer needs.

2008-2013

The banking sector in India has seen a shift from traditional to digital and modern banking. Digital banking in India has been enabled by various reforms, government initiatives, and schemes during this period. IMPS, digital wallets, and fintech lending startups reduced branch dependency by providing convenience and a seamless banking experience.

2013-2016

SMS banking allowed customers to get financial information anytime, anywhere. The demonetisation move forced the country to adapt to digital payments and mobile banking. Government schemes like PMJDY have promoted increased use of bank accounts and credit cards in the country..

2017-2023

SMS banking allowed customers to get financial information anytime, anywhere. The demonetisation move forced the country to adapt to digital payments and mobile banking. Government schemes like PMJDY have promoted increased use of bank accounts and credit cards in the country.

Fintech infrastructure players like M2P Fintech drove the adoption of embedded finance solutions. Embedded finance solutions expanded financial access. Innovations such as credit-on-the-go were facilitated by account aggregator services.

2024 & Beyond

The banking industry is poised to continue to evolve and innovate. Distribution networks should use fintech infrastructure. They will offer on-demand personalized credit. They will also offer insurance solutions.

Integration of account aggregators, credit bureaus, and UPI data will drive the emergence of cash flow-based lending. This will transform how loans are assessed. It will also change how they are dispersed in the 10-25 lakh range. Despite slower growth branch and ATM networks are anticipated to continue expanding.

CASH TO CLICKS: THE TRANSFORMATION OF LENDING IN INDIA

19th Century

The 19th century saw significant changes in the Indian credit market under British rule, with the establishment of large banks such as the Union Bank of Calcutta and the Allahabad Bank, which standardized interest rates and lending practices.

20th Century

After independence, the financial structure evolved with the establishment of the Reserve Bank of India, which facilitated regulated global transactions. Various loan products were also introduced during this period which introduced borrowing and lending to the masses.

Early 2000s

Traditional banks and Non-banking finance companies (NBFCs) dominated the space. Loan processes were manual, paper-based, and were time-consuming. Access to credit was limited specifically in rural areas.

Pre 2010

With the rise of new age technology smartphones and accessible data plans fuelled Internet access. The launch of mobile banking services by ICICI Bank in 2008 called iMobile allowed customers to check bank balances, transfer funds, pay bills, and more. Government Initiatives of launching Aadhar to provide a Unique Identification number to all citizens further played a crucial role in providing services in various sectors.

2012

4G Network launched by Bharti Airtel in Kolkata assisted in providing faster network connectivity.

2013

The launch of Direct Benefit transfer in 2013 by the government allowed the direct transfer of subsidies to the beneficiaries using Aadhar-linked bank accounts which increased transparency and reduced fraud cases by eliminating intermediaries.

CASH TO CLICKS: THE TRANSFORMATION OF LENDING IN INDIA

2014

In 2014 marked a significant step towards cashless economy by the launch of digital wallet by Paytm, MobiKwik which offered services such as mobile recharges, bill payments, and online shopping. It also introduced features like instant money transfers and cashback offers. The year also witnessed early Fintech startups offering microloans and alternative lending solutions and the launch of Aadhar E-Kyc which eased in identifying customer background.

2015

Point of Sale (POS) financing commenced in the year 2015 allowed customer to buy product and services and pay them over time which primary focused in customer convenience and reduced financial barriers. First set of consumer Retail lending fintech's like Moneyview, PaySense, MoneyTap (a Freo product), Fibe.India (Formerly EarlySalary). Together with MSME lenders and POS financiers like NeoGrowth Credit Pvt. Ltd. and beyond started placing the building blocks of Digital lending.

2016

Demonetization in 2016 further accelerated the shift towards digital payments. Lendingtech platforms started leveraging alternative data sources like phone usage and social media for credit assessment. Focus on faster loan approvals, paperless processes, and convenient customer journeys.

2017-19

Introduction of Account Aggregator (AA) framework, a significant step towards revolutionizing financial data management and sharing. And Artificial Intelligence (AI) and Machine Learning (ML) are increasingly starting to be used for credit scoring and fraud detection.

2021

Public good infra, combined with Fintech's user experience journeys brought down the cost of acquiring, adoption and servicing consumers. 85 % cost savings just by movement to e-KYC which assisted in providing contact less credit to customers.

2022-Present

Over the period lending has seen a phenomenal shift in ways by which Consumer is offered credit, API led microservices architecture made end to end process flow improve, availing credit being just an application away, Consumer touchpoints improved via public good infra like Adhaar, UPI, Account Aggregator , GSTN & more. Fintechs have been front runners in bringing New to Credit customers via small ticket unsecured credit. India is deeply credit under penetrated & requires 1000's of Fintech's and Banks/NBFC to co-exist.

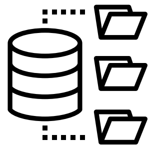
- Oriental Life Insurance Company was the first life Insurance company in India established by the Europeans in Calcutta. The company failed in 1834.
- In 1829 the Madras Equitable the second life insurance company began transacting life insurance.
- General Insurance came to India in 1850 with the establishment of Triton Insurance Company Ltd, which was established by the British in Calcutta.
- In 1870, Bombay Mutual Life Assurance Society was established and was the first Indian Life insurance company.

The Life Insurance Companies Act 1912

The Insurance Act 1938

- The General Insurance Council was formed in 1957 which was a wing of the Insurance Association of India.
- The General Insurance Business Nationalization Act 1972 (GIBNA) was passed. In this 107 general insurance companies were amalgamated and grouped into four namely: National Insurance Company, The New India Assurance Company, The Oriental Insurance Company, and the United India Insurance Company.
- A General Insurance Corporation of India (GIC) was incorporated in 1971 and the 4 companies formed in 1972 were linked under GIC in 1973.
- Malhotra Committee Report for the establishment of IRDA. The committee was formed under the chairmanship of R.N Malhotra former Governor of RBI. Where they published a report in 1994 stating a recommendation of the Insurance Regulatory and Development Authority (IRDA) to be formed to regulate the Insurance sector.

Insurance Regulatory and Development Authority (IRDA) was established in 1999



Year 2013, IRDA launched the insurance repository services in India

1880-1870	1871-1956	1957-1998	1999-2013

Oriental Life Insurance Company

Bombay Mutual Life Assurance Society

- Indian Mercantile Insurance Ltd was established in 1907 and was the first company in India to transact all insurance business.
- The Life Insurance Companies Act 1912 was passed. The act made it necessary that the premium tables and periodical valuation of companies should be certified by an actuary.
- The Insurance Act 1938 was passed. Was the first legislation governing both life insurance and General insurance.
- In January 1956, life insurance in India was nationalized. There were around 245 Indian and foreign companies that had been taken over by the central government and were nationalized. And on June the Life Insurance Corporation Act was passed. And on Sept 1956 the Life Insurance Corporation of India was formed.

General Insurance Corporation of India incorporated in 1971

Malhotra Committee Report for the establishment of IRDA

- The Insurance Regulatory and Development Authority (IRDA) was established. Following the commencement IRDA Act was passed. And in 2000 IRDA was incorporated as a statutory body.
- India allowed private companies in the Insurance sector in 2000 setting a limit on FDI to 26% which was further increased to 49% in 2014 and 74% currently.
- Parliament passed a bill de-linking the four subsidiaries under GIC which were linked in 1973. And GIC was converted as the national re-insurer.
- In 2013, IRDA launched the insurance repository services in India. Allowed the policyholders to keep insurance policies in dematerialized form in an Electronic insurance account (eIA). IRDA has issued the licenses to five entities to act as the repository holder. CDSL Insurance Repository Limited, SHCIL projects limited, Karvy Insurance repository limited, NSDL Database management limited, and CAMS Repository services limited.

Source : IRDA

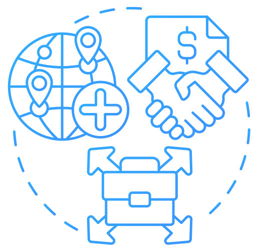
INSURANCE REBOOTED: INDIA'S DIGITAL LEAP TO DOMINATION

- 2014 A landmark year. The government increased the Foreign Direct Investment (FDI) limit in the insurance sector from 26% to 49%. This allowed more foreign capital to flow in and further spike to 74% in 2021.
- FDI hike spurred the entry and growth of private insurance companies. Their market share in the non-life insurance segment, dominated by public players earlier, rose significantly. By 2021, private players held nearly half (49.3%) of the non-life insurance market.

IPO of LIC in 2022

Top Insurtech company

2014-2021



Foreign Direct Investment (FDI) increased from 26% to 49% in 2014 and to 74% in 2021.

2022-PRESENT

- The much-awaited IPO of LIC, the biggest ever in India, marked a significant milestone in 2022.
- Data-driven developments, claims automation, and personalized items are reshaping the insurance industry Online aggregators developed, allowing users to compare policies and premiums effectively. India's insurtech segment is anticipated to develop by 17% year on year, projected to $307 billion by 2030.
- India's insurtech scene has advanced from conventional hones to data-driven advancement, with a solid accentuation on client needs and computerized change. Insuretech startups have focused on customer-centric arrangements, and innovative progressions eventually profiting buyers and driving Insurance for all.

Source : IRDA

INDUSTRY INSIGHTS FROM Riskcovry®

Having 24 years of career in the Indian insurance industry, Suvendu (Founder of Riskcovry) likes to approach the topic of the future of the Insurance industry from a different perspective.

Suvendu has experienced 2 waves of the evolution of the insurance industry in India wherein, from 2000 to 2010 each private insurer (may or may not have MNC insurer JV) made sincere attempts to break through the market by bringing global best practices, adding new products in the areas of health, life and MSME focussed business packages and introducing alternate channels of distribution such as Bancassurance, Affinity, Motor OEMs, etc.

Post-2010, there was pressure mounting on each insurer to be sustainable and create shareholder value through business growth with operational efficiency. Many insurers changed their business dynamics through portfolio selection, maintaining a business mix between retail and commercial and maintaining a weighted average price and claims across channels and products.

The insurance industry probably missed the opportunity of early technology adoption unlike the banking, finance and payments industries; however, the industry is catching up soon to make the complex insurance operations a cakewalk for all our stakeholders.

Suvendu attempts to take us through the historical journey of the insurance industry with more emphasis on deep diving in the last 10 years and share his ideas for the next decade which will be orbit shifting.

HISTORY OF INSURANCE IN MODERN INDIA

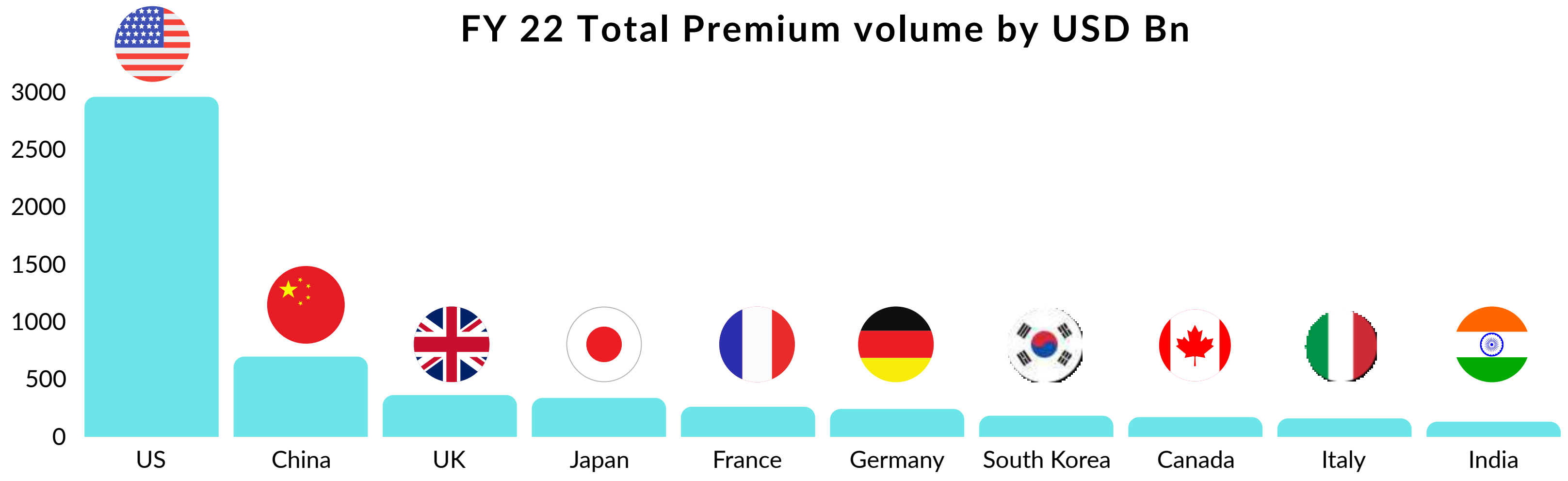
The Indian Insurance industry has gone through a significant transformation from pre-nationalisation period before 1972 to liberalisation in 2000 to the digital age of insurance from 2015 onwards...

In this chapter, let's focus on 2 aspects,

- Last Decade: What all happened in the last decade and what are the key drivers for the achievements of the industry
- Next Decade: What is the road ahead of the insurance industry in India

Last Decade of Insurance in India:

The Indian insurance industry, the 10th largest in the world, has grown at a robust rate of 10.3% in FY 2022 compared to the muted growth rate of 7.9% in the previous year. While the Indian insurance industry continues to grow year-on-year on the back of varied factors, the life insurance market penetration remains at 3.2% as of 2021 due to increasing protection deficit and limited distribution reach, among other reasons.



THE KEY DRIVERS OF GROWTH AND SUCCESS IN THE LAST DECADE

a) Accelerated growth of consumerism & Infra development

India witnessed dramatic growth in its consumption pattern across consumer segments and industries. By natural extension, insurance goes hand-in-hand with certain segments, and the insurance business grew significantly along with the growth of consumer product sales. Motor and health insurance products remain the growth leaders in line with the market. In the past decade or so, there has been a great focus on revamping India's infrastructure. Over 70 additional airports, ~95,000 km of road, ~61,000 km of electrified railway line, 32 Ropeway projects completed, and many more across sectors have been constructed across India. Every project is insured for the inherent project, employee, and third-party risks, and the insurance industry gains an incremental premium from these infra projects. Further, there has been growth in commercial vehicle insurance premiums as the infra contractors added thousands of trucks and other construction equipment.

b) Increased awareness and adoption post-Covid-19 pandemic

The unprecedented Covid-19 pandemic Shook every Indian about the health and life uncertainty of their family and that led to lakhs of inquiries on life and health insurance products. Post-pandemic the number of new insurance customers has increased in the areas of life and health insurance.

c) Digital distribution of Insurance

The last decade saw many intermediaries of insurance adopting the digital channel of distribution to attract potential customers' attention to offer various easy-to-buy products such as motor insurance, health insurance and other sachet insurance propositions covering health, travel and accident contingencies.

d) Emergence of Insurtechs – enabling the stakeholders

The last decade has seen many insurtechs enabling the ecosystem through their innovative approach. The areas of focus from insurtechs have been 1. Proposal underwriting (Telematics, catastrophic modeling, vehicle inspection, Business rule engine, etc), 2. Identity verification(KYC, CKYC, VAHAN verification, etc.), 3. Distribution (POSP registration, digital purchase journey for retail & group insurance products through DIY/Assisted mode, Embedded insurance), 4. Claims (digital camera-based assessment of asset damage, Drone based evaluation, OCR for manual document submission, customer account verification before payment, etc)

e) Government-aided insurance schemes augmenting inclusion & growth

The government has been launching numerous schemes across hospitalization of citizens, Crop yield, catastrophic & weather, and family protection against death and accidents. These programs are insured through licensed insurers in India and have added to the growth of insurance premiums during the last 10 years. ~ Rs 8,500 Crs of premium contributed from govt sponsored health insurance schemes and ~Rs 20,290 crs of premium from PMFBY in 2022-23 (as per IRDAI annual report)


FAST FORWARD
2024-2030

INDUSTRY INSIGHTS FROM Riskcovry®

Life Insurance

USD 700 Bn
Cumulative investments

12.98% Rs 7.83 L Cr
Life insurance Premium

32.77%
Corporate agents

52.67%
Individual agents

Non-Life Insurance

16.40% Rs 2.57 Lakh Cr
Non Life insurance Premium

36% Brokers

25% Direct

20% Individual agents

58%
Health Insurance Contributing

28% Brokers

30% Individual agents

31.6%
Motor Insurance Contributing

- The direct business reported under the health and non-life category mainly represents the group schemes, government-tended-based business not the consumption of direct individuals.
- ~ 65% of India's population resides in rural areas. As per reports, currently, less than 10% of people in rural India have life insurance coverage while less than 20% of the rural population have health insurance coverage.
- India's insurance premium penetration accounted for 4% of the GDP, with life insurance making up 3% and non-life insurance comprising 1%.
- The insurance density of India has grown to USD 91 in 2022-23 out of which Life insurance contributes USD 70 and the balance USD 21 towards non-life and health.

The rising collaborations and partnerships of Insurers with fintech firms, healthcare institutions, and even e-commerce platforms to offer Embedded insurance products and non-insurance propositions such as wellness, assistance, and assurance services. Such synergistic alliances are not only expanding the distribution reach of insurers but are also providing customers with more holistic solutions. Today India is probably the 10th in the pecking order among all other countries. The panacea to be the global leader in insurance and achieve comparable insurance density and penetration, it is essential to begin implementing strategies that were neglected in the past decade. The following growth levers are identified as critical for the next decade:

a)Target Rural reach

Dedicated actions required from insurers and intermediaries to extend reach to rural consumers by creating relevant products suitable for rural, LMI (Low & Medium income) customers. This has been the boardroom discussion for the last several years, however the high COA and absence of relevant and contextual products have not achieved the desired penetration and density in rural India.

Incentivisation to the insurers and intermediaries through relaxation of solvency, EOM for rural business will create the impetus for growth in investments in building rural India.

Using technology to reach rural customers with relevant products to protect their daily lives such as Pay for use & modular insurance schemes from hospitalisation, Critical illness, Wellness, Parametric insurance, Income protection will achieve the desired results. Partnering with the BFS to embed contextual insurance products along with the inclusion and micro finance schemes will help us to achieve the combined goal of inclusion in finance and insurance.

b) Enhance Urban and Semi-urban consumption of Insurance

Insurtechs have been catering to the insurance needs of the tier I, II and III cities, however the existing insurance business is concentrated with the mandatory insurance covers such as Motor vehicle insurance, Employee benefit programs, Govt aided insurance schemes and enterprise insurance schemes.

The industry needs to establish the trust of the urban and semi urban consumers to attract attention to insure all other risk exposures beyond mandatory or legally liable insurance covers such as Home contents/appliances insurance, optimum Family protection insurance from Life and Health insurance, other contingencies like Cyber threats, Retirement protection etc.

The challenge will remain with all the industry experts to enhance consumption of insurance products through smart need analysis of existing insurance and suggest personalised insurance plans for the family. Consented access of customer's existing portfolio and recommendation based on the AI based learned models will surely help the industry to changeover from mass selling approach to personalised and risk-based planning

c) Leveraging govt. and private Infrastructure

We are all in agreement that technology and common infrastructure provide the best means to facilitate growth by deriving optimum efficiency of customer intelligence, collective operations, fraud prevention, and operational efficiency. The industry needs to be ready to adopt the common digital infra (public and private) and leverage the benefits to design and offer the best insurance products and provide holistic customer experience for insurance sales and service. This will address the major customer trust gap that exists today for expectations vs. experience.

Suvendu lists down some of the future experiences that insurance industry can create using the digital infrastructure

- BIMA SUGAM – Smart recommendation of insurance products and avail post policy service of your existing and new policies from any insurer on the same platform. This one-of-a-kind unified platform will change the insurance business by empowering consumers to access all products from any insurer on a single platform. While I have my doubts about customers choosing this platform to buy insurance directly, this seems like a great digital infra for accessing all insurance policies under one wallet and avail endorsements and claims registrations.

- NHCX – Unified health claim experience using National Health Claim exchange and ABHA ID, whereby all the stakeholders such as Insurers, TPAs, and hospitals exchange information enabling smarter and faster decisions on claim authorisation and settlement.

- Universal Health Insurance - A mass health insurance scheme across the citizens to provide the first health insurance coverage at an affordable price which will remain viable due to the significantly large and diverse member portfolio and administration of claims through digital public infrastructure to contain the claim expenses without compromising the customer experience and treatment.

- Private Insurance Infra for Distribution – Faster digital transformation or adoption of digital distribution of insurance using common and unified infrastructure for intermediaries built by Riskcovry. The existing insurer and product integrations along with the paraphernalia of BRE (Business Rule Engine), IRDAI compliance, and adaptable purchase journey make any intermediary's dream into a reality in weeks without large investments in technology.

d) Usage of Technology for Underwriting & Claims

According to McKinsey & Company reports, “Over the next decade, the fully tech-enabled insurer will bear little resemblance to today’s organization”. The revolutionary trends in the usage of technology advancement in insurance will change the game completely. In auto insurance, risk will shift from drivers to the artificial intelligence (AI) and software behind self-driving cars. Satellites, drones, and real-time data sets will give insurers unprecedented visibility into the risk around facilities, leading to greater accuracy. Claims processing after natural catastrophes will be automated, infinitely scalable, and lightning-fast. The life insurance industry will bring to market “wrapped” products that seamlessly adjust coverage based on the evolving life stage needs of their customers. These scenarios aren’t science fiction. The technologies behind them already exist, and innovative offerings could become mainstream in the next decade. The new entrants for insurance will focus on investing in technology to drive business growth through better customer experience and they will pose a sufficient threat to the existing insurers on the legacy approaches through core products without disruption.

The technology to adapt may include some of the following:

- Standard unified one API for all insurance product distribution
- Use of IOT beyond Telematics such as wearables, location data from mobile phones, weather data, Airline data from DGCA, India stack, Fast Tag, etc
- Adoption of smart contracts and block chains will be the best use case to solve the complex claim process involving multiple stakeholders based on the type of claim and type of insurance product.

The insurance sector remains more attractive among the BFSI categories and provides the best scope of continuous growth for the next few decades. We have the stage set for us to play the game to take the industry to explosive growth along with higher penetration and density across the rural and urban mass.

Last Decade

Market Expansion
Riding the wave of economic growth

Government aided schemes
Social schemes with govt sponsorship driving inclusion

Tech adoption
Embracing digital distribution and insurtechs

Awareness creation
Post-Covid surge in insurance understanding

VS

Next Decade

Focused penetration
Driving penetration and density for both rural and urban markets

Public & Private Infra
Leveraging common infrastructure and partnerships e.g BIMA Sugma, NHCX, Riskcovry Insurance-in-a-box platform etc.

Enhance consumption
Addressing protection gaps beyond mandatory and legally liable cover through

Product Innovation
Contextual and usage based products to onboard new to insurance customers

INDUSTRY INSIGHTS FROM kiwi

In his Independence Day speech of 2021, our esteemed Prime Minister outlined his vision for Amrit Kaal and India at 2047, aiming to transform the nation into a developed country. A hallmark of developed nations is a high proportion of creditworthy individuals and a robust credit market. For instance, around 70-75% of American adults possess a good credit score, with approximately a quarter of them (22%) achieving an exceptional FICO score of 800 or above. Similarly, estimates suggest that 60-70% of UK adults have a credit score exceeding 700, and 65-75% of Singaporeans hold comparable scores. In stark contrast, only 10-15% of Indian adults have access to formal credit, with a mere 30-40% achieving a credit score above 700.

2047

Democratised access to credit is paramount for realising India’s vision of becoming a global economic powerhouse. The integration of credit cards with the Unified Payments Interface (UPI) represents a significant stride towards this goal.

INDIA’S CREDIT LANDSCAPE COMPARED TO DEVELOPED ECONOMIES

While India’s credit landscape has undergone rapid evolution, it still lags behind developed economies such as the United States, the United Kingdom, and Singapore. In these countries, credit cards are deeply embedded in consumer behaviour, supported by sophisticated credit scoring systems. For example, the US boasts a high credit card penetration rate, with individuals often holding multiple cards. In contrast, India’s credit card penetration remains relatively low. However, the country’s payment ecosystem has undergone a dramatic transformation with the advent of UPI, which has facilitated seamless mobile transactions. As of June 2024, approximately 350 million individuals actively use UPI, constituting nearly 25% of the Indian population. This figure is growing at a compound annual growth rate (CAGR) of 20%, which is expected to drive increased credit card adoption. Notably, the integration of UPI with Rupay cards has already boosted their market share from 3% to 10% within a year, as per Kiwi on UPI report.

THE CRITICAL ROLE OF CREDIT

Credit plays an indispensable role in economic development and personal financial management. It empowers consumers to make substantial purchases, invest in assets, and effectively manage cash flow. By stimulating consumer spending, credit drives economic growth. Furthermore, it provides small businesses with the essential working capital required for expansion, innovation, and market competitiveness. Building a credit history is crucial for accessing a wider range of financial products and services. A robust credit system contributes to economic stability by enabling individuals to plan for future expenses and manage financial emergencies.

BENEFITS OF CREDIT CARDS ON UPI FOR INDIA

Wider Access to Credit

Integrating credit cards with UPI will democratise credit access in India. By leveraging UPI’s extensive infrastructure, credit cards can reach a broader population, including those residing in rural and underserved areas. This will empower individuals with limited financial options and strengthen financial inclusion.

Economic Empowerment and Financial Inclusion

Credit cards on UPI will significantly impact economic empowerment. Small businesses, including neighbourhood shops and street vendors, will benefit from increased customer spending. Additionally, expanded credit access will support entrepreneurship and stimulate economic activity in underserved regions.

Convenience and Efficiency

Combining UPI’s user-friendliness with credit card features offers unparalleled convenience. Consumers can effortlessly make transactions by scanning QR codes, eliminating the need for traditional point-of-sale (PoS) terminals. This seamless experience is expected to encourage greater credit card usage and facilitate better financial management through real-time tracking and digital statements.

Boosting the Digital Payments Ecosystem

The integration of credit cards with UPI will accelerate the shift towards digital payments. UPI’s widespread acceptance will encourage consumers to utilise credit cards for various transactions, reducing cash dependency. This transition will enhance financial transparency, mitigate cash handling risks, and contribute to a more efficient economy. (We can add our CC on UPI report insight)

FUTURE PROSPECTS AND VISION FOR 2047

By 2047, the integration of credit cards with UPI is expected to be a cornerstone of India’s financial ecosystem. Driven by fintech innovation and supportive regulatory frameworks, credit card penetration and UPI usage are projected to grow significantly. The financial landscape will likely feature a range of new products and services tailored to the needs of a digitally savvy and financially inclusive population.

The future of credit cards on UPI holds the potential to redefine India’s financial landscape. By expanding credit access, enhancing convenience, and boosting the digital payments ecosystem, this integration will play a pivotal role in India’s economic growth and financial inclusion efforts. As we look ahead to 2047, the vision of a financially empowered and digitally connected India is within reach, promising a more inclusive and dynamic economic future.

INDUSTRY INSIGHTS FROM PayGlocal™

In an increasingly interconnected world, the movement of money across borders has become a cornerstone of global economics. The cross-border payment market, a behemoth that reached $181.9 trillion in 2022, is projected to surge to $356.5 trillion by 2032. This explosive growth reflects the critical role of international transactions in our globalized economy. However, the current system faces significant challenges that fintech innovations are poised to address.

THE CROSS-BORDER CONUNDRUM AND PANDEMIC IMPACT

Speed

Cross-border transactions crawl at a 2-5 day pace, severely limiting liquidity and business agility.

Cost

Fees can consume up to 0.3 to 20% of transaction value, particularly burdensome for small businesses and individual remittances.

Transparency

A huge amount of B2B payments still require manual intervention to reconcile data discrepancies.

These pain points have long been a source of frustration for businesses and individuals alike, hindering global economic fluidity and financial inclusion.

The COVID-19 pandemic acted as a catalyst, dramatically accelerating digital transformation across the financial sector:

Digital payments skyrocketed to 57%, reflecting a shift away from cash.

E-commerce sales grew two to five times faster than before the pandemic.

Cross border payment flows reached over $150 trillion in 2022, a 13 percent increase in a single year.

This digital shift has created a fertile ground for fintech innovations, setting the stage for a revolution in global money movement.

Source : FSB, Allied Market Research, Worldbank, Atlantic council

NEW FRONTIERS IN GLOBAL MONEY MOVEMENT

As we navigate this new landscape, four key innovations are reshaping the future of global money movement: Central Bank Digital Currencies (CBDCs), Decentralized Finance (DeFi), AI and Predictive Analytics, and Real-time Payments. Each of these technologies promises to address the longstanding issues of speed, cost, and transparency in cross-border transactions.

Solution	Speed	Cost reduction	Transparency & security	Financial inclusion	Financial inclusion
Central Bank Digital Currency	Near-instant settlement	Lower transaction costs by removing intermediaries	Enhanced traceability, compliance with AML and CFT	Access to stable digital currencies for underbanked populations	Direct transactions between central banks, eliminating intermediaries
DeFi	Immediate transactions	Reduced fees by eliminating traditional intermediaries	Full transparency with blockchain ledger	Inclusive financial services via blockchain access	Peer-to-peer transactions without intermediaries
AI and Predictive analytics	Continuous transaction monitoring	Lower operational costs with automated processes	Improved fraud detection, dynamic sanction screening	Streamlined compliance processes, faster service delivery	Real-time monitoring and fraud detection
Real time payments	Transactions completed in seconds	Reduced fees by by passing traditional intermediaries	Real-time updates and tracking	Greater accessibility through mobile and digital platforms	Instant settlement across borders

A. CENTRAL BANK DIGITAL CURRENCIES (CBDCS)

CBDCs represent a digital form of a country's fiat currency, issued and regulated by the national central bank. Unlike cryptocurrencies, CBDCs are centralized and tied to the value of the nation's currency. Their potential to revolutionize both domestic and cross-border payments is immense. According to the Atlantic Council's CBDC tracker, as of 2024, 134 countries are exploring CBDCs, with 68 in advanced stages of development, pilot, or launch. The Bahamas, Jamaica, and Nigeria have fully launched CBDCs, while economic powerhouses like China are making significant strides in large-scale pilots.

Case Study: The Great Wall of Digital Finance (e-CNY)

e-CNY project is the world's largest CBDC pilot to date. Launched in 2020, the digital currency has been tested in major cities across the country. By the end of 2021, the pilot had expanded to 26 cities and provinces, with over 261 million individual users and 5.6 million corporate accounts. The total transaction volume reached 1.8 trillion yuan (approximately $250 billion), demonstrating the scalability and potential of CBDCs. The e-CNY's success lies in its integration with existing payment infrastructure and its focus on financial inclusion. Users can access e-CNY through digital wallets provided by major banks, and the system supports offline transactions, making it accessible even in areas with poor internet connectivity.

Key features of the e-CNY include:

- Dual offline technology for transactions without internet access
- Smart contract capability for programmable money
- Tiered wallet system to balance privacy with regulatory compliance

The e-CNY's progress has significant implications for cross-border transactions. The country is actively participating in multiple cross-border CBDC projects, including Project mBridge with Hong Kong, Thailand, and the UAE, aimed at creating more efficient international payment systems.

Key Takeaways:

- CBDCs have the potential to significantly reduce the cost and increase the speed of cross-border transactions by enabling direct central bank to central bank settlements.
- The success of e-CNY pilot demonstrates the feasibility of large-scale CBDC implementation and its potential to enhance financial inclusion.
- As more countries develop CBDCs, we can expect increased focus on interoperability standards to facilitate seamless cross-border transactions.
- CBDCs could reshape the global financial system, potentially challenging the dominance of the US dollar in international trade and finance.

Source : Reuters, Mastercard, Forbes

B. DECENTRALIZED FINANCE (DEFI)

Decentralized Finance, or DeFi, represents a paradigm shift in financial services. By leveraging blockchain technology, DeFi aims to create an open, permissionless financial system that operates without traditional intermediaries. This has profound implications for cross-border transactions, potentially enabling near-instantaneous, low-cost transfers globally.

The DeFi market has seen explosive growth, valued at $13.61 billion in 2022 and projected to reach $231.19 billion by 2030, growing at a CAGR of 46.0% (Source: Grand View Research). This growth is driven by increasing adoption of blockchain technology, demand for transparent and efficient financial services, and the potential for financial inclusion in underserved markets.

Key Takeaways:

- DeFi has the potential to dramatically reduce costs and increase speed for cross-border transactions by eliminating traditional intermediaries.
- Cross-chain interoperability solutions are crucial for the broader adoption of DeFi in global money movement.
- The rapid growth of the DeFi market indicates strong demand for more efficient, transparent, and accessible financial services.
- Regulatory challenges remain a significant hurdle for DeFi adoption in cross-border payments, necessitating collaboration between innovators and regulators.

C. AI AND PREDICTIVE ANALYTICS

Artificial Intelligence (AI) and predictive analytics are transforming the landscape of global money movement by enhancing fraud detection, sanction screening, and Anti-Money Laundering (AML) efforts. These technologies provide unprecedented capabilities to analyze vast amounts of data in real-time, improving the speed, accuracy, and efficiency of financial transactions.

The global AI in fintech market size was valued at $9.45 billion in 2023 and is expected to grow at a CAGR of 28.5% from 2024 to 2030 (Source: Grand View Research). This growth is driven by the increasing need for process automation, customer personalization, and enhanced security in financial services.

Key Takeaways:

- AI and predictive analytics are crucial for addressing the complex challenges of fraud and money laundering in cross-border transactions.
- These technologies can significantly reduce false positives and operational costs while improving the accuracy and speed of compliance processes.
- The adoption of AI in financial services is likely to accelerate, driven by the need for more sophisticated risk management and regulatory compliance tools.
- As AI systems become more advanced, there will be increased focus on explainable AI to ensure transparency and regulatory compliance.

Source : Grand view research

D. REAL-TIME PAYMENTS

Real-time payments (RTP) systems enable near-instantaneous transfer and settlement of funds between parties, operating 24/7. This immediacy is achieved through advanced payment infrastructure and standardized messaging formats like ISO 20022.

The global adoption of RTP systems has been rapid, with 79 countries implementing such systems as of 2023.

The volume of real-time payments surged by 42% globally in 2023, reaching 266.2 billion transactions. India led this revolution with 89.5 billion real-time transactions in 2022, accounting for 46% of global RTP volume.

Key Takeaways:

- Real-time payment systems have the potential to dramatically improve the speed and efficiency of both domestic and cross-border transactions.
- The success of systems like PIX demonstrates the strong demand for instant, low-cost payment solutions.
- As more countries adopt RTP systems, there will be increased focus on cross-border interoperability to facilitate seamless international transactions.
- The integration of RTP systems with other technologies like AI and blockchain could further enhance their capabilities in cross-border scenarios.

INDIA'S FINTECH TALE: A CASE STUDY IN INNOVATION

While the world talks about fintech revolutions, India is living one. The country's rapid digitalization and innovative payment solutions are reshaping the landscape of global money movement.

Unified Payments Interface (UPI)

Developed by India's National Payments Corporation, led globally in 2022 with 89.5 billion real-time transactions, representing 46% of the world's total. Its international expansion highlights its potential as a low-cost, efficient model for cross-border payments, aiding remittances and tourism.

Adoption of Digital Payments

Driven by government initiatives and mobile internet, digital payment adoption is set to grow at an 11.56% CAGR from 2024-2028, reaching a projected total of US$394.40bn by 2028. This indicates robust growth in the sector.

Fintech Innovation and Startups

India has become a hub for fintech innovation with numerous startups in lending, insurance, and wealth management. With over 2,100 fintech startups, India is one of the largest fintech ecosystems globally, attracting significant investments (Source: Invest India).

Key Takeaways:

- India's fintech revolution demonstrates the potential for rapid, large-scale adoption of digital payment solutions.
- The success of UPI provides a model for efficient, low-cost domestic payment systems that could be adapted for cross-border use.
- India's collaboration on projects like Nexus showcases the importance of international cooperation in developing next-generation payment systems.
- The growth of India's fintech ecosystem highlights the role of startups and innovation in driving financial inclusion and economic growth.

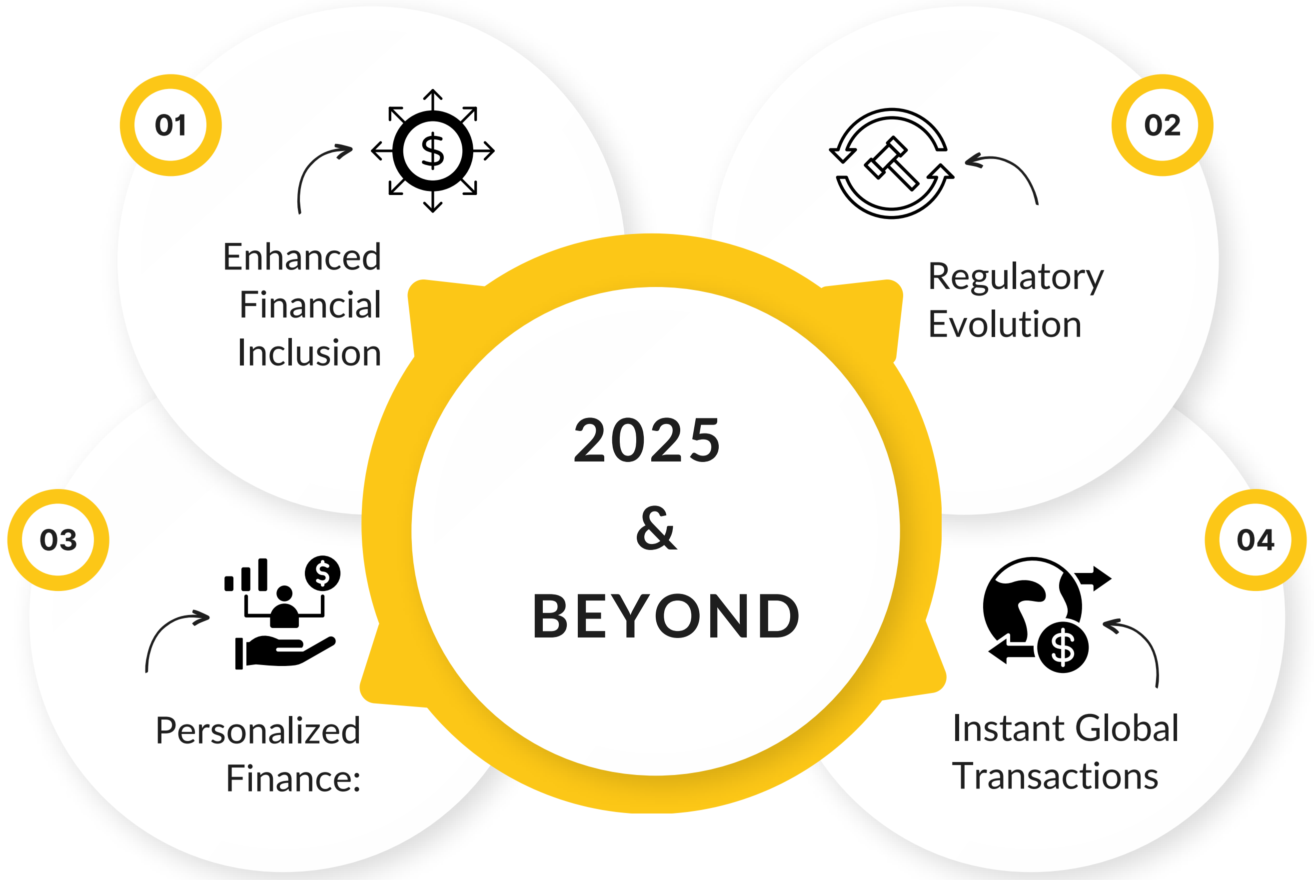
Source : Payments journal, CFO

THE DAWN OF A NEW FINANCIAL ERA: GLOBAL MONEY MOVEMENT - 2025 AND BEYOND

As we look to 2025 and beyond, the convergence of these technologies promises to reshape the landscape of global finance:

The combination of mobile technology, AI, and blockchain-based solutions will likely bring financial services to previously underserved populations.

As these technologies mature, we'll see the development of new regulatory frameworks designed to balance innovation with consumer protection and financial stability.



AI and big data will enable highly personalized financial services, tailoring products and risk assessments to individual needs and behaviors.

The combination of CBDCs, DeFi, and real-time payment systems could make instant, low-cost global transactions a reality for businesses and individuals alike.

At the forefront of this innovation, fintechs like PayGlocal offer comprehensive cross-border payment solutions, specializing in international card payments. The platform not only facilitates secure and efficient transactions but also plays a crucial role in connecting global merchants, thereby strengthening India's position in the global market.

In conclusion, the future of global money movement is being shaped by a convergence of innovative technologies and changing consumer expectations. Companies that can successfully navigate this new landscape, balancing innovation with security and regulatory compliance, will be well-positioned to lead in the next era of global finance. As we move forward, the ability to facilitate fast, secure, and cost-effective cross-border transactions will become a key differentiator in the increasingly competitive fintech space.

INDUSTRY INSIGHTS FROM savart

Wealth tech is at an interesting point in India, with the adoption of capital markets increasing rapidly, real estate transforming, fixed deposits falling (going by RBI's latest statement to banks) & gold remaining the go-to asset class for the masses. There is no doubt that the wealth-tech industry is and will undergo a remarkable transformation from technology to transparency.

The next decade of wealth tech in India will rapidly enhance financial inclusion for the unbanked and the underbanked segments in India, a segment that Savart believes is the next big opportunity for Indian asset managers. When Sankarsh (founder of Savart) initially started working with Uber drivers and blue-collar workers and facilitated their first-ever investments in the stock market, Sankarsh understood the profound impact that consistent wealth creation can have on their lives.

Savart data suggests that 75% of first-time investors invest up to INR 60,000 in their first year and grow the rate of savings at a minimum of 10% over the next two years. This is remarkable for an asset class that they discovered and trusted so recently. To retain this trust & actually create wealth for the new Indian investors, a lot of evolution is needed & expected.

As the Indian financial adoption and inclusion progresses, it is important that asset managers are responsible, transparent, and evolve with the market's changing needs. Wealth-tech witnessed the era of robo-advisors over the last couple of decades. While the adoption has been moderate among retail clients, it definitely forced conventional wealth managers to rethink their traditional model. Even the incumbents have begun at least claiming that they have an unbiased & systematic advisory system based on risk profiling. This is significant given that this entire process was arbitrary and unsystematic among the small & medium size asset managers.

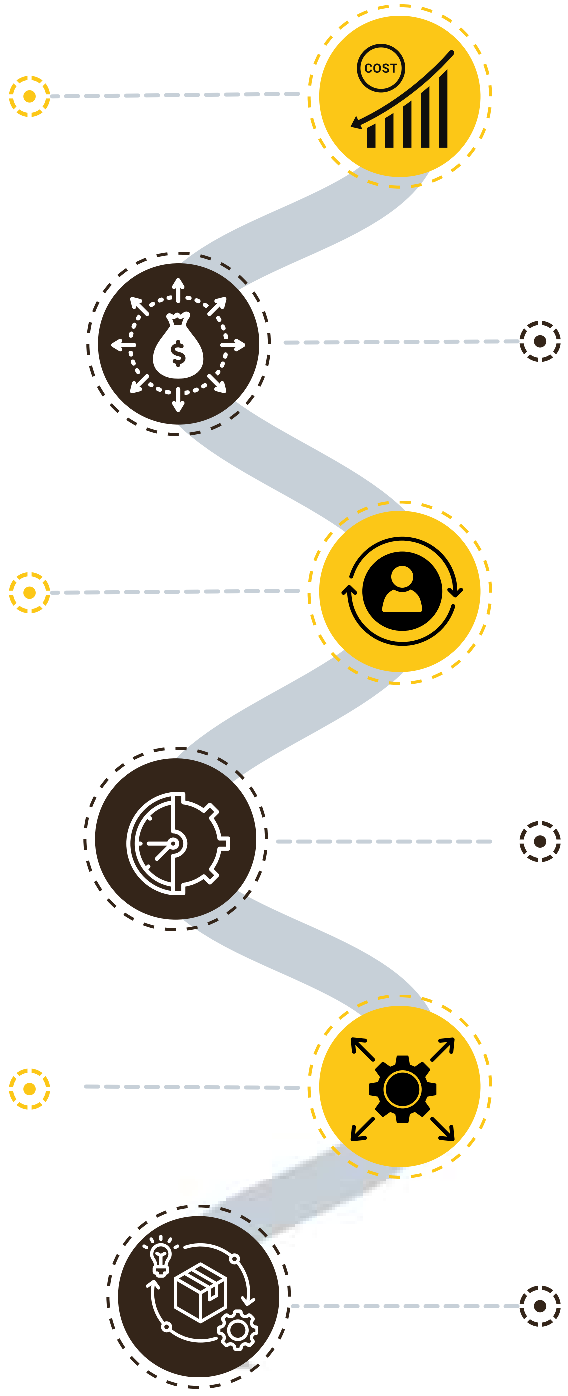
Savart strongly believes that the future of asset management is not Robo-Advisory alone, but 'Robo-Research'. As a pioneer of turnkey investment research automation (APART – Advanced Process Automation & Research Technology), we focused on building AI-based systems capable of automating research from investment discovery until exit. Much before the ChatGPT took the world by storm, we identified the potential of an insight generation system rather than an information feed. With information overload quickly overwhelming investment decision-makers today, it is important to make sense without the noise.

If Robo-Advisory eliminates bias & ambiguity at a profiling & portfolio basket construction level, Robo-Research focuses on the elimination of bias, prejudice & irrational decision-making at a security analysis & asset allocation level itself. This not only transforms investment research but also helps a 'Robo-Advisor' truly build a portfolio that reflects the client's goals, and appetite & not just their gut feel & commissions.

IMPACT OF ROBO-RESEARCH IN WEALTH-TECH

Lower Cost, Newer Options:

Robo-research can compress research & wealth management costs and make active fund management economically competitive with that of passive funds. This can also help lower the investment ticket sizes of alternate & unconventional asset classes, thus enabling the retail investors' participation.



Democratization of Wealth Management:

APART-like AI-driven approach lowers the entry barriers to sophisticated financial planning that was earlier available only for the HNI & wealthy investors. From private equity, art, and commercial real estate to structured products, robo-research-led cost & speed optimizations can open up endless opportunities for investors, irrespective of their investment size.

Hyper-Personalization:

A quick, large-scale robo-research system enables true personalization of investment advice and portfolio management at a fraction of the cost of traditional services, making high-quality financial planning accessible to a larger demographic. This is already a reality where personalized portfolios at Savart are not just ready-made investment baskets with bias-fed rules but are actually uniquely allocated (inter & intra asset allocation) and designed in line with client's expectations.

Automation and Efficiency:

APART automates many aspects of portfolio management, from asset allocation to rebalancing, reducing the need for manual intervention and minimizing human errors. This real-time monitoring of numerous portfolios (Up to a billion in the case of APART) and instant recommendation of requisite action is a game changer, helping avoid loss of alpha opportunities.

Scalability and Reach:

The AI-driven model allows to scale of asset management services seamlessly, reaching a wider audience across different economies, asset classes, and client segments. Unlike the traditional research desk set-up that needs years of time & hundreds of analysts, the new-age research will be quick & deployable within a few days.

Innovation in Investment Products:

The AI's analytical prowess opens avenues for developing innovative investment products tailored to evolving market needs and customer preferences. This could include ESG-focused investments, socially responsible funds, and other niche financial products that align with contemporary investor values.

APART's Quant engine is focused on quantitative analysis covering all numerical data pertaining to security from financial statements to peer comparisons. The Iris focuses on subjective & qualitative information from the moat to litigation, brand to stakeholder relationships & ethics to the environmental impact of the business or security under research.

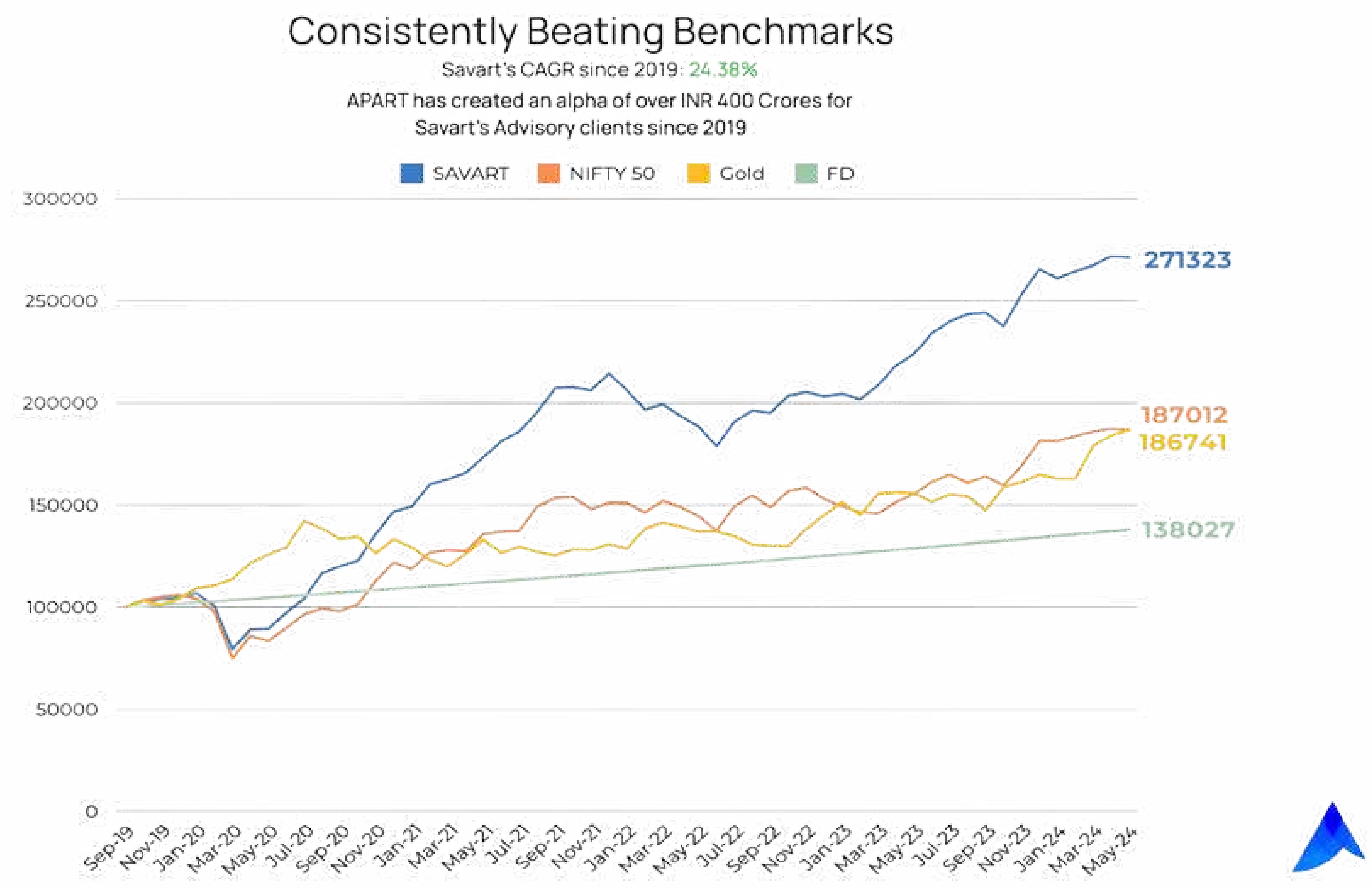
Unlike a traditional Robo-Advisor, APART-like systems don't follow process automation or rule-based patterns, but are self-directed, learn multi-faceted aspects & replicate the mental models to generate insights & perspectives that a human researcher would have missed due to the quantum of data or personal sub-conscious bias.

The concept of deep mathematical, quant models driving investment decisions is nothing new. However, the progress in qualitative data analysis led by AI will open new doors for wealth-tech players. Not just technical analysis-focused hedge funds, even fundamental-led investment managers would have a shot at intelligent bots that can create alpha.

The Quest for Alpha

At the end of the day, however exotic asset management & its technology become, the good old North Star metric for any wealth-tech would be the alpha or value they create for the clients.

While APART has delivered stellar alpha over the benchmarks since Savart's inception, we believe the future holds much more in store for asset managers who embrace technology to discover investments and manage them.



FROM VICTIMS TO VICTORS: HOW FRAUD-TECH STARTUPS CAN SECURE INDIA'S FINANCIAL FUTURE

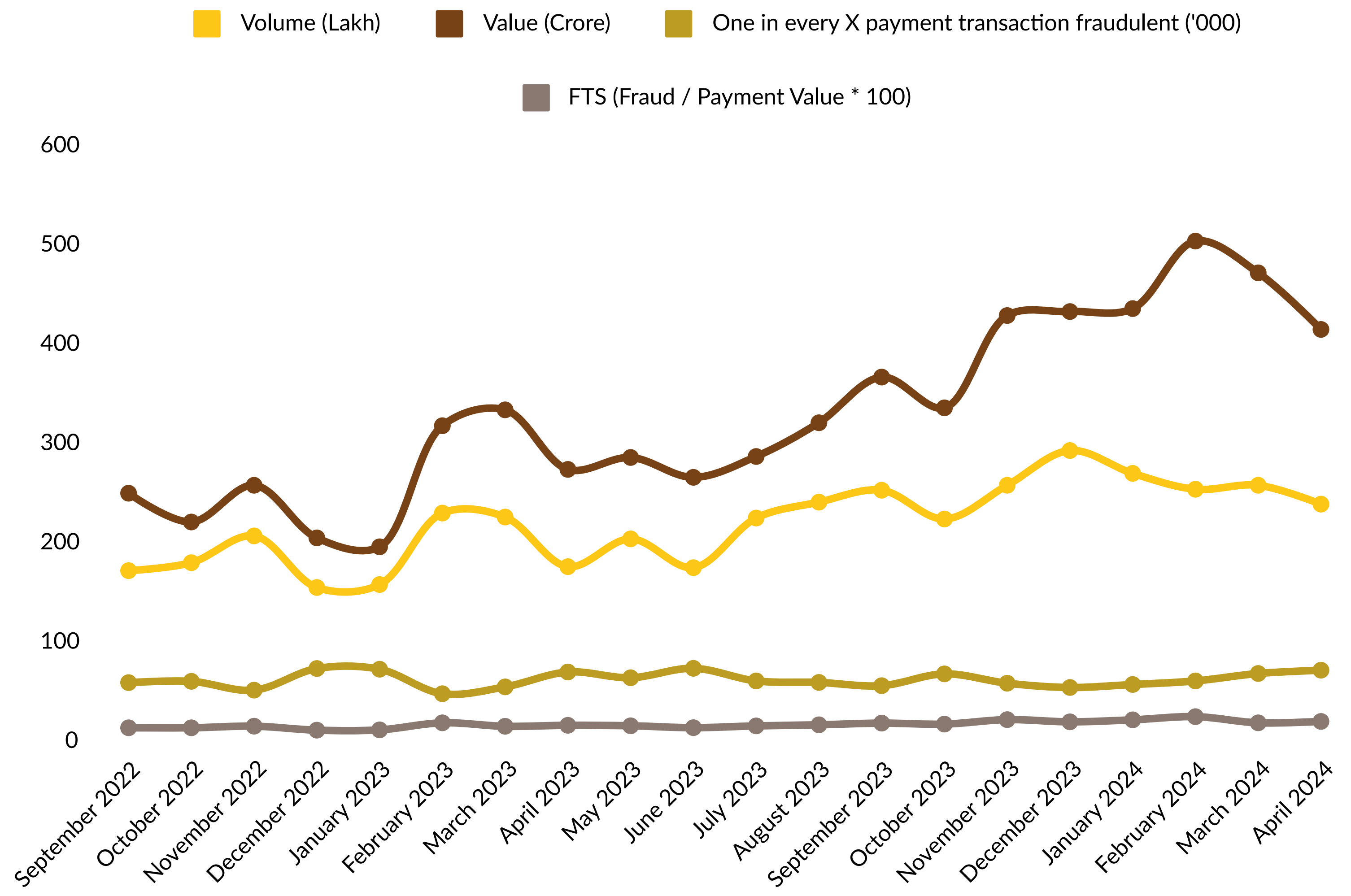
STATE OF FRAUDS IN INDIA: A LUCRATIVE OPPORTUNITY FOR FINTECH INNOVATION

Fraud is at an inflection point and thus the right time now to talk about it and look into it. As the country adopts digital transactions, fraud has become a major concern, posing considerable difficulties and possibilities. Owing to the rapid growth of digital payments. The Reserve Bank of India (RBI) data shows a 40% increase in fraudulent transaction volume and a 65% increase in fraud value between September 2022 and April 2024.

Why do frauds occur? Want of money & having the wrong ideology/wrong agenda

TYPES OF FRAUDS IN BANKS

- Phishing/vishing: Social engineering tactics to trick users into revealing personal information or initiating fraudulent transactions.
- Mule accounts: Fraudsters compromise legitimate accounts to launder money or receive stolen funds.
- Employee fraud: Internal employee within financial institutions colluding with external fraudsters.



SURGE IN FRAUD CASES

The study of frauds reported across banks reveals a significant increase in the number of fraud cases. In FY24, 36,075 cases were reported, up nearly 300% from 9,046 cases in FY22. However, the sum involved has been drastically reduced from Rs 45,358 crore to Rs 13,930 crore, representing a 46.7% fall on an annual basis.

PRIVATE VS. PUBLIC SECTOR BANKS

The Reserve Bank of India (RBI) stated that private-sector banks recorded the highest number of frauds during the three preceding years. In contrast, public-sector banks contributed the most to the fraud amount. In terms of numbers, frauds happened mostly in digital payments (card payments and the internet), but in terms of value, they were primarily in the loan portfolio.

Source : RBI

FROM VICTIMS TO VICTORS: HOW FRAUD-TECH STARTUPS CAN SECURE INDIA'S FINANCIAL FUTURE

The number of fraud cases related to card and internet payments increased from 3,596 in FY22 to 29,082 in FY24. There is a significant time lag in detecting fraud study of reports cases from FY23 to FY24 revealed that there was a significant period between the incident and the discovery of fraud.

Insights from Pramod Rao - Sr Vice President II, FCI Axis Bank

Effective Fraud Detection Strategies

Banks are investing in Fraud Risk Management (FRM) systems, overlaying non monetay information like customer behaviour and other risk events to create model scores and product level controls to detect & prevent digital frauds.

Improving Collaboration and Data Sharing

Currently, sharing of fraud information takes place through -

- CFR (Central Fraud Registry) database,
- Reporting fraud to a consortium of public & private banks (used for liability and asset customer onboarding) operated by 3rd party platforms and
- Sharing of modus operandi of frauds (anonymised) to IBA for onward circulation to member banks.

Apart from the above, given the sophistication of fraud schemes there is an urgent need to share other negative information on device, ip address, geography, behavioral patterns, telecom signals and other such non-financial attributes especially on the digital space. Ideally, this should be facilitated through a regulated framework.

Role of Regulatory Frameworks

Regulator can create effective frameworks to enhance safe banking culture by sharing best practices among banks, creating awareness among citizens, propogate use of tools / systems, mandate triangulation of customer information at top of the funnel prior to customer onboarding, encourage inter-regulator (TRAI/IRDA/DOT) cooperation, work with law enforcement agencies to break fraud syndicates etc.

Addressing Under-Reporting of Low-Value Fraud

Reporting of all frauds should be mandatory (including those below Rs 1 lakh) irrespective of whether it is proven to be a case of customer liability. This will lead to accurate reporting of frauds and this will lead to appropriate Risk Appetite at the Bank level to deal with the issue.


REWIND
2014-2024

INDIA FINTECH FINANCING DIAGRAM 2020 & 2021 : KEY HIGHLIGHTS

90%	15%	12%
Funding Value FY20	Funding Rounds FY20	Co-Investment FY20

- Funding Rounds: In FY20, there were 339 funding rounds, a 15% increment from the past year. The whole funding value rose by 90%. In FY21 due to the pandemic India witness a 30% drop in funding value and 10.3% in funding rounds.
- Co-investing: Co-investment activity increased by 12% in year on year 2020.
- Positive funding round: Despite the challenges of the global pandemic, the first half of 2020 was a good financial time for India.

Lending
$814M

Payments
$240M

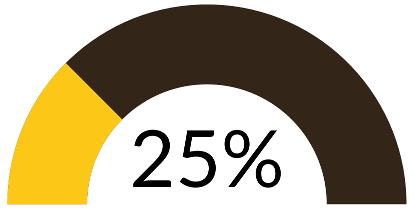
Khatabook M2P SETU recko Vernacular.ai

Enterprise-Tech

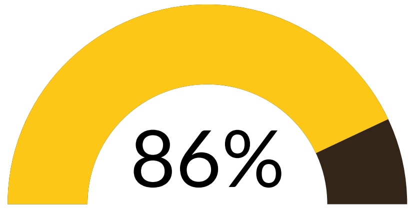
digit

Insurtech

- Lending and Payments: Lending and payment continued to be strong, with $814 million and $240 million invested, respectively, in the first half of 2020.
- Enterprise-Tech: Enterprise-Tech funding grew 1.8x in 2020 compared to the first half of 2019. led by technology companies such as Khatabook, M2P, Setu, Recko and Vernacular.ai.
- Insurtech: Insurtech startups have saw limited investment, with Digit Insurance getting $84 million in funding being the standout. Four other Insurtech companies have secured early funding.
- Financial inclusion: Investment in fintech financial inclusion grew threefold from $4 million in the first half of 2019 to $19 billion in the first half of 2020, indicating a positive trend for minority populations.

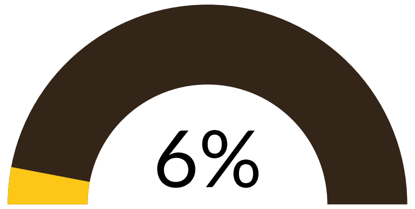


Premium Institute

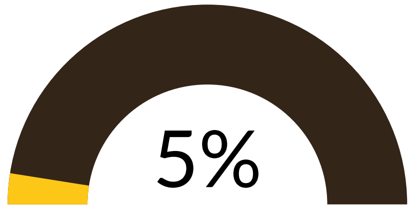


Less than 20yrs work ex

- Founders background: Only 25% of startup founders come from prestigious institutions like IIMs/IITs.
- Founder experience: 86% of founders have less than 20 years of experience.



Recent Graduates



Female Founders

- Recent Graduates: 6% of early-stage entrepreneurs are recent college graduates with no prior work experience.
- Female founders: Among those who received funding, only 4.8% were female founders..

Source : Tracxn

INDIA FINTECH FUNDING OVERVIEW 2022 & 2023 : KEY HIGHLIGHTS

320% Funding Value FY22

52% Funding Deals FY22

33.3% Co-Investment FY23

65% Debt Transactions FY23

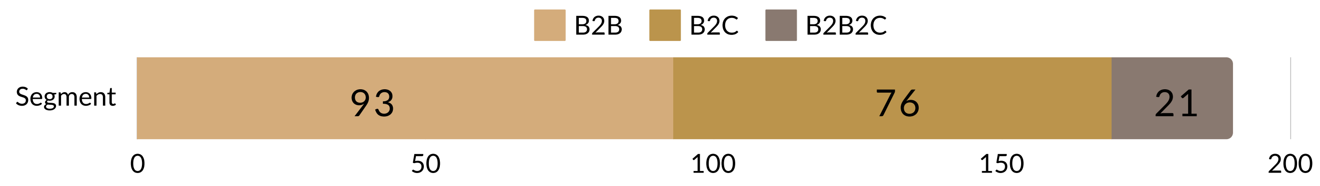
- Increased Deals, Modest Funding: Fintech funding rounds during this period saw a 52% increase in deals, and funding amount rose by 320%.
- Debt Transactions Decline: Debt transactions dropped significantly from 44 in 2021 to just 14 up to July 2022 due to tightened funding conditions and uncertainty.
- Co-Investing Activity: Co-investing activity increased by 33.3% year-on-year in 2022. Notably, 14 investors participated in the Pre-Series A round of $4 million.

Bangalore
Top Fintech Hub

JAN 2022

Most funded month

- Top fintech hub: Bangalore remained the top fintech hub with 84 funding deals, followed by NCR (35) and Mumbai (34).
- Monthly trends: January 2022 was the most funded (35 fintechs raised $611.93 million in funding). July 2022 was the lowest (21 transactions, approximately $248.83 million). In September 2022, 22 deals were recorded, but the value was lowest at $207.97 million.



Smaller ticket size transactions

- Transaction Size Trends: Transactions of smaller ticket sizes are evident. In 2021, 149 fintech deals raised $3,341 million, and in 2022 (up to July), 191 deals raised $3,431 million. B2C accounted for 93 deals, B2B for 76, and B2B2C for 21.

150% Early-stage co-investing

50% VC participants

26% Funding Value- FY23

- PE/VC Participation: Around 375 PE/VCs participated in 2021, increasing to 564 in 2022.
- Investor Dynamics: Deals involving two investors spiked by 64%, and early-stage co-investing gained momentum (150% increase) with four to six investors in a single deal.
- Mixed Funding Trends: While the number of VC participants in deals surged by 50% in 2022, the number of deals showed only marginal improvement (8%), and funding value dropped by 26%.

Source : Tracxn

INDIA FINTECH FUNDING OVERVIEW 2024 : KEY HIGHLIGHTS

- Capital Expectations: Fintech startups have adjusted their capital expectations. Funding amounts at various stages now look like this

$500K	$1-2M	$5M	$10-15M
Seed	Pre-Series A	Series A	Series B

- Profitability Focus: Founders are emphasizing profitability. Around 70% of them discuss building sustainable organizations across all stages, from Pre-Seed to Series A.
- VC are increasingly willing to back brick and mortar businesses and traditional NBFC's. Primarily due to lack of exciting new digital models and those they backed (big chunk) in past have backfired.
- Personal Financial Commitment: Some founders are personally investing more upfront. Mature BFSI professionals entering the startup space contribute to this trend.
- Funding Amounts: In H1 2023, fintech funding reached $896 million, a significant drop of 44% from the $1.6 billion raised in H2 2022.
- Seed-Stage Decline: Seed-stage rounds saw a 38% decrease in H1 2023 compared to H2 2022.
- Series A Challenges: Series A raises, which used to reflect startup maturity, now face challenges. Only a few startups manage to progress from Seed to Series A within three years.

Founders are emphasizing profitability

VC backing brick and mortar businesses and NBFCs

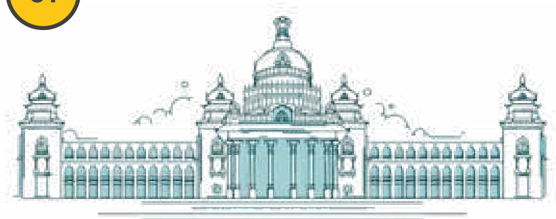
Founders investing personal capital

Mature BFSI professional entering startup space

IPOs In FY24	Unicorn in FY24
VEEFIN	InCred finance
Zaggle	Perfios

Top Fintech Hub in India

01



Bangalore

02

Mumbai

03

Jaipur

04

Delhi NCR

Source : Tracxn

EXTENDED FUNDING WINTER:

Lack of Innovative Models:

In the past year, we've noticed that it's rare to find startups that combine a great team, a unique model or approach, low customer acquisition cost (CAC), and a significant market opportunity. Often, one of these crucial elements is missing. This becomes even more critical in the current market climate, where many models are being scrutinized.

Regulatory Impact:

Regulators are the major disruptors, bringing much-needed clarity to the payments and lending space. While this clarity is beneficial, it also disrupts the market. Only the most compliant and adaptable players will survive. Regulators favor regulated entities over tech vendors.

Global Capital Dependency:

Beyond Series A funding, Indian startups heavily rely on global capital. Unfortunately, fintech funding has declined by over 50% in most global markets. Despite India's robust macroeconomic liquidity (as seen with the Utkarsh IPO), this capital isn't flowing adequately into Indian venture opportunities.

SOONICORNS

RBI TRENDS AND PROGRESS IN INDIAN BANKING

Over the past 36 months, the Reserve Bank of India (RBI) has closely monitored trends and progress in the Indian banking sector. Let's delve into the key developments during this period:

Pre-emptive measures targeting unsecured lending and bank credit to NBFCs

In pursuing a balanced and resilient financial sector, RBI chartered a cautionary move by increasing risk weights for unsecured retail loans (personal loans & credit cards) by Banks and NBFCs. Another move intended to restrain NBFC's overdependence on banks for borrowings to curb contagion risk, increased risk weights for bank lending to NBFCs forcing banks to evaluate their exposure to NBFCs.

Prioritizing Low Inflation Overgrowth

The MPC remains resolute in aligning inflation to the target. Core inflation had been declining steadily over the past 9 months (until April 2024) to its lowest level. Going ahead, the policy space seeks growth-inflation dynamics to continue playing out successfully and ensure reaching its targeted rate of 4%.

Scrutiny of NBFC MFI Interest Rates

In March 2022, RBI removed pricing caps on microfinance entities which allowed them to enjoy higher net interest margins. However, recently the RBI cited instances of NBFC MFIs charging high, usurious interest rates on small-value loans & emphasized transparent interest rate setting processes to enjoy the freedom judiciously.

Trailing CASA deposit ratio for Small Finance Banks (SFBs)

SFBs have built a greater reliance on bulk term deposits from cooperative banks by providing higher interest rates but have low CASA deposits & building a stable base remains a challenge due to stiff competition from SCBs. They also remain plagued with concentration risk due to limited asset and geographical diversification as many of them transitioned from NBFC-MFIs to SFBs.

RBI flagging concerns over vulnerability associated with AI adoption

The RBI highlighted issues bucketing into 3 categories: Data bias & robustness, governance & transparency. While focusing on model-based lending, RBI mentioned that they are to be tested periodically to avoid dilution of underwriting standards.

RBI TRENDS AND PROGRESS IN INDIAN BANKING

RBI launched the fintech repository on May 28, 2024, to capture essential information about fintech entities including technology, products, activities, and other financial information for a better understanding of the developments in the industry, ensure transparency to the regulator and stakeholders and promote best practices, including RE & non-REs.

Fintech Repository for Enhanced Oversight

RBI in Dec 2022 introduced the Digital rupee, India's own CBDC, in 2 versions: CBDC-Wholesale & CBDC-Retail. The adoption has however not been able to meet the RBI target. The e-rupee feature also includes offline transaction enablement in P2P & P2M CBDC retail payments and RBI also encouraged its interoperability with UPI through QR code for increased adoption & usage.

Retail Central Bank Digital Currency (CBDC)

With the increase in digital payments in the country, RBI introduced tokenization in 2019, to improve the security and safety of card transactions. Tokenization is a process in which a unique token masks sensitive card details. In an additional strategic move, RBI introduced and implemented Card-on-file for tokenization at the issuer bank level in Oct 20222, providing convenience for cardholders to get tokens created & linked to their existing accounts with various ecom applications eventually aiming to reduce card data-related frauds and an enhanced checkout experience.

Card Tokenization Enhances Security

In Feb 2023, RBI allowed UPI P2M facility to foreign travelers and NRIs, it was started by first extending the facility to travelers incoming from G-20 countries at select international airports (BOM, DEL, BLR). The wallet loading could be against cash or any payment instrument

Extending UPI to Inbound Travelers

In Oct 2023, RBI in its circular released key developments to regulate cross-border payments. The PA-CB (Payment aggregator - cross border) guidelines applicable to all entities facilitating cross border payment transactions for import & export of goods & services categorized them as PA-CB providing a framework for carrying out such activities - eligibility criteria, authorization process, permitted accounts, and other conditions. This allowed nonbank entities to grab new payment opportunities under a single authorization framework.

Cross-Border Payment Aggregators

A PLAYBOOK FOR FINTECH-BFSI PARTNERSHIP IN THE CURRENT REGULATORY LANDSCAPE

The Fintech Meetup's recent conversations with prominent BFSI professionals and fintech founders to examine the evolving landscape of partnerships between financial institutions and fintech companies revealed the below takeaways:

CLARITY OVER GREY AREAS

Fintechs operating in the grey regulatory areas must adhere strictly to written regulations, forging partnerships are required to follow the guidelines laid by the regulator and recent crackdowns make it very clear that in understanding that if it's not explicitly allowed, it's not permissible.

INCREASE IN COST OF COMPLIANCE

Following the regulator's tightened oversight there's no room for compliance negligence, compliance costs have surged significantly around 2x-5x, for both fintechs and BFSI institutions. Understanding these costs and minimizing them is crucial.

RECOGNIZING REGULATORY RISKS

Ignoring regulatory red flags, such as rent payments and manufactured transactions, is no longer acceptable. Regulatory actions can wipe out businesses overnight.

LICENSE BOUNDARIES

Fintechs should respect the boundaries of their licenses. Subletting licenses is discouraged. Umpires (regulators) enforce the rules.

OMBUDSMAN COMPLAINTS AS CATALYSTS

Recent regulatory actions often stem from consumer complaints filed with the ombudsman. Examples include actions related to gold loans, IPO financing, and P2P lending.

A PLAYBOOK FOR FINTECH-BFSI PARTNERSHIP IN THE CURRENT REGULATORY LANDSCAPE

FINTECH'S VITAL ROLE IN EXPANDING CREDIT ACCESS

Fintechs, especially in their regulatory entity (RE) form, play a critical role in expanding credit access. They bridge gaps that traditional banks couldn't fill.

MASTER DIRECTIONS AND DILIGENCE

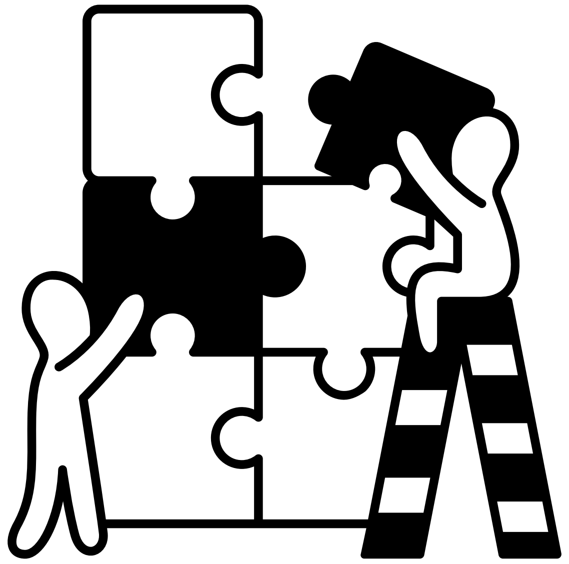
RBI's shift from master circulars to master directions requires careful reading. Compliance with directives is essential.

LEARNINGS FROM THE HOMEBOY - PAYTM

Distribution players who initially sought licenses (e.g., PPI, NBFC) are now reconsidering. Partnering with experts may be more effective than navigating regulatory complexities alone.

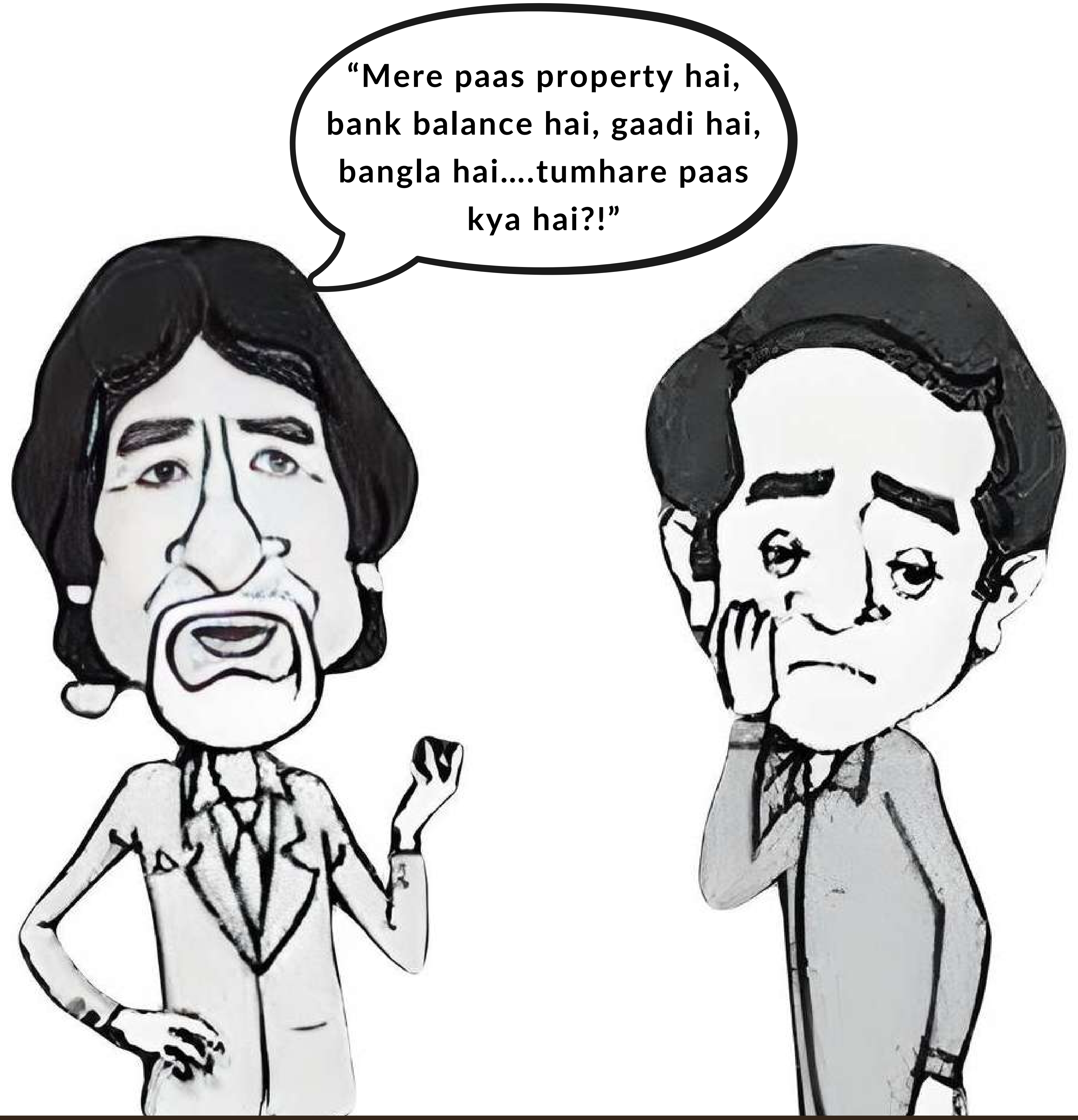
SHARED RESPONSIBILITY FOR COMPLIANCE

As banks embarked on partnerships with fintech companies, the focus on regulatory compliance sometimes waned. Business interests took precedence, and the fintech industry's dynamism made traditional banks appear sluggish.




FAST FORWARD
2024-2034

UNLOCKING INDIA'S FINANCIAL DATA: ACCOUNT AGGREGATORS - THE NEXT BIG REFINERY



INDUSTRY INSIGHTS FROM FINVU

Unless you were just born, you would probably recognize this iconic Bollywood line, uttered by none other than Big B.

You probably also know the next line. But, hold your horses.

If you imagine this being scripted by the Fintech Community, the sentence above probably sounds like what someone with "hard assets" would say. In other words, this is the typical Big B(orrower) that most financial institutions love chasing. Conversely, this is a challenge to the smaller individual or the MSME, the "Shashi Kapoor" (SK), who does not have these "hard assets".

For decades, the SKs of India have had trouble getting access to loans, insurance, wealth management services. All, because they lacked "hard assets" and therefore do not seem risk-worthy, to financial institutions.

But, if this script was written by the Fintech Community in the last five years, SK would stand up to Big B, much like in the original movie, and with pride say:

"Mere paas, mAA hai....!"

AA, short for Account Aggregators, is the mechanism that helps the SKs unlock a new asset, one that they have had all along but has remained under-utilized : Data. Of their financial transactions, an ever-increasing digital footprint that mirrors their daily life events.

In the original movie, Big B is left tongue-tied after SK's brilliant one-line riposte. Let us, however imagine, in the Fintech script, the conversation continues....

UNLOCKING INDIA'S FINANCIAL DATA: ACCOUNT AGGREGATORS - THE NEXT BIG REFINERY

Big B: So, what is the big deal about AA? Data about my income and expenses, in other words, my bank statement, has always been sought by financial institutions and I have always given it.

SK: Yes, Bhai. But, there is a huge difference. By using AA to give your information digitally, it massively reduces both, your time spent, and fraud-risk due to someone else forging your identity in their financial statements. It is the same benefit that UPI has brought into how you pay merchants or transfer money to others – speed and security.

And there is one more, very important benefit that your earlier bank-statement-sharing scenario did not have at all.

Big B: Achcha? What is that?

SK: Control. When you gave someone your bank statement, you did not have any control over who would use it and for what purpose. Now, through an AA app, much like your UPI app, you can not only control whether to give your financial data to someone else or not, you can only revoke permissions given, at a later point in time.

The AA app will act like your agent. It will inform the financial institution about your revocation, through APIs, ensuring their systems have this knowledge instantly.

Bhai, you know, how big a deal data privacy is these days. AA apps are meant to be neutral parties that protect you against vested interests of financial institutions. They are meant to help you take an informed decision about who can use your asset, your data.

Big B: All of this is well and fine. But how does it increase your wealth, your savings, your overall financial health?
Mere paas property hai, gaadi hai.....

SK: Bas, Bas, Bas. I will tell you how I will also get all of that. You have lenders and wealth managers chasing you, because they can spend a lot of money chasing you. They do not chase me, because that costs them a lot today, with little returns.

But, what AA does, much like other digital public infrastructure that India has rolled out, is reduce massively the cost for these institutions to "know" me, to "evaluate" me and to "enable" me to conduct digital transactions on their systems.

And if crores of people like me can be acquired and serviced at massively lower cost, why will they not serve our needs?

The government is rolling out digital public infrastructure, so that private players can effectively expand their reach and offerings to the massively underpenetrated segments across individuals and MSMEs. AA is a critical component of that infrastructure.

Big B: Well, it sounds like a great idea on paper. But the reality is different. I have heard that this AA-thing is not working out exactly like how you are portraying it to me.

SK: True. But here are some statistics that will interest you. As on date, there are nearly 100 million consent-transactions that have been successfully executed in the AA network. On a daily basis, there are close to a million citizens of this country that use any of the AA apps, as they go about seeking loans or financial advice, from the nearly five hundred financial institutions that are plugged into this network. Nearly fifty-thousand crores worth loans have been disbursed based on such consent-based, AA-enabled-data sharing. A significant percentage of this has been to MSMEs, who otherwise may not have been able to get loans, at reasonable rates of interest, in a speedy and safe manner.

And, in the last 12 months, this number has been growing nearly 20% every month.

So, yes, Bhai – there is a lot of scope for improvement. The success rates are not nearly as they ought to be, the information providers want more guard-rails to ensure their account-owners and internal systems are protected from unwarranted data-fetches, citizens have to be educated much more about the power of this new infrastructure.

But, AA is working, Big B, and it is here to stay!

UNLOCKING INDIA'S FINANCIAL DATA: ACCOUNT AGGREGATORS - THE NEXT BIG REFINERY

Big B: Hmmm. So, tell me, does an AA actually store and process all my data, before it shares it with my lender or wealth advisor? I keep hearing the phrase – "Data is the new oil". Is an AA actually the "refinery" that processes this "oil"?

SK: Not at all, Bhai! The AA is just like a courier boy. But a regulated one. An AA is licensed by RBI, with the license type called NBFC-AA, to be a data-blind, consent-manager and data-delivery agent.

The AA is NOT meant to store your data on its servers, except for the limited time it needs to, to connect with your financial institutions and execute successful delivery.

It is also NOT meant to see your data and process it for any insights. In fact, by design, it CANNOT see your data, since the data is encrypted by your bank in a manner such that only your lender can decrypt it.

Big B: You know, all of this convenience business, creates one unintended side-effect. Carelessness. People like you will become careless about how much data you are giving, and to whom, just because it is "easy" to do so. Sometimes, some friction is useful in sensitive matters like this.

SK: You are absolutely correct on that one. Which is why, Sahamati, the industry-body that drives the adoption of AA in the country, has come out with guard-rails and ecosystem codes of conduct. All the financial institutions and AAs are expected to implement these guard-rails, both technically and legally.

In fact, even the regulators and policy-makers are closely watching the usage of the AA network to detect abuse-patterns. Work has also started on strengthening anti-fraud measures in the AA network.

Big B: Bhai, mujhe bhi mAA chahiye!


PAUSE

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