Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities.

BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage and driving bottom-line impact. To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change.

BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive.

Early stage investors targeting companies in the Indian consumer and enterprise market. Matrix Partners began in Boston in 1977, and today invests actively in the USA, India and China. Matrix Partners India was established in 2006, and invests across a variety of sectors including consumer technology, B2B, enterprise & SaaS, and Fintech, among others. We look for the best and brightest founders and teams. In our experience, the quality, passion and commitment of a company’s core team are more important than any other element.

We invest in between seed and series B initially in each company. We like to get to know founders early, ideally well before they are ready to raise capital, with a focus on companies primarily targeting the Indian market. We prefer to be the lead investor. We often invest on our own but also co-invest with other investors.

Founders are always first in our eyes, whether you have just a nascent idea or are already running a business, let us help you turn your ideas into reality and grow your business.
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| 02 | Profitability, Innovation and Governance | Breaking the compromise | 22-83 |
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Executive Summary

The Indian Fintech landscape has reached a scale to establish a strong position in the Global financial services market and be benchmarked for its speed of innovation, customer inclusion and growth. Clocking over $800 Bn+ annual payments transaction value, Fintechs have made a strong contribution to Indian economy, and play a powerful role in the provision of full-fledged financial services to all Indians. We see this collective segment to be mission critical for the $5 trillion Indian economy.

We have a game changing 5 years ahead of us – the financial services landscape is expected to have many strong actors on the stage – large Incumbents, niche as well as diversified Non-Banks, new-age and mature Fintechs, Aggregators and Financial Service Providers, integrated multi-industry Ecosystems and Technology & Data partners. COVID has pressure tested the business models and balance sheet strength of Indian Fintechs. While some businesses went through closure, a sizeable number of Fintechs have survived and demonstrated their “immunity” to withstand such adverse events. Funding inflows went through a plunge of nearly 40-50% when COVID hit, driven by weaker Foreign investor funding, but the rebound post that (70-80%+) has given some runway to Fintechs. As we see a ‘funding winter’ coming, Fintechs will need to re-evaluate their financials and enable cost controls as needed, to be able to continue innovative investments and scale.

Our survey with 125+ Founders/CXOs of top Fintechs and Incumbents revealed that product expansion, ARPU and monetization are the key priorities and biggest challenges for the industry today. More than 70% of respondents believe most Fintechs may not be profitable in the next 2-3 years. While scale is an important driver of profitability, early stage focus on ‘unit economics’ is a critical orientation needed. With the race for customer acquisition, and surging funding over the last 5 years, profitability and compliance has been an afterthought for many players. As the industry matures and regulatory controls strengthen, “Fin” in Fintech will become big and bold.

As we move ahead, there are a few key imperatives for our Fintech founders:

- **Profitability from Day 2: “Fin” as important as “Tech”** – While customer acquisition and growth is important, deeper understanding of banking revenue pools and designing for profitable operations from the get-go will be critical to success.

- **Embrace compliance by design, not as an afterthought!** – While profitability will give runway, compliance will help in creating sustainable growth models.

- **Communicate early & proactively with regulators** to shape enabling provisions for new business models.

- **Win your customer’s trust** – Be known for taking hard decisions because they are right.

- **Tap domestic capital markets** – Debt investor contribution, corporate treasury, hedge funds, etc. Repivot to domestic capital and equity partnerships with large incumbents when global forces dry up.

- **Grow together** – Build a strong partnership DNA and leverage incumbent knowledge and expertise in the innovation journey.

Incumbents have an important role as well:

- **Profitability from Day 2: “Fin” as important as “Tech”** – While customer acquisition and growth is important, deeper understanding of banking revenue pools and designing for profitable operations from the get-go will be critical to success.

- **Embrace compliance by design, not as an afterthought!** – While profitability will give runway, compliance will help in creating sustainable growth models.
Joint innovation and mentorship – Jointly innovate in compliance and governance areas (e.g., cyber security), while also guiding and mentoring Fintechs.

Set-up to live in a two-speed world – Build partnership BUs, enhance and simplify operations, technology and processes, while maintaining governance and risk controls.

Proactively participate in open network models – Embrace data democratization, open credit enablement (OCEN), Account Aggregator models. Invest in layering private innovation on public features to drive economic and strategic advantage.

Contribute to a more inclusive policy framework – Active involvement with regulators as they develop and advance financial sector, to promote engagement with Fintechs and ease collaboration.

India’s regulatory policy framework and infrastructure has been a poster child for the global financial services industry. As we move towards a maturing fintech landscape, these “4C’s & a B” of policy enablers will go a long way in supporting the industry:

Consistency: Improve clarity and consistency across regulating bodies (e.g., KYC norms).

Communication: Continue active dialogue through fintech ‘sounding board’, while keeping pace with ongoing innovations, ambiguity and challenges Fintechs are facing.

Collaboration: Easing restrictions, building clear market standard interfaces to facilitate collaborative business models, and simplifying go-to-market of these models.

Calibration: Differentiated regulatory approach for ‘early-stage’ vs ‘scaled-up’ Fintechs for regulatory supervisioning, introducing ‘Reg labs’ for controlled environment operations and testing.

Benchmarked to Global: Capture learnings that enabled growth in Global markets and ensure we are moving in tandem and not behind the curve on innovation, policy and infrastructure advancements.
Fintech Landscape
Mission Critical for Indian Economy
Fintech Landscape - Mission Critical for Indian Economy
### Indian Fintech Industry: Leaping forward fast

#### India: #3 in Fintech strength

<table>
<thead>
<tr>
<th>Country</th>
<th># Fintechs as on Jun'22</th>
<th>CAGR of number of Fintechs over CY 2019-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>22,290</td>
<td>16%</td>
</tr>
<tr>
<td>UK</td>
<td>8,870</td>
<td>15%</td>
</tr>
<tr>
<td>India</td>
<td>7,460</td>
<td>20%</td>
</tr>
<tr>
<td>Canada</td>
<td>2,770</td>
<td>7%</td>
</tr>
<tr>
<td>Australia</td>
<td>2,640</td>
<td>9%</td>
</tr>
<tr>
<td>China</td>
<td>2,530</td>
<td>10%</td>
</tr>
</tbody>
</table>

#### Significant strides in UPI

- **India**
  - UPI Transaction Value for CY21: $800 Bn+
  - UPI Transaction Volume for CY21: 35 Bn+
  - UPI Transactions Value growth: 97%

Source: 1. Tracxn data as on Jul'22 2. UPI data from NPCI. CAGR represents value increase from CY19-21.
And occupying a significant space in the Global Fintech Landscape

<table>
<thead>
<tr>
<th>Country</th>
<th>Funding ($) (Jan'17 - Jul'22)</th>
<th># Deals (Jan'17 - Jul'22)</th>
<th>#Listed FinTechs as on Jul'22</th>
<th>#Unicorns as on Jul'22</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>129 Bn</td>
<td>5,843</td>
<td>174</td>
<td>172</td>
</tr>
<tr>
<td>UK</td>
<td>40 Bn</td>
<td>1,951</td>
<td>52</td>
<td>30</td>
</tr>
<tr>
<td>China</td>
<td>37 Bn</td>
<td>794</td>
<td>60</td>
<td>36</td>
</tr>
<tr>
<td>India</td>
<td>29 Bn</td>
<td>2,084</td>
<td>37</td>
<td>23</td>
</tr>
<tr>
<td>Canada</td>
<td>7 Bn</td>
<td>282</td>
<td>51</td>
<td>6</td>
</tr>
<tr>
<td>Australia</td>
<td>5 Bn</td>
<td>429</td>
<td>59</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Tracxn data as on Jul’22, Cumulative data from Jan’17 to Jul’22
Rapid surge in new Fintechs over the last 5 years

Many large fintechs had started operations from 2008, with Neobanks being the recent entrants. While the number of fintechs scaled up between 2014 and 2021, funding was low till 2015 after which the sector received rapid funding boost. COVID further boosted payments space, leading to 210% spike in funding between CY 2020 and 2021. With rising funding and valuations, we have seen an acceleration in the rate at which Fintechs have become unicorns vs the past.

Source: Traxcn data as on Jul’22
With many of them moving up the valuation pyramid

Thrusting ecosystem coupled with a surge in digital adoption has catapulted the market to a high growth and valuation trajectory.

Indian fintechs are reaching scale and industry is moving towards becoming mission critical, thus having a national role to play in achieving India’s pursuit of 5Tr economy. Fintechs and conventional players will co-exist as the need to work together is becoming imperative to provide a holistic experience to customers with best of both worlds. Having good compliance systems will smoothen the process of collaborating as willingness of partners to collaborate with compliant fintechs will be higher.
And creating their niche, by driving inclusion

- **LendingTechs**
  - NTC coverage
  - New-to-credit customer share: 36% (Fintechs), 22% (Banks)

- **PayTechs**
  - UPI Adoption
  - Market share in UPI transaction value: 93% (Fintechs), 7% (Banks)

- **WealthTechs**
  - Activating clients
  - Market share in active broking clients: 80% (Fintech broking), 20% (Traditional broking)

Source: Invest India report 22', BCG Analysis
Breakthrough customer coverage, garnering investor interest

### Fintech customers in India

<table>
<thead>
<tr>
<th>Service</th>
<th>2021</th>
<th>Growth Rate</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital payments (MAU - PhonePe)</td>
<td>125 Mn+</td>
<td>32%</td>
<td>165 Mn+</td>
</tr>
<tr>
<td>Digital investments (MAU - Groww)</td>
<td>4.5 Mn+</td>
<td>100%</td>
<td>9 Mn+</td>
</tr>
<tr>
<td>Neo-Banking (#Customers - NiyoX)</td>
<td>2.5 Mn+</td>
<td>60%</td>
<td>4 Mn+</td>
</tr>
</tbody>
</table>

1. Phone Pe’s (market leader) MAUs for Jun’21 and Apr’22. Groww’s (market leader) MAUs for Mar’21 and Mar’22. NiyoX’s registered base for Aug’21 and Jul’22.
Fintech industry has received a booster funding shot – Maturing, but still in high growth phase

Equity funding and deal count in India has been on a rise

While Series D+ funding has grown, ~60% is still in Angel, Seed & Series A-C

Equity funding into Indian fintechs has grown at a CAGR 26% over last 4 years, but more rapidly so from 2020 onwards, fueled by the post-pandemic impact of high growth via increased digital services adoption.

The increasing number of late-stage financing rounds is another indicator of increased maturity of Indian fintechs.

Source: Tracxn data as on Jul’22
Global investors taking a strong seat at the funding table

Indian Fintech growth story continues to hold strong, with ~150 deals/quarter & $9.8 Bn funding in 2021.

However, last few quarters have seen multiple shifts, largely owing to macroeconomic conditions, i.e., impending possibility of recession and high inflation globally.

Note: Indian investor funding refers to deals in which each investor is headquartered in India and Global Investor funding refers to deals in which each investor is headquartered outside India. Offshore arms of foreign entities set up in India are tagged as Indian. Deals in which there is a mix of Indian and Foreign Investors have been split in respective categories using the same ratio as for regular Indian & Global deals.

Source: Venture Intelligence data for CY 21, Tracxn data CY 21.
Valuation profile tilting from Payments to Lending & WealthTech

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY21</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>PayTechs</td>
<td>50%</td>
<td>22%</td>
</tr>
<tr>
<td>LendingTech</td>
<td>13%</td>
<td>35%</td>
</tr>
<tr>
<td>WealthTech</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>Neobanking</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>InsurTech</td>
<td>11%</td>
<td>10%</td>
</tr>
</tbody>
</table>

India Fintech Valuation split by segments (%)

With PayTechs having caused disruption in most areas, Lending & WealthTechs are now next in line

Note: Valuation profile does not add up to 100% as the remaining sits in SaaS
Source: 1.Tracxn, Valuation 2019 onwards 2. Capital IQ, Tracxn, Press Search, projections done considering the growth rates by segments and further expected trends
Winter around the corner coupled with Tech Nationalism

COVID-19 driven income inequities - bias for consumer protection over innovation

Rising demand for data protection to increase compliance costs

Looming liquidity retreat drying up funding inflows

Geopolitical tensions to enhance bias for localization

- Backlash against BNPL, PPI cards
- Reg. concerns re “excess” algorithmic unsecured lending

- ~$2.2 Mn average total cost of a data breach\(^1\)
- High cost of techno-legal solutions for preventing data misuse

- Q1 FY22 witnessed largest decline in quarterly funding since 2018\(^1\)
- 45% valuation decline (QoQ) for Indian fintechs in Q1 CY22\(^1\)

- Data localization policies have doubled from 67 to 144 in last 5 years
- Increasing barriers to cross border scale/data flows\(^2\)

Recent funding headwinds seen Globally and in India

- Global equity funding declined by 28%, with an equivalent decline in deal flows.

- While in India, dip has been a bit steeper at 36% decline.

Over the last 9 months¹, $35.6 Bn has been pulled out by FPIs from Indian markets², rupee is depreciating and at all time low of INR 79/$, prompting FPIs to withdraw money before further devaluation.

A steep drop in funding of 36% from Q4 CY21 to Q2 CY22 is seen in India, which is in line with Global dip.

The amount of dry powder with institutional investors (PE/VCs) has grown by $3.2 Bn in last 6 months², indicating the potential flow of capital with improvement in macroeconomic fundamentals.


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¹ State of the Fintech Union 2022
² Over the last 9 months, $35.6 Bn has been pulled out by FPIs from Indian markets, rupee is depreciating and at all time low of INR 79/$, prompting FPIs to withdraw money before further devaluation.
While most firms struggle, few firms flourish during downturns

- 14% of companies improved growth and margin in downturns, while 44% declined in both...

...and the performance gap between them is substantial

1. Average across last four U.S. downturns since 1986; based on performance compared to three-year pre-downturn baseline for U.S. companies with at least $50M sales
2. Annualized revenue growth during the downturn period
3. Compared to three-year average pre-downturn EBIT margin

Source: S&P Compustat and Capital IQ, BCG Henderson Institute
02/03
Profitability, Innovation and Governance
Breaking the compromise
Indian Fintech industry has reached COVID herd immunity

Rapid digital transition, driven by customer pull

- **3x**
  - Increase in UPI payments in 2021 vs 2019

- **1.8x**
  - Increase in retail digital lending from $110 Bn in 2019 to $200 Bn in 2021

‘High digital portability’ of Fintech business models made COVID a growth catalyst

- Pushed industry towards many new innovative product launches

- Drove uptick in adoption of Fintech products and services by broader customer segments like SME, Insurance, etc.

- Unlocked new incumbent partnership opportunities, and eased collaboration due to accelerated digitization by traditional players

---

“Covid has accelerated things - Internally processes have changed, backend operations are more streamlined”

— MD, Bank

“Covid has pushed the industry towards digital payments and launching of multiple innovative products”

— CXO, Fintech

Source: BCG Matrix SOFTU Survey’22, BCG analysis
Certain segments stress tested more than others

Many business models challenged during COVID

- Lending players have closed one or more business lines. Unsecured lending took greatest hit due to deterioration of asset quality

Headwinds experienced in some areas

- Caused a brief deterioration in asset quality coupled with disruption in on-ground collection efforts

- Forced business model re-imagination in high credit risk & people intensive Fintech business models

- Created concerns on investment climate, tightened availability of funding. Capital shift towards profitable unit economics reducing runway for new Fintechs

Source: BCG Matrix SOFTU Survey’ 22, BCG analysis

Collection effort on ground was disrupted. In India tele-collection is challenging

— MD, Bank

Credit risk has increased- via rise in insurance claims/default due to death

— CXO, Fintech
The last few months have been challenging for Fintechs in general with the “funding winter” approaching and pressure on demonstrating profitability, besides customer acquisition. Fintechs that have a proven value proposition and business model will need to be prepared to operate in the new environment and in a different context to sustain and thrive.

Outlook more positive for Paytechs

- InsurTech: 20%
- Neobanking: 21%
- WealthTech: 24%
- Lending fintechs: 24%
- PayTechs: 32%

Note: Q: Do you believe most fintechs in your sector will operate profitably in the next 2-3 years?
N=102 as on 15th June 2022
Source: BCG Matrix SOFTU Survey' 22

Fintechs not going to turn profitable any time soon. Fundamentally, business drivers are not in the right place – not easy to pivot from growth to profitability

— CXO, Bank

Fintechs are operating in the mode of getting customers and then creating a business model

— CEO, Fintech
Product Expansion and Hiring are top priorities

What are the top priorities for you and your business?

<table>
<thead>
<tr>
<th>Top 3 priorities</th>
<th>Bottom 3 priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product expansion 82%</td>
<td>Fundraising 36%</td>
</tr>
<tr>
<td>Improving customer service 61%</td>
<td>Cost reduction 44%</td>
</tr>
<tr>
<td>Hiring right talent 75%</td>
<td>Internal controls 44%</td>
</tr>
</tbody>
</table>

% Respondents mentioning this as a priority

Note: Q: What are the top priorities for you and your business? (Rank in order)
N=102 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’ 22
Fintech-Incumbent collaboration requires some unlocks

Challenges in fintech and incumbent collaboration

- Low tech maturity of incumbent: 57%
- Operational complexity: 54%
- Regulatory hurdles/challenges: 53%
- Misalignment of incentives: 51%

The issue is to be able to extend our oversight into the partner. Regulation should extend to Fintechs in principle, not on paper

— CXO, Bank

A lot of incumbents want to partner but are not ready. Incumbents are slow to push the boundary of customer experience

— CEO, Fintech

Lack of alignment on key measurable goals - Incumbents track profitability, Fintech focuses on valuation & scale

— Founder, Fintech

Incumbents are perceiving Fintechs as partners and complementary capabilities. Collaboration is seen as a powerful tool to bring together, reach, innovative products and seamless customer experience. However, there are many challenges seen. Regulatory clarity on what Fintechs and incumbents can do comes across as a strong enabler of efficient collaborative models. Other challenges to collaboration seen are low capacity of incumbents, preparedness of incumbent tech stack, low trust factor, risk sharing, data sharing and customer ownership.
Regulations highly effective in safeguarding risks and providing level playing field

- Strong positive sentiment on regulatory environment along...%
  - 82% who agree/neutral that regulations
  - 72% who provide level playing field

- ...however, few areas of enhancement felt%
  - 40% who disagree that regulations
  - 35% who provide flexibility

Note: Q: What are your thoughts on the regulatory environment in your business area? N=102 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’22

Regulators are also adjusting and understanding the new models. Have been fairly supportive in audit situations, it’s a learning curve for all

— Co-Founder, Fintech
However, industry can benefit from clarity and harmonization

### Top areas with greatest need for harmonization and clarity

<table>
<thead>
<tr>
<th>Area</th>
<th>% respondents who believe in need of harmonization across sectors</th>
<th>% respondents who believe in need of clarity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer data management</td>
<td>91%</td>
<td>63%</td>
</tr>
<tr>
<td>KYC</td>
<td>97%</td>
<td>50%</td>
</tr>
<tr>
<td>Cloud and data localisation</td>
<td>72%</td>
<td>30%</td>
</tr>
<tr>
<td>Account Aggregator framework</td>
<td>91%</td>
<td></td>
</tr>
</tbody>
</table>

Data management guidelines are absolutely needed. They will be a larger version of data localization and have to gradually evolve

— CXO, Fintech

Half the battles are won if KYC is sorted fully digitally. Country level regulators can come together and decide a common framework. Simplification and harmonization are needed

— CXO, SFB

AA is the step in the right direction towards open banking. Needs policy push for cross-sector adoption

— President, Fintech

Note: Q: Which areas of regulations need clarity? (Multi-select); Q: Cross-sector harmonization across the following regulations will unlock value (Agree-disagree)

N=102 as on 15th June 2022

Source: BCG Matrix SOFTU Survey’ 22
Indian Regulators have introduced many progressive moves

Respondents view on Top 3 Progressive Regulatory moves

Top 3 progressive regulatory moves

Account Aggregator model 93%
National Health Stack 85%
Allowing bureau access to Fintechs 81%

% respondents with positive outlook

Note: Q: What is your outlook on the following regulations and their impact on the industry?
N=102 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’22

AA will be a game changer - will open up a lot of things. Needs policy push and some form of compensation structure to be incorporated though
— CXO, Fintech

Bureau access will enable product innovation and process efficiencies going forward
— CEO, Fintech

Account Aggregator framework touted to be a baby step towards open banking and a powerful cross-sector enabler and a consent-based architecture.

NHS hailed to create the UPI moment for health distribution, with opportunities for InsurTechs to create interfaces and apps for customers to access records, health services, thereby facilitating innovation in underwriting using this new data.

Access to credit bureau information seen to positively impact industry via better risk assessment and reduced cost in procuring alternate data points
AA framework enables consented data sharing & empowers all players in the ecosystem to enhance penetration
- To win increased consumer awareness & high participation from players is necessary
- Operationalization with encrypted data sharing, strong access controls & accountability systems will be crucial
- It opens doors to additional services- portfolio management, wealth & insurance, taxation provided by players within ambit of RBI, SEBI & IRDAI

Source: Credit Suisse
Fintechs need to bring more attention to governance

Compliance certification on demand, external advisor and scale-based audits may help fintechs be compliant as well as agile at the same time. Once scale is achieved, fintechs may outgrow advisors and over a period, it may be advisable to get independent directors on the board. Having right culture from the get-go may help Fintechs get right systems and processes in place upfront. Fintechs can proactively report their governance practices and initiatives to break the myth and perception of poor governance, and garner trust, both from customers as well as regulators.

Some form of compliance certification can be evolved for fintechs. Scale based audit mechanism can also be thought about, based on revenue, customers etc.

— CXO, Fintech

Once scale is achieved, fintechs should outgrow advisors, get an NBFC license

— CXO, Fintech

Note: Q: Fintechs are at par with incumbents in terms of governance mechanism?
N=102 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’ 22
2a Lending
Hiring Talent and Product expansion are top priorities

% Respondents mentioning this as a priority

- Hiring right talent: 79%
- Product expansion: 76%
- Regulatory impact on business model: 58%
- Geographical expansion: 53%

Note: Q: What are the top priorities for you and your business? (Rank in order)
N=38 as on 15th June 2022
Source: BCG Matrix SOFTU Survey' 22
Unsecured lending poised for further disruption

% Respondents who believe this area will be disrupted

- Cards/BNPL: 29%
- Unsecured loans: 28%
- Supply chain financing: 27%
- Gold/housing loan: 8%

Unsecured lending features as the biggest area likely to be disrupted, whereas a small set of players believe the same will happen for secured loans like Gold Loan and Mortgage.

Note: Q: Which areas in Financial Services are most likely to be disrupted? (Select top 5)
N=50 as on 15th June 2022
Source: BCG Matrix SOFTU Survey' 22

We have seen rapid disruption in unsecured lending over the last few years, along customer experience, analytics based credit decisioning and cost to serve. As we advance coverage across NTC, while more can be done in strengthening risk algorithms, there is immense opportunity to disrupt the secured space as well. Digitalization of physical assets, dematerialization of financial assets and implementing standard operational protocols for E2E process (e.g., marking lien real time via third party platforms) can enable growth in this space, reduce systemic risks and also facilitate quick access via LSPs.

Nisha Bachani
Principal, BCG
Bachani.Nisha@bcg.com
CAC and Asset quality are the biggest challenges for players today

<table>
<thead>
<tr>
<th>Top challenges</th>
<th>Fintechs</th>
<th>Incumbents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulations</td>
<td>66%</td>
<td>33%</td>
</tr>
<tr>
<td>Asset quality</td>
<td>50%</td>
<td>89%</td>
</tr>
<tr>
<td>CAC</td>
<td>50%</td>
<td>56%</td>
</tr>
<tr>
<td>Competitive intensity</td>
<td>37%</td>
<td>22%</td>
</tr>
<tr>
<td>Scalability of business models</td>
<td>34%</td>
<td>22%</td>
</tr>
</tbody>
</table>

% Respondents who believe this is a top challenge

CAC is a big concern now - trying to bring customers through partnerships than direct acquisition

– CXO, Bank

Next 2 years are going to be tough on the borrowing cost perspective. Interventions by Central bank and inflation are going to be areas to watch out

– Co-Founder, Fintech

Fintechs have been crisis tested over the past few years, which has resulted in increasing asset quality and collection practices at par with incumbents. Leveraging technology like AI/ML seen important to help get risk-based pricing models right in a country with diverse customers and customer needs. In addition, availability of risk capital is a challenge and opening up debt markets and building debt securitization frameworks to enable Lending Fintechs to borrow beyond equity markets will help drive sustainable growth.
Collaboration between Incumbents and Fintechs brings greater value

Top areas with potential for incumbent-fintech collaboration

<table>
<thead>
<tr>
<th>% Respondents who believe this area has high potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology &amp; data services</td>
</tr>
<tr>
<td>Sourcing &amp; distribution</td>
</tr>
<tr>
<td>Underwriting &amp; credit</td>
</tr>
<tr>
<td>Collection</td>
</tr>
</tbody>
</table>

Top areas where Regulations can be more supportive of collaboration

<table>
<thead>
<tr>
<th>% Respondents who believe few areas need further enhancement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection</td>
</tr>
<tr>
<td>Underwriting and Credit scoring</td>
</tr>
</tbody>
</table>

Fintech abilities lie in distribution, technology and alternate data. But with respect to collections, those with physical reach may have an edge. While regulations provide opportunities to licensed fintechs to tap the fast growing market in India, three key enablers seen to further their growth journey - 1. Having a level playing field vs incumbents, 2. Opening up opportunities to raise risk capital, and 3. Providing more latitude for smaller fintechs to innovate, in controlled sandbox environment if needed.

Note: Q: Which areas have maximum potential for fintechs and incumbents to collaborate? Are current regulations supportive of collaboration between incumbents and lending fintechs in the following areas? N=50 as on 15th June 2022

Source: BCG Matrix SOFTU Survey 22
While certain regulatory moves are lauded by all, some enablers needed as well

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Perspectives of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Lending Guidelines</td>
<td>- 70% players believe this will adversely impact innovation</td>
</tr>
<tr>
<td></td>
<td>- 75-80% believe it will curtail bad lending practices and improve portfolio quality</td>
</tr>
<tr>
<td></td>
<td>- Need regulatory framework enabling healthy partnerships, with guardrails to check systemic risk</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Bureau access to NBFCs and Fintechs</th>
<th>Respondents believe this will enable -</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Better Risk assessment (87%)</td>
</tr>
<tr>
<td></td>
<td>- Reduced cost in procuring alternate data points (72%)</td>
</tr>
<tr>
<td></td>
<td>- Enhanced customer onboarding experience (67%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New credit card guidelines</th>
<th>50% respondents believe this will improve credit card penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- 35% fintechs keen to apply for a CC certificate of registration</td>
</tr>
<tr>
<td></td>
<td>- However, 75% believe restricting transaction data sharing will negatively impact co-branded cards model</td>
</tr>
</tbody>
</table>
## Global Learning Exhibit #2: Regulators restrict Fintech’s balance sheet lending to protect consumer interest

APAC regulators leverage interest capping, fund sourcing restrictions and limiting credit enhancements.

<table>
<thead>
<tr>
<th>Lending on FinTech’s balance sheet?</th>
<th>Ability to offer credit enhancement to lending partners</th>
<th>Cap on lending rates</th>
<th>Other lending related restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>India</strong></td>
<td>Without lending license</td>
<td></td>
<td><strong>Late payment penalties</strong></td>
</tr>
<tr>
<td></td>
<td>FLDGs restriction (WIP); loading PPI through credit lines is banned</td>
<td></td>
<td><strong>Restricting access to credit bureau to regulated entities</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Prohibiting FinTechs from branding as banks/‘Neo banks’</strong></td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>Without lending license</td>
<td></td>
<td><strong>30% loan retention for online lending Platform</strong></td>
</tr>
<tr>
<td></td>
<td>Through licensed agencies (insurance, fin guarantee)</td>
<td></td>
<td><strong>No one-click purchases</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Ban on platform branding for 3rd party product cross sale</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>25% cap for Banks on sourcing from single online platform</strong></td>
</tr>
<tr>
<td><strong>Singapore</strong></td>
<td><strong>✓</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td><strong>✓</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Presence of unregulated & partially regulated players can lead to increased the systemic risk**

**Exhaustive & periodic reporting, coupled with effective supervision, tailored to the Fintech’s scale can help minimize risks**

Source: Asia Fintech Sector Report, Credit Suisse, Central Banks, Press Search
Perspectives on enabling a growth path ahead

Expand access to alternate forms of capital, through India's debt and securitization market: Fintechs should demonstrate clear value to debt investor, price risk effectively and enhance governance and reporting standards to achieve high velocity of debt funding. Frameworks that will enable discovery and funding of these new borrower entities will be required to make this happen.

Unlock value of partnerships: Clear guardrails for fintech-incumbent partnerships on customer experience, risk management and governance can unlock significant value by combining the expertise of incumbents with innovation of Fintechs.

Accelerate Industry enablers - Data democratization and open finance: Account Aggregator framework and OCEN are set to transform lending. Acceleration of AA adoption by the ecosystem and expanding to other data sources beyond banks will unlock industry ability to drive better access and algorithmic risk-based lending through open market platforms like OCEN.

Data management and compliance by design: Proactive compliance, customer data management can help fintechs alleviate RBI’s consumer risk protection concerns. Fintechs can seek an opportunity to set benchmarks for tech driven compliance by design.

Scale based guidelines for Fintechs: Opportunity to create scale-based guardrails for fintechs (similar to NBFC construct); Smaller fintechs in early stages of innovation/product testing may need more latitude to operate and innovate while fintechs reaching scale should be subjected to the right standards of regulations and governance.

Vikram Vaidyanathan
Managing Director, Matrix Partners
Vikram@matrixpartners.in

Profitability in lending is not a post-facto thought. Key is to get the basics right: continuously improve underwriting models, leverage tech to reduce opex and have a clear plan to reduce cost of funds with scale. Fintechs are battle-tested survivors of multiple debt crises, will continue to learn and emerge out of them stronger.
Perspectives on enabling a growth path ahead

“Need to get to a meaningful scale for sustainability and profitability and justify upfront investment in tech and infra; One important factor to help scale is access to wider capital markets

— VC Investor

Framework for debt securitization and ratings is the need of the hour to drive velocity/throughput that attracts retail investors, corporate treasury and debt hedge funds. Need a wider debt syndication marketplace

— Co-Founder, Fintech

In a diverse market like India, key is to match right-priced borrower risk to investor/lender risk. Using technology effectively, can get access to data, reduce associated cost of credit and losses, which thereby improves the overall quality of portfolio

— Co-Founder, Fintech

Lending space, especially the unsecured space, is growing at a rapid pace with scaling up of digital operating models, alternate data based underwriting etc. and fintechs are well positioned to ride on this growth. Moreover, credit models of fintechs have been stress-tested during Covid phase and the good ones have been able to bring down their delinquencies to pre-covid levels. Next few years present a great opportunity for Fintechs to penetrate the market by focusing on underserved segments with the strong backing of Bank/ NBFC partnerships. Fintechs might outpace many leading NBFCs/ banks in terms of lending volumes over the next few years
 Payments

2b
Product expansion and Hiring talent are top priorities

% Respondents mentioning this as a priority

- Product expansion: 95%
- Hiring right talent: 77%
- Regulatory impact on business model: 59%
- Cost reduction: 50%
- Improving Customer Service: 45%

Note: Q: What are the top priorities for you and your business? (Rank in order)
N=22 Payment as on 15th June 2022
Source: BCG Matrix SOFTU Survey’ 22

PayTechs seem to be focusing on product expansion and cross-selling as it is challenging to create sustainable profits, given the current regulatory regime. Even globally, it is natural for payment companies to extend into other product lines. Growing monthly active user base and thinking about cost reduction, with primary driver as technology are the other top priorities heard.

Opportunity to innovate as more and more guardrails are put by regulators; market access and share comes out and can also be a good opportunity to charge premium

— CXO, Fintech
Disruption expected in P2P and P2M payment flows, less on acquiring

Which areas in Payments are most likely to be disrupted

% Respondents who believe this area will be disrupted

- P2M: 29%
- Payment SaaS: 28%
- P2P: 27%
- POS/PG: 12%
- Prepaid & gift cards: 12%

UPI has been a big disrupter in the Indian Payments landscape. The next wave of disruption is expected to come from rapid explosion of digital merchant payments (as 75% merchants are now covered via QR) and through greater penetration & UPI enablement of Credit cards.

RBI’s 2025 payment vision targets a 3X growth in digital payments transactions, and value of digital payments turnover to be 8X vs GDP, with a fundamental reduction of cash in circulation.

Note: Q: Which areas in Financial Services are most likely to be disrupted? (Select top 5)
N=29 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’22
PayTechs feel that card regulation can be clearer as there are interpretation gaps between RBI & fintechs. Zero MDR regime believed to have impacted sustainable profits, especially with lot of cashbacks, discounts being given away to combat current intense competition. In addition, restrictions in credit linked to payments is seen as another pain point challenging the viability of business.

### Cost of compliance, CAC and Competitive intensity are the top challenges

<table>
<thead>
<tr>
<th>Top challenges</th>
<th>Fintechs</th>
<th>Incumbents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulations</td>
<td>73%</td>
<td>57%</td>
</tr>
<tr>
<td>Competitive intensity</td>
<td>68%</td>
<td>43%</td>
</tr>
<tr>
<td>CAC</td>
<td>55%</td>
<td>71%</td>
</tr>
<tr>
<td>Scalability of business models</td>
<td>27%</td>
<td>43%</td>
</tr>
<tr>
<td>High compliance cost</td>
<td>23%</td>
<td>71%</td>
</tr>
</tbody>
</table>

Note: Q: Which of the following areas pose a challenge to sustainability in your sector?
N=9 Incumbents; N=20 Fintechs as on 15th June 2022
Source: BCG Matrix SOFTU Survey' 22

---

Long wait on decision on the Payment Aggregator License, decision could provide clarity to move forward

— Strategy Head, PayTech

Challenge is more from BU perspective. UPI makes no money, but overall Bank makes more money in the longer run due to digital transactions. LTV of the customer increases

— CXO, Small Finance Bank
Global Learning Exhibit #3: Payments - Regulators cap and reduce MDRs to propel product offering expansion

**MDRs/interchange fees across markets have been capped and have been trending downwards**

<table>
<thead>
<tr>
<th>Country</th>
<th>P2P Fee</th>
<th>P2M/Corporate fees</th>
<th>Credit cards</th>
<th>Debit cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>NIL¹</td>
<td>NA</td>
<td>Consultation in progress 1.5-1.8%</td>
<td>Rupay MDR: NIL Other MDRs: 0.4- 0.9%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.45%</td>
<td>Cap: Rmb 13/0.35%</td>
</tr>
<tr>
<td>China</td>
<td>NA</td>
<td>NA</td>
<td>0.45%</td>
<td>No cap</td>
</tr>
<tr>
<td>Singapore</td>
<td>NIL</td>
<td>S$0.2 to S$0.5 per tx</td>
<td>No cap</td>
<td>Subject to commercial agg.</td>
</tr>
<tr>
<td>Korea</td>
<td>NA</td>
<td>NA</td>
<td>No cap</td>
<td>Interchange Cap: 0.08%</td>
</tr>
<tr>
<td>Australia</td>
<td>Variated with commercial arrangements</td>
<td></td>
<td>Cap: 0.5%</td>
<td>Interchange Cap: 0.14%/0.21% (domestic/international)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Upto RM5K: NIL&gt;RM5K: 50 cents</td>
<td>~0.5% (Chargeable by acquirer)</td>
<td>Interchange Cap: 0.675%</td>
<td></td>
</tr>
</tbody>
</table>

MDRs and Fee in most cases are capped at <1% of the transactions value

¹- For UPI in India  
Source: Credit Suisse
PayTechs looking to lending as holy grail for monetization

Are you exploring any alternate revenue source

What other revenue source are you exploring?

Lending emerge to be the clear winner as an alternative revenue source

~70%
Paytechs are looking to tap into alternate revenue sources

Note: Q: Are you exploring any alternate revenue sources? What other revenue sources are you exploring?
N=29 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’ 22
While tokenization seen in a positive light, players need support on other regulatory moves

Few players have a positive outlook on recent regulations

<table>
<thead>
<tr>
<th>Regulation</th>
<th>% respondents with positive outlook</th>
<th>Respondents' perspective on implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero MDR</td>
<td>34%</td>
<td>80% believe banks and PSPs most impacted</td>
</tr>
<tr>
<td>Restricting BNPL Models</td>
<td>21%</td>
<td>Constrains innovation in space</td>
</tr>
<tr>
<td>Credit Card and Debit Card – Issuance and Conduct Directions</td>
<td>31%</td>
<td>Limits role of non-bank and fintechs in driving penetration</td>
</tr>
<tr>
<td>Tokenization of card transactions</td>
<td>66%</td>
<td>Helps minimize data leaks &amp; brings transparency but increases compliance cost and cancellations</td>
</tr>
</tbody>
</table>

Note: N=29 as on 15th June 2022
Source: BCG Matrix SOFTU Survey' 22

State of the Fintech Union 2022
Perspectives on enabling a growth path ahead

**Monetization of payments:** Need to enable economic attractiveness for Fintechs to continue to invest in payment innovation. Currently economic models are highly restrictive and zero MDR regime puts pressure on Paytechs to focus on alternate sources of revenue and limits investment in innovation.

**Credit on payments:** Credit embedded within payments is key to drive growth and penetration of payments in a sustainable way. UPI has disrupted peer to peer and peer to merchant debit payments and with the enablement of credit cards on UPI, it is set to turbocharge credit card industry further with a manifold expansion of the acceptance reach.

**Widening of P2M acceptance:** While UPI has kicked off a digitization wave of payments, significant scope for further penetration in P2M payments; need to reach larger merchant base and continuously drive formalization and digitization of additional value chains.

**Monetization beyond core:** Payment service providers role has expanded beyond core processing to lending, book-keeping, cash flow management, etc. to drive sustainability. PayTechs will continue to unlock value through other value-added services.
India has attained world leadership in payment innovation through UPI, QR acceptances, etc. We have several fintechs setting the standards at scale. However, there are still many areas where significant potential exists to increase digital payments penetration especially in the P2M space. Enabling more merchants, formalization will also unlock the potential of finance embedded in payments. Greater flexibility in economic models can turbo charge investments into payment innovation.
Insurance
Hiring talent and product expansion emerge as top priorities

% Respondents mentioning this as a priority:

- **87%**: Hiring right talent
- **73%**: Product expansion
- **60%**: Geographical expansion
- **53%**: Regulatory impact on business model

Note: Q: What are the top priorities for you and your business? (Rank in order)
N= 27 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’ 22

Product expansion, especially in Health claims processing solutions and Managed care are touted for growth. Current tech solutions and innovation has been limited in these areas, focusing largely on distribution. However, as players expand, tech led solutions is expected to drive greater penetration. Similarly, better experience and VAS such as wellness linked products will be the key differentiators of winners vs laggards.
Health Insurance most ripe for disruption

Which areas in Insurance are most likely to be disrupted?

<table>
<thead>
<tr>
<th>Area</th>
<th>% Respondents who believe this area will be disrupted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>45%</td>
</tr>
<tr>
<td>Life</td>
<td>16%</td>
</tr>
<tr>
<td>Motor</td>
<td>14%</td>
</tr>
</tbody>
</table>

Top new avenues respondents believe should be allowed:

- Data based pricing in Health & Life >> 84%
- Value added services such as wellness linked products >> 75%
- Enable white labeled insurance products >> 73%
- Pay per use motor insurance pricing >> 71%

Note: Q: Which areas in Financial Services are most likely to be disrupted? (Select top 5)
N= 27 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’ 22

Anish Patil
Associate Vice President, Matrix Partners
Anish@matrixpartners.in

2022 can be the watershed moment for Insurtechs in India. Heightened consumer awareness post COVID, new product innovation and increased regulatory support are clear tailwinds for insurers and insurtechs alike. Low CAC, strong underwriting and a solution-first mindset will be key for insurtechs to win in the long run. Expect significant growth in health, commercial and contextual insurance products.
Regulations, CAC and Scalability are the key challenges today

<table>
<thead>
<tr>
<th>Top challenges</th>
<th>Fintechs</th>
<th>Incumbents</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Respondents who believe this is a top challenge</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulations</td>
<td>92%</td>
<td>58%</td>
</tr>
<tr>
<td>CAC</td>
<td>83%</td>
<td>67%</td>
</tr>
<tr>
<td>Scalability of business models</td>
<td>58%</td>
<td>25%</td>
</tr>
<tr>
<td>Loss ratios</td>
<td>50%</td>
<td>58%</td>
</tr>
<tr>
<td>Competitive intensity</td>
<td>42%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Business models are still complex – CAC is high, digital acquisition not adopted in a big way

— CXO, Bank

Regulations are stringent. But they are not impeding. Regulation isn’t the primary blocker

— CXO, FinTech

Insurance regulator is thinking rightly about launching insurance companies – new licensing models might come up like banking

— Co-Founder, FinTech

Note: Which of the following areas pose a challenge to sustainability in your sector?
N=12 Incumbents; N=15 Fintechs as on 15th June 2022
Source: BCG Matrix SOFTU Survey' 22
Significant opportunity for Fintech-Incumbent collaboration

Sourcing/distribution, underwriting, wellness services - most preferred areas for collaboration

- Sourcing/Distribution: 100%
- UW using alternate data (HI/Life): 96%
- Wellness services (Health): 93%
- Risk based pricing (Motor): 85%
- Retirement Planning (Life): 78%

Easing of investment restrictions would facilitate better collaboration

~70% respondents agree that relaxing investment restrictions of insurers ability to invest in insurtech, will lead to more collaboration

Note: N=27 as on 15th June 2022
Source: BCG Matrix SOFTU Survey' 22
Regulations supportive of Fintech-Incumbent collaboration in most areas

Areas where regulations are supportive | % Respondents who believe so | Areas where regulations can be more supportive | % Respondents who believe so
---|---|---|---
Sourcing/Distribution | 67% | Risk based pricing (Motor) | 42%
Tele consultation (Health) | 50% | Underwriting using alternate data (Health & Life) | 42%

Note: Q: What are your thoughts on the regulatory environment in your business area?
N= 27 as on 15th June 2022
Source: BCG Matrix SOFTU Survey ’22

Overall, regulations are perceived to be supportive in most areas, except wellness services and underwriting using alternate data. While incumbents have a more optimistic view on regulatory support, Fintechs believe potential to create more supportive frameworks in retirement planning, tele consultation and risk based pricing besides the above two.
## Strong positive sentiment on recent regulatory moves

<table>
<thead>
<tr>
<th>Regulation</th>
<th>% respondents with positive outlook</th>
<th>Respondents’ perspective on implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easing new insurer application</td>
<td>70%</td>
<td>Reduction in minimum capital to help fintechs, micro-insurers</td>
</tr>
<tr>
<td>Pay per use pricing in Motor</td>
<td>71%</td>
<td>Allows larger play of InsurTechs in product structures and distribution</td>
</tr>
<tr>
<td>Data based pricing in Health</td>
<td>84%</td>
<td>Will unlock growth and value-based pricing; Enables efficiency and profitability</td>
</tr>
<tr>
<td>National Health Stack</td>
<td>75%</td>
<td>Creates new opportunities for InsurTechs like technology interfaces for records access, ecosystem connection infrastructure, underwriting innovation</td>
</tr>
<tr>
<td>Sandbox</td>
<td>67%</td>
<td>Has enabled growth of innovative products but needs relaxation of guidelines (E.g.- Quick approval, ’use &amp; file’ for products/services)</td>
</tr>
</tbody>
</table>

Note: N=27 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’22
## Forward looking regulatory moves creating growth unlocks

<table>
<thead>
<tr>
<th>Guideline</th>
<th>Potential impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction of new age add-ons for Motor Own damage cover</td>
<td>Expected to accelerate insurance penetration 3+ year vintages PV, 2W</td>
</tr>
<tr>
<td>• Pay as you drive (switch-on/switch-off insurance according to need)</td>
<td></td>
</tr>
<tr>
<td>• Pay how you drive (the better you drive lesser the premium)</td>
<td></td>
</tr>
<tr>
<td>• Floater policy for 2-wheelers and private cars belonging to the same owner</td>
<td></td>
</tr>
<tr>
<td>Insurers across product lines (Life, GI, Health) allowed to use and file products</td>
<td>Accelerates the product introduction timelines</td>
</tr>
<tr>
<td></td>
<td>Greater flexibility launch innovative products with differentiated features, pricing - in line with evolving demands of the customer, and assist in increasing insurance penetration</td>
</tr>
<tr>
<td>Insurers can directly empanel hospitals for cashless treatment without registration with Registry of Hospitals in the Network of Insurers (ROHINI)</td>
<td>Insurers can expand the network of hospitals (PPN - preferred provider network) providing cashless facilities, thereby improving access to quality health-care and best medical infrastructure. This initiative will help in expanding the network especially in Tier-2+ locations</td>
</tr>
</tbody>
</table>

Source: IRDAI, web search, BCG analysis
Perspectives on enabling a growth path ahead

Embracing a new regime through partnerships and collaboration: InsurTechs and Insurers, with deep integration, can build highly efficient and scalable operating models, and drive growth. Besides distribution, data-based UW, AI/ML based claims prevention and management are key areas for collaboration.

Leveraging changing regulatory landscape: IRDAI is introducing several significant regulatory changes to drive greater penetration, digitalization, and improved customer service. This will have large implications on how insurers and InsurTechs collaborate. Responding to these changes swiftly will be the key to leverage these changes.

Going beyond insurance, to services and solutions: Gradual shift from pure-play insurance to more comprehensive “one-stop” solutions, providing ecosystem and holistic plays to customers. This is also leading to emergence of B2B plays, where InsurTechs need to build solutions for insurers to offer services in a plug-and-play manner.

Unlocking the “UPI” moment in retail health: National health stack at scale can unlock significant potential for insurers, customers and providers with better experience, better products, lower costs (frauds) and can transform reach of retail health. InsurTechs will have a significant opportunity to utilize the platform for creating innovations and integrating with the insurers.

Product flexibility: Product simplicity has long been an ask of customers especially in health and life; InsurTechs can play a significant role in driving flexibility in product structures and pricing for better economics as well as for customer value.
Perspectives on enabling a growth path ahead

“Only a few players will survive in the agent distribution model. The model to go for is Cross-sell. Someone who sells motor might not be able to cross sell health. So it is essential for insurance players to build this skill

– CXO, Insurance Co.

“Product innovation for addressing niche segments, data driven innovation across the value chain, use of technology to enhance customer experience are crucial levers for growth

– CXO, Fintech

“Product simplification is a big unlock. But if you have strong distribution, it isn’t a big requirement

– Co-Founder, Fintech

Aniruddha Marathe
Managing Director & Partner, BCG
Marathe.Aniruddha@bcg.com

Insurance sector is at the cusp of break-out growth and the next phase of growth will be driven by digital and data driven innovation in products, distribution, claims and customer experience. The regulatory landscape is also likely to evolve significantly and is likely to favor this change. Responding swiftly to changing dynamics will be the key to success
2d
Wealth Management
WealthTechs’ focus is on driving monetization via creating more alternatives and expanding into new assets for customers and help in diversification. Industry feels more solutioning around the mass retail customer is required and that devising right entry product for mass investors is needed. Also, user centric experience seen to be more important as players opine that true innovation lies in technology used to deliver the product vis-a-vis the financial product itself. Financial literacy has a long way to go in India. WealthTechs along with regulator feel the need to protect investor interests while striving to increase market participation.

<table>
<thead>
<tr>
<th>% Respondents mentioning this as a priority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Expansion</strong></td>
</tr>
<tr>
<td><strong>Hiring right talent</strong></td>
</tr>
<tr>
<td><strong>Regulatory impact on business model</strong></td>
</tr>
<tr>
<td><strong>Improving customer service</strong></td>
</tr>
</tbody>
</table>

Note: Q: ‘Which areas in Financial Services are most likely to be disrupted? (Select top 5)
N= 27 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’ 22
Advisory to drive the next wave of innovation

% Respondents who believe this area will be disrupted

<table>
<thead>
<tr>
<th>Potential areas of disruption</th>
<th>% Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment advisory</td>
<td>45%</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>18%</td>
</tr>
<tr>
<td>Crypto/NFTs</td>
<td>17%</td>
</tr>
<tr>
<td>Exchange application</td>
<td>17%</td>
</tr>
<tr>
<td>Equity broking</td>
<td>13%</td>
</tr>
<tr>
<td>AMC</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: Q: Which areas in Financial Services are most likely to be disrupted? (Select top 5)
N = 20 as on 15th June 2022
Source: BCG Matrix SOFTU Survey' 22

I strongly feel that innovation will happen at the solutioning level. There are not enough options for investors to deploy capital where they don’t have to apply themselves.

— Cofounder, WealthTech

Players see opportunities for disruption in investment advisory, through helping customers avoid “money mistakes” and improve longer term returns. Easing process for advisor fee collection, and providing access to AA ecosystem, with market wide depositories information access, are key enablers needed.
Apart from Regulations, Monetization and CAC are key challenges

Top industry challenges

(% respondents who believe this is a key challenge)

- Regulations: 60%
- Monetization: 45%
- CAC: 40%
- High compliance cost: 35%
- Competitive intensity: 25%

Regulator view is a lot more from offline players viewpoint. Most of the Fintechs are thinking from an online perspective. Good representation of online/Fintech should be compulsory

— CEO, Fintech

Monoline business in retail is not doing good as customer loyalty is going down. Cross sell for higher ARPU always help

— CXO, Fintech

Given the level of financial literacy in India, protecting investors interest is paramount for the regulator as well as the industry, as it involves serving a mass market. Bar for paying fees or letting the platform make money is very high in India, relative to other countries. Also, generating revenue from equity investors is hard for brokers. In the current competitive WealthTech space, optimizing AUM-CAC would be a significant differentiator. Macro risks like a bear market might put off investor interest, affecting new investors inflow and existing investors becoming inactive, thus hurting broking and MF industries
### Key enablers needed to drive growth and innovation

<table>
<thead>
<tr>
<th>Enabler</th>
<th>(% Respondents who agree)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation in new asset classes (Crypto/NFT) being affected by regulation uncertainty?</td>
<td>70%</td>
</tr>
<tr>
<td>Tokenization of large ticket investments like AIF and making available through market routes</td>
<td>65%</td>
</tr>
<tr>
<td>Need for relaxation of RIA vs distributor norms</td>
<td>60%</td>
</tr>
<tr>
<td>Relaxation in accredited investor norms to unlock growth</td>
<td>55%</td>
</tr>
<tr>
<td>Customers will be willing to ‘pay for advice’</td>
<td>45%</td>
</tr>
<tr>
<td>Regulatory framework is supportive with respect to cross-border investments</td>
<td>20%</td>
</tr>
</tbody>
</table>

Note: N=20 as on 15th June 2022  
Source: BCG Matrix SOFTU Survey’ 22

Anand Khetan  
Associate, Matrix Partners  
Anand@matrixpartners.in

DIY investing platforms have done well to drive penetration and onboard the first ~20M+ active retail investors. Millennials are increasingly open to using tech to manage their finances as trust on digital platforms has increased over the years. Assisted tech-enabled advisory on low-ticket size investments in a cost-effective manner will likely be the path to get to the next 25-50M investors. AA, KYC and other enablers will play a key role in this wave of innovation.
Perspectives on enabling a growth path ahead

Advisory led innovation and monetization model: While a lot has happened in broking and investments, the next big wave of innovation is expected to come from advisory, as retail customers have higher return expectations. Easing out fee collection process by advisors, transparent pricing and opening up AA ecosystem with participation of depositories, will help advisors drive true value for customers. This will also require guardrails to build accountability for licensed advisors and a clear demarcation and tightening of influencer-led advisory.

Right solutions for Many India’s and driving financial literacy: User acquisition and engagement is yet to reach the masses, activating new investor segments and increasing financialization of wealth by existing investors through superior customer experience, tech-solutions to ‘mistake-proof’ decisions at scale and enabling financial literacy in the investment journeys, will create the next big unlock of growth. Need to define right entry products for mass customers as well to drive the next wave of adoption.

Access to AA, for better advisory: Customer risk profiling is a key to success in wealth advisory. Enabling greater access to customer data through account aggregator framework can enable better and more customized personal financial management services.

Enabling sustainability of brokerage model: WealthTechs have more runway to show sustainability as India’s growth story is still underpinned on penetration. However, moving from discount led acquisition model, to monetization of customer transactions is essential going forward. Opening up new revenue streams, e.g., order flow, easing out cross-border investments/trades and enabling players to move up the value chain (distribution → manufacturing) will drive sustainability of these players.

Clear path forward for new asset classes: India has a long way to go in driving financialization of wealth into mainstream asset classes, however there is rising interest in new, fractionalized asset classes with a resilient talent pool and large Fintechs operating with caution. A clear framework and concerted push to demonstrate proof of concept in these new asset classes (e.g., NFT, blockchain, fractional asset ownership) and improve retail investor awareness will help industry stakeholders.
Wealth in India will grow faster than GDP and India is one of the fastest wealth creating nations in the world. As wealth gets to more hands, it is imperative that fintechs are equipped with right business model and regulatory support to build wealth and PFM solutions for the masses, where investors’ behaviour is changing to move large sums digitally. Retailization of advisory services, right entry products and driving long term wealth creation and preservation opportunities for investors will be a key unlock. Appropriate monetization models, at par with global peers, needed for sustainability and innovation.
2e Neobanking
Significant activity seen in Neobanking ecosystem

- New tie-ups seen during the last 12 months
  - 5+: 28%
  - 2 to 5: 39%
  - 1 to 2: 22%
  - None: 11%

- Deposits, cards and savings products leading the fray in new launches
  - Deposits: 67%
  - Cards: 67%
  - Investment: 39%
  - Other: 11%

Note: N=18 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’ 22
Product and hiring talent are top priorities

% Respondents mentioning this as a priority

- **Product expansion**: 86%
- **Hiring right talent**: 71%
- **Regulatory impact on business model**: 64%
- **Improving customer service**: 57%

Note: Q: What are the top priorities for you and your business? (Rank in order)
N = 18 as on 15th June 2022
Source: BCG Matrix SOFTU Survey’22

“Neobanking is more about customer centricity - money management experience, task automation etc rather than benefits like increasing returns”
— CXO, Fintech

Expanding into lending/ asset-side products seen as a key driver to profitability. Seamless onboarding and frictionless customer journey are major value propositions for collaboration with incumbents.
CAC, Regulations and ARPU are key challenges

Top industry challenges

CAC  | Regulations  | ARPU  | Competitive intensity | Scalability of business models
--- | --- | --- | --- | ---
67% | 61% | 61% | 33% | 28%

Proficiency of neo-banks is one of the biggest challenges today, largely due to high CAC and low ARPU. Customer adoption is still picking up in this sector, with only a few million customers who have an account. Activation of accounts, and scale up will take time, as the space matures. Offering better efficiency, at a superior customer experience and trust will help increase productivity and reduce CAC. Enablers like AA, and clarity on digital banking licensing framework can help drive sustainability.

“India has led on many aspects, and we should not fall behind when it comes to digital banking license.”

— CEO, Fintech

“If going after the bottom half of the population, liability side revenue is not enough. On the asset side, Neobanks can make money, but in medium to long term.. it will be expensive.”

— CXO, Fintech
Global Learning Exhibit #4: Fintech Sandbox - Passporting, flexible sandboxing and special regulatory units are key best practices

<table>
<thead>
<tr>
<th>Eligibility to Participate</th>
<th>Singapore</th>
<th>UK</th>
<th>Hong Kong</th>
<th>Malaysia</th>
<th>UAE</th>
<th>Bahrain</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open to &quot;passporting&quot;- access to foreign players</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>◯</td>
<td>✔️</td>
<td>◯</td>
</tr>
<tr>
<td>Sandbox traditionally focused on both startups &amp; incumbents (vs only startups)</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>◯</td>
<td>◯</td>
<td>✔️</td>
</tr>
<tr>
<td>Need of Up-front License before entering the sandbox</td>
<td>◯</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Sandbox Process</th>
<th>Singapore</th>
<th>UK</th>
<th>Hong Kong</th>
<th>Malaysia</th>
<th>UAE</th>
<th>Bahrain</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different types of Sandbox (Sandbox Express, Scalebox etc.)</td>
<td>✔️</td>
<td>✔️</td>
<td>◯</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>◯</td>
</tr>
<tr>
<td>Applications &amp; enrolment throughout the year (rather than slot-based applications)</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>◯</td>
<td>✔️</td>
<td>◯</td>
</tr>
<tr>
<td>Maximum Sandbox journey duration</td>
<td>12m</td>
<td>6m</td>
<td>Variable</td>
<td>12m</td>
<td>6m-12m</td>
<td>12m</td>
<td>6m</td>
</tr>
<tr>
<td>Maximum Extension beyond Duration of Sandbox</td>
<td>1m</td>
<td>Variable</td>
<td>Variable</td>
<td>Variable</td>
<td>Upto 12m</td>
<td>Variable</td>
<td>Variable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Singapore</th>
<th>UK</th>
<th>Hong Kong</th>
<th>Malaysia</th>
<th>UAE</th>
<th>Bahrain</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fintech Division as a decision-making authority</td>
<td>◯</td>
<td>✔️</td>
<td>◯</td>
<td>✔️</td>
<td>◯</td>
<td>✔️</td>
<td>◯</td>
</tr>
<tr>
<td>Evaluation based on innovation only (vs Innovation + Business case consideration)</td>
<td>✔️</td>
<td>◯</td>
<td>✔️</td>
<td>✔️</td>
<td>◯</td>
<td>✔️</td>
<td>◯</td>
</tr>
<tr>
<td>Exit feedback is formal &amp; structured (vs feedback at regular interval &amp; informal/unstructured exit feedback)</td>
<td>◯</td>
<td>✔️</td>
<td>◯</td>
<td>✔️</td>
<td>◯</td>
<td>✔️</td>
<td>◯</td>
</tr>
</tbody>
</table>

Source: Central Banks, Press search, RBI Framework for Regulatory Sandbox, 2021

1. “Viability” from RBI framework evaluation criteria assumed as Business case criteria
2. Assumed as no mention of exit feedback in RBI framework

Best practices which India can adopt
Global Learning Exhibit #5: Tailored and multi-tiered Sandboxing to expedite and enrich testing journeys

**UK**
- **Dedicated sandbox case team** for scrutinizing and managing process with case managers for resolving queries, implementation support
- **Digital Sandbox**: For early-stage innovation leveraging artificially manufactured financial datasets, API Marketplace
- **Scalebox (Proposed)**: A digital sandbox pilot which supports partnerships between incumbents and FinTechs to help testing firms scale innovation technology

**Singapore**
- **Tiered Sandbox Structure**:
  1. **Sandbox** focuses on providing space to complex business models where customization is required to balance risk and benefit of the experiment
  2. **Sandbox Express** provides fast track approval to low-risk activities, relying on pre-defined environment
- **Scalebox (Proposed)**: A digital sandbox pilot which supports partnerships between incumbents and FinTechs to help testing firms scale innovation technology

**UAE**
- **Two offering in Regulatory Sandboxes**:
  1. **Reg Lab** offers specially tailored, safe environment with reduced regulatory requirements
  2. **Digital Lab** offers digital resources like data, APIs, system etc. to validate participants new solutions in secure & standardized environment
- **Scalebox (Proposed)**: A digital sandbox pilot which supports partnerships between incumbents and FinTechs to help testing firms scale innovation technology

Source: Financial regulators
Global Learning Exhibit #6: Nearly 250 Digital Challenger Banks Globally, 50 in APAC

South Asia & SEA

India
Open, Jupiter, Niyo, P10 Bank, Paytm Payments Bank

Pakistan
JazzCash, Sada Pay

Sri Lanka
FriMi

Malaysia
BigPay

Singapore
Arival, Aspire, Tonik

Vietnam
Timo Bank, TNEX

China
AI Bank, MYBank, WeBank, XW Bank

Japan
Japan Net Bank, Jibun Bank, Rakuten Bank, Sony Bank

Taiwan
Line Bank, Next Bank

South Korea
Kakao Bank, K Bank, Viva Republica, Toss

Australia
86400, DayTek Capital, In1 Bank, Judo Bank, Parpera, Volt, Tyro, Xinja

Hong Kong
Ant Financial, Statrys, WeLab, ZA Bank, Mox, Pao Bank, Livi, Neat, Insight Fintech HK, FusionBank

East Asia & Oceania
Archa, Douugh Bank, Hay Bank, Joust, Up Bank

1. Including joint venture of players from multiple industries
Source: BCG analysis

From Partnership From Non-Fi Player 
xxx From FinTech From Independent
Global Learning Exhibit #7: Many countries have introduced separate digital banking licenses

- **Germany**
  - Kontist
  - Fidor Bank
  - Bitwala

- **USA**
  - Ally Bank
  - Chime
  - NBKC Bank
  - SoFi

- **UK**
  - Revolut
  - Monzo
  - Starling Bank

- **France**
  - Nickel
  - Orange Bank
  - Hello Bank

- **China**
  - MYBank
  - WeBank
  - XWB Bank
  - Suning Bank

- **India**
  - Digital banks: NA
  - Fintechs: Paytm
  - Payments Bank
  - Jupiter
  - Fi
  - Niyo

- **Malaysia**
  - Boost-RHB Bank
  - GXS Bank
  - Kuok Brothers
  - KAF Investment Bank

- **Hong Kong**
  - Airstar Bank
  - Mox Bank
  - Ant Group
  - WeLab Bank

- **South Korea**
  - Kakao Bank
  - Toss
  - K bank

- **Singapore**
  - Grab-SingTel
  - SEA Ltd
  - Ant Group

- **Taiwan**
  - Rakuten Bank
  - Line Bank

- **Australia**
  - 86 400
  - Volt
  - Up

Source: Credit Suisse, BCG Analysis
Global Learning Exhibit #8: Digital banks typically have specialized lending and liability restrictions

<table>
<thead>
<tr>
<th>License Types for digital banks</th>
<th>Requirements for Digital Licensing</th>
<th>Lending Restrictions (Additional over Traditional Banks)</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Singapore</strong></td>
<td>DFB: Paid up capital of SGD 1.5B</td>
<td>No access to Physical branches</td>
<td>Financial growth of enterprises and SMEs, cost reduction, customer convenience</td>
</tr>
<tr>
<td></td>
<td>DWB: Paid-up capital of SGD 100 Mn</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Min. capital requirement of KRW 25 billion</td>
<td>Unsecured lending capped at 2x of monthly income &amp; simple product offerings for 1-2 yrs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Digital Banking License</td>
<td>Subprime Lending Targets within personal unsecured loans</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Recommend to develop proprietary credit scoring system, leveraging ecosystem big data</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Total asset capped at $100Mn</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Lending limited to low risk products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Min. capital requirement &gt; AUD 3 Mn + resolution reserve (~1 Mn) OR 20% of adjusted assets</td>
<td>Asset Capped at RMB 3 Bn for 5 yrs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Initial min. paid-up capital of RM100 Mn, RM300 Mn after 5th yr</td>
<td>Target Customer Segments to be unserved/under-served population</td>
<td></td>
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<tr>
<td><strong>South Korea</strong></td>
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<tr>
<td></td>
<td>Min. capital requirement of KRW 25 billion</td>
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<td></td>
<td>Digital Banking License</td>
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<tr>
<td><strong>Australia</strong></td>
<td>Min. capital requirement &gt; AUD 3 Mn + resolution reserve (~1 Mn) OR 20% of adjusted assets</td>
<td>Lending limited to low risk products</td>
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<td>Min. capital requirement &gt; AUD 3 Mn + resolution reserve (~1 Mn) OR 20% of adjusted assets</td>
<td></td>
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</tr>
</tbody>
</table>

Source: Credit Suisse, Rise of digital banking licenses-special report, BCG Analysis
Respondents believe need for enablers in digital and neo-banking space

- Current pain points to digital banking with existing guidelines:
  - Significant regulatory complexity: 72%
  - Branch footprint regulation: 61%
  - PSL Norms: 44%
  - Minimum capital requirement: 39%

- Need for clarity on role of neobank and bank partner: ~83%

- Need for digital banking license: ~94%

"Differentiated license for digital banks needs to come at the right time. Even with the license, fintechs will still have to invest a lot in building trust."

  – CXO, Bank

"As long as RBI can control and manage digital banking license will be useful to unlock value for the industry."

  – CXO, Fintech

Note: N=18 as on 15th June 2022
Source: BCG Matrix SOFTU Survey' 22
Perspectives on enabling a growth path ahead

Enabling through a differentiated licensing framework: Providing enabling licensing frameworks for digital banks, with clarity on allowances and restrictions, and driving their penetration in select products and customer target segments that can ensure profitability will go a long way in driving sustainability of the sector. Having a level playing field vs incumbents, to make sure there are no ‘unfair advantages’ will be important as well. Taking inspiration from other countries around product and customer segment caps can be helpful.

Innovation beyond experience: Neo-banks/digital banks are perceived to be exceptional in experience, agile and innovative in communication. However, product innovation and value proposition in customer’s mind still seems to be unclear, especially when replicability of some of the experience dimensions is high. Driving customer awareness and demonstrating clear ‘value’ beyond traditional banks that are also re-inventing themselves will be critical to scale ahead.

Business model viability focus: While there is a lot of interest from players in India and Globally in the digital / neo-banking model, profitable economic model is yet to be demonstrated by most players, except a select few that are a part of large existing ecosystems. Low cost customer acquisition, building sustainable pricing models and earning customer trust will be key in this process.

Building trust with customers: As neo banks build scale, critical to build trust with consumers and regulators around ability to deliver excellence in digital servicing for customers.

Vikram Vaidyanathan
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Millennials are adopting Neobanks as primary, secondary a/cs and resonate with the value prop. Superior customer experience is critical to build trust among users. Banking is a sticky and long-term business. ARPU will accrete over time as new-age players build a deep asset-liability relationship and own mindshare of users.
Perspectives on enabling a growth path ahead

Collaboration between neobanks and traditional players is seen as lucrative and being best of both worlds, owing to complementary capabilities of neobanks. Cracking partnership models is important

— CXO, Bank

Opex in banking business is high, fintechs should reduce cost by using technology. Also, thinking from assets side is important and it is imperative to get into lending

— Co-Founder, Fintech

CAC optimization and cost reduction by using technology is essential. Consolidating ARPU across the distributed products is a good way for monetization

— Co-Founder, Fintech

With funding winter in sight, innovation and sustainable profitability are top of mind for Neobanks. While customer adoption & engagement are important innovation areas that can be explored, CAC optimization & ARPU expansion will become crucial for sustainable profitability. Additionally, regulatory clarity and a level playing field is necessary and will unlock growth in the sector

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03/03
Action Agenda
Unlocking the full potential
Fintech Landscape - Mission Critical for Indian Economy

Action Agenda

Unlocking the full potential
### Action Agenda: Fintech

#### Profitability from Day 2: “Fin” as important as “Tech”

Fintechs have demonstrated immense innovation through technology, algorithms and automation, however as the industry matures, critical to have a deep understanding of the financial products, revenue pools and business model intricacies so that they can demonstrate ‘profitable unit economics’ potential early on. This will be key to survival, and will give them a runway to innovate and grow.

#### Embrace compliance by design, not as an afterthought!

While profitability will give runway, compliance will help in creating sustainable growth models. Important to build integrated governance practices across the organization, reduce embedded risk through automation, embed compliance in product squads, create secure data architecture giving back control to customer, and communicate early & proactively with regulator to shape enabling provisions for new business model.

#### Build customer and ecosystem trust

Be known for taking hard decisions because they are right… Stronger internal governance practices, right level of disclosure, being available for key stakeholders (analysts, media, regulators, influencers), having a strong independent BOD, audit practices, proactive and transparent reporting, etc. will go a long way in proactively building reputation and trust.

---

#### Tap domestic capital markets

Build right business case and metrics for debt investor contribution, corporate treasury, hedge funds, etc. Repivot to domestic capital and equity partnerships with large incumbents when global forces dry up.

---

#### Grow together

Build a strong partnership DNA and leverage incumbents in the innovation journey, build in customer value focus, incentives for collaboration and overperformance, right internal policies, customer protection practices and controls to encourage incumbents to engineer “win-win” business models.
## Action Agenda: Incumbents

### Joint innovation and mentorship
- Approach Fintechs as partners rather than competitors, jointly innovate in compliance and governance areas (e.g., cyber security) that will drive advancement of the sector overall, while also guiding and mentoring them on governance models, regulatory access and expertise.

### Set-up to live in a two-speed world
- Build partnership BUs to enhance and drive penetration in business lines and new customer segments, enhance and simplify ops, tech and processes to launch agile, rapid iterative business models in partnership with Fintechs, while maintaining governance and risk controls.

### Proactively support open network models
- Embrace and actively contribute to data democratization, open credit enablement (OCEN), Account Aggregator models. Invest in layering private innovation on public features to drive economic and strategic advantage.

### Contribute to a more inclusive policy framework
- Active involvement with regulators as they develop and advance financial sector, to promote engagement with Fintechs, ensure ease of collaboration, and overall advancement of the financial inclusion and growth agenda, leveraging their valuable experience and perspectives on barriers to innovation.
## Policy Enablers - Four C’s & a B

### Consistency

Our regulatory framework encourages innovation, level playing field and sufficient risk controls, however potential to improve clarity and consistency across regulating bodies (e.g., KYC norms inconsistent across regulatory bodies, operational execution and interpretation varies across banks/non-banks Data management and privacy, etc.)

### Communication

Continue active dialogue through fintech ‘sounding board’, while keeping pace with ongoing innovations, ambiguity and challenges that the Fintechs are facing, to help solve proactively and build enablers

### Collaboration

The future of the financial services landscape will thrive with a material co-existence of Fintechs and Incumbents, where the agility and innovation of Fintechs, combined with the capital might and strong traditional strengths of Incumbents will bring the best of the services to customers. Enabling collaborative models, easing restrictions and simplifying go to market of these will go a long way in advancing the FS industry

### Calibration

While Fintechs are reaching a large scale collectively, they are individually quite diverse and small and are going through a rapid pace of innovation and new launches. A differentiated regulatory approach for ‘early-stage’ vs ‘scaled-up’ businesses for regulatory supervisioning, introducing ‘Reg labs’ for controlled environment operations and testing, will be essential to promote innovation, and avoid disruption and cost of repivoting business models

### Benchmarked to Global

As we advance our fintech industry landscape, important to capture learnings that enabled growth in Global markets and ensure we are moving in tandem and not behind the curve on innovation, policy and infrastructure advancements
For further information, Contact

If you would like to discuss the themes and content of this report, please contact:

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