



HYPERVERGE

CASE STUDY

VIDEO KYC

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EXECUTIVE SUMMARY

The Reserve Bank of India (RBI) has introduced Video Customer Identification Process (V-CIP) to allow banks and other lenders to remotely complete KYC of customers on video in the month of January 2020. Lenders can use this facility as an alternative to the already available e-KYC facility.

The aim of this case study is to provide answers to questions about the market potential of the video KYC solution provided by HyperVerge and its target audience.

The market potential has been estimated on a few parameters and data has been provided that support such estimates.

INTRODUCTION

COVID-19 is undoubtedly one of the biggest global events of our lifetimes, presenting unprecedented challenges to many industries, governments and people all over the world. The pandemic remains a health and humanitarian crisis, and the business and economic impact has been deep and far reaching.

The major issues faced by the BFSI sector is that the onboarding of customers has become difficult for all the financial institutions in India. The KYC process has been a major hindrance in the onboarding process.

Since it is not possible to get KYC done by physically being present at the institutions so as to address this video KYC was introduced.

The market potential of such a solution was not known because of the diversified Indian population and distribution of resources among the population. But an attempt is made to understand its potential.

A very small part of the BFSI sector is taken into consideration in the study of the market potential.

The case study analyses the resource allocation among the various divisions of the Indian population.

Criteria such as distribution of population between urban and rural parts, age group division, internet penetration, smartphone compatibility and mode of banking are used in the study to arrive at an approximate figure.

KEY FINDINGS

The case study addresses two questions.

Q1) What is the market potential for this solution in India? (Consider that we are going after only Banks)

The Indian banking system consists of 20 public sector banks, 22 private sector banks, 44 foreign banks, 44 regional rural banks, 1,542 urban cooperative banks and 94,384 rural cooperative banks in addition to cooperative credit institutions. As on January 31, 2020, the total number of ATMs in India increased to 210,263 and is further expected to increase to 407,000 by 2021.

In the study I have taken top 10 banks of India based on their customer base and the degree of technology friendliness. Their customer base till 2019 is used to approximately estimate the number of new accounts that might open by the end of 2020. An approximated growth rate is used. This approximation is based on the average growth rate in the financial sector over the past few years.

The estimated number gives us a picture of how many people will open individual bank accounts in the year 2020. From this figure we can approximately estimate the number of people living in the urban and rural parts of the country.

We find that about 68.20% of the Indian population lives in the rural parts of the country and the remaining 31.80% resides in the urban areas.

With the help of this statistics we approximately estimate how many new bank accounts are opened by people living in the rural and urban parts of the country. This figure is then used to calculate the age wise distribution of people opening bank accounts.

This figure is important for this study because only people in the age group of 18-45 would need to open new accounts. Customers above the age of 60 don't open new accounts and most of them have already got their KYC done. Moreover, for people above the age of 60 it would be difficult to understand technology and to be able to use it efficiently.

So, the preferred age group would be 18 – 45 years. Customers of the age of 18 would have all the necessary documents required for KYC with them and can legally open a new account in their name. People in the age group of 30 -45 years might open new accounts for various purposes such as retirement funds, marriage funds for their kids, educational funds etc.

Now we look at the internet penetration in India state-wise. We get an average rate of 48.77%. We are able to roughly estimate the percentage of people using internet in urban (metro and non-metro) and rural parts of the country.

After estimating the number of internet users, we look at the smartphone market in India. India is the largest growing smartphone market in the world. Companies like JIO have increased the mobile internet penetration in India. Smartphone companies like Oppo, Vivo, Redmi provide the Indian customers with up to date but cheap smartphones. We use this as a parameter to estimate the number of android and iOS users in India. Further classification is done on the basis of the operating

system versions of the phones. Since video KYC process would need the customers to have up to date software versions so as to prevent any technical glitches like hang, call drops, video clarity etc.

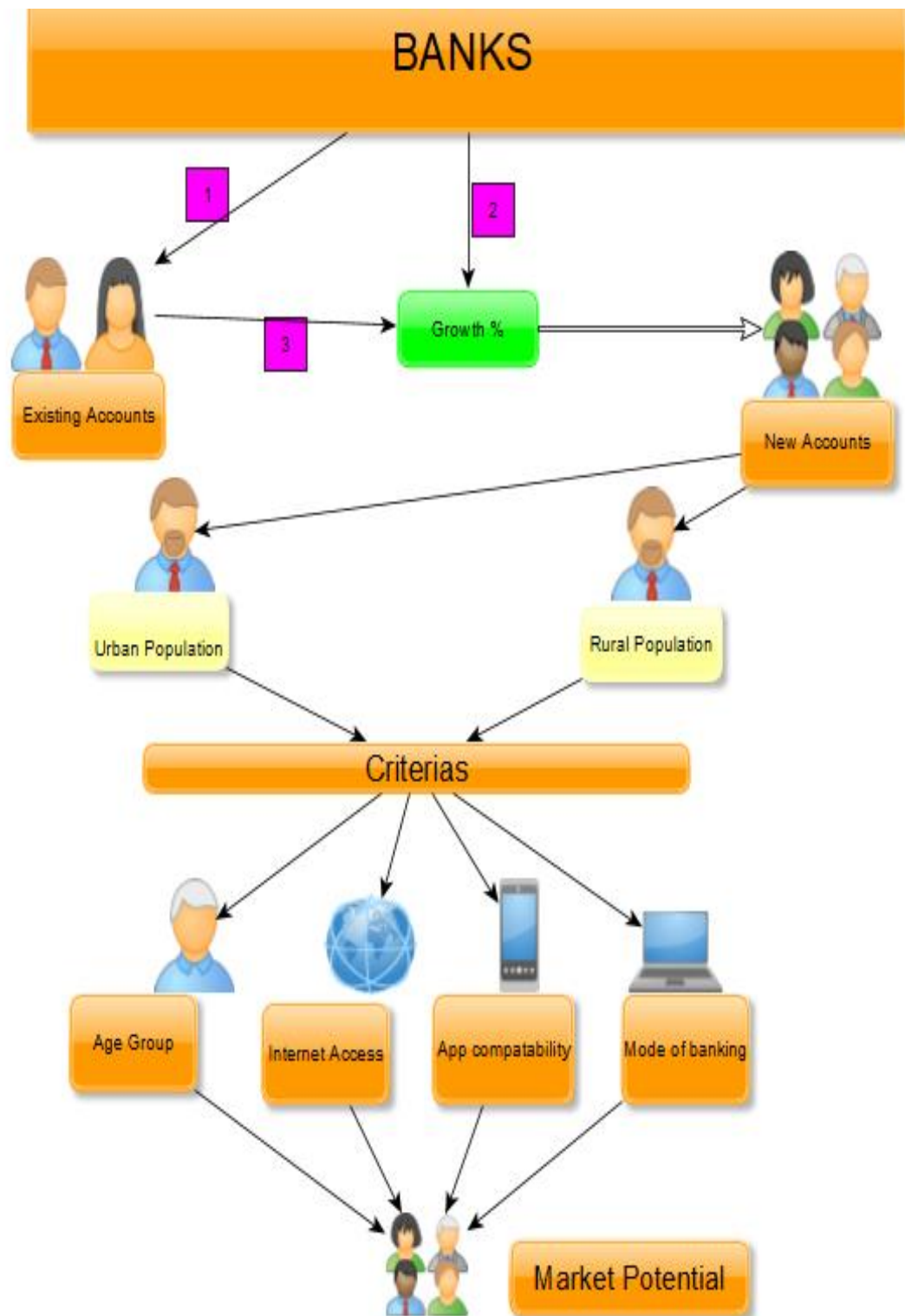
For the study we have considered android phones having Oreo and above and iPhones having iOS 13.3 and above as the most suitable phones as they would be compatible with the banking apps and would be able to cater the needs of video KYC.

Now that we have found a rough estimate of people in both urban and rural areas who are suitable for video KYC, we need to include another criteria i.e. preferred mode of banking. There are many people in India who prefer the old conventional method of banking inspite of the fact that they have all the pre requisites for online banking.

This figure is estimated on the basis of number of transactions done online and offline in the month of June 2020.

Finally, now we have arrived at a figure that becomes our Total Addressable Market or the market potential of the solution provided by HyperVerge.

Graphical representation of the process:



Q2) Who are the key target customers that we should be going after to sell this solution in India? (Consider the whole BFSI space)

BFSI sector in India is valued at Rs. 81 trillion and is likely to become fifth largest in the world by year 2020 and third largest by year 2025.

Earlier for getting KYC done, people had an option of walking into the branches and getting it done but with the boost given to digitalisation in India by the government and the breakout of the global pandemic people have been forced to stay indoors and are expected to perform such activities online.

The COVID-19 situation has made social distancing the norm. Customers are hesitant for both agents driven in-person-verification and branch-based verification.

Since lending, saving, investing money is a part of our day to day life and is something that can't be neglected for long. So, the institutions had to come up with a solution that would not only be effective in time of COVID but even after that. In this context, Video-KYC is now critical to continue business momentum in a 100 percent safe contact-less, presence-less, paper-less way. It is one such solution that will stay for long and would become the new normal.

Benefits of Video KYC solution provided by HyperVerge:

Parameter	<i>Without V-KYC</i>	<i>With V-KYC</i>
Cost	KYC costs between Rs.50 and Rs.500 for both parties.	KYC costs become a 10th of IPV's for both parties.
Efficiency	Not more than 3 KYCs/day.	RE officials can complete up to 200 KYCs/day.
Reliability	Significant scope for fraud and mistakes.	AI enabled fraud prevention and error checks.
Turn Around Time	Lengthy and unpredictable, susceptible to drop-offs.	2-5-minute process, eliminates drop-offs.
Scalability	Limited by geographical access.	Not constrained by geographical separation.

Our major clients include Capital Float, SBI card etc.

Capital Float is the preferred finance partner for thousands of SMEs in India, having a large and diversified customer base all over India.

Since we have partnered with SBI, which has the largest customer base in India, we should now shift our focus towards other institutions of the BFSI sector.

We could target the customer bases of:

1. Payments Banks/E- wallets
2. NBFC
3. Fintech
4. Insurance Companies

1. E-wallets

“Industry executives estimated that at least 8 out of every 10 customers using mobile wallets in the country have not completed KYC requirements.” --- Paytm Executive

This being a clear indication that customers are hesitant in indulging into verification intricacies.

The cost of KYC for each customer can be as high as Rs 250, since an agent (retail shop owners) has to physically reach out to the customer. In cases of companies with large wallet bases, the cost shoots up enormously as they have to partner with such agents. Paytm has estimated a cost of Rs 2,500 crore for its 10-crore user base.

In such situations video KYC has turned out to a blessing for the companies as it cuts the customer onboarding process to a few minutes. Also, the customers are assured of their data privacy as well as get the KYC done at the convenience of their time.

Additionally, with the telecom industry expanding massively, more people have chances of switching to e-wallets.

Major E wallets like PhonePe, MobiKwik, Freecharge, Amazon Pay have not introduced video KYC yet and have a large customer base in India, and thus can be approached as target customers.

2. NBFC

Finance minister Nirmala Sitharaman announced a slew of relief measures for the economy which included allowing NBFCs to directly onboard those customers whose credentials have already been vetted by banks from the UIDAI maintained Aadhaar database.

However, in the absence of an RBI approved mechanism for banks to share these KYC details with nonbanks, the process may be restricted to those loan accounts that are opened jointly by a bank and NBFC under the co-lending model.

In the current circumstances, physical KYC is not feasible and the situation is likely to continue similarly until the coronavirus is completely under control. This has meant that many customers are unable to utilize the full range of financial services offered by the entities at times of the present crisis, due to the KYC restriction.

How can NBFC be benefitted from video KYC?

1. Video KYC is changing the landscape of customer engagement and now NBFCs are finding it easy to get customers onboarded across rural and urban areas without having to invest the time and money to verify their customers' identity.

2. Loan approval time can be reduced and this can ensure disbursement of money at the time of need without any extra paperwork or troubles.

Lending process steps:

1. Originating and evaluating a lead
2. Qualifying the lead thru KYC
3. Risk assessment and underwriting
4. Disbursement of funds and collection

A Rs. 100,000 loan might carry 16% interest and an additional 2% fee to cover for the above. Of this, KYC can be a big chunk. A Financial Institution (FI) may spend between Rs. 50 per KYC to Rs. 500 per KYC. Reducing this cost lessens the cost of the loan, this benefits the customer and thus the bank.

There were 9,659 NBFCs registered with RBI as on 31 March, of which 88 were deposit accepting and 263 systemically important non-deposit accepting NBFCs. The consolidated balance sheet size of the NBFC sector grew 20.6% to ₹28.8 trillion in FY19 as against an increase of 17.9% to ₹24.5 trillion in FY18.

NBFC's like Bajaj Finance Limited, L&T Finance Ltd., Asset Finance company, Investment Company, Loan company can be targeted as they are leaders in the sector.

3. Fintech Companies

Fintech market size is 2.4 billion dollars. It has received investments of about 5.4 billion dollars from 2014-2018. India has the highest FinTech adoption rate globally and 3rd largest FinTech ecosystem globally.

Fintechs, wallets and tech enabled start-ups had built their business models by considering the usage of Aadhaar enabled e-KYC. Everything went for a toss after the Supreme Court verdict. Many wallets closed their businesses as physical KYC was too tough. Now for Video KYC they will have to tweak their IT systems, but it's a one-time cost and can be absorbed easily.

Video-KYC will ease the process of customer on-boarding for fintech start-ups as no additional hardware to record biometrics will be required. The user's smartphone will work capture the documents, reducing hardware costs for the start-ups.

This step will greatly help in reducing the KYC costs for a small value loan and also provide a seamless on-boarding experience for borrowers.

A major factor for targeting these companies can be the massive growth it has seen due to demonetisation and now due to the pandemic.

Moreover, India is one of the leading fintech start-ups hubs in the world, followed by the United Kingdom, Singapore, and Germany. There are more than 4000 fintech start-ups in India and the number is increasing rapidly.

Some of the fintech's that we can target are Pine Labs, StuCred, Shiksha Finance.

4. Insurance Companies

Major need in insurance sector for KYC is to prevent frauds. Medical Identity frauds are becoming more common nowadays. In addition to combating first party fraud, external threats involving compromised accounts and intentional deception are ongoing threat vectors to both industries.

Moreover, the Covid-19 scenario has adversely affected the insurance sector. However, the following steps can help them recover:

1. By maintaining a steady onboarding of customers using digital means.
2. Reducing operational costs and dependency on paperwork.
3. Working efficiently round the clock.

Video-KYC ensures all of the above and eases it all.

There are 24 life insurance and 33 non-life insurance companies in the Indian market. The market share of private sector companies in the non-life insurance market rose from 15 per cent in FY04 to 56 per cent in FY21 (till April 2020). In life insurance segment, private players had a market share of 31.3 per cent in new business in FY20.

Insurance companies like MAX Life insurance, Bajaj Allianz General Insurance Company, Future Generali India Insurance can be targeted as they haven't introduced video KYC yet and have a huge customer base.

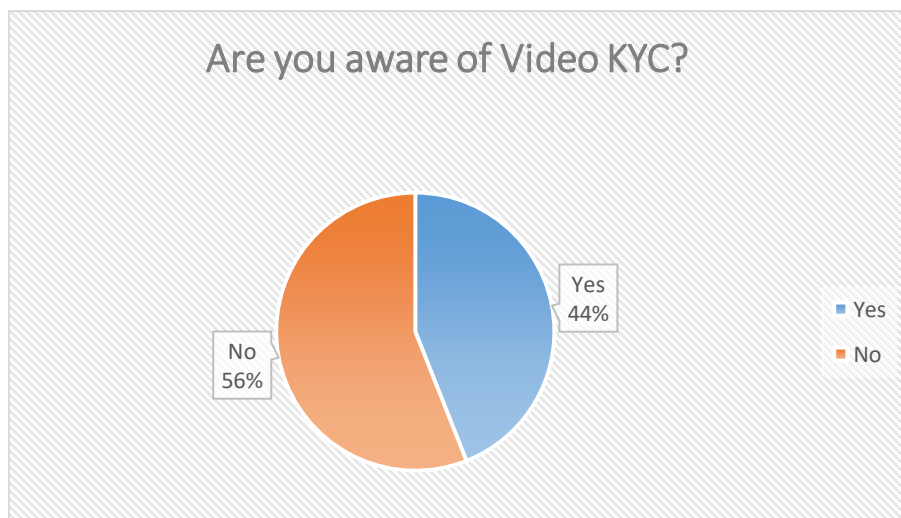
CHALLENGE & SOLUTION

Major challenged faced by the solution provided would be the lack of customer awareness.

There is a large population which is unaware of video KYC and falls into the Total Addressable Market.

Such customers give rise to a sleeping market which needs to awakened.

I conducted a small survey among my college friends to find out how many are aware of video KYC.



It was clear from the results that people are not aware of video KYC and the government needs to create more awareness among the rural as well as urban population by running advertisements on television and radios.

CONCLUSION

The solution provided by HyperVerge has a lot of scope in India at present and in the future. The market potential of the solution will grow exponentially due to the advancements in the telecom sector and due to government's regular efforts in digitalising India.

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