



INDIA

**FINTECH
REPORT**

2ND EDITION – EXECUTIVE SUMMARY



India FinTech Report 2020

Research Methodology

The India FinTech Report is a comprehensive 120+ pages study based on MEDICI's proprietary FinTech data of thousands of startups, deep market intelligence derived from years of tracking the FinTech industry, and secondary research, refined through brain-storming sessions and in-depth interviews with segment experts to extract valuable market signals, identify market trends, and develop point-of-views in the report.

MEDICI has a rich volume of information in both quantitative and qualitative forms, curated through our industry analysis and market engagement initiatives. In the secondary research process, we conducted an in-depth study of the Indian FinTech landscape, understanding the key stakeholders, drivers, trends, challenges, and opportunities. The key sources referred for the secondary research process spanned from company & industry reports, press releases, government & other official sources, national & international databases, our partners, and many

others that facilitated valuable data-driven insights.

Primary research formed the most crucial source of information gathering for this study. It complemented the secondary research with insights from industry veterans in Payments, Lending, Insurance, Wealth Management, and Corporate Banking segments. Over 100 interviews were conducted with industry experts across a span of seven months to gain the most updated and valuable insights on segments covered in the report.

The qualitative & quantitative findings and insights from these research stages were curated by MEDICI analysts to present a comprehensive view of the FinTech landscape. These were further refined through years of deeply tracking the industry developments and bringing together the ecosystem. Please do visit the last page of this executive summary to access the full report.

MEDICI India FinTech Report in partnership with FCC of IAMAI is being released at GLOBAL FINTECH FEST (GFF)

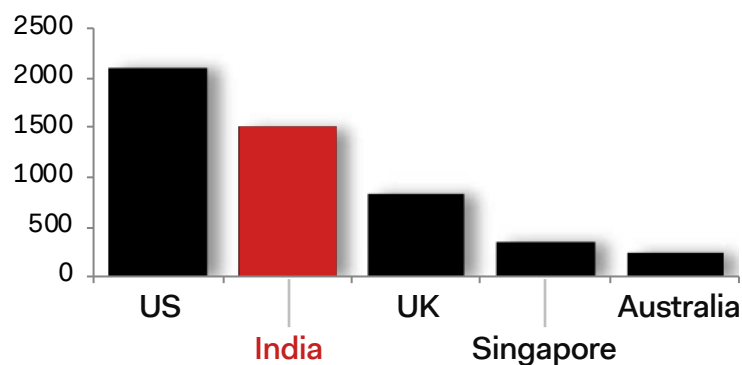


The Story of India's Emergence as a Leading FinTech Hub

The global FinTech ecosystem continues to grow at a rapid pace. Hundreds of new startups are being founded every month across the globe. The US has been a leading destination in terms of the number of home-grown FinTech startups with a massive contribution toward global VC funding (generally on the top every year). In 2010–2015, the US saw 2003 FinTech startups being founded, the most for any country in the world. However, in recent years, India has come out of the shadows to emerge as one of the fastest-growing FinTech hubs.

NUMBER OF NEW FINTECH STARTUPS FOUNDED (2015–H12020)

India has seen explosive growth in the number of new ventures launched in the FinTech space driven by adoption



Note: This analysis does not include China.

Between 2010 and 2015, India saw 1216 new FinTech startups founded in this period. In 2014–15, there was a massive uptick in the number of new FinTech startups; the numbers grew from 210 in 2014 to 454 in 2015—a 116% increase in growth. The period between 2015 to June end 2020 has seen phenomenal growth in new startups across Payments, Lending, Wealth, and others. India's evolution as a progressive FinTech nation is not a miracle. It happened at the back of executing a four-point approach. Firstly, solving for identity in the form of Aadhaar for formalization. Secondly, getting everyone a bank account or equivalents (PMJDY) to store money. Thirdly, building scalable platform(s) to move money (IMPS, UPI, BBPS, etc.). And finally, allowing banks and FinTechs and wealth/insurance/lending players also to access platforms like UPI, GSTN & Digi Locker to innovate. This framework has led India to a FinTech revolution.

India's FinTech story will be incomplete without talking about the governmental push, which we discuss later in detail. Drives such as demonetization proved to be a blessing in disguise for digital transactions in general and those FinTech companies that were able to take advantage of it in particular.

Still, this FinTech revolution has to also become a financial inclusion revolution—and that is a much more difficult task. Small wins will not make much difference to improve the quality of life for underbanked or unbanked communities and people. To understand this, let's look at India 1, India 2, and especially India 3 (more than a billion people with lower than \$1.3K per capita). While FinTech has impacted India 1 and to some extent, India 2, for financial inclusion, we need to cater to India 3 as well. So far, we do not see the impact of FinTech in India 3 except for a few companies like Kaleidofin, Eko financial services, Jai Kisan, GramCover, PayNearby and Aye Finance. Most startups do not operate in that segment.

While we have made significant progress in formalization with digital ID and the ability to transact (access) with the ID and payment rails, we must bring the costs down using technology and create incentives (and financial education) for India 3 to use digital money and FinTech.

Could FinTech be the solution? At scale, FinTech looks promising from the penetration perspective. Indian mobile wallet Paytm has more than 200 million users, including women and rural families, who can now participate in the digital economy. Paytm also has over 15 million acceptance points (QR codes), making it ubiquitous (relatively).

Additionally, PhonePe has 10 million merchants as its

customer base, and Razorpay has onboarded over 0.8 million merchants to its platform. Zerodha, an online brokerage firm, has the largest customer base of brokerage firms and has 19.4 lakh active clients.

FinTech startups are better suited to cater to some customer segments such as the 60 million+ SMEs in this country. FinTech startups offer efficient and effective solutions, which benefit SMEs by providing them with increased access to more diverse funding options. E.g. Khatabook, one of the fastest growing FinTechs, is digitizing the business ledger of small merchants and kirana stores at scale. We discuss other such segments and opportunities in the full 120+ page report.

Large tech companies are getting super-interested in FinTech. The GAFAMs (Google, Apple, Facebook, Amazon, Microsoft) and the Flipkart/WhatsApp(FB)/Truecallers of the world are using their tech brainpower, user base, and data to offer superior financial services experiences. The onslaught has started in many countries, including India. We expect many of them to offer a whole array of financial services in the future. Some large home-grown companies like Reliance Jio are new and yet powerful entrants into the FinTech space with deep financial muscle and distribution in place. It will be interesting to see how Jio partners with BigTech players like FB/WhatsApp, Google (also now, investors) to solve the SME digitization problem that spans across financial (payments, loans) and non-financial areas (logistics).

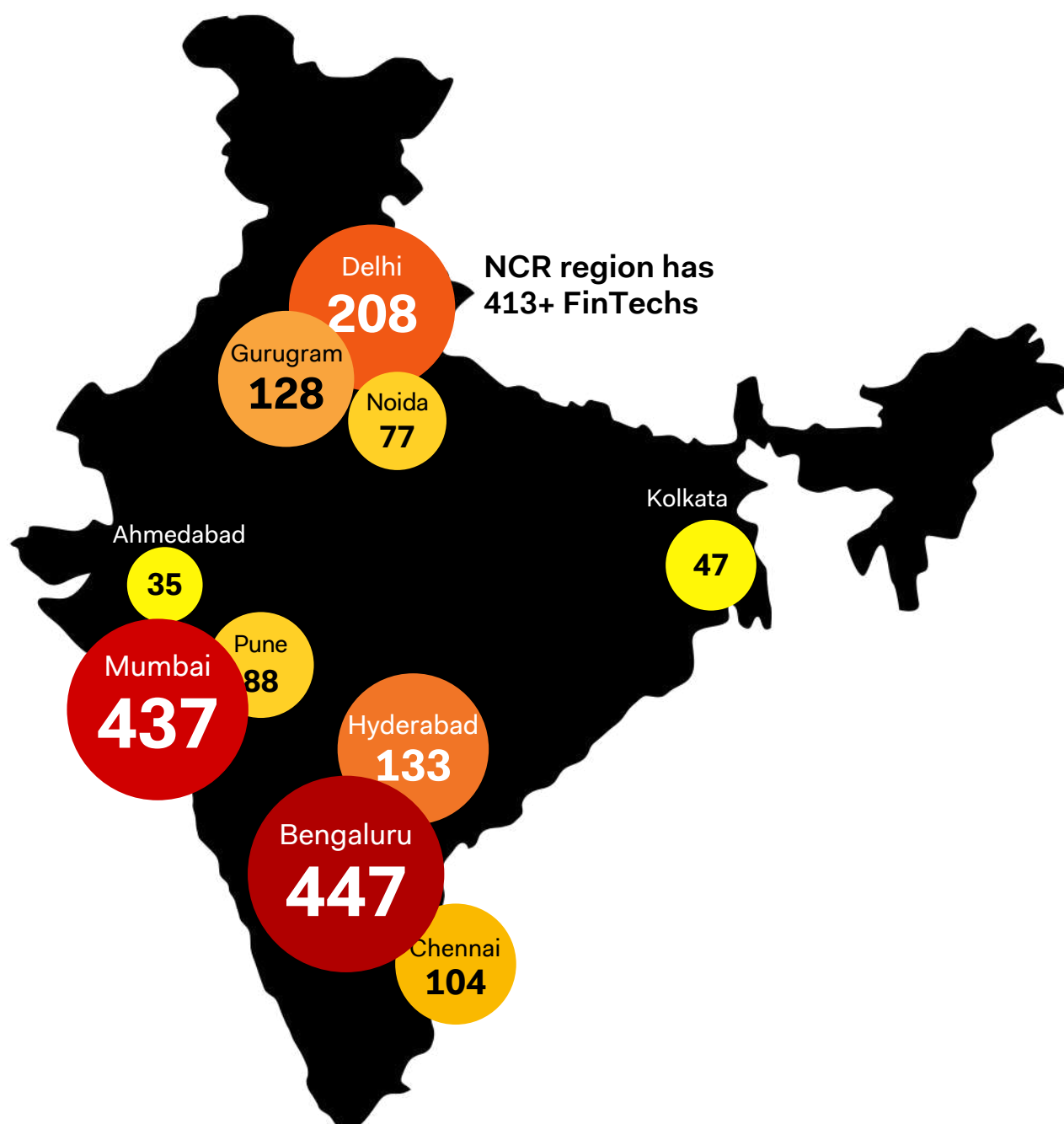
Apart from typical FinTech startups started by first-time entrepreneurs, there is a growing number of FinTechs by seasoned entrepreneurs such as Sachin Bansal (ex-Flipkart founder) and his firm Navi Technologies.

India FinTech Landscape

India currently has around 2174 FinTech startups. Here's the breakdown:

Bengaluru and Mumbai lead the momentum in FinTech, and together, these cities represent 42% of the startup headquarters. Apart from the top five FinTech destinations, which include Mumbai, Bangalore, New Delhi, Gurugram, and Hyderabad, the rest of India accounts for 738 FinTech startups.

CITY-WISE BREAKUP (TOP 10 CITIES)



This table illustrates the segment-wise breakup.

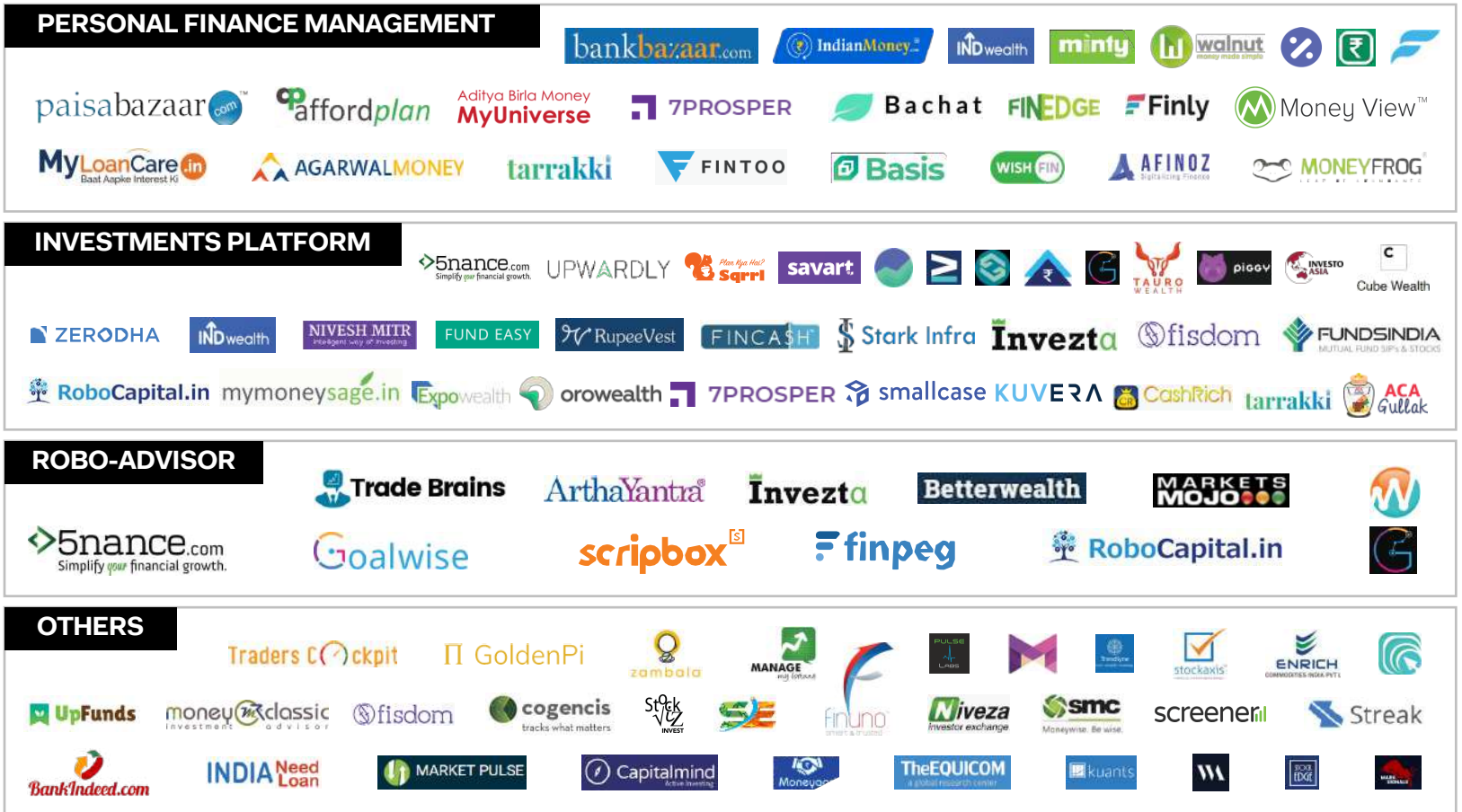
NUMBER OF FINTECH STARTUPS BY SEGMENTS

405 Payments	365 Lending	313 WealthTech (Less PFM)	173 Personal Finance Management
111 InsurTech	58 RegTech + Cybersecurity	748 Other Segments	

Market Landscape

WealthTech: 486 Startups

[Illustrative]



Lending: 365 Startups

[Illustrative]

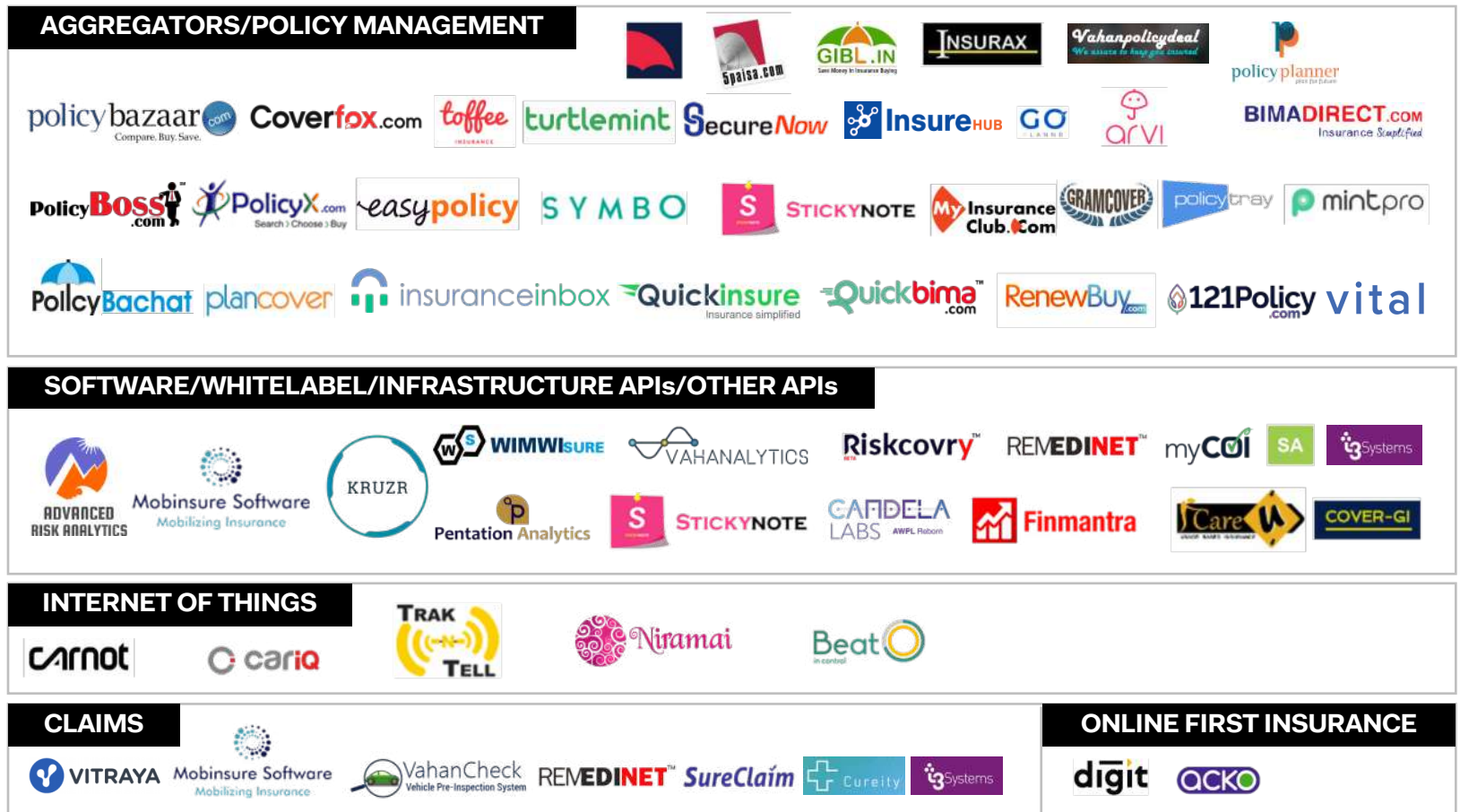


Note: There is a growing trend of re-bundling and companies expanding into multiple segments. This representation is therefore directional in nature as companies might be present in more than one subsegments or segments. Please reach out to us if you want to change the segment of your company or just want to discuss the rationale. Some companies shown in the landscape may have shut down operations or scaled down operations significantly during the COVID-19 period from March to June 2020.

Market Landscape

InsurTech: 111 Startups

[Illustrative]



Digital Payments: 405 Startups

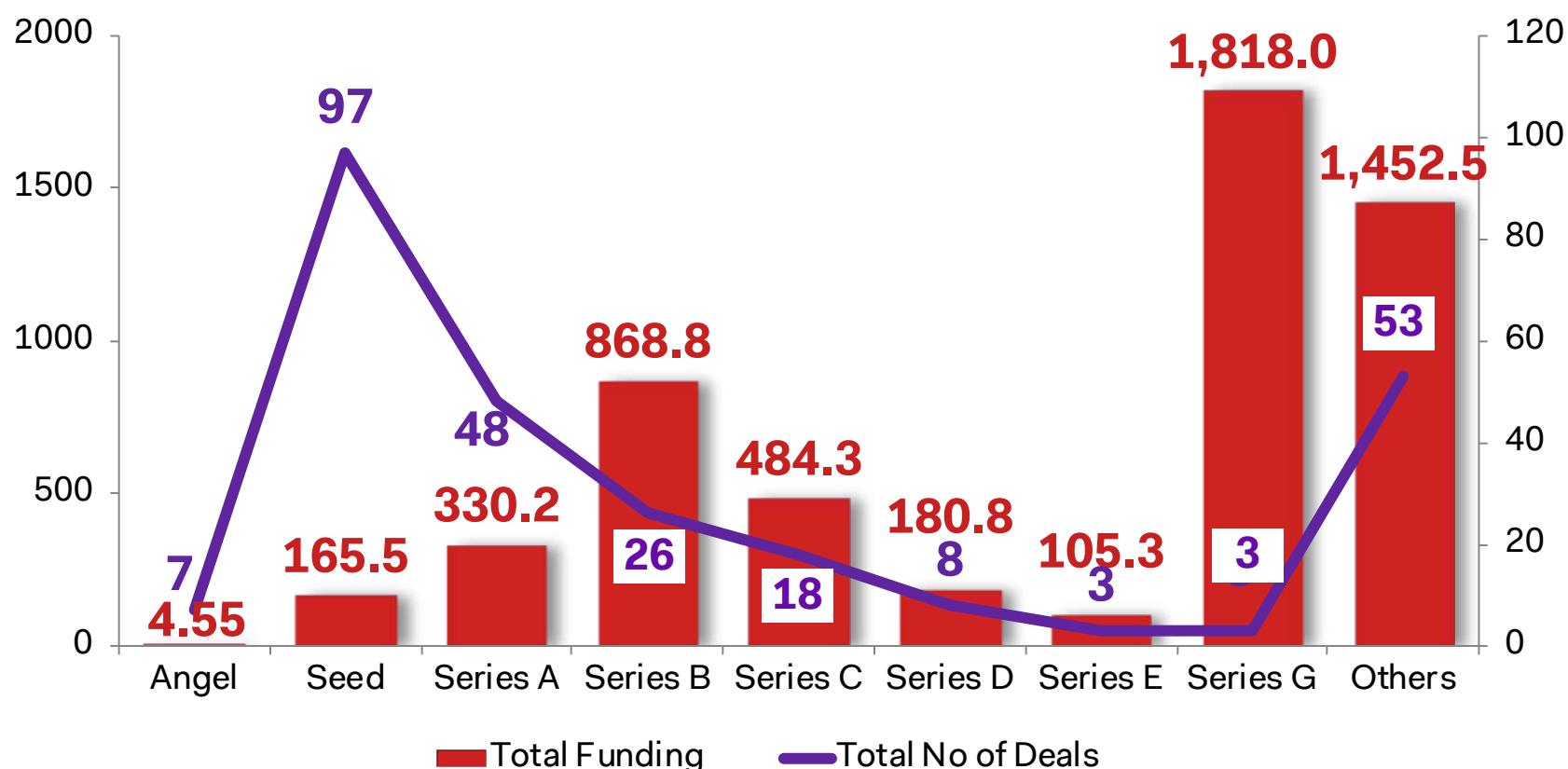
[Illustrative]



Note: There is a growing trend of re-bundling and companies expanding into multiple segments. This representation is therefore directional in nature as companies might be present in more than one subsegments or segments. Please reach out to us if you want to change the segment of your company or just want to discuss the rationale. Some companies shown in the landscape may have shut down operations or scaled down operations significantly during the COVID-19 period from March to June 2020.

India FinTech Investments Trends (2019-H12020)

STAGE-WISE BREAKUP OF TOTAL FINTECH FUNDING (\$5.4 BN) IN INDIA – 2019-H12020



TOP 8 FUNDING DEALS

Paytm

(Series G, Nov. 2019 – \$1,000 Mn)

One97

(Series G, Dec. 2019 – \$668 Mn)

Navi Technologies

(Series: Unknown, Apr. 2020 – \$395 Mn)

DMI Finance

(Series: Unknown, Jan. 2020 – \$230 Mn)

Policybazaar

(Series G, Nov. 2019 – \$150 Mn)

CRED

(Series B, Aug. 2019 – \$120 Mn)

Digit Insurance

(Venture Series, Jan. 2020 – \$84 Mn)

PhonePe

(Corporate Round, Dec. 2019 – \$82 Mn)

ACTIVE INVESTORS

[Not An Exhaustive List]

SEQUOIA CAPITAL	BEENEXT	TIGERGLOBAL	Lightspeed	BETTER CAPITAL	PRIME VENTURE PARTNERS	SAIFPartners®
OMIDYAR NETWORK INDIA	ACCION	ACCEL PARTNERS	BLUME VENTURES	IndiaQuotient	QUONA CAPITAL	NEXUS VENTURE PARTNERS
Ribbit Capital	EMPHASIS VENTURES	BHARAT INCLUSION SEED FUND BY CRECO	matrix PARTNERS	kalaari capital	3ONE4 CAPITAL	8i

Government & Regulator Initiatives

A Sneak Peek

Central Government – Generates Necessary Tailwinds: Since the beginning of 2019, there has been a concerted effort by the central government through appropriate policies to leverage innovation to bring about visible societal-level changes. While some of these policies have been heavily debated in the context of already-operational FinTech business models, some have a far-reaching impact on fundamental issues such as data. Abolishing MDR on UPI and RuPay payments was one such heavily debated policy measure. Even as some of the existing revenue models in payments have come under extreme stress due to this mandate, it is expected to push the agenda of digital payments adoption much further.

The Reserve Bank of India mandated all payment service providers to localize data within the country with no option to mirror the data outside of the country. Considering the significance of data, security, and access in an exponentially growing digital payments landscape and the fact that the majority of big players are foreign enterprises, this might have been an important move. However, the cost of this mandate to these enterprises is still being argued upon. The Personal Data Protection Bill was taken to the parliament in early 2020 but was delayed due to the COVID-19 pandemic. Clarity on the localization of data and the nuances of data protection, sharing, and portability are heavily dependent on the safe passage of this bill.

The Supreme Court of India ruled against the RBI, lifting the ban on cryptocurrency trading.

Regulators – Initial Traction, Long Way to Go: The RBI has been proactive in examining and setting up regulatory frameworks across various FinTech verticals such as digital payments, P2P lending, and more. In January 2020, the RBI gave its nod to video-based KYC as an alternative to physical verification. The video-KYC process allows due diligence of the customer and identifying documents via video chat. Additionally, the RBI also authorized the use of digital lockers for paperless document management as part of the KYC process. These steps will particularly help banks, NBFCs, prepaid wallet players, and Neobanks, all of whom have been pushing the edge of fully digitized onboarding for a while. Additionally, this should augment financial inclusion, with the cost of onboarding reducing significantly.

While SEBI and IRDA have constituted committees to study the growing impact of FinTechs in the WealthTech & InsurTech in India, the advances for proactive regulatory policies that will facilitate disruptive innovations have been relatively slow. However, the initiative for setting up regulatory sandboxes where startups can develop and experiment with innovative products in a controlled environment is a step in the right direction. The IRDA sandbox received over 150 applications.

In June 2020, the SEBI clarified that corporate Registered Investment Advisors could also distribute mutual funds. This should encourage several budding robo-advisors in India to re-strategize on their business models.

State Governments – Up the Ante! State governments in at least eight states have taken steps to create favorable policies to foster FinTech startups or establish FinTech hubs. With its own FinTech policy, Maharashtra continues to lead the way for other states with their vision. Here's a time-lapse of Maharashtra's initiatives:

FEBRUARY 2018: LAUNCH OF POLICY

Maharashtra becomes the first Indian state to launch its own FinTech policy.

JUNE 2018: MUMBAI FINTECH FESTIVAL

Launches a FinTech registry for identification and information collection on the FinTech ecosystem. Furthermore, it launches an API sandbox to facilitate the creation of new products in a secure environment.

NOVEMBER 2018: SINGAPORE FINTECH FESTIVAL

Eight shortlisted startups from the MFH Registry were invited to showcase their solution at the festival.

DECEMBER 2018: ACCELERATOR 1.0

Launches the inaugural version of its accelerator program in which 13 startups were selected from over 200+ applications.

MARCH 2019: FINTEGRATE ZONE 2019

Launches the Uday FinTech Education Platform and distribution of the second set of grants by Governor of Maharashtra.

MAY 2019: FINTECH EDUCATION PLATFORM

Launches the FinTech Education Platform (FEP) that hosts e-learning modules for technical, functional, and miscellaneous skill sets.

JUNE 2019: FINTECH INVESTMENTS & DEALS

FinD platform was launched for matchmaking between startups and investors.

IndiaStack – Gateway to Opportunities

IndiaStack is the most ambitious societal initiative globally, aimed at putting up a public digital infrastructure based on open APIs in order to promote public and private digital initiatives. IndiaStack has played a catalytic role in India's digital foundation and evolution.

It is founded on the core principles that services can be:

1. **Presenceless**
or capable of being authenticated from anywhere
2. **Paperless**
or reliant on digital records
3. **Cashless**
or truly universalizing the access and usage of digital payments
4. **Consent-based**
or allowing secure movement of data authenticated by its owners

Aadhaar and UPI have been the most prominent components of the stack over the years. A number of incremental developments were introduced on various parts of the stack during the last 18 months ending June 2020. UPI was upgraded with new services such as eMandates and recurring payments to make collections easy for financial institutions and subscription-based businesses. On the back of RuPay going international, UPI is also being piloted for international launches in the UAE and Singapore. The ambiguity that prevailed on Aadhaar usage for onboarding has now been cleared with regulated financial entities allowed to use eKYC and unregulated entities allowed to use offline XML-based KYC. Account Aggregation, overseen by the RBI, is expected to go fully operational in the latter half of 2020 with seven account aggregators and several large banks and NBFCs launching consent-based data sharing. DigiLocker came out of the shadows and saw massive adoption in the last 12 months.

Based on the success of IndiaStack, over 20 countries have shown interest in studying and implementing a digital identity system inspired by Aadhaar and the software stack built around it. In 2018, Singapore and India had signed a high-level agreement to "internationalize" the IndiaStack. The agreement has been followed up with the creation of an India-Singapore Joint Working Group on FinTech to develop API-based platforms for the ASEAN region. A number of countries and international agencies such as the World Bank and the Gates Foundation have also approached India with requests to help build digital identity and payment architectures in other markets.

KEY METRICS FOR A SELECTED SUBSET OF THE SYSTEMS

LAYER	PROVIDER	APIs/ FUNCTIONALITY	VOLUME/IMPACT
Presenceless	UIDAI	Authentication	1.25 Bn Enrolled 43.56 Bn Authenticated to Date 1.18 Bn in June 2020
Paperless	UIDAI	KYC	8.26 Bn eKYC to Date 104.53 Mn in June 2020
	MeitY/DigiLocker	Documents	3.79 Bn Issued Authentic Documents
Cashless	NPCI/UPI	Payments	1336.93 Mn Transactions in June 2020
	AEPS, Aadhaar Pay	Payments	397.39 Mn Transactions in June 2020

Source: Websites of various providers.

India's Account Aggregation Framework

India has chosen to have a very different approach to open banking. Unlike many other geographies where instant payment initiatives are running parallel to open data initiatives, India flipped the equation by implicitly launching open banking with payments first on what is now widely considered the best real-time payment network in the world—UPI. Having tasted success on a large scale with UPI, India is now on the cusp of going live with the Account Aggregation framework, which will be its first foray into consent-based financial data sharing. Account Aggregators are trusted intermediaries that are empowered to broker consumers' financial data between data providers and data users. Data providers and users are accredited enterprises. They currently fall under the ambit of one of the four Indian financial services regulators—RBI, SEBI, PFRDA, and IRDA. The exchange of data happens strictly based on consumer consent. India is now on the cusp of going live with the Account Aggregation framework, which will be its first foray into consent-based financial data sharing.

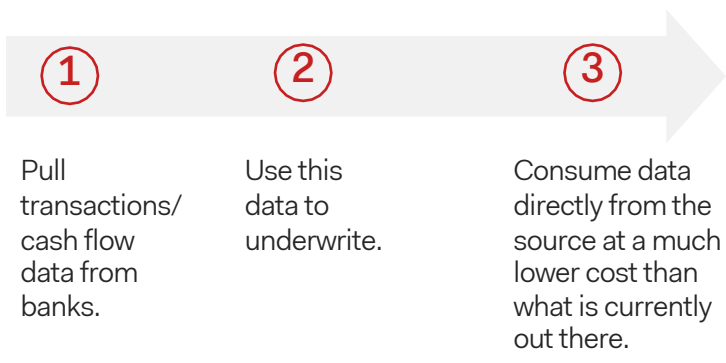
Account Aggregation is envisioned to usher in a new kind of digital data model wherein Account Aggregators (regulated by the special NBFC-AA license) will act as data access fiduciaries between users/entities who are the primary owners of data, and banks, FIs, and NBFCs that maintain & manage it. In this case, users/entities will be classified as financial data owners, and banks, MFCs, insurance service providers, tax/GST platforms will be financial information providers (FIPs). Standardized API specifications are made available by ReBIT to make AA a very interoperable and technology agnostic framework. Specifications are purpose-built for and made available to aggregators, information providers, and information users.

As of June 2020, three operating and four in-principle NBFC-AA licenses have been issued by the RBI. A host of banks and NBFCs are in various pilot stages with the initiative. These include large FIs such as SBI, ICICI Bank, HDFC Bank, and Bajaj Finserv.

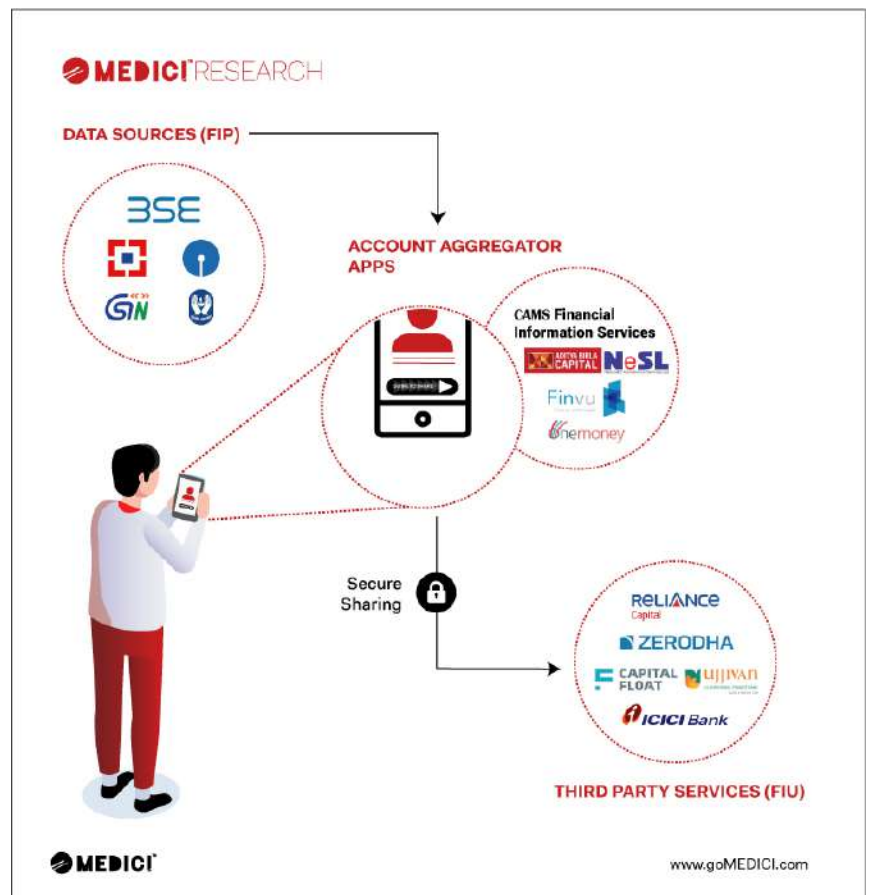
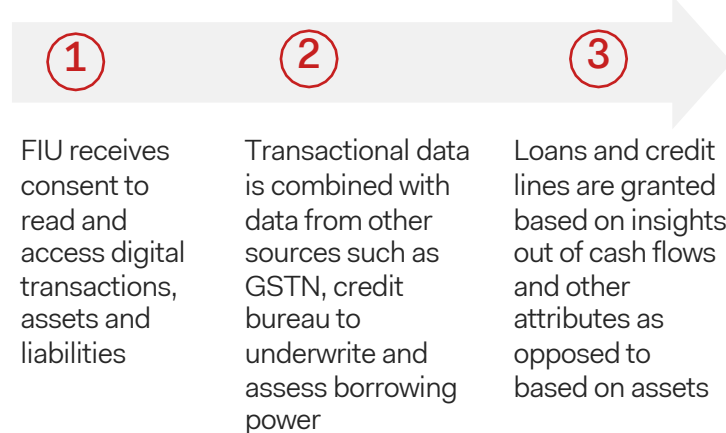
The application of account aggregation spans a broad set of use cases, such as personal finance, wealth advisory, credit decisioning, access to credit, and access to insurance. Some of the concrete use cases have been illustrated below:

FLOW-BASED CREDIT

Account Aggregation will help individuals and small businesses use consented data-sharing to increase access to cheaper credit.

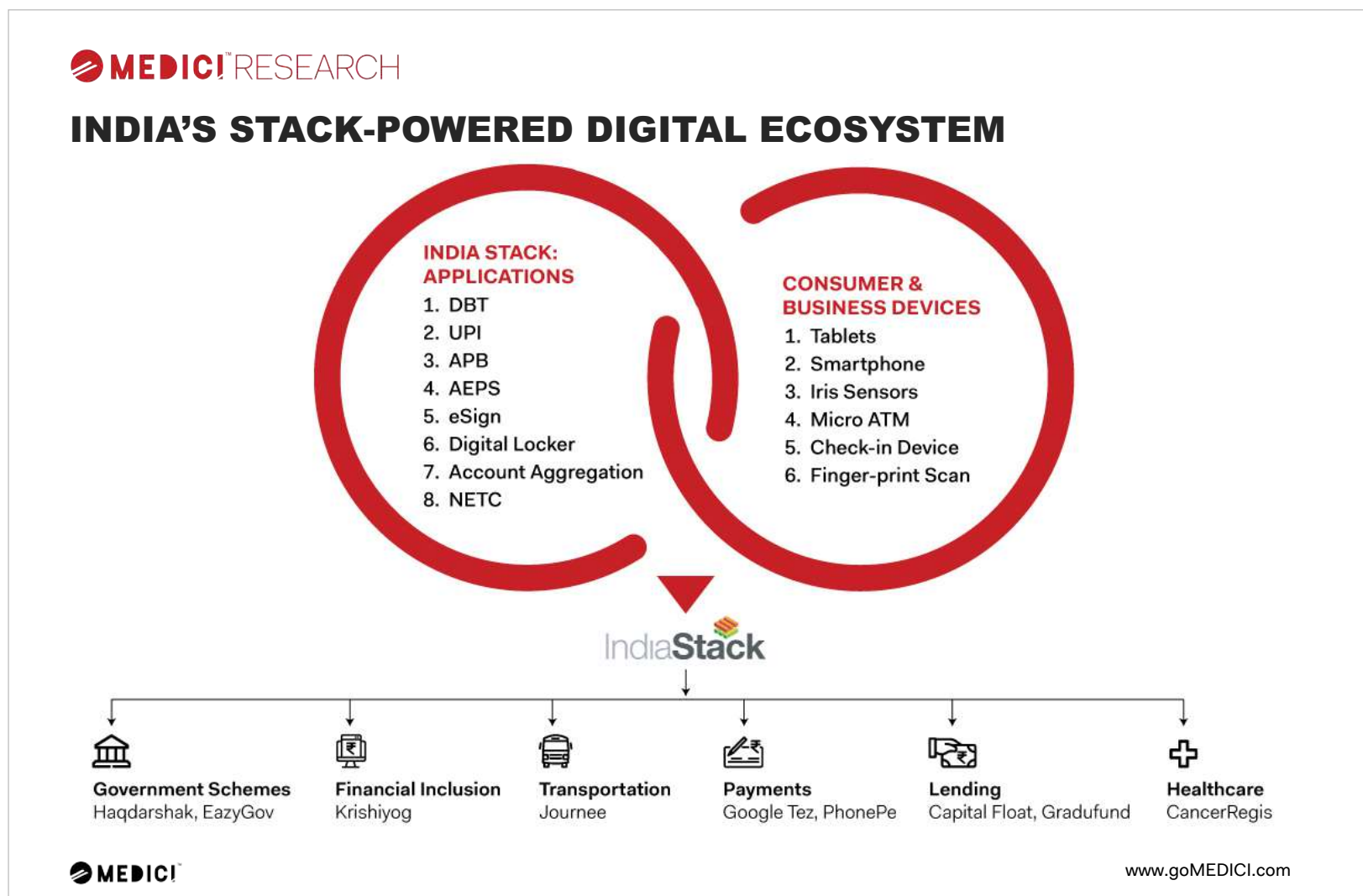


AGGREGATED FINANCIAL POSITION & CASH FLOW



India's Stack-Powered Digital Ecosystem

Put together, the layers, power the IndiaStack and a robust digital ecosystem across applications, and devices as represented below to solve unique use cases across each of the industries:



The impact of IndiaStack through its different layers has been huge since its inception. It has acted as a disruptive force and reinvented the wheel to build new processes and provide the low-cost digital push India needed to move from a data-poor to a data-rich economy, as highlighted in the sections above.

There have been significant benefits such as lower cost of transactions, lower onboarding costs for businesses, providing a broad-based, ubiquitous platform and personalized offerings at scale, allowing new businesses, developers, enterprises, and the government to build their digital footprints in the country. IndiaStack enables businesses to tap into customer segments that were previously out of reach. In the future, a range of different digitally verifiable identity systems will continue to evolve in line with the Supreme Court of India's ruling with regulatory policy changes underway and further technology

developments that enable identification through alternative means, such as QR codes, voice-recognition, and beyond.

As parts of the IndiaStack have progressively evolved over the last five years, its promised benefits are starting to deliver. The growth of the digital payments ecosystem around UPI and DigiLocker becoming mainstream are testimony to this fact. Aadhaar based due diligence and DigiLocker have reduced user onboarding costs and increased inclusion. With Account Aggregation soon going operational, India would have completed the rollout of what is arguably the most unique societal platform deployed anywhere in the world.

SEGMENT-WISE OVERVIEW

Neobanking

Over the last decade, the Indian FinTech ecosystem has witnessed a plethora of innovations. The first wave of disruption in financial services was led by digital payment startups, followed by digital lending, wealth management, and InsurTech startups. However, the second wave, or as we like to call it “FinTech 2.0,” is led by Neobanks that aim to redefine customer-centric consumer and business banking experiences. Problem statements being addressed include fully digitized account opening, free debit cards, instant payments, personal finance advisory, cash flow analysis & projections, GST-compliant invoicing, and accounting integration. As of publishing this report, there are about 15 neobanks in India, several of them under development or in beta stages.

Digital-Only Banking Models

Global digital-only banking landscape consists of non-licensed over-the-top banks (also called Neobanks), digital-only brands of incumbent banks, and licensed challenger digital banks.

Licensed Digital Challengers

These are digital-only banks which have obtained a fully operational banking license. This model enables them to offer products & services, raise capital, and lend on their own. Lower operating costs help them offer better interest rates to customers. Partnerships with FinTechs and even other banks are common in this model, and some offer marketplaces. The Reserve Bank of India does not offer such a differentiated license.

Over The Top Neobanks

These are stand-alone digital platforms that do not have their own banking licenses. They offer either niche products or a bouquet of products in partnerships with FIs, banks, and FinTech firms but at a cost quite lower than that of traditional banks. Highly tech-driven and an overlay over licensed banks, they differentiate themselves by offering unique features/VAS and better banking experiences. In the absence of differentiated digital banking licenses, this is currently the most sought-after model in India.



Digital-Only Brands of Banks

These are stand-alone, digital-only brands created by traditional incumbent banks. Technology-led and operationally separate from their parents; they mostly target the younger segment. Being greenfield initiatives, they tend not to carry the legacy technology baggage from their parent entities. This has been a reasonably successful model in India since 2016.



With FinTech segments like payments and digital lending getting overcrowded, investors' interest has shifted towards India's Neobanking. The total funding raised by Indian Neobanks so far totals \$139.8 Mn. This does not include \$93 million raised by Razorpay since 2019, a part of which will fund their newly launched Neobanking initiative. In their efforts to become a part of the next wave of FinTech innovation, venture capital & private equity investors have started to invest heavily in Neobanking startups.

Startup	Total Funding	Latest Funding Stage
Nivo	\$49.2 Mn	Series B
Open	\$37.4 Mn	Series B
Jupiter	\$26 Mn	Seed
epifi	\$13.2 Mn	Seed
kaleidofin	\$7.8 Mn	Series A
fampay	\$4.7 Mn	Seed
Wizely	\$1.5 Mn	Seed
Open	Undisclosed	Seed

Investors have started to recognize the enormous potential of the Indian Neobanking segment. This has attracted prominent global investors like Tencent Holdings, Sequoia Capital, and domestic investment institutions like Omidyar Network and Matrix Partners.

INVESTORS & NUMBER OF NEOBANKING DEALS

Sequoia Capital
(4)

Matrix
(3)

Omidyar Network
(2)

Tiger Global Management
(2)

Flourish VC
(2)

Better Capital
(2)

3one4 Capital
(2)

Digital Lending

Digital lending FinTechs are targeting the unmet demand from Indian MSMEs as well as consumers for credit. Many banks in India have so far focused on highly creditworthy segments primarily due to a lack of credit history of others. The traditional ways of banking approve only ~25 to 40% of the loan applications. However, with access to more data for credit scoring such as transaction, behavior, app-based data, location information, social data, and more, these new lending models aim to increase this threshold by an additional 10–15%, which is a huge market opportunity. From a small segment a few years ago, India now has over 338 lending startups. The acquisition of Mumbai-based consumer lending platform PaySense by digital payments provide PayU at a valuation of \$185 million, further brought the spotlight to the potential of digital lending in India. Several new models of digital lending have emerged, such as DMI Finance offering FinTech startups API access to sandboxes, thus helping them develop bespoke financial products and Apollo Finvest positioning themselves as ‘AWS for Lending’ by enabling partners to offer digital loan products to their end-customers through APIs. In consumer credit, the urban population is likely to leverage FinTech lending services to avoid heavy documentation. The rural population (which is new to credit) can benefit from alternative credit scoring mechanisms to avoid loan sharks. This would provide access to a market with over 300 million unbanked households. Hence, the use of identity, authentication, credit score, job eligibility, and social data to generate ratings for various use cases is likely to draw more attention in the near term.

New-Age Lending: The Power of IndiaStack

The maturing IndiaStack and growing API-based data availability have fundamentally transformed every step of the credit value chain. Near end-to-end digital lending has become a reality, with loan approval turnaround times as short as one day. Over 338 lending (consumer and SMEs) startups in India are leveraging on Aadhaar authentication, eKYC, and UPI platforms to offer quick background checks, credit scores, and instant loans to the urban, rural, and underserved populations.



Flow-Based Credit System Powered By Account Aggregator Framework:

In a well-implemented account aggregation scenario, a small borrower should be able to provide consent to a lender through an account aggregator to access various categories of financial data held at multiple custodians (banks, wallet providers, Aadhaar database, DigiLocker, mobile data). In the transaction flow above, the borrower requests the lender for a microcredit line. To assess this facility’s viability, the lender requests for the borrower’s data held at various other custodians (FIs, mobile carriers, wallet providers) to be passed on to them via a data access fiduciary (account aggregators in the case of financial services). With the borrower’s consent, the fiduciary requests and fetches data from one or more custodians and passes on the acquired and aggregated data to the lender. The lender may then combine this data with various other data sources such as public data, economic data, and other such sources to apply state-of-the-art credit decisioning models and forecast the likelihood of default with much better accuracy and confidence. Real-time access to data at will based on consent also dispels the need to have collateral security to grant microloans.

UNDERWRITING APPROACHES

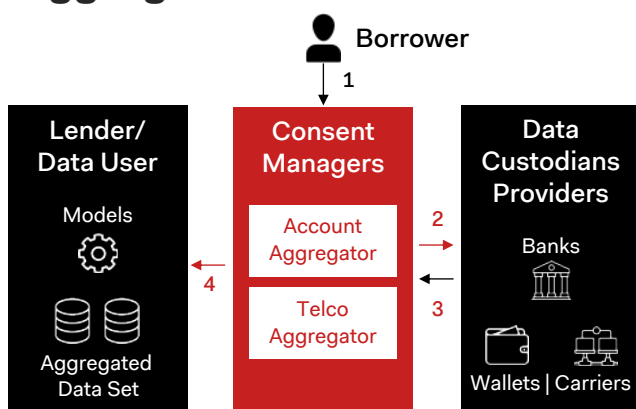
Consumer Credit (\$300-Bn Gap)

- Demographic Data Personal Finance Bureau Management Models Social Data
- App-based Data Access Location Information Machine Learning

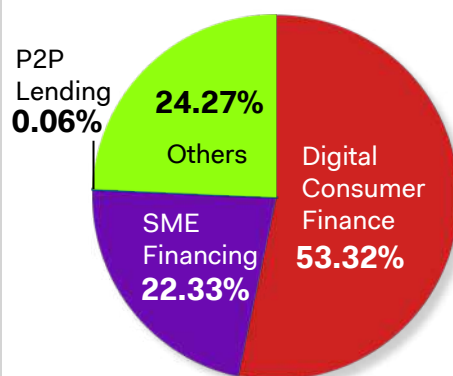
SME Financing (\$200-Bn Gap)

- CIBIL Score Transaction Behavior Collateral
- Non-Traditional Data Sources Audited Financial
- Surrogate Data Statements
- Leverage AI/ML/Data Analytics

Future Model: Cash Flow Based Lending based on Account Aggregation



Digital Lending Funding: Breakdown of \$1,673 Million



Top Funded Digital Lending Startups in India (> USD 100 Million)



WealthTech

India has witnessed a phenomenal increase in the wealthy population in the last few years. Against this backdrop, India has witnessed many advancements in the wealth management industry. We have been witnessing the democratization of investment advisory services, where wealth managers are leveraging technology to offer low-cost investment advisory to mass segments.

Robo-Advisors in India: Robo-advisory in India is rapidly evolving. We are seeing startups going beyond Mutual Fund distribution to offering digitized, long-term financial planning. They are using algorithms and artificial intelligence to understand the goals and aspirations of users better and provide them with personalized advice rather than just offering a generic portfolio. As more and more millennials pick up stock market investing and other investment avenues, financial literacy is also improving, leading to a mature outlook towards aspects such as financial life goals and retirement planning. The services of these platforms range from automated plans, goal-based asset allocation, and end-to-end advisory based on information taken from the client. Today, not only startups but also established financial advisory services, such as Birla, Bajaj Capital, ICICI Securities, and Sanctum Wealth Management, are optimistic about the future of robo-advisory. The competition in robo-advisory is resulting in the expansion of the WealthTech market.

Thematic Investment: Investment platforms are facilitating thematic investing. Each theme consists of a diversified portfolio of stocks based on an idea. An investor can focus on his ideas instead of individual stocks. E.g., smallcase, Fyers, Karvy

Discount Broking Models: Discount brokers are those houses that charge clients significantly lower fees than traditional ones and offer only online trading facilities, but no

research supports or financial advice. Globally, because of the low-cost structure, discount brokers are quite popular among traders, but not among investors. E.g., Zerodha, 5Paisa, Upstox, Samco

E-Commerce Firms & Digital Wallets Offering Investment Products: Due to regulatory changes brought in by SEBI's e-commerce companies and digital wallets are now offering mutual funds through their apps. E.g., PhonePe (financial arm of Flipkart) and Paytm.

Hybrid Models of Investment Advisory: To get the best of both worlds, established financial advisors offer a hybrid model to the clients. The insights and experience of the traditional financial planners are combined with the agility, accessibility, and advanced technology of the robo-advisors. Financial planning companies outsource the repetitive and mechanical tasks to robo-advisors while the more intricate tasks of providing personalized advice and risk management advice based on insights and direct interaction with the client are being taken care of by the traditional financial advisors.

UPI to Act as Key Enabler for WealthTech Startups: It will help them expand their digital footprint by digitizing mutual fund products. However, there is a limit that has been set by NPCI that restricts users to buy units worth than Rs. 1 lakh via UPI. Users can also apply and pay for IPO allotments through their preferred UPI app. UPI is already being leveraged by players, such as IDFC, LIC Mutual Fund, Aditya Birla Sun Life, Reliance Nippon Life AMC, Motilal Oswal, Quantum, and Baroda Pioneer AMC, for enabling online investments.

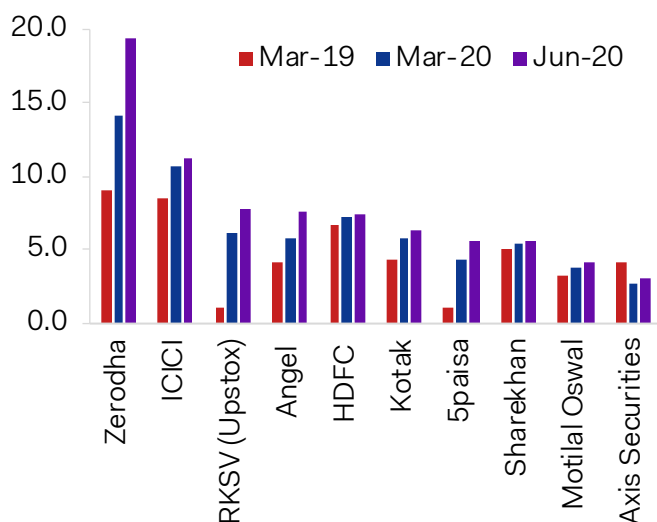
Goal-Based Investing in Mutual Funds: Funds are recommended based on customer's age, life stage, risk appetite, and market conditions. Once a customer invests in a goal, the portfolio is monitored continuously, and suggestions are made when changes are required. E.g., Upwardly

WealthTech Startups: Leveraging IndiaStack

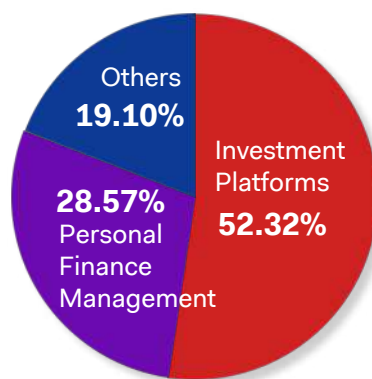
IndiaStack has enabled Wealth Management processes with over 440 startups (personal finance management, robo-advisory, marketplaces, investment brokerage) that leverage it and build various innovative solutions. Startups leverage Aadhaar authentication, eKYC, and UPI for transactions and fees, and eSign for document signatures.



Top Retail Brokers in India by No. of Active Clients – 2020 (Value in Lakhs)



WealthTech Funding: Breakdown of \$213 Million



Top Funded WealthTech Startups in India (> USD 50 Million)



Zerodha, India's largest stock broker, is a bootstrapped startup that has turned profitable and is valued at around **\$1 billion**.

Note: There is a growing trend of unbundling and companies expanding into multiple segments. This representation is therefore directional in nature as companies might be present in more than 1 subsegment or even segments. Reach out to us if you want to change the segment classification of your company or want to discuss the rationale.

InsurTech

InsurTech landscape is quite nascent in India. The current insurance penetration is quite low, i.e., 2.76% in life insurance and 0.93% in non-life insurance compared to the global average of 6.5%. 'Lack of customer trust' remains the key challenge facing the InsurTech segment, and so far, industry players have found it as a hard nut to crack. The current InsurTech space in India is being dominated by few new-age insurers like Toffee, Digit, and Acko with their ability to attract and popularity among millennials.

Preventive Insurance Models: Armed with the capabilities of AI/ML, predictive analytics, and data captured by IoT-driven connected devices, InsurTech players are exploring ways to make the most out of deep data insights and drive the transition from a reactive approach to proactive prevention. Preventive insurance is gaining traction across the entire insurance value chain from health insurance to home/equipment/transit/automotive insurance. E.g., Kruzz, Niramai, Carnot Technologies

Neo-Insurance Carriers in India Leveraging the Concept of Embedded Insurance: New-age digital insurers have started to adopt the practice of offering insurance policies to customers during their purchase of a product or services. This POS insurance model enables digital insurance to access the large consumer base of online service providers and e-commerce aggregators.

Digital Insurance Advisors: These are the aggregator platform that enables customers to compare and buy insurance products of both new-age online insurers and traditional insurance companies. There has been a significant uptick in the number of aggregators since 2013 when a regulation was passed on web aggregators.

Sachet Insurance: Small-Ticket Insurance, popularly known as 'sachet insurance,' is being adopted on a wide scale among the Indian population. These insurance

schemes are priced at lesser than Rs. 10, making it affordable for the users to get covered under insurance worth lakhs of rupees. These bite-sized insurance policies are being offered by startups (e.g., Toffee Insurance), IRCTC, insurance companies, and Pradhan Mantri Bima Yojana.

Emerging Business Models: The newer business models, such as microinsurance on-demand, are changing the nature of the insurance industry by moving from complex long-term insurance products to short-term insurance products based on time, usage, and activity. The focus on niche segments is driving this trend. E.g., Toffee Insurance.

Underwriting & Risk Management: Using advanced technologies like Big Data, AI insurance companies can leverage a data-driven, risk-scoring model, thereby enabling help them to make better risk coverage decisions across all lines of businesses such as life & health, retirement planning, commercial, and investment. E.g., i3 Systems, Health Vector.

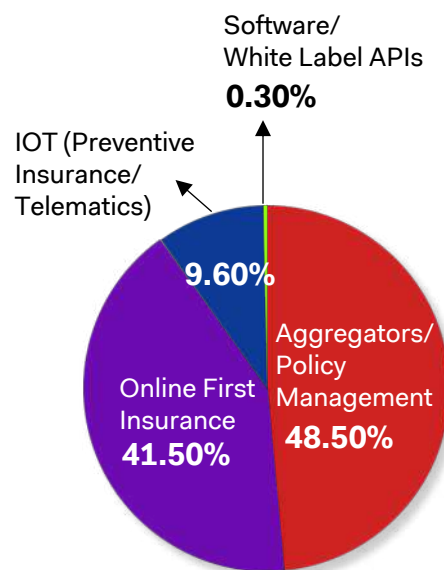
Conversational UI: The digital engagement via chatbots is gaining industry momentum. Chatbots bring better customer experience allowing insurance firms to deploy distribution, claims, and customer service. Chatbots help in functions like general customer service questions, personalized product recommendation, general questions from agents/brokers, direct-to-consumer (D2C) sales, claims, and more. E.g., Ask Arvi

Insurance Infrastructure APIs: Innovative and fast-growing infrastructure APIs solution provider InsurTechs are poised to create a space of 'insurance as a service' companies in India. These infrastructure API players can support product innovation and distribution via digital channels for insurance companies and platform economy players. E.g., Riskcovry

Developments in the InsurTech Space in India

- **Connected ecosystems** can help insurers better understand risk profiles and spot issues quickly. E.g., Kruzz
- **Artificial Intelligence and ML** are leveraging AI for functions like claim automation, fraud prevention, underwriting & risk management, and insurance chatbots. E.g., Artivatic.ai
- **Wearables** can provide near-real-time data to the insurers, helping them better manage risks. E.g., GOQii
- **Blockchain** offers features such as efficient information exchange, trust, and smart contracts. E.g., Sofocle Technologies.
- **Robo-advisors** rely on rules and machine learning to handle customer interactions and even sell. E.g., Ask Arvi
- **Advanced analytics** helps insurers in analyzing data and making better decisions. E.g., Pentation Analytics.

InsurTech Funding: Breakdown of \$445 Million



Top Funded InsurTech Startups in India (> USD 50 Million)



Note: There is a growing trend of unbundling and companies expanding into multiple segments. This representation is therefore directional in nature as companies might be present in more than 1 subsegment or even segments. Reach out to us if you want to change the segment classification of your company or want to discuss the rationale.

Digital Payments

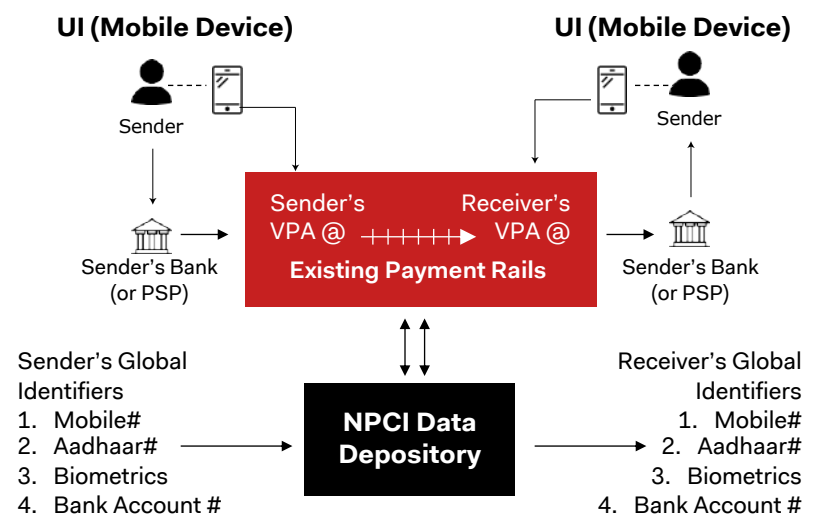
Digital payments has been the flag bearer of the Indian FinTech space. In recent years, we have witnessed a plethora of exciting innovations like UPI, biometric payments, e-wallets initiations by banks, BharatQR code, and sound-wave-based payment technologies. One of the primary reasons can be attributed to the forward-thinking of central & state governments and Reserve Bank of India for successfully bringing a digital payment revolution in India.

Government-led Initiatives: The Indian payments landscape has been revolutionized by the regulators and the central bank's proactive initiatives, e.g., IndiaStack and UPI. India has emerged as one of the most exciting markets for digital payments across the world. Last year, home-grown payment networks (RuPay and UPI) took the lion's share of the total digital transactions, i.e., 65%, showcasing how their efforts have been in the right direction for achieving targets.

The success of UPI: Could it be a model for the world? Recently, tech giant Google wrote to the US Federal Reserve, praising the UPI model that has taken the digital payment space in India by storm and recommended creating similar open-payment architecture in the US. Furthermore, With UPI going global, it sets up the stage for the FinTech players as they have already started receiving queries from international financial institutions, banks, and governments. This has further opened immense opportunities for FinTech players who can share their technology with foreign countries like China, the Philippines, Sri Lanka, Bangladesh, and other SEA countries.

P2P PAYMENT FLOW USING UPI

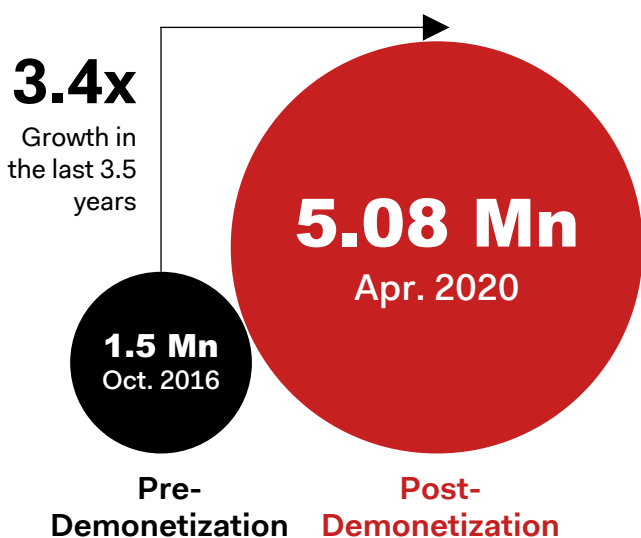
There are two sides to digital payments: a consumer-facing side, which comprises mobile wallet (Paytm, PhonePe, etc.), credit card, debit cards, and new form factors (such as OEM-native payment apps, and wearables); and a merchant side, which is developing at a really slow pace. It is not a question of whether digital payments will alter merchants' fortunes in the future—that is a given (based on empirical data). The question is: how soon? India has been trying to shift from cash-dependent society to a cashless society for quite some time now. The biggest hurdle lies in the adoption of digital payments infrastructure on the merchant side. However, initiatives like UPI 2.0, MDR cuts by the RBI, and Near Field Technology schemes have been silently but swiftly changing the merchant payments landscape in India.



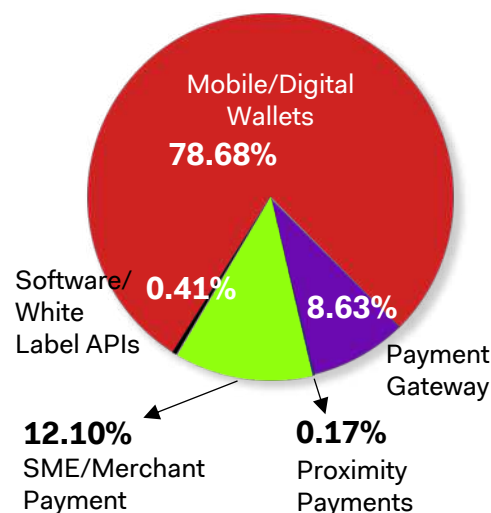
RBI's Newest Proposal: A Gamechanger for India's Retail Payments Sector

The Reserve Bank of India (RBI) has proposed setting up of a new pan-India umbrella entity (NUE) for retail payment systems, which will be responsible for setting up, managing, and operating new payment systems, especially in the retail space, including ATMs, white label PoS, Aadhaar-based payments, and remittance services. The RBI has floated a framework for establishing the new entity and has invited comments on the draft framework by February 25, 2020. The new entity will also have to develop new payment methods, standards and technologies, and monitor related issues in India as well as abroad. The central bank said it would have to operate clearing and settlement systems and manage risks such as settlement credit. The proposed entity can either be a for-profit company or a non-profit organization, the RBI said.

Growth in No. of POS Terminals in India



Digital Payments Funding: Breakdown of \$2,467 Million



Top Funded Digital Payments Startups in India (> USD 80 Million)

- Paytm
- PhonePe
- BharatPe
- Razorpay
- KhataBook
- BillDesk

Emerging Themes at the Intersection of FinTech

Beyond the core segments of the Financial Services industry, Agriculture, Healthcare, and Real Estate are witnessing new business models based on digital platforms, developments in data collection, storage & processing for real-time insights, and simplification of information & monetary transactions. AgriTech, HealthTech, and PropTech startups are disrupting traditional ways of doing business in three industries that facilitate the nation's most vital necessities—food, healthcare, and shelter for citizens. These startups not only can improve efficiencies in production and availability but also ease the process of trade and movement of money for market players. As a result, financial services players can benefit in these organized markets that can provide alternative data to improve the payments, lending, and (or) insurance underwriting practices to become customer-centric services.

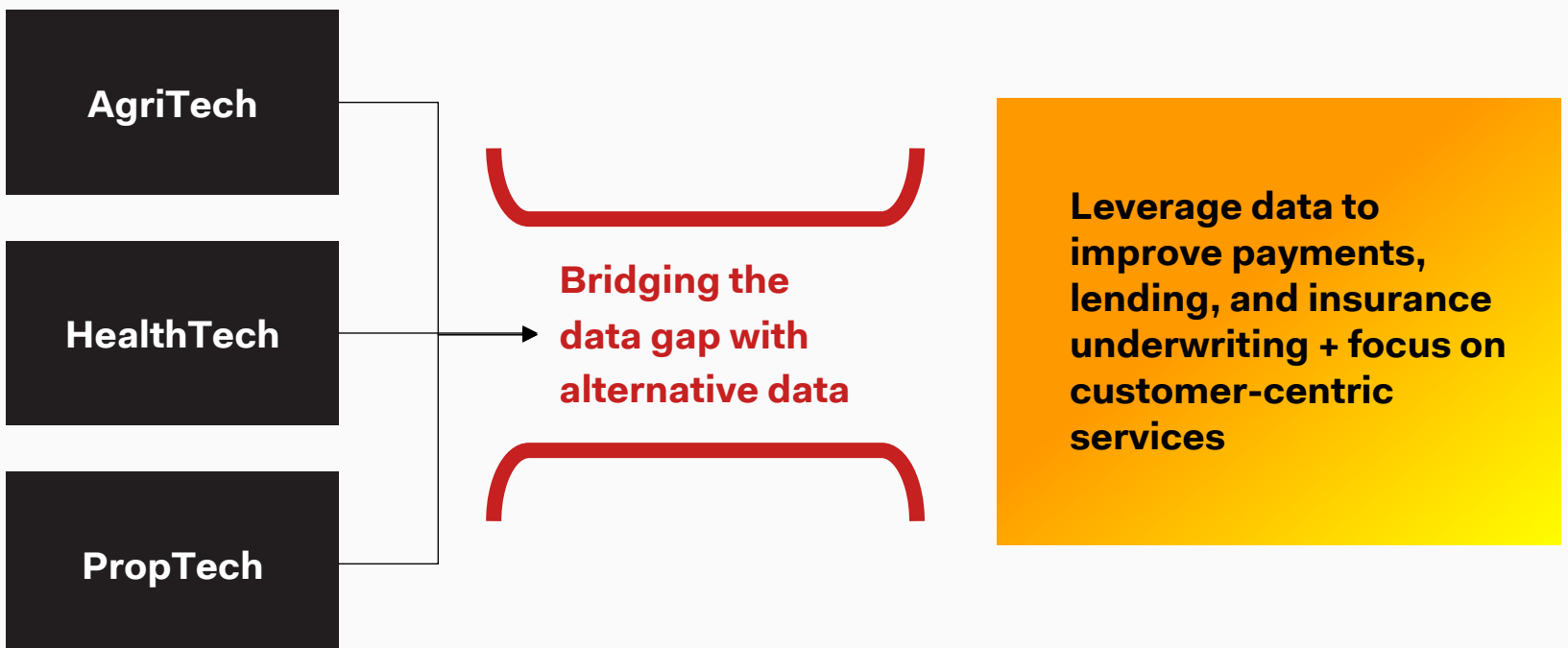
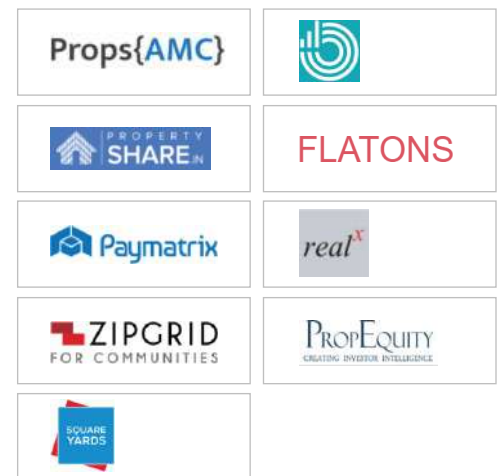
AgriTech is an enabler to agriculture data creation, deep analysis using advanced algorithms, as well as end usage by players across the agriculture value chain. With new technologies that focus on data collection and analysis, these innovators are becoming valuable assets for data deprived financial services industry.



HealthTech is solving problems around unstructured, fragmented, and inaccessible data, as well as creating real-time health data that can be vital to many industry players such as insurers and healthcare providers.



PropTech is powered by new-age technologies and data sources that can eliminate prevailing challenges of data asymmetry through real-time inputs, advanced analytics, and simpler user interfaces for transactions, financing, and documentation.



Financial Inclusion via FinTech

CONVERTING THE UNBANKED POPULATION

Financial inclusion in India has seen a significant flip in recent years due to the government's JAM (Jan Dhan-Aadhaar-Mobile) initiative. With the launch of the Pradhan Mantri Jan Dhan Yojana, India's banked population more than doubled from 2011 to 80% by 2017, and by 2018, 66% of about 536 million no-frills accounts were Jan Dhan accounts.

USAGE OF BANKING SERVICES

Though a large number of bank accounts were opened, the usage of these accounts has not been encouraging. A World Bank study states that only 7% of the Indian population borrowed from an established, licensed financial institution. This rate has not changed much in the last five years despite the increase in formal banking services. Low financial literacy levels meant that many people remain unaware of the potential benefits they could reap from their new Jan Dhan accounts.

RISE OF THE CONNECTED POPULACE

According to a study by IAMAI-Nielsen, in 2019, the number of rural internet users at 277 million outnumbered urban areas at 227 million by 10%. The digital divide that existed earlier has now been bridged. India also has the lowest cost of mobile data compared to any country in the world. The number of smartphone users in the country crossed 500 million last year, with 4G penetration extending to more than 88% of the country. With increased smartphone adoption and inexpensive internet usage, the stage has been set to cover the last mile of financial inclusion. India's financial services industry can take a leaf out of the FMCG sector and its innovative methods in serving the rural population, which has led to 45% of its revenues being generated from this populace. Along with banks and NBFCs, the Indian startup ecosystem also has a crucial role in achieving this goal of last-mile connectivity.

DIGITAL TRANSACTIONS ARE PAVING THE WAY FORWARD

India has been at the forefront of digital transactions during the last few years. The rise in internet usage and smartphone penetration has played a critical role in this regard as well. Aadhaar-Enabled Payments Channel (AEPS), a Micro ATM system, has clocked an annual growth rate of 150% since 2016, thereby emerging as one of the fastest-growing payment systems in the country, second only to the UPI system. A study of the RBI's data on ATM deployment by banks shows that only 19% of ATMs were deployed in rural areas. In such a situation, these Micro ATMs can play a crucial role in enabling this population to access funds for their basic needs. With increased focus by the government on Direct Benefit Transfers for transferring the government schemes to its citizens, such access infrastructure will go a long way in fulfilling the government's financial inclusion mandate.

ACCESS TO CREDIT IS A MAJOR STUMBLING BLOCK

Credit is the driving engine of an economy, and financial inclusion cannot be achieved without providing access to inexpensive and easy modes of credit to the deserving. As discussed earlier, credit through traditional banking channels has been difficult to access for the general populace in India. It is not just individuals, but also MSMEs that are struggling to access credit. The MSME sector continues to struggle in particular, with only 10% of small businesses having access to formal credit. With the rise in internet usage and smartphone penetration, financial services firms are looking at digital lending models driven by cutting-edge technologies such as artificial intelligence and machine learning to bridge this gap. Digital lending has some inherent advantages over traditional lending, such as speedier approval of credit, use of alternate data to assess creditworthiness, and operating cost efficacy. Some of the popular digital lending models that are working towards financial inclusion include mobile lending, supply chain financing, crowdfunding, PoS lending, and invoice financing.

FINTECH PLAYERS

FinTech players have embraced the challenge of working towards financial inclusion and are facilitating the rapid adoption of financial services such as P2P mobile payments, alternative lending to small businesses & consumers, and more. Quite a few startups have emerged in this space, such as Jai Kisan, which empowers farmers through agri-credit; GramCover, which offers insurance for rural India; Kaarva, a credit line for regular income workers; Lakshya, which is working on improving the financial health of the urban underserved, and more. These, along with the traditional players, such as Paytm, PhonePe, and Lendingkart, will play a crucial role in ensuring that financial services reach every citizen of the country.

About MEDICI

MEDICI is the world's leading FinTech Research and Innovation Platform. MEDICI is a partner to banks, tech companies and FIs globally with over 13,000 FinTechs on the platform, enabling FinTechs to scale and create global economic impact. MEDICI is committed to supporting the complex financial services ecosystem and enabling stakeholders benefit from the industry's accelerated growth and global impact.

Aditya Khurjekar

CEO & Founder
ak@goMEDICI.com

Amit Goel

CSIO & Founder
amit@goMEDICI.com

About Internet and Mobile Association of India (IAMAI)

IAMAI is a young and vibrant association with ambitions of representing the entire gamut of digital businesses in India. It was established in 2004 by the leading online publishers, and in the last 16 years has come to effectively address the challenges facing the digital and online industry including mobile content and services, online publishing, mobile advertising, online advertising, ecommerce and mobile & digital payments among others. Sixteen years after its establishment, the association is still the only professional industry body representing the online industry in India. The association is registered under the Societies Act and is a recognized charity in Maharashtra. With a membership of nearly 300 Indian and overseas companies, and with offices in Delhi, Mumbai, and Bengaluru, the association is well placed to work towards charting a growth path for the digital industry in India.

About Fintech Convergence Council (FCC)

FCC is formed under Internet and Mobile Association of India (IAMAI) and represents the FinTech industry and traditional companies in the BFSI space. The purpose of the council is to encourage collaboration, seek complementarities and build synergy between leading BFSI companies and the emerging FinTech start-ups. The council has worked towards interpreting the regulatory and legal framework, aggregating the concerns and feedback of the various players within the larger FinTech community, communicating it to regulators and lawmakers, and organizing events and gatherings for the industry participants to meet, share ideas and work together in the interest of creating a safer, more open and more collaborative operating environment through a transparent forum.

Gaurav Chopra

Vice President
gaurav@iamai.in

Neha Bajaj

Asst. Vice President
neha@iamai.in



Get your copy of the
full report!

DOWNLOAD

gomedici.com/ifr2020

