INDIAN FINTECH

INDUSTRY REPORT

OCTOBER 2022

Rutvik Analytics Research

Contents

Market Overview

India is the third largest FinTech ecosystem globally, after the United States and China.

The FinTech sector in India comprises of over 7,460 firms, clocking over $800 billion annual payments transaction value, with a significant contribution to the Indian economy and a vital role in delivering financial services to all Indians.

India's real-time transactions crossed 48 Bn, which is 6.5 times the combined volume of the world's leading economies: U.S., Canada, U.K., France, and Germany in 2021, resulting in cost savings of ~$12.6 Bn for Indian businesses and consumers in 2021

India's digital payments market is at an inflection point and is expected to more than triple from $3 trillion today to $10 trillion by 2026. As a result of this unprecedented growth, digital payments will constitute nearly 65% of all payments by 2026 i.e., 2 out of 3 transactions will be digital.

- Market Size and Growth

India is known worldwide as a strong FinTech center, and as the Indian entrepreneurial ecosystem evolves, more FinTech use case-led enterprises will be established, with more investors supporting these businesses.

FinTech financing in India is expected to triple by 2021. Through a focus on innovation, Indian FinTechs have turned market difficulties into opportunities, resulting in FinTech and non-FinTech firms developing super applications to engage clients across a broader product range.

Even as digital lending and the buy now pay later model have become mainstream, massive opportunities are emerging in InsurTech with future potential to be tapped in Agri+FinTech and Prop+FinTech. Through the intersection of FinTech with the Health sector, the major gap of unaffordability in the HealthTech value chain can also be addressed.

Fintech segment in India has seen an exponential rise in funding over the last few years, investments worth more than $8 bn have already been witnessed across various stages of investment in 2021

Owing to significant untapped insurance opportunities and innovative InsurTech models, the space is seeing growth in funding and is expected to hit $88 Bn in size by 2030. Innovation in health insurance coupled with the government's digital efforts will fuel market growth.

- Market Segments

The FinTech sector has witnessed consistent development and increased acceptance in numerous sub-sectors, including payments and insurance technologies (Insurtech):

Digital Payment:

A digital payment, often known as an electronic payment, is the transfer of value from one account to another by the use of a digital device such as a mobile phone, POS (Point of Sale), or computer.

Insurance ('InsurTech'):

Insurtech is the application of technological advancements to improve the efficiency of the present insurance industry, by utilizing technology such as data analysis, big data, and AI.

Alternative finance:

Funding offer that exists outside of the typical possibilities provided by large banks Alternative lenders, merchants, and service providers have discovered new choices to give to consumers who do not feel serviced by the present means of traditional financing, with the most popular being buy now, pay later (BNPL) payment plan

Digital asset:

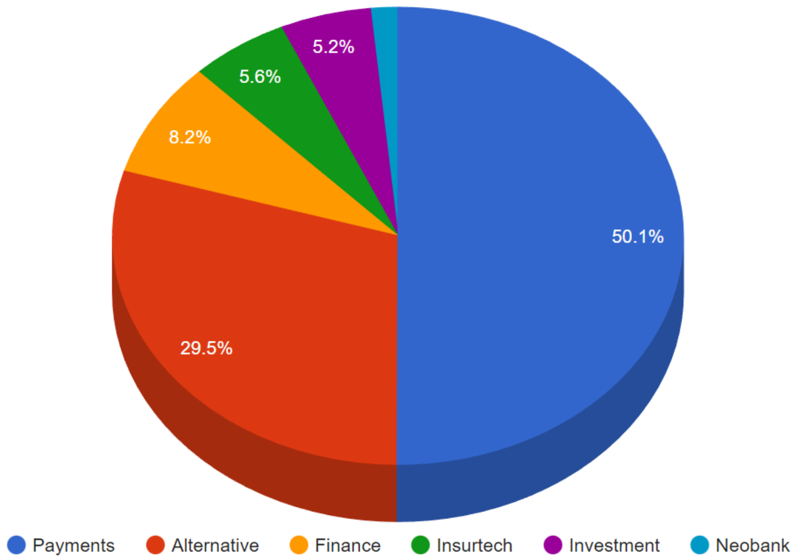
An asset that exists in a digital form and includes a right to use, which is uniquely identifiable that organizations can use to realize value including text, graphics, audio, video, and animations.

Digital Investment:

Investment in private finance for digital connectivity infrastructure and digital financial services in emerging nations to enhance open, interoperable, dependable, inclusive, and secure digital ecosystems.

Neobank:

Neobanks are digital banks that operate entirely online. They don't have physical branches, and everything you'd need from the bank is available through an app.



Fintech Market Segment

- Key Players

	Paytm	CRED	Policybazaar
USP	Paytm is an Online payment system with a high customer base and acceptance	One stop-solution which encourages the users to pay credit card and house rent bills on the platform in exchange for coins.	Policybazaar is the largest aggregator for insurance which gives a comparative transparent view of policies through its portal.
Target customer	Customers of young and middle-age from the Tier-1 and Tier-2 cities	Customer who owns a credit card with an age group ove'20s's	Customers who want to buy insurance but have less to no knowledge of insurance
Partnerships with other companies	**Mastercard** partnership to make high-value transactions such as rent and education fees and increase user pool.	**Piramal Capital & Housing Finance Ltd** to expand the distribution of merchant loans to the small cities and towns of India.	Policybazaar announcing a partnership with **LIC** facilitating seamless digital distribution of insurance products across the nation.
Company Presence	**Industries:** IT & Technology **Company size:** 15000-16000 employees **Headquarters:** Noida, India **Type:** Subsidiary **Specialties:** -20 million merchants and consumers use Paytm as their primary payment service -Most used digital wallet across India	**Industries:** Fintech platform **Company size:** 1000-1200 employees **Headquarters:** Bangalore, India **Type:** Privately Held **Founded:** 2018 **Specialties:** -Processes 20 percent of all credit card bill payments in India.	**Industries:** Insur Technology **Company size:** 5000-6000 employees **Headquarters:** Gurugram, India **Type:** Privately Held Founded: 2008

COVID-19 Impact

In the previous two years, there has been a more than 50% increase in UPI transactions among the blue-collar population. Fintech has accelerated recently following the Covid-19 pandemic.

People were better equipped to endure the protracted lockdown period during the initial wave of the Covid-19 epidemic as a result of their use of digital payments. The widespread usage of technology during the epidemic further accelerated the digitalization process.

FinTech firms redesigned their products and business models to adapt to changing market conditions, while also digitizing their processes and interfaces to allow users to carefully monitor and track their savings. Digital wallet use increased from 6.5% of all e-commerce transactions in 2019 to 44.5% in 2020, demonstrating increased market penetration of Fintech payments in a variety of countries. FinTechs that were agile and able to invest in digital technology appears to have achieved a significant market share in retail financial services.

Depending on the type and source of their funding, the epidemic has had an unequal impact on FinTech enterprises. Many FinTech enterprises rely on investor funding, which declined during the pandemic. As a result, the bigger, more established Fintech businesses did well, while the smaller, less well-capitalized enterprises, many of which are not yet profitable, struggled.

Demonetization Impact

Demonetization turn, led to an increased acceptance of dealing in digital payments by 56%, which occurred due to an acute shortage of cash in the economy.

A sudden dearth of cash forced people to install digital payment apps, and even the smallest vendor started accepting digital currency in their business to keep up, giving a platform for fintech startups to boom.

People did not have cash on hand; therefore, they switched to online payment methods; because of this, digital payment transactions increased rapidly following November 8, 2016.
In the case of mobile wallet transactions, the number and value of transactions increased by more than 200%. E-wallet transactions have surged from 17 lakh to 63 lakh per day.

The demonetization period brought a substantial decline in Automatic Teller Machines (ATM) withdrawals. It equally boosted the adoption of digital means of payments by the Point of Sale Terminals (POS) like Pine lab's G-pay terminal machines and mobile banking. Since October 2016, the number of POS machine transactions has nearly tripled, while the number of ATM transactions has declined by about one-fifth.

Digital payment growth is expected to continue in the future. The next push for digital payment acceptance might come from relatively slow adopters like the rural economy and the small and medium-sized company (SME) sector. Government incentives, such as reductions on digital GST payments and the establishment of accelerator programs, will offer an additional boost.

Challenges:

With these new technology improvements in Indian markets, customers can now accomplish their normal banking tasks simply and without stress. These fintech businesses have an advantage over traditional financial institutions in that they are available to their consumers 24 hours a day, seven days a week, regardless of geographical constraints. These fintech firms, however, confront a number of challenges:

Informal banking population- India has one of the world's largest unbanked populations i.e citizens without bank accounts. New government schemes and policies are being devised to make people aware and shift from informal to formal banking. Although India is making great efforts to change this, the pace of change is extremely slow due to its size and population. The growth of Fintech is a gradual process due to the fact that it only works with digital money, which requires a formal banking system.

Lack of Skill: As the fintech business grows in popularity, more participants emerge. Banks and other controlling financial organizations are having difficulties keeping up with technology and the myriad of new things that are developing as the global market develops. We require talented, self-motivated professionals from the fintech business with the necessary understanding to fully capitalize on this opportunity.

Compliance law and guidelines: All institutions, including the fintech industry, have regulatory and compliance regulations in place to protect and generate value. However, several rules are impeding the expansion of fintech in India. These regulations exist to protect enterprises from fraud and misconduct, but they also prohibit foreign rivals from freely entering the Indian market, making it harder for a sector to grow and flourish.

Data privacy and security: Technology has made it quite easy for both the consumer and the organization to transfer data back and forth. Because all of this information is stored online, it is subject to hackers. Because technological advancements have produced a plethora of cyber dangers, and hackers might exploit this information, fintech organizations bear an additional burden in handling this sensitive financial information.