IMAGINING FINTECH OPPORTUNITIES IN A $10 TRILLION ECONOMY

AUGUST - 2024

Foreword

The past decade in fintech has seen significant strides in creating last-mile access to financial services. This has been rooted in innovation: the concept of "I.N.D.I.A", or Innovation Democratised by All, has driven this wave of change. The industry, regulators, and entrepreneurs have been working together to create an interwoven web of innovation, thereby catalysing progress. Digital Public Infrastructure has emerged in the spotlight – initially with the Aadhaar and UPI, then moving to the Account Aggregator, and ONDC and more recently, the RBI's Public Tech Platform for Frictionless Credit and IRDA's Bima Sugam, cresting the wave of this growth.

The debate on incumbents vs. challengers which existed a few years ago has lost its relevance. On the one hand, banks are increasing spends on technology (~7% of their opex currently), to improve customer experience. On the other hand, evolving regulation has embraced fintechs driving them to become regulated entities. Other than a few areas such as payments and distribution of vanilla financial products, there is no pure "fintech" that exists today.

Astonishingly, the upcoming decade is poised to significantly exceed the achievements of the last. Consumption patterns are expected to shift dramatically, spurred by the rise of the 600 Mn middle-class. Mobile data consumption will continue to soar – for example, Jio Telecom alone accounts for 10% of global mobile data traffic.

DPI will continue its role as the protagonist of this narrative in its new form, which we refer to as "DPI 2.0". This will be interwoven infrastructure across regulators which will enable the ubiquitous availability of data through initiatives such as the NFIR. This will hence allow frictionless data access with adequate privacy and cybersecurity controls. These macros are further supported by a robust talent pool with over a quarter of the world's incremental workforce coming from India. What is more marked is the rise of tech talent specifically – with the number of graduates opting for AI courses growing by 4x in the past year alone. This offers the NextGen fintech entrepreneurs a unique opportunity to build businesses of scale.

India's decadal growth is expected to be even more pronounced in financial services. While the GDP scales 3x, segments within financial services are anticipated to expand by 5-6x. In this background, this report crystal gazes into the future of financial services, identifying opportunities that could emerge from these transformative trends. We also deep-dive into select opportunities and present the changes that we foresee.

Entrepreneurs, who are the freedom fighters of Viksit Bhārat, have a large opportunity canvas to build attractive businesses. In their journey, we are confident that the private capital ecosystem will back them with Capability, Credibility, and Capital to build enduring businesses, thereby making an impact on the India story.

Gopal Srinivasan
Chairman & Managing Director
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As the report outlines and explores the exciting fintech opportunity landscape, the authors would love to hear from you on any interesting perspectives, thoughts, comments and ideas that you have around this. If you would like to discuss the content of the report further, please contact any of the authors:

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TVS Capital Funds is a growth private equity fund dedicated to empowering India's NextGen entrepreneurs build multi-decadal businesses. We have partnered with over 35 businesses, providing not only capital but also capabilities to support business building. We are closely aligned to the India story, having raised our entire capital from domestic investors and making investments in India. We have raised ₹ 5,000+ Cr till date and are currently investing from our fourth fund.

At TCF, we back visionary founders and dynamic teams with the passion, commitment, and expertise to drive long-term growth. Our focus is on entrepreneurs who are determined to make a significant impact in their industries, with the drive to create businesses that stand the test of time. We typically invest in companies in the financial services, and technology sectors, where we see significant potential for innovation and scale.

We engage with companies that are poised for growth, typically investing during the early to mid-stages of their development.

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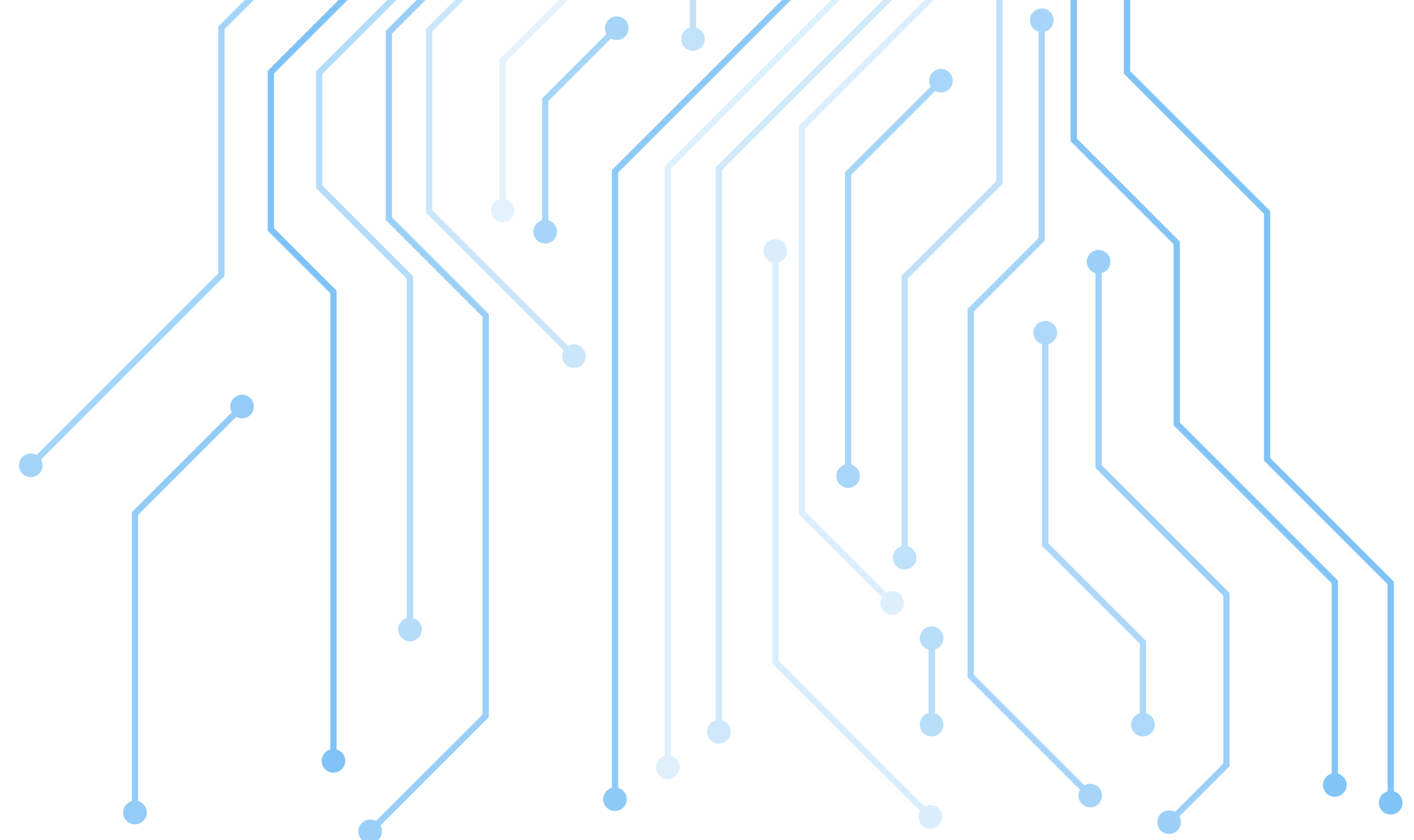

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1

March to $ 10 Tn by 2034

For much of the past decade, economists have recognized India's economy as a bright spot in an uncertain world with strong growth forecasts. India's Chief Economic Advisor, V. Anantha Nageswaran, expects the country will achieve an annual $5 trillion GDP by 2027, becoming the world's third largest economy, and $10 trillion by 2034. The vision for Viksit Bharat 2047 sets an ambitious goal of a $30 Tn+ GDP economy by 2047 (Exhibit 1).

Over the past decade, India has sustained a strong average annual GDP growth rate of 6.2%, propelling the nation to become the world's fifth-largest and the second-fastest-growing economy. India's rapid growth is primarily driven by:

(a) A significant rise in investments in infrastructure (1.6[1] times higher investment in FY24 over FY14);

(b) Strong growth of digitally delivered services exports such as IT/ITeS/Telecom etc. (~10% CAGR over FY14-24 for India vs ~7% CAGR[2] or global exports during the same period);

(c) Increased penetration of financial services powered by robust digital tech stack (3.4x growth in the number of Jan Dhan accounts over FY15-24; strong improvement in the financial inclusion index to ~64[3] in FY24, from ~43 in FY17);

(d) A steady rise of Foreign Direct Investments (FDI) (~2x[4] increase in FDI over FY14-24)

[1] PIB [2] WTO [3] RBI [4] IBEF

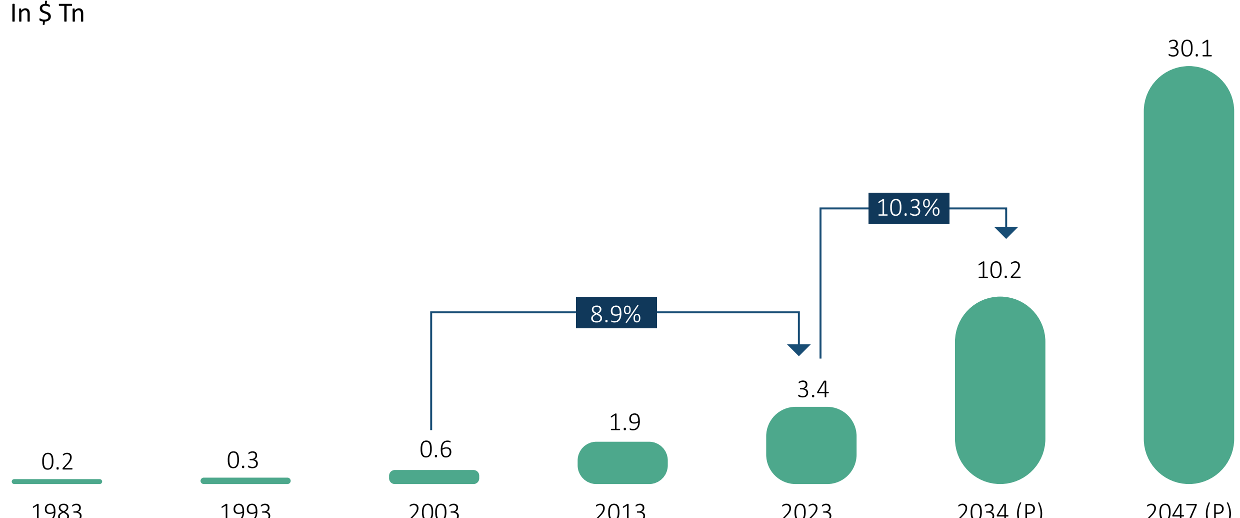

Exhibit 1: India's GDP growth

India's growth over the next decade looks even more promising as we are strongly positioned to outpace the historical growth comfortably with an expected growth of ~10% over FY23-34

1. India has strong fundamentals to become a $10 Tn economy

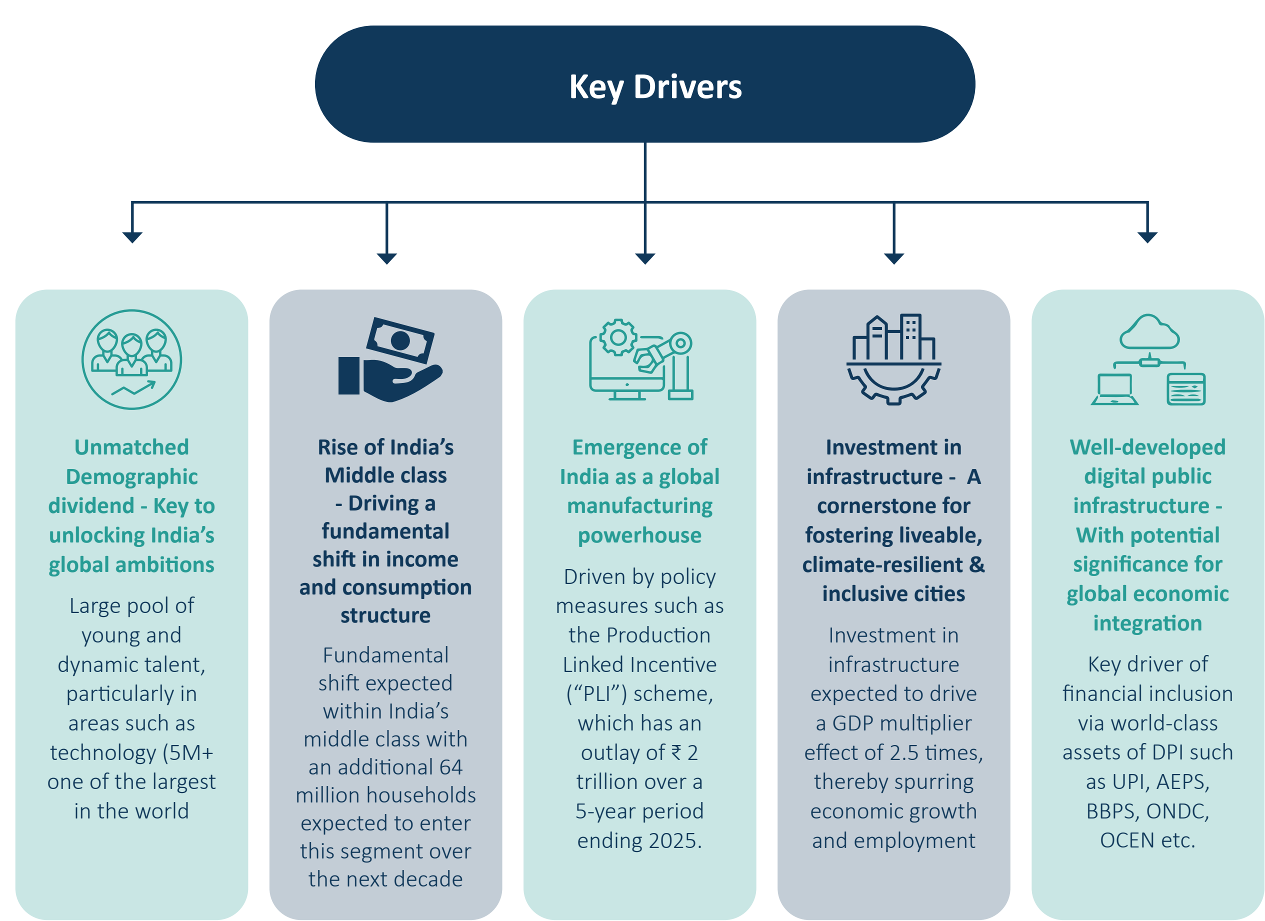

Exhibit 2: Factors driving India's growth story

1.1 Rise of India's middle class – Driving a fundamental shift in income and consumption structure

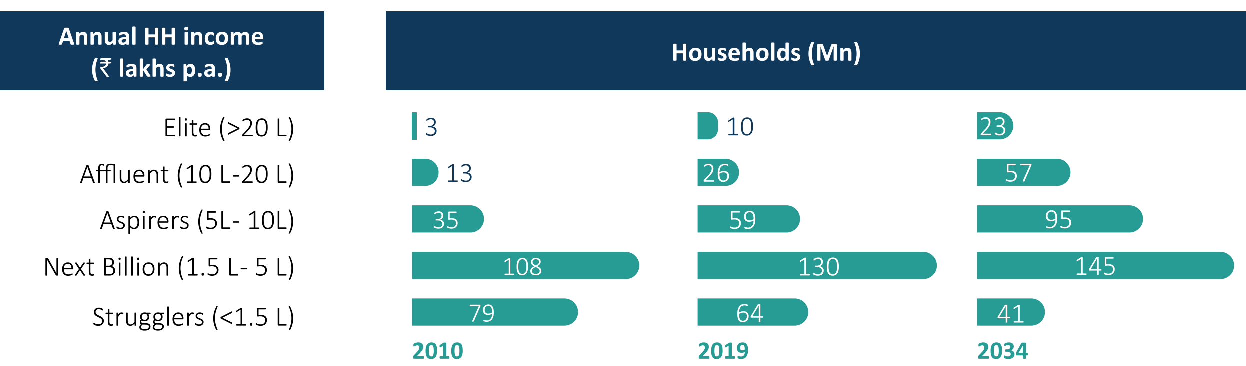

Exhibit 3: India Household income segmentation forecast

Source: PRICE, TCF analysis

Over the next decade, a fundamental shift is expected within India's middle class[5], with an additional 64 Mn households estimated to enter this segment[6]. By the end of 2030, it is estimated that more than 100 Mn individuals will be at developed-world standards of consumption, and more than 200 Mn individuals will have consumption patterns in line with the middle-income segment of other developed nations.

The wide variation in income within India's middle class yields diversity in their spending patterns and they behave vastly differently from each other.

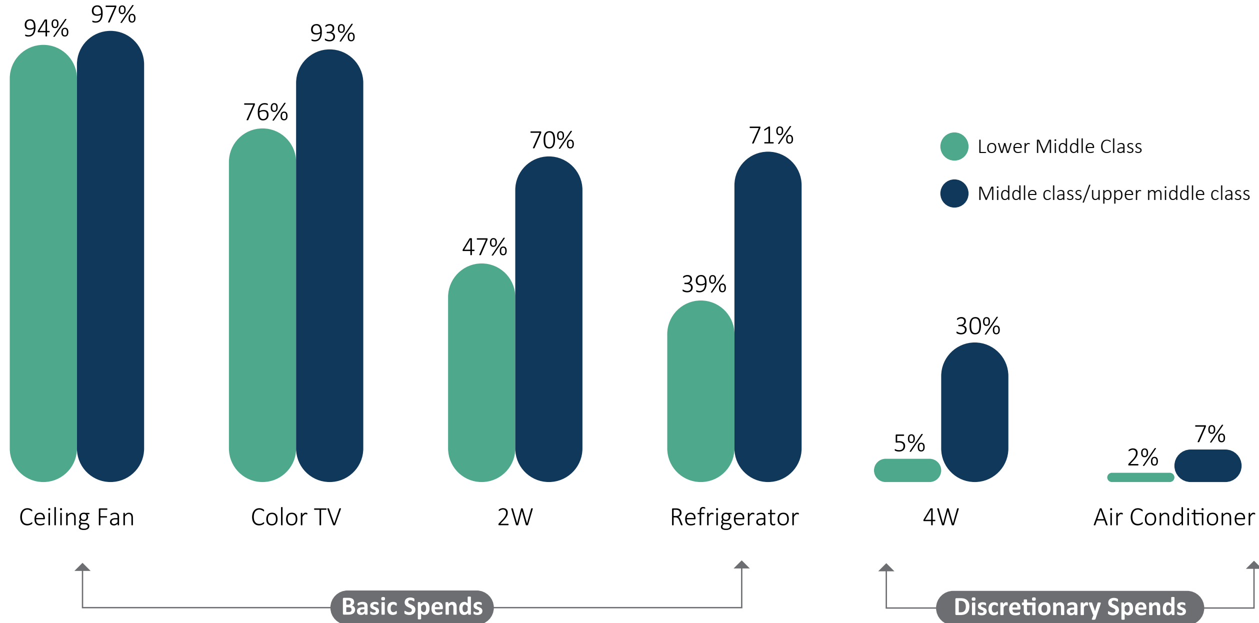

Exhibit 4: % people spending on basic and discretionary spend categories[7]

Source: PRICE (People Research on India's Consumer Economy)

[5] *Defined as annual HH income ₹5-20 lakhss*

[6] *PRICE, TCF analysis*

[7] *Lower middle class refers to next Bn, upper middle class to aspirers and affluent*

As the lower middle class spends much of their income on private healthcare, education, non-essential consumables and assets such as motorbikes and basic household appliances, the upper/ middle class spends a large proportion of their income on private healthcare and education, but also on discretionary goods and luxury assets such as cars, air conditioners, and washing machines. With these varied spending patterns, India's middle class is highly nuanced and requires customised financial services products and innovations to cater to their specific needs and demands.

1.2 Unmatched demographic dividend – Key to unlocking India's global ambitions

India's size and age of the working population will play a significant role in its economic growth in the coming years. India is expected to have a very high share of the working age population[8], ranging of 65-70%[9] over the next decade (FY24-34), resulting in the availability of abundant skilled and unskilled labour to propel the economy forward. Coupled with this, Labour Force Participation Rate (LPFR) for females specifically is also expected to increase in the next decade, driven by the high share (~49%) of female enrolment in higher education in India currently.

1.3 Emergence of India as a global manufacturing powerhouse

The Indian government has launched several initiatives aimed at promoting manufacturing and facilitating the ease of doing business in the country. The Production Linked Incentive (PLI) scheme launched by the Government (aggregating to ₹2 trillion across 14 sectors in manufacturing) is intended to boost its Make in India campaign. This initiative also aims to attract global manufacturing majors to India and encourage them to create an ecosystem of domestic players to support their operations.

Manufacturing's share of India's GDP is projected to rise from 18% to 25%[10] by FY31 (10% CAGR), driven significantly by MSMEs (Micro, Small, and Medium Enterprises), which have contributed around 37% to the country's manufacturing output in recent years. With financial services penetration in the MSME sector at just 15%[11]—compared to 50% in the US and 37% in China—there is a substantial opportunity for banks, NBFCs (Non-Banking Financial Companies), and fintechs to expand into this under-served market.

1.4 Increased focus on building robust infrastructure

Indian government's commitment on developing infrastructure is evident through its allocation of 3.3% of GDP to the infrastructure sector in the FY24, with a particular focus on the transport and logistics segments. This commitment was supported by the launch of the government's Gati Shakti programme for developing holistic infrastructure, with a ₹100 Tn outlay focusing on 7 engines (railways, road, ports, waterways, airport, mass transport and logistics infra). Among the 7 engines, roads & highways account for the highest share, followed by railways and mass transport. As a result, it is estimated that the investment in infrastructure will drive a GDP multiplier effect of 2.5x, thereby spurring economic growth and employment.

While the transport sectors remain the primary focus, the government has also begun to concentrate on other sectors as India's environment and demographics are evolving. There is a compelling need for enhanced and improved delivery across the entire infrastructure spectrum, from housing provision to water and sanitation services, as well as digital and transportation demands. These efforts will ensure economic growth, improve the quality of life, and boost sectoral competitiveness. This, in turn, also creates a strong market for financial services products like housing finance to support this rapid growth (the Indian housing finance market is expected to grow at a CAGR of 24%[12] over FY25-34).

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[8] Working age population defined as population in the age of 15-59 as per OECD
[9] EY India [10] PIB [11] EY [12] Custom Market Insights

1.5 Best in class Digital Public Infrastructure

In addition to physical infrastructure, digitisation, driven by population-scale public digital infrastructure, has nurtured entrepreneurship and led to democratised innovation across the economy. India's digital revolution has particularly impacted financial services in a significant manner, as the country has invested in building key digital infrastructure focused on financial services (such as Unified Payments Interface (UPI), Aadhaar Enabled Payment System (AEPS), Bharat Bill Payment System (BBPS), Open Network for Digital Commerce (ONDC), Open Credit Enablement Network (OCEN), etc.). Leveraging this infrastructure, Indian entrepreneurs have built 17 fintech-focused unicorns[13] as of 2024, with these unicorns raising over $34 Bn.+ since 2014.

1.2 What will a $10 trillion economy look like?

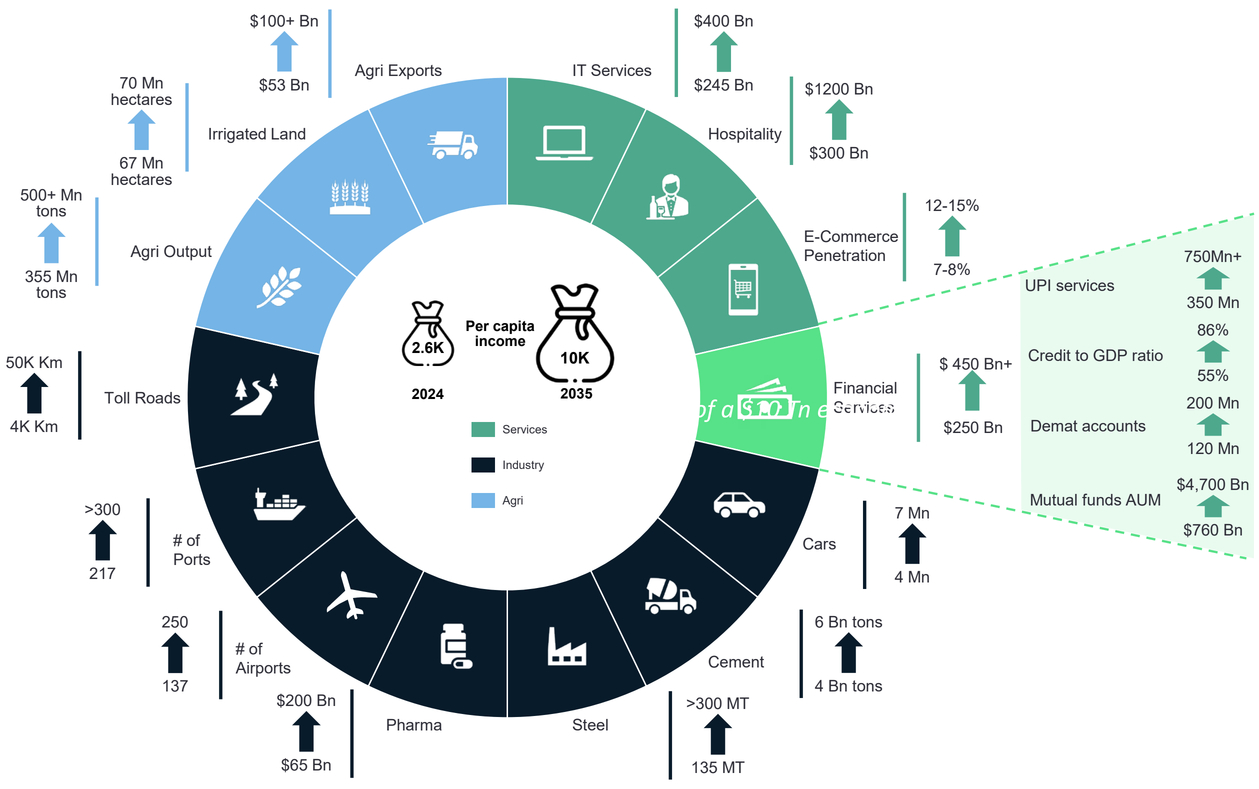


Exhibit 5: The shape of a $10 Tn economy

Source: PIB, WTO, IBEF, Morgan Stanley, TCF analysis

[13] *S&P Global Market intelligence*

2

Financial Services: Glass half-full

2.1 India's financial services coming of age

The Indian financial services sector has truly arrived on the global stage. Three Indian banks and one insurer are now among the top 25 globally by market capitalization, a significant rise from a decade ago when only one Indian bank ranked within the top 25. Additionally, two more banks and one insurer are on the cusp of entering the top 50. India is among the nations with the largest number of fintechs—ranking in the top 3 globally on this metric. The regulators are admired for guiding a fast-growing, rapidly evolving sector through a calibrated growth path, even as the global system is amidst turmoil and churn.

We have seen the start-up ecosystem mature, evolving from traditional lenders in its early stages to payments, followed by consumer financial services, and then MSME financial services. Recently, we have witnessed some distinctive businesses being built that enable financial services companies to build scalable, innovative and agile business models. With marquee success stories in each wave of innovation, we have reason to believe not only that the Indian fintech ecosystem is maturing, but also that it has the wherewithal to create winners across the financial services landscape.

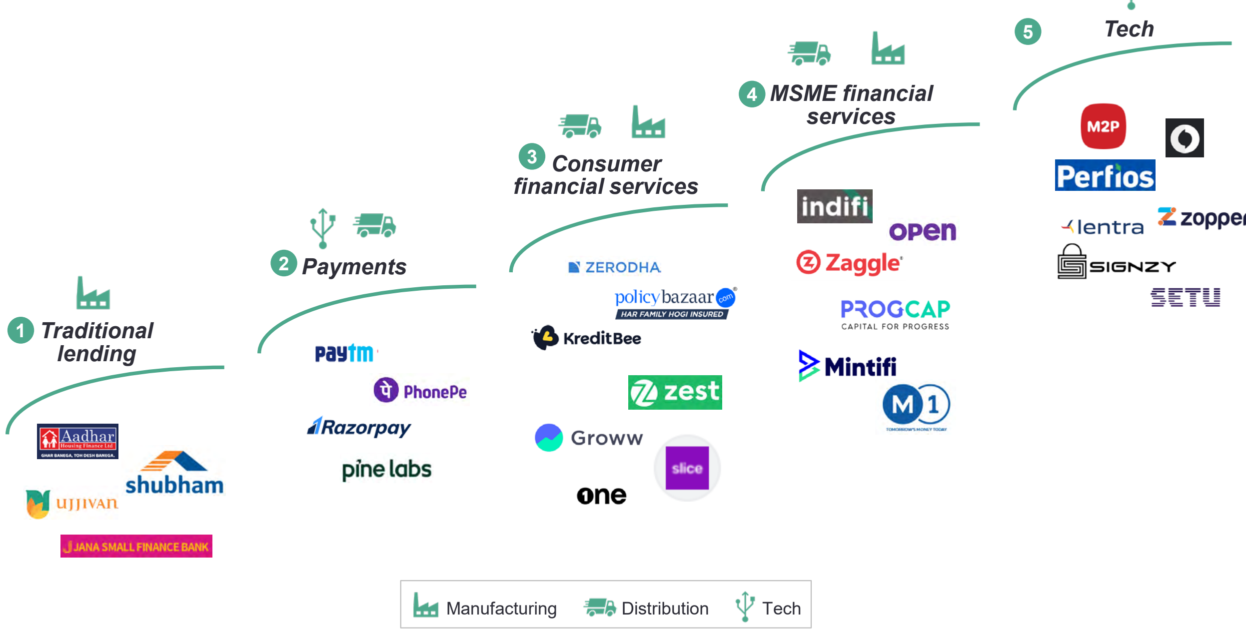


Exhibit 6: Evolving financial services landscape

Source: EYP analysis

2.2 White space everywhere!

The total revenue pool of the Indian financial services sector was ₹20 Tn ($0.25 Tn) in FY22, with lending and insurance accounting for about 75% of the revenue pool. Despite significant traction in recent years, penetration of most products remains much lower than relevant global benchmarks. Retail lending is still only a third of GDP, approximately 60% of the global average; credit card penetration is even lower. Insurance density is still very low; life insurance density in China, at $274, is ~3.7 times that of India.[14] General insurance density in India is even lower, and only recently have we seen an appreciation for discretionary categories like health insurance.

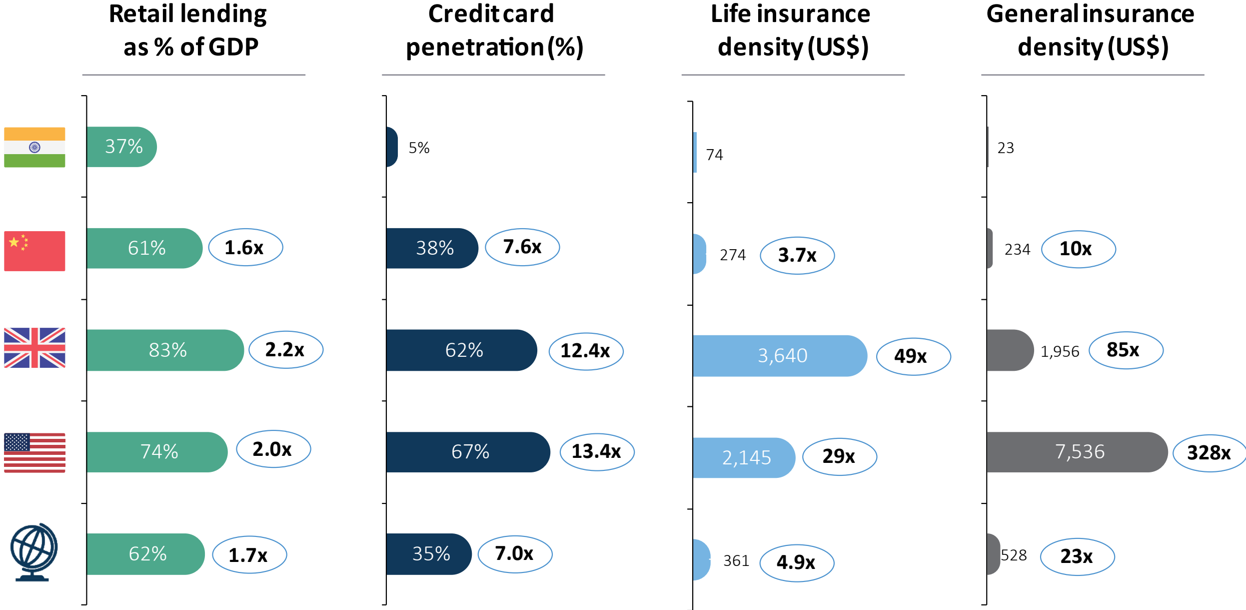


Exhibit 7: India vs other large economies on FS penetration

Source: EYP analysis

Robert Frost's words, "But I have promises to keep, and miles to go before I sleep," ring true whenever we consider the Indian economy and its financial system. One could make a rather long list of opportunities to pursue – we are still a work-in-process ecosystem. Some of the key impediments that innovators could address to build winning businesses are:

- **High cost of distribution making small-ticket loans unviable:** Significant investments have been made to enable access to financial services at the last mile. With each passing quarter and year, there is a sense of continued progress: over 80% of Indians now have a bank account and a smartphone, and the share of digital transactions has risen from approximately 10% to 30% in the last five years.[15] However, intermediation costs constitute a large part of the unit economics for insurance and lending providers (over 30% of insurance premiums and over 50% of revenues for nano-micro loans)[16]. The viability of a business model with such high customer acquisition and distribution costs is therefore contingent on repeat sales or significant cross-selling. We are already seeing signs of this with players focussed on small-ticket products- most small-ticket lenders and insurers (e.g. KreditBee, Acko) are now expanding their offerings to their customer base.

[14] *EYP analysis*

[15] *Business Standard, MeitY*

[16] *TCF analysis*

In Rs Tn

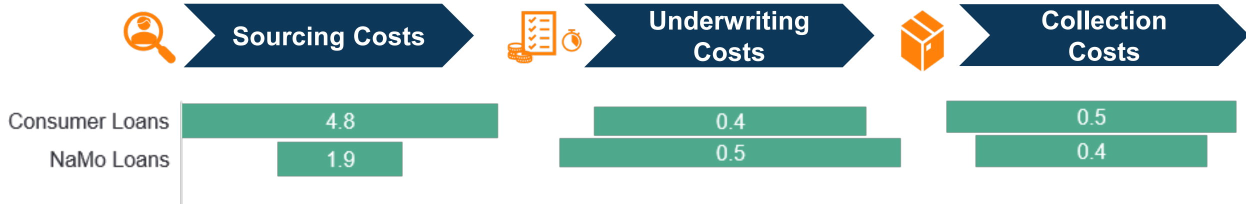


Exhibit 8: Intermediation costs across the lending value chain

Source: TCF analysis

Average Ticket Size (₹)	NIM	Cost of Acquisition	Cost of Underwriting	Collection / Recovery Cost / Credit Cost	Loan Level ROA
35,000	26%	(7%)	(2%)	(12%)	5%

Exhibit 9: Unit economics for a short-term personal loan

Source: TCF analysis

- **Lack of affordable of financial services products:** Despite the progress made in driving financial inclusion, affordability constraints continue to inhibit advancement. Products which can truly elevate a household from sustenance to prosperity or genuinely protect their living standards, such as investments, health and life insurance, and production credit, are still primarily accessible only at the top of the pyramid. The monthly household savings of 80% of the population are below ₹7,500, making it unlikely that they would see merit in purchasing a health insurance policy with an annual premium of ₹25,000.[17] Similarly, for a household with income of ₹5 lakh, the loan amount that can be disbursed is constrained by their ability to service interest rates of 25%+ per annum from their earnings. Apart from the top sliver of population that currently dominates most discretionary financial products, affordability remains a key concern across products.

Population decile	Share of total wages	Avg monthly income (INR)	Likelihood of buying health policy	Likelihood of buying life policy
0-10%	2%	3,151	Unlikely	Unlikely
10-20%	2%	5,062	Unlikely	Unlikely
20-30%	2%	6,187	Unlikely	Unlikely
30-40%	3%	7,593	Unlikely	Unlikely
40-50%	4%	9,280	Somewhat likely[#]	Unlikely
50-60%	5%	12,681	Somewhat likely	Unlikely
60-70%	7%	15,499	Somewhat likely	Unlikely
70-80%	7%	16,908	Likely	Somewhat likely
80-90%	11%	25,362	Likely	Likely
90-100%	57%	136,094	Likely	Likely

Exhibit 10: Likelihood to purchase insurance by population deciles

Source: EYP analysis

[17] *EYP analysis*

- **Customer experience remains inconsistent across the ecosystem:** Incumbents vie to create the "Amazon experience" and are still far from delivering it. Some amount of friction may be expected and accepted due to the fiduciary responsibilities involved, but there is a near-unanimous agreement that the overall experience is often broken and cluttered. Some examples are glaring: despite a robust national identity and e-KYC framework, incumbents still require new KYC procedures for every product they sell; a SIM card can be obtained without leaving the house, but a visit to the bank branch is needed to update the mobile number. Despite banks being heavily focused on customer ownership, they have leaned on their fintech counterparts (neobanks, challenger cards) to create successful, customer-friendly journeys.

- **Need for transformative digitisation of product and operations of manufacturers for higher efficiency:** Despite the substantial traction seen in fintech, much of the focus thus far has been on front-end customer journeys. By comparison, core product and operations have seen significant automation but not as much re-imagination and transformative digitisation. Incumbents are discovering that their product and operations journeys are likely to become a bottleneck in delivering a superior customer experience at the front end. What is perhaps even more powerful is that the vast amounts of digital footprint and data available with incumbents can be channelled to enrich the context for the customer, resulting in clear benefits in terms of higher sales efficiency.

2.3 Structural growth drivers

In addition to the tailwinds of the India growth story, we believe that three powerful triggers in the financial services sector have the potential to transform and propel it to new heights in the coming decade:

i. Demographic shifts

ii. Rollout of Digital Public Infrastructure (DPI) 2.0

iii. Re-imagination of tech stack by incumbents

i. Demographic Shifts

India is poised to witness significant shifts in income demographics. 64 million new households will transition into the middle-income segment, with the per capita annual income estimated to increase from ₹3 Lakh to ₹18 Lakh.[18] This surge in income levels is expected to drive heightened aspirations, along with an increased propensity to spend. Consequently, there will be a growing demand for financial services products that can cater to these evolving aspirations. This presents two types of opportunities:

- The sheer scale of demand in sectors such as consumer lending, nano and micro-enterprise lending and insurance will create significant opportunities for emerging entrepreneurs to capitalise on these growing markets.

- There will be an opportunity for product innovation, allowing businesses to develop financial products tailored to the specific needs of specific customer segments.

ii. Rollout of DPI 2.0

India's DPI sets the standards for the Global South, and is a beacon globally, especially for the developed economies, that have been left far behind in this aspect. India's DPI framework truly aims at open and inclusive use of technology to enable democratization of financial and other services. India's achievements on DPI are truly staggering[19]:

- Over 440 Mn UPI transactions were processed in April 2024 (more than 5,000 UPI transactions each second)

- 94 Bn Aadhar authentication transactions were executed in FY23

- Approximately 140 Mn passengers have used Digi Yatra to check-in at airports

DPI 1.0 focused on national identity and creating central databases to support use cases around authentication and validation. DPI 2.0 builds upon this by creating the data rails and enabling infrastructure for fintechs to harness digital consumer data which was created with DPI 1.0. The

[18] *PRICE, TCF analysis*

[19] *NPCI, UIDAI, PIB*

Government and the regulator are establishing a National Financial Information Aggregator ("NFIA"), a combination of the RBI's Public Tech Platform for Frictionless Credit ("PTPFC") and the Government's National Financial Information Repository ("NFIR"). The PTPFC is envisaged as a plug-and-play model with open architecture, facilitating a seamless flow of digital information to lenders through linkages across Aadhaar e-KYC, state digitised land records, satellite data, PAN, bank statements, and house/property encumbrance data. We believe the government's central data repository (NFIR) and the PTPFC will significantly change the way in which loans are underwritten and collected, thereby bringing cost efficiencies.

DPI 2.0 is about creating platforms and protocols to aggregate data from the various 'stacks' for building powerful use cases across sectors, including financial services. ONDC, Account Aggregator Framework, and Bima Sugam are some of the more visible examples of this platform strategy, with far-reaching impacts on financial services. For instance, over 100 Mn consent requests have already been processed by account aggregators[20], and use cases across lending and insurance underwriting are being powered by fintechs as well as incumbents. Another example is ONDC, which has the power to revolutionise nano and micro-lending over the buyer and seller apps, enabling commerce on the platform. Bima Sugam, as envisaged, will transform the end-to-end customer lifecycle across policy issuance, servicing, and claims.

iii. Re-imagination of tech stack by incumbents

While fintech has made deep inroads on the front-end customer experience, we believe that it is increasingly uncovering new opportunities as well as problems to solve across the value chain. Indian banks spend only 6-8% of their operating expenses on technology (most NBFCs and insurers spend even less) compared to a global average of 10-12%. As incumbents increase their tech spend, it will spawn a significant opportunity for innovators to build tech-for-financial services providers **("Techfin")**.

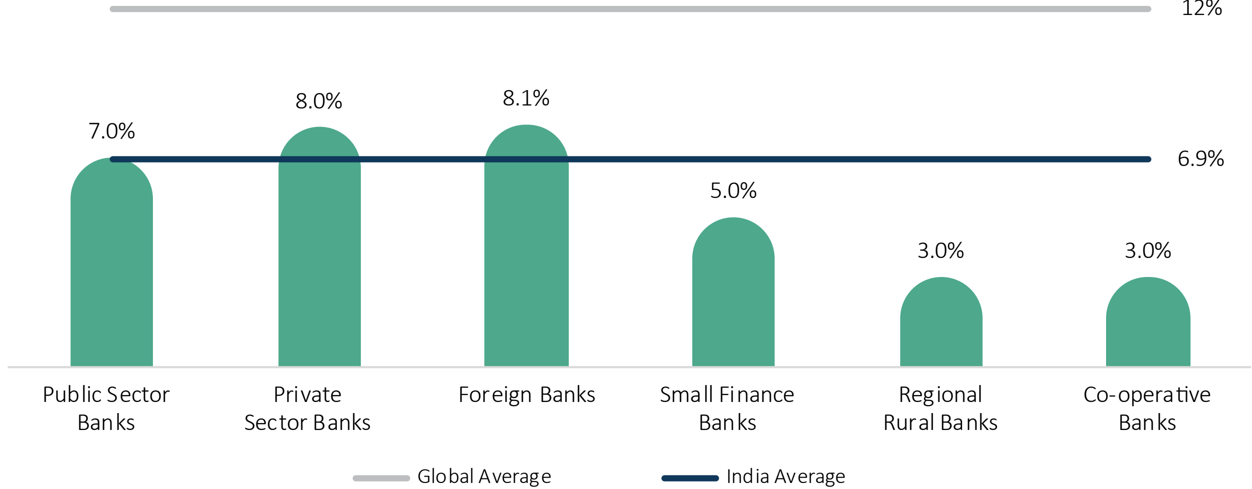


Exhibit 11: Tech spend as % Opex for Indian banks (by type of bank)

Source: TCF analysis

We have already seen companies such as Perfios, M2P, Karza, and Signzy build distinctive businesses that support financial services players across a variety of use cases. As the innovation ecosystem matures, we will witness next-generation use cases being pursued by innovators leveraging new technologies (AI, blockchain, big data/analytics). These 'enablers to financial services providers' will transform mid-office and back-office activities as well as the technology landscape of financial services businesses, including core applications, product processors, and workflow applications.

[20] *Sahamati*

As incumbents review and re-imagine their tech stack across the customer and technology lifecycle – particularly to address the transformational and disruptive potential of DPI 2.0- we expect the overall tech spend of the financial services sector to begin converging with global standards.

FOUNDER'S SPEAK

"Customers now access loans through diverse channels like DSAs and fintech platforms, making it essential for banks to integrate closely with fintech companies operating in these areas. Unlike payments, where efficiency and low costs are standardised, lending is influenced by factors such as cost of funds and ROA expectations, leading to varying risk levels and underwriting needs. As a result, standardisation is not feasible. Banks must also overhaul their systems, originally designed for large-ticket, low-volume transactions, to handle the new reality of high-volume, low-ticket lending. This transformation is crucial to avoid rising operating costs as lending volumes increase. Enhanced customer data allows for pre-filtering of applicants, reducing rejections and ultimately making loans more affordable and accessible for customers."

Gaurav Kumar, Founder Yubi

3

Opportunities in the $10 Tn economy

3.1 Indian FS sector GDP would be a top 20 country by 2034

Given the current low penetration and the tailwinds aiding future growth, most products are set to see a surge in penetration and business volumes. We believe that the financial services revenue pool will grow from the FY22 level of ₹20 Tn ($0.25 Tn) to ₹136 Tn ($1.2 Tn)[21] by 2034, adding a revenue pool equivalent to the current GDP of Turkey!

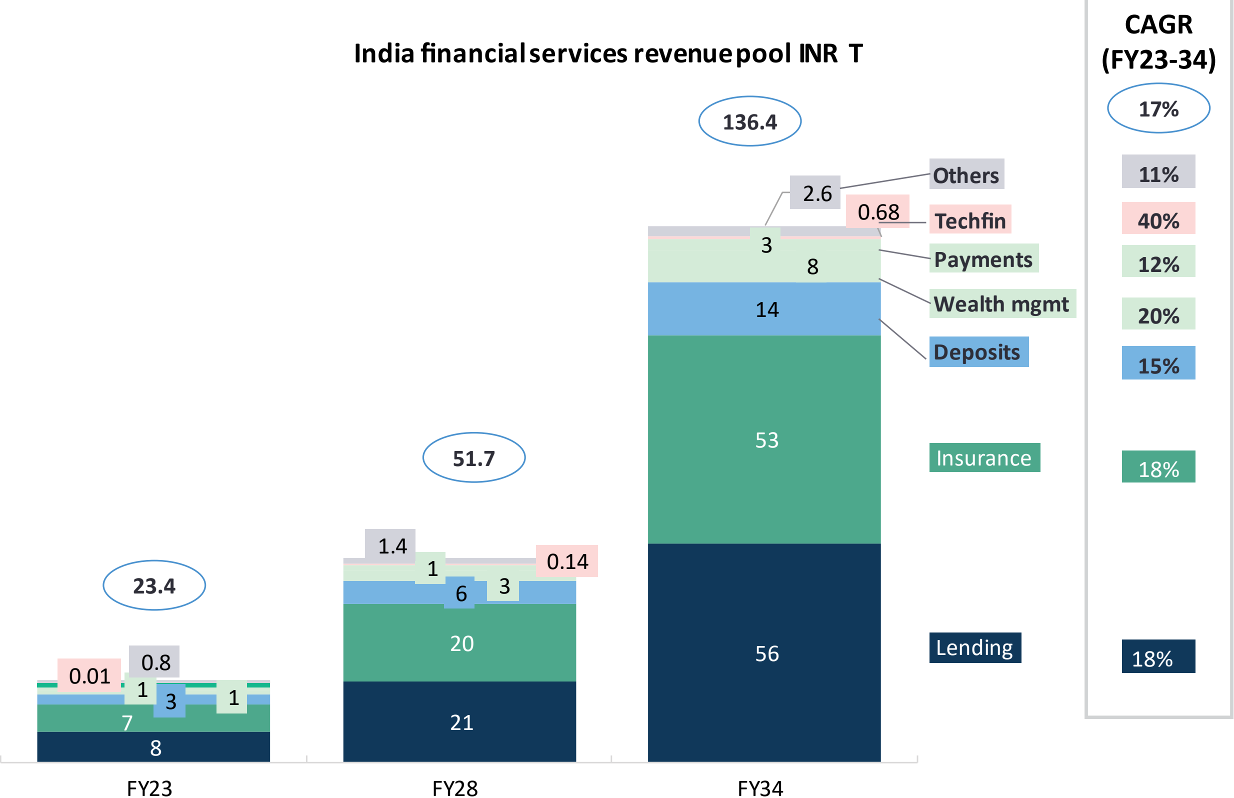


Exhibit 12: Growth in revenue pools of segments within financial services in India (In ₹ Tn)

Source: EYP analysis

[21] *EYP analysis*

If the Indian financial services sector were to be a country, it would rank amongst the top 20 by GDP by 2034. Riding on this growth, it is also fair to expect more value-unlocking opportunities across private and public markets over the coming decade.

3.2 The promise of the coming decade:

If India must achieve its vision of becoming a $10 Tn economy, and the financial services sector has to power this aspiration, vast expanses of white space would need to be addressed rather quickly. This is a very conducive context for innovators to create winning businesses by riding on the three growth drivers (demographic shifts, DPI 2.0 and reimagination of tech stack by incumbents).

We have identified 18 revenue pools across the financial services sector, all of which are large and meaningful; however, we believe that seven of these revenue pools sit at the pithead of exponential growth, powered by robust demand as well as supply-side forces:

i. Consumer lending

ii. Nano/micro lending

iii. SME lending

iv. Distribution

v. Retail health insurance

vi. Technology for financial services ("TechFin")

vii. Wealth management

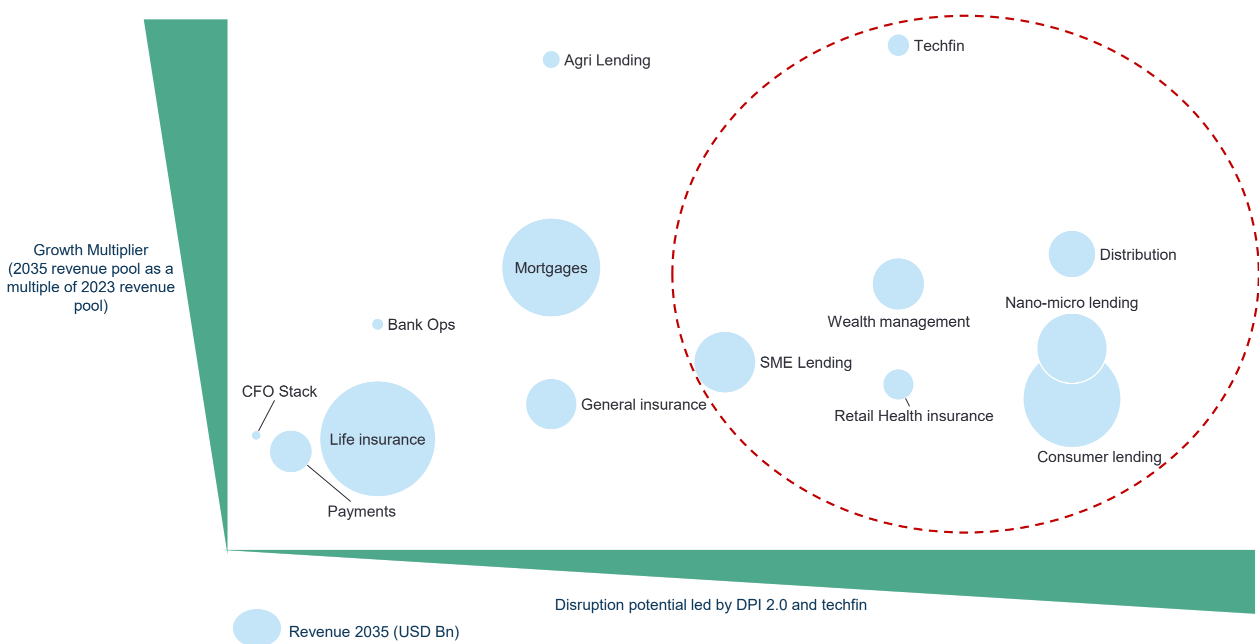


Exhibit 12: Estimated growth areas for Financial Services

3.3 Deep dive on select themes:

While all the opportunities mentioned above are substantial in their own right, we delve deeper into a select set to examine implications of the structural growth drivers.

3.3.1 Consumer Lending and Nano-Micro Lending:

We believe that DPI 2.0 will help address the access and affordability challenges in the following ways:

- **Deeper customer insights driving tailored product creation:** While DPI 1.0 created digital identity and trail for customers, DPI 2.0 will provide significantly sharper insights to capital providers. This brings together customer information across multiple sources, and hence gives access to understanding of entire asset and liability profile of a customer, and customer cashflows. With better understanding of customer needs and profiles, sharper and contextual products can be pitched with higher conversion rates, thereby bringing

down customer acquisition costs. Tailored products could be in the form of: (i) Customised repayment schedules that factor in individual borrower cashflows (ii) Higher ability to pitch cross-sell products, pre-approved offerings.

- **Ability to pricing individual loans based on a better understanding of the customer risk profile:** Most lenders, especially in the nano-micro lending segment price loans on a portfolio basis. However, as they start to build a sharper image of their customers, we anticipate that they will begin to price these in line with the specific risk and cost-to-serve. For example, most loan against property (LAP) products with ticket sizes of upto ₹10 Lakhs come with an interest rate upwards of 20%, but their observed credit costs are ~1%. DPI 2.0 will give lenders the data and hence the confidence to price such loans in line with the actual risk, thereby increasing affordability of customers that are more deserving.
- **Better visibility on borrower cashflows will bring the ability to price loans dynamically and streamline collections efforts:** Harnessing customer information layered with lenders' analytics will lead to better visibility on early warning signals and give providers the ability to respond nimbly. With dynamic pricing of loans in keeping with underlying borrower-level metrics, balance transfers of loans to the next set of lenders will come down. Lenders will also have improved ability to spend collections costs towards tough-to-recover customer rather than a chase-all approach being adopted today.
- **Reduction in underwriting TAT enabling secured loans to be available on-tap:** In most secured offerings, need for physical verification for assessment of income and property underwriting has necessitated a certain TAT and repeated customer touch-points. With asset/ liability information being channelised through the NFIA and with other measures such as the ongoing digitisation of land records, e-courts providing repository of information pertaining to the judicial system and electronic registration of property and documents, we believe underwriting TATs can be reduced from 7-10 days to near instant.
- **Customer-centric multi-product business model:** As lenders harness the potential of DPI 2.0, we are likely to see more holistic, customer-centric businesses which cater to a wider range of customer needs and capture a larger wallet share of their customers emerge. Not only does this create a virtuous circle by driving higher lifetime value from a customer to defray the customer acquisition costs, but also de-risks the business model with a diverse set of products.

CASE STUDY

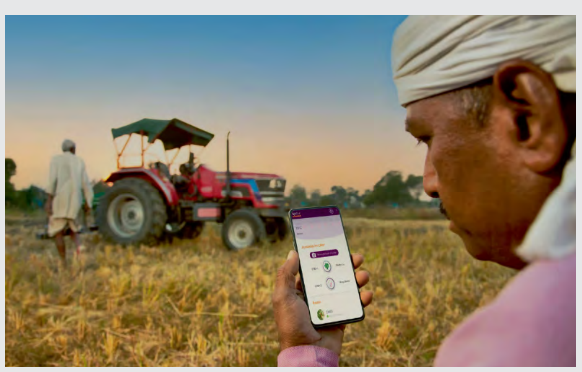
How Sarvagram has leveraged data to develop a deep understanding of the rural customer, thereby building multi-product capabilities

Sarvagram's Approach: 360-degree household assessment basis their demographics, income and liabilities to determine net resilience surplus and capacity. Almost all SarvaGram households have multi-income sources: either agriculture & allied, micro enterprises, and/ or salary. Sarvagram builds trust and increased access through farm mechanisation and insurance products

How are they harnessing data for underwriting:

- Relies on verifiable sources on income – dairy income from farmers' account, retail outlet sales on UPI and GST bills.
- Assessing household expenses/cashflows – Based on verified information (UPI, EMIs) and estimations based on demographics.

Multi-product capabilities: Tailored to end-use and offer business loan, personal loan, collateral loan, gold loan. Aims to create a comprehensive platform of financial services for rural households. Forayed into health and life distribution recently.



Customer Type	Family-: Small scale catering business Location: Bangalore	Male (40 yrs.): Electric Shop Location: Jaipur
Business	Catering	Electric shop
Nature of Cashflow	Seasonal	Predictable but no proper statement/ bills; 70% of payments in cash and rest through UPI
Monthly Income	₹40 -50,000; high during festival seasons	₹30,000
Digital Savviness	Medium; 50% sale receipts via UPI	Low, bills maintained in kutcha book
Ecosystem	Standalone business, mostly does business through word of mouth	Standalone business
Degree of formality	Low	Low; GST not required given the small size of the business
Challenge	Seasonal business and complex cash flows	High TAT from traditional lenders
Existing Credit	Digital personal loan (20K)	None, new to credit

"We wanted to spend more on our children's education and hence wanted to invest in our business to increase incomes. Our incomes don't have a steady pattern and hence we were turned away by banks. Through a local agent, we were introduced to a lender who gave us a ₹ 15L loan backed by our property.

What matters to us is that we get a loan closed on time and that fulfils our requirements."

"I wanted to invest into sound-systems. Through a friend who works with a local NBFC, I got to know they offer <5L working capital within 15-20 days. Since my need was immediate, I applied with them and got a sanction.

For small shop owners like us who operate on thin margins, timely receipt of funds makes significant financial impact."

Exhibit 13: Customer's lens on needs, challenges and asks from the FS eco-system

Source: TCF analysis

3.3.2 Distribution models

One of the most vexing problems that the Indian fintech ecosystem has attempted to address is that of providing access to the large, heterogenous and widespread consumer base. Distribution cost tends to be a rather significant portion of the overall unit economics, ranging from ~10% of revenue (NIM) for secured loans to ~20% for unsecured loans, and 20-40% of first year insurance premium across most insurance products. In case of 'direct to consumer' small-ticket businesses in lending and insurance these can eat up over 50% of the revenues.[22] As a result, we have seen that distribution tends to be outsourced and converted into a variable cost across businesses whether it be agents for insurance, DSAs for loans and IFAs for mutual funds Technology-led disruption of this large distribution opportunity has been the raison d'etre of several fintechs, and we have witnessed a range of distribution models such as:

[22] *TCF analysis*

- Digital payments-led distribution via players such as PhonePe, GPay, Paytm, etc., especially given the wafer-thin revenues in consumer payments
- Product-focused online distribution pioneered by the likes of Policybazaar (insurance) and Paisabazaar (loans)
- Product-focused offline distribution where players such as Andromeda (loans), Turtlemint and InsuranceDekho (insurance), NJ India Invest and Prudent (mutual funds)

CASE STUDY

How InsuranceDekho has approached distribution of financial services products to the last-mile through a tech+touch model

Why "Tech+Touch" distribution: Low penetration in insurance (66% of health expenses paid out-of-pocket and over 80% don't have life insurance) driven by lack of trust, awareness, accessibility, and servicing. India relies heavily on trusted human interactions, making a "Phygital Approach" essential- leveraging comfort with technology while maintaining human interaction to build trust.

InsuranceDekho's Approach:

- Built a strong and impactful tech-enabled distribution network: 1.7 Lakh hyperlocal agent partners across 1,500+ cities. Offers the largest suite of insurance products at the click of a button, sold 9 Mn + policies till date.
- Leveraging tech to streamline agent's journey: 360° proprietary tech stack allows agents to focus on customer conversion while the tech stack provides a seamless back-end experience.

A question that is often asked is: "What is the distribution model of the future?". Our hypotheses are as follows:

- Given the vast scale and untapped potential of India and the inherent heterogeneity of the market, it is unlikely that only one template will prevail. India is seeing and will continue to see co-existence of multiple models, both offline, online as well as hybrid. Simpler products in the consumer space, such as personal loans, credit cards and basic insurance products will rapidly move to a fully digital model. Sophisticated products such as secured lending and products to SMEs and corporates, insurance and mutual funds will need a combination of touch and tech, whether it is to provide guidance to customers or to assess risk. Intelligent use of technology can dramatically improve the efficiency as well as efficacy of physical channels, by enabling providers to enhance customer experience, ensure 'right-sell' and assess risk better.
- Competitive forces will continue to push distribution businesses to continually monetize their reach and customer base, forcing them to evolve from a singular product-focus to a multi-product franchise. This is especially true in case of micro-lending or insurance, where repeat sale as well as cross-sell is vital to generate enough lifetime value form the customer to defray the high customer acquisition costs.
- In insurance, the introduction of a Managed General Agent or MGA framework could pave the way for insurance intermediaries to transition to manufacturing, thereby capturing more of the value chain. MGA has the ability to acquire customers, underwrite them and share the risks with the insurance companies. MGAs often differentiate themselves either by having expertise in nonstandard, niche, or specialty lines of insurance or by having privileged access to specific customer segments. Most the insurance companies focus on vanilla products and do not build capabilities in niche areas (ex: real-estate, OPD, etc) due to lack of underwriting and distribution capabilities. In countries like the US & UK, MGA market

comprises 6% of the USA insurance premiums & ~10% of UK insurance premiums [Infographic: This has seen precedent in economies such as the US, where adoption has been significant – there are over 700 MGAs, and almost 50% of P&C insurers are tied up with an MGA to source new business.][23]

- Technology will drive three key changes in distribution models:
    - o Contextual selling of financial services products embedded in commerce by harnessing the power of analytics and AI
    - o Digitalization of customer (buyer) and last-mile feet-on-street (seller) journeys to ensure scalability and productivity gains; advances in AI will hasten this transition
    - o Consolidation of feet-on-street distribution into B2B2C platforms and marketplaces, who leverage their scale to garner better terms of trade from manufacturers as they build scale in terms of last-mile reach; we have already seen this in the B2B2C models in insurance (Turtlemint, InsuranceDekho), mutual funds (NJ India Invest, Prudent) and lending (Andromeda).

3.3.3 TechFin

The financial services ecosystem has undergone significant transformation over the past decade, marked by innovations such as faster turnaround times (TATs) for disbursements and fully digital onboarding processes. These advancements, driven initially by Fintech companies, are gradually being embraced by traditional banks and large NBFCs. As customers have progressed with better smartphones, enhanced internet connectivity, and seamless eCommerce experiences, their expectations for transparency and speed have risen across all services, including financial offerings. However, financial institutions have lagged in meeting these expectations, primarily due to the slow pace of technology adoption. While industries beyond financial services have widely adopted cloud computing, microservices, and modern software solutions, most banks continue to operate on legacy, on-premise systems with monolithic architectures and outdated codebases. Yet, a shift is on the horizon. Banks are beginning to incorporate these new technologies, particularly in areas like consumer lending and nano-micro lending—sectors that currently account for less than 5% of total bank technology spending. Given the significant macroeconomic tailwinds, we anticipate that this shift will accelerate. We project that the banking sector will grow at a rate of 15-18% annually between FY24 and FY34. Correspondingly, banks' technology spending is expected to increase from 6.9% to 11% over the same period, reflecting a substantial commitment to technological advancement which will lead to banking spend on technology increasing from ~₹58,000 Cr to ~₹3,60,000 Cr (~6x).[24]

[23] McKinsey, MGAA

[24] TCF analysis

(₹ Crore)

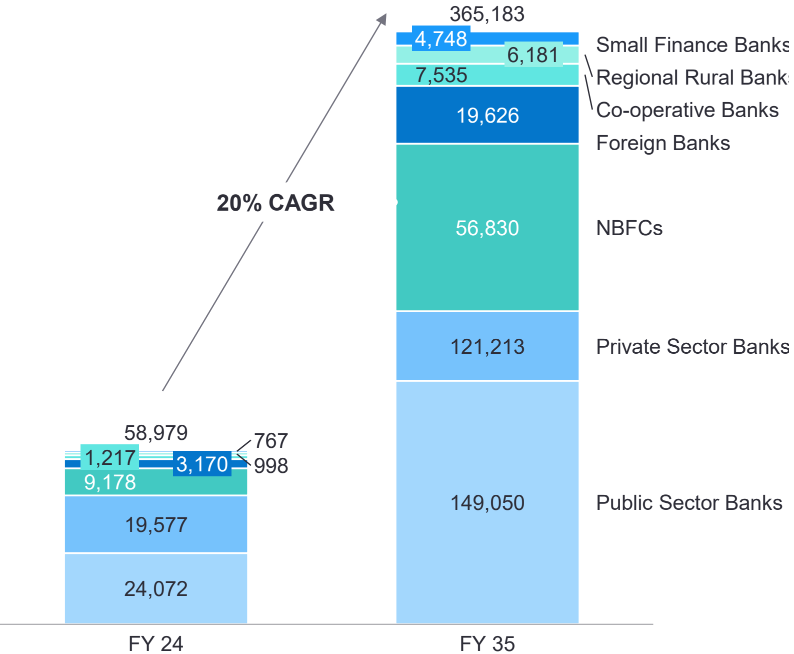


Exhibit 14: Tech Spend – FS institution wise

Source: TCF analysis

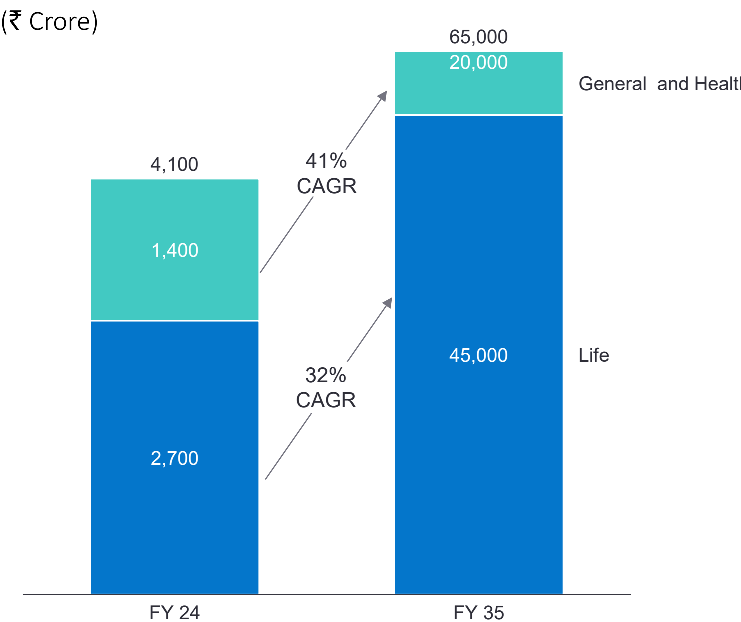


Exhibit 15: Tech Spend - Insurance

Source: TCF analysis

The key trend areas where we see banks investing in technology:

- Networked architecture of lending through co-lending where lenders are leveraging distribution and underwriting ability of fintech and niche NBFC and large digital consumer platforms (payments, ecommerce etc) trying to cross-selling financial services products require real time systems with low latency.
- Increasing availability of data through DPI, will allow for require systems for collecting, processing and reporting real time information for lending, deposit, insurance etc.
- Progressive regulators like RBI, SEBI and IRDA, who wants to ensure consumer protection while containing systemic risk would want banks to use sophisticated systems in place to be compliant and share real time data for monitoring which will lead to growth in RegTech players.
- Globally and few banks in India, have started experimenting with modern application for their core systems (i.e Core banking, Card Management systems), as these systems stabilize and the growth in adoption would increase.

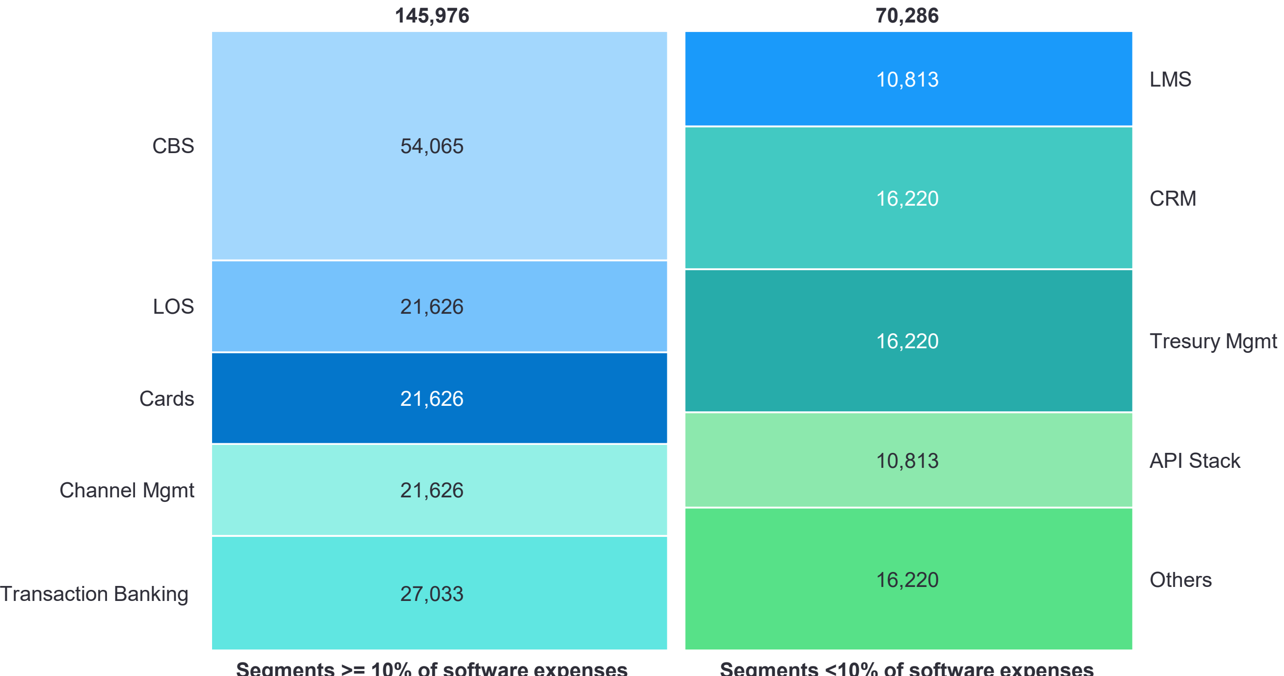


Exhibit 16: Share of software spend by area in FY34

Source: TCF analysis

FOUNDER'S SPEAK

"As formalisation of the economy unravels at a rapid pace it is but inevitable that leveraging technology is the only way to democratize financial access bringing Mns of unbanked and underbanked Indians into the formal financial ecosystem, from digital payments and lending to wealth management and insurance, fintech companies are reshaping how Indians interact with money. This inclusivity is crucial for driving economic growth, as it fosters entrepreneurship, enhances consumer spending, and boosts financial literacy. As fintech continues to evolve, it will play a key role in accelerating financial inclusion, fostering economic resilience, and driving India towards its $10 Tn economy target, setting a precedent for emerging markets worldwide."

Madhusudanan R, Co-Founder, M2P Fintech

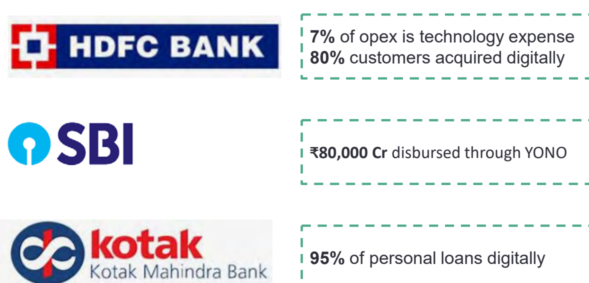
4

Blueprint to build a successful fintech business in the $10 Tn economy

The last decade was a period of innovation in fintech, starting from e-wallets/payments, gathering momentum with the JAM trinity building strong digital footprints through UPI/GST, and leading to a sharp increase in digital lenders/lending platforms, neobanks, credit card platforms, insurance and wealth distribution platforms and many others. This also spurred large incumbents to significantly increase their own digital spending, which in turn led to several banking, insurance and wealth technology start-ups. While innovation spurred widespread customer adoption and a sharp increase in access to multiple financial products, the widespread proliferation resulted in challenges of increased indebtedness, suitability of products/mis-selling and proper means of grievance redressal. It also had the regulators worried about the stability of the financial system and about customer protection, leading to several regulatory interventions. These changes over the last 2 years placed a stress on several business models that were still evolving.

The last two years have seen a structural shift that impact fintech entrepreneurs and investors alike. From being purely tech-driven intermediaries for financial products, we are seeing business models shift to regulated entities (RE) or platforms that in some way fall under regulatory supervision (eg: distribution/broking/payment aggregators). In addition to pure regulatory and compliance implications, these models also have capital/balance sheet implications.

In today's fintech landscape, the traditional boundary between incumbents and challengers has blurred. Incumbents have rapidly caught up to challengers through higher in-house spend to improve customer experience. Banks have opted for a partnership-based model especially to solve for GTM in markets/customer segments where they have a lower presence while opting to provide an in-house digital product/experience for their core customer proposition.



Source: Company reports

25 Economic Times, Kotak Mahindra Bank, SBI

As the market continues to evolve, differentiation based solely on customer experience—such as turnaround time (TAT), user interface (UI/UX), and recommendation engines—will become tactical rather than sustainable. The true competitive advantage lies in businesses that demonstrate customer ownership and define their role in the value chain. In this context, we believe the following are some key considerations for a fintech entrepreneur:

4.1 Business success through innovation of product & distribution suited to serve granular customer segments

Within the larger opportunity space of consumer lending and nano-micro lending, there are specific pockets of demand arising from niche customer segments. This presents an opportunity for entrepreneurs to innovate product & distribution to these segments. A few examples include:

1. **Rural customers:** A significant portion of the future demand for financial services is expected to originate from the rural middle class, which makes up nearly 50% of the rural population.

   Rural consumption expenditure has doubled over the last decade, on the back of higher middle-class incomes. This has also led to higher uptake in insurance and MF products.

   The challenge with providing financial services to this segment are around irregular income and expense patterns, knowledge asymmetry in understanding financial products, and the need to be serviced at the business premises. This presents an opportunity for tech-enabled touch-first manufacturing companies such a branch-led NBFCs. On the other hand, the younger generation entering the rural workforce requires more sophisticated products to meet their advancing financial needs which needs to be addressed differentially.

Rural India's financial services uptake[26]

80%	30%	27%
of UPI transactions	individuals having insurance access	mutual fund sale

50 cr.+	70%+
Jan Dhan Bank accounts open	fintech personal loans from Tier 2+

2. **Younger age population cohorts:** The youth population aged 20-35 is expected to continue to account for a significant portion—over 25%—of India's population in 2034 and presents a large consumption opportunity. The Gen Z and millennials have distinct borrowing, saving, and investing habits that need a tailored approach to be adopted by entrepreneurs building in this segment. For example, small ticket personal loans have seen substantial uptake from <35-year-old segment—accounting for over 65% of fintech personal loans[27] disbursed—due to need for higher experiential experiences such as travel, device upgrade, etc. Social investment platforms targeted towards young trading enthusiasts has seen significant uptick. For example, Stockgro has 35 Mn young investors on its platform, higher than some of India's largest broking platforms like Groww that has ~10 Mn active investors.[28] Need for a re-defined user experience, instant gratification, sophisticated product choices and an informed customer segment will present unique opportunities in areas such as lending, advisory and investing management, sachetised insurance, etc.

[26] From Business Standard, Economic Times, PMJDY, RBI-CAFRAL report

[27] From Economic Times

[28] From Economic Times, Inc42

These are just 2 examples of large growth markets that fintechs can serve through innovations in product and distribution. Two examples to bring this to life: Finnable and Jar.

CASE STUDY

How Finnable has developed a white-space through deep customer understanding

Example of a typical Finnable customer – A computer engineer from a Category Y town, with a ₹30,000 monthly salary working at a small start-up. Usually, first generation professional. Needs ₹2 Lakhs for a large financial commitment: marriage, education. Due to low-income salary & NTC customer, large financial institutions are unwilling to provide this.

How has Finnable been able to build core competency around granular customer understanding–(i) Data-driven underwriting gives a strong understanding of customer profiles, needs, and ability to select. AI-based credit algorithms by leveraging data science, the alternative data, real-time APIs like Account Aggregator built on the back of tech innovation (ii) Innovative product design that addresses customer need and repayment schedules designed accordingly (iii) Strong understanding enabled transition from distribution model to part-risk sharing to full risk-taking manufacturing model, capturing more in the value chain

CASE STUDY

JAR: Re-imagining the delivery of a traditional asset class for the younger population, needing a differential product & experience

How has Jar addressed the opportunity:

(i) Anchoring the core of the business: Trust—Erstwhile family goldsmith trust relationship replaced with brand trust & credibility

(ii) Product innovation to suit the customer need: High cost of participation (~ ₹ 3,000) solved through bite-sized tradeable digital gold (investment as low as ₹10)

(iii) Engagement designed for simplification & user familiarity: Engaging, intuitive app that understands user context and drives decision making

(iv) Expansion of business model into adjacencies: Digital gold for lending, gold to jewellery journey

4.2 Competitive advantage through customer ownership and ability to serve customer with multiple products

As highlighted in the earlier section, DPI 2.0 will bring higher ease in accessing customer level data which will give businesses a better understanding of customer creditworthiness and customer wants, through digital data trail. This will increase ability to cross-sell products and re-price products efficiently (e.g. retention of housing loan customers through repricing interest rate, thus avoiding balance transfers). To leverage this effectively, fintech should/would develop capabilities of delivering multiple products to the customer thus retaining customers and increasing the profit pool for them.

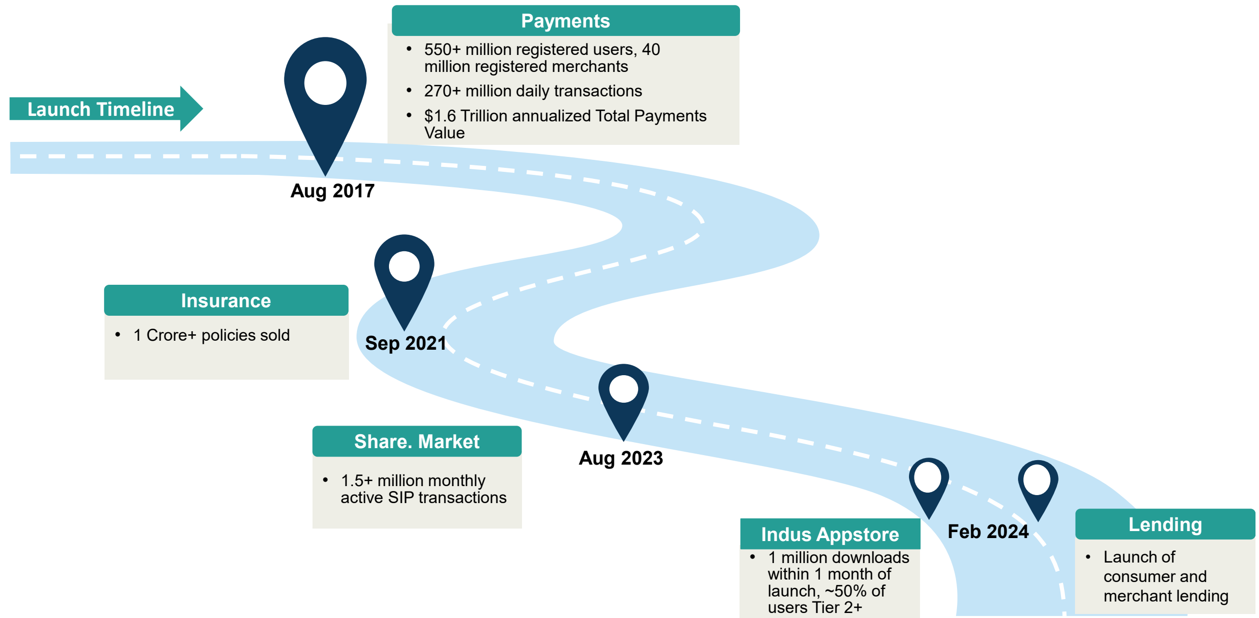
The fintech landscape has already seen success stories play out in the distribution space with players successfully transitioning to multiple products and going forward also, we believe this capability will help entrepreneurs build businesses with attractive economics. On the lending front, we see this play out with manufacturers becoming more multi-product around a customer segment (Examples: Indifi offering unsecured working capital, supply chain finance and LAP to the nano-micro customer

segment, Kreditbee offering unsecured small ticket and secured loans). In insurance as well, the recent white paper by IRDA, around a composite insurance license plans to give insurers the ability to offer comprehensive insurance products tailored to the customer need.

CASE STUDY

Phonepe driving population-scale distribution of financial services products to the middle-class customer through customer ownership

Competitive Advantage through Customer Ownership: Easy-to-use payment offering as a hook to layer on a large spectrum of financial services products (bill payments, lending, insurance, and wealth). High user stickiness through seamless customer experience, high transaction success rates, and ease of use. Significant reach in Tier 2+ markets (80% of transactions from Tier 2+)



4.3 Defining core capabilities and hence the fintech's positioning in the value chain

Over the past decade, we have seen a disaggregation of the value chain based on capabilities —for eg: customer touchpoints with open banking players and manufacturing with the banks/insurance companies/ other asset creators. Depending on the underlying capabilities and the level of risk that each participant wants to play in, the market has transitioned into a layered market design: different players—banks, NBFCs, fintechs, and LSPs assuming different levels of credit risk for the same customer. This has been further enabled through models such as co-lending, FLDG and more recently, the discussions around MGA in insurance point in the same direction.

Equally, we have seen successes of companies opting to be only in distribution or only in manufacturing or transition successfully from distribution to manufacturing or distribution to technology. In a landscape that is set to bring forth plethora of sizeable opportunities spaces there will be adequate room for multiple players to reign in. It is important for entrepreneurs to identify core capabilities and define business models accordingly, which also brings in competitive advantage versus others in the space. These core capabilities could be in the form of: risk and underwriting, driving large distribution networks, product centricity, etc.

4.4 Focus on Governance, Risk & Compliance for transparency, accountability and navigating regulatory environment well

Entrepreneurs must look beyond mere category leadership when preparing for long-term sustenance. The focus should be on building an institution that can thrive independently and sustain itself beyond the founder's involvement. What this involves:

(i) **Setting up Governance structures for transparency & accountability:** Businesses must focus on establishing a robust governance framework well before reaching the IPO stage. This involves setting up a strong and well-functioning board and sub-committees with independent representation. While SEBI regulations mandate these requirements only at the IPO stage, early preparedness is crucial. Key aspects include ensuring the independence of critical functions such as Audit, Risk, and Finance, which are essential for maintaining transparency and accountability.

(ii) **Navigating Regulatory Complexities:** As businesses expand into multi-product and multi-capability models, they must navigate multiple regulatory licenses and compliance requirements. Effective oversight in this area is vital for scaling operations without interruptions. A well-structured risk and compliance framework acts as a foundation for sustained growth and helps mitigate potential disruptions.

5

Nurturing winning entrepreneurs to build enduring businesses

The past five years saw companies in financial services scale towards successful public market listing, raising ₹83,000 Cr. There has been significant momentum on fintech companies going public, with both tech-first businesses (eg: Policybazaar) and tech-enabled business (eg: Go Digit) making successful public market debuts. The fintech IPOs in the last 5 years have generated 70% IRR to public market investors while demonstrating significant traction towards profitability. Aggregate profits of fintech companies increased from ₹(2,500 Cr) at the time of listing to ₹600 Cr currently.

FOUNDER'S SPEAK

GoDigit on key elements that enabled GoDigit's successful public market journey

"Digit was set-up to be a highly customer-centric general insurer in India as reflected in how our policies were designed, how technology was set as a backbone of driving this customer experience right from on-boarding to the claims experience and finally having a great team aligned to the idea of customer being the centre of our world. Technology also helped us tremendously in offering our solutions cost-effectively helping us driving growth with profitability. All these key elements have helped Digit achieve the scale and profitability in half the time taken as compared to the incumbents."

Jasleen Kohli, CEO, GoDigit General Insurance

We believe that the journey has only just begun. The current market environment presents a prime opportunity for experienced CXOs from established companies, as well as leaders from scaled-up fintech start-ups, to launch new ventures and drive them towards public market success. The last decade has witnessed notable success stories such as Aptus, Aavas, and Five Star, all of which have transitioned from private entities to publicly listed companies. Today, over 50 NBFC entities have scaled to an Assets Under Management (AUM) exceeding ₹10,000 Cr, fostering a robust pool of CXO-level talent.[29] This development is significant as it provides a fertile ground for leadership capable of driving the next wave of entrepreneurial ventures.

We see two enablers that can further accelerate this shift: a stable, progressive regulatory framework, and fund managers that can provide not just capital, but also credibility, capability and commitment to help these entrepreneurs succeed.

5.1 Stable and progressive regulatory framework providing a strong foundation for ecosystem to flourish

India has stood out in the global financial services system, demonstrating high resilience to macro-economic turmoil and geo-political tensions. The regulators in India have been in the forefront guiding the financial system in a calibrated manner to ensure its resilience and continued growth. Innovation in financial services has been democratised—the government, regulator and industry has worked hand-in-hand with the Next-gen entrepreneurs in creating world-class fintech business models.

As the fintech ecosystem started to come of age, the regulatory framework has also evolved to encourage innovation that would enhance reach and customer access, while taking a pro-active view on keeping systemic risk at bay. As some of the pivotal regulations such as digital lending, co-lending, ring-fencing of customer funds and securities, etc. were introduced, the core principles of regulation have become clearer to market participants. At the same time, there is a clear focus on customer convenience, fairness and security, for instance the proactive push to put in place 2-factor authentication using means other than OTP. Policies and nudges such as these as well as open dialogue with a larger section of market participants are clear indicators of a mature, stable and progressive regulatory regime in the years to come.

5.2 Indian fund managers have a larger role to play in supporting entrepreneurs building for the USD 10 Tn economy

Over the past five years, financial services have attracted significant funding, consistently securing around 20% of total VC/PE funding despite the upheavals seen during the period. The sector's resilience is evident in the formation of new companies, with approximately 80 firms raising Seed and Series A rounds in 2023—exceeding pre-pandemic levels. Notably, the emergence of sunrise segments like technology for financial services which has drawn over ₹ 28,000 Cr of funding in the last five years,[30] comparable to established sectors such as wealth management and insurance.

One notable trend that has emerged has been of the rise of manufacturing businesses. Funding to intermediation and distribution only businesses has been reducing, indicating companies switching to manufacturing models. This is especially seen in lending – where pre-pandemic the share of manufacturing to intermediation models was 50-50, this has now shifted closer to 80-20. Additionally, median deal sizes in growth-stage financial services have more than doubled in the last five years, driven by faster business maturation, strong fundamentals, and the emergence of high-quality entrepreneurs who have attracted larger capital investments.

[29] From TCF analysis

[30] From Venture Intelligence, TCF analysis

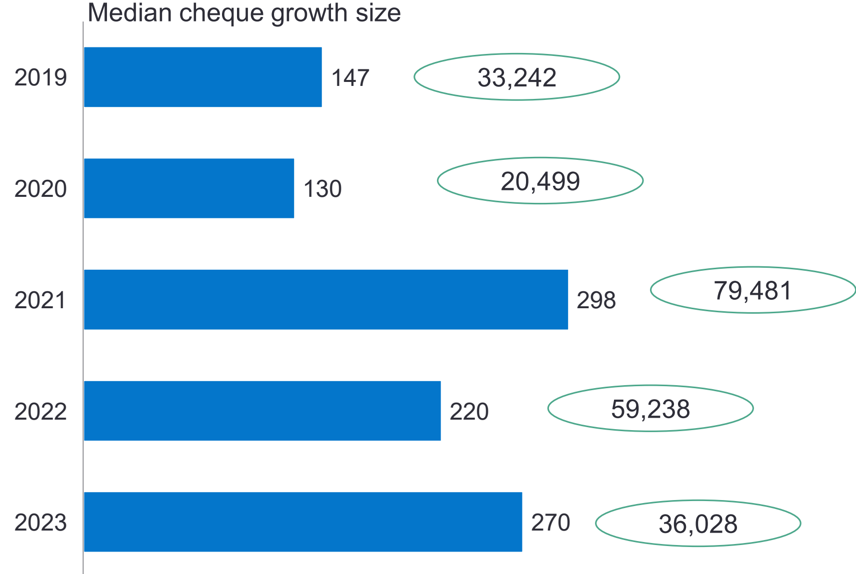


Exhibit 17: Funding in the last 5 years and median cheque sizes

Source: Venture Intelligence, TCF analysis

However, the supply side presents another story. A substantial portion of India's private capital has come from foreign sources, highlighting the scarcity of domestic capital. In 2023, 70% of the ₹2.4 Tn in VC/PE investments came from overseas.[31] The share of domestic and foreign capital in AIFs is 50/50 and the domestic pool currently is only 1/10th of the Indian equity MF pool. The domestic pool is primarily driven by HNIs and Family Offices and large pools like pension are yet to open up.

Estimates indicate that Indian fintech ecosystem needs ₹ 30-40 Tn of private capital in the next 10 years to support businesses. Domestic capital will play a larger role in this, following the path set by public markets.[32] Over the past 12 years, share of domestic investors has grown from 25% to 36% of India's market cap. As seen with public markets, this shift will help ensure resilience and reduce the impact of global uncertainties.

The emerging fintech landscape and entrepreneurial ecosystem necessitate private market investors who possess a deep understanding of the Indian market, including its regulatory framework. These investors must be capable of supporting entrepreneurs with the essential 3Cs: Credibility, Capability, and Capital. In this context, Indian fund managers are poised to play a pivotal role in partnering with fintech founders on their journey to scale successful businesses.

With new opportunities arising in the fintech sector, the present moment is opportune for India's retail and institutional investors to engage in this growth story through Indian fund managers. This participation will complete the funding cycle, ensuring that the profits from startups scaling to public market listings benefit Indian investors.

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[31] From SEBI

[32] From TCF analysis

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