



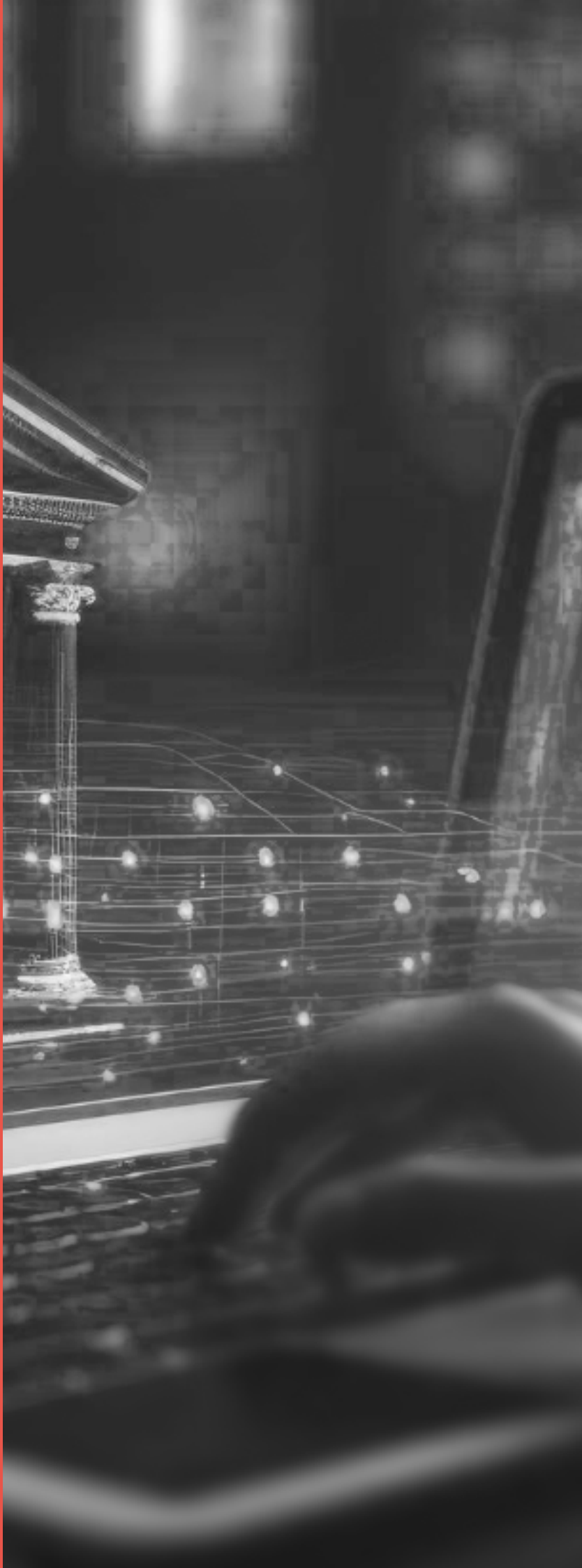
INDIA FINTECH

TIME TO REFLECT AND RENEW

JUNE, 2024

CONTENTS

- 01 Reflections on the journey so far
- 02 A glass half full
- 03 Time to renew:
Emerging trends
- 04 Fintech reloaded
 - 4.1 Niche plays
 - 4.2 Value chain specialists
 - 4.3 Re-engineering the tech core
 - 4.4 Cutting-edge tech plays
 - 4.5 Tech-Fins
- 05 Forging meaningful partnerships
- 06 Action agenda for key stakeholders



FOREWORD



Madhur Singhal

Managing Partner - Financial Services

Fintechs in India have emerged as a powerful force, driving technological advancements, and revolutionizing the financial services industry. By embracing innovation, these agile and tech-savvy organizations have transformed how financial services are accessed and experienced. They have brought about greater financial inclusion, improved efficiency, and enhanced customer experiences, shaping a new era in finance.

While fintechs have achieved substantial success, they now encounter fresh hurdles. This report lists the new challenges that the incumbents are facing from different quarters and the opportunities it provides to transform themselves. The challenges are not insurmountable, but they require a strategic and collaborative approach from all stakeholders in the financial services ecosystem.

The recommendations put forth call for greater collaboration between fintechs and financial institutions. Fintechs have demonstrated their ability to innovate, and financial institutions can complement this innovation with their extensive customer base and established legacy. Together, they can create transformative solutions that can shape the future of financial services in India and this would truly be a win-win situation for all.

The report also underscores the role of regulatory bodies and industry associations. As fintechs become mainstream, it is crucial for regulators to foster an environment that supports innovation while ensuring consumer protection – a journey that is already underway as we speak. By striking a balance between facilitation and regulation, regulatory bodies can nurture fintech innovation and contribute to a robust financial ecosystem.

This report serves as a call to action for all stakeholders. It is a call to embrace innovation, forge meaningful partnerships, and create an ecosystem that fosters continuous growth and transformation. Together, a future can be built where fintech and traditional financial institutions work hand in hand to drive progress and prosperity for all.

EXECUTIVE SUMMARY

Fintechs have revolutionized the financial services landscape through technology-driven innovation, fostering accessibility, efficiency, and inclusivity. Despite their success, they face challenges that require attention. However, certain learnings have emerged that can form the basis of the fintech roadmap for India.

Firstly, there is a need for fintechs to explore untapped sectors beyond the discovered stories in payments, digital wallets, lending, and investment tech. Secondly, building deep and collaborative partnerships with traditional financial institutions is crucial to achieve the true potential of fintech partnerships. Instead of competing, genuine collaboration and trust can spark a more profound trend of innovation. Lastly, as fintechs become mainstream, they also need to embrace principles and processes demanded of financial services players with respect to governance and compliance. Regulators are actively engaging with fintechs to foster innovation while safeguarding consumer protection. These insights and the recent landscape-shaping regulations present both challenges and opportunities for fintechs, calling for strategic reimagining and greater responsibility towards governance and compliance.

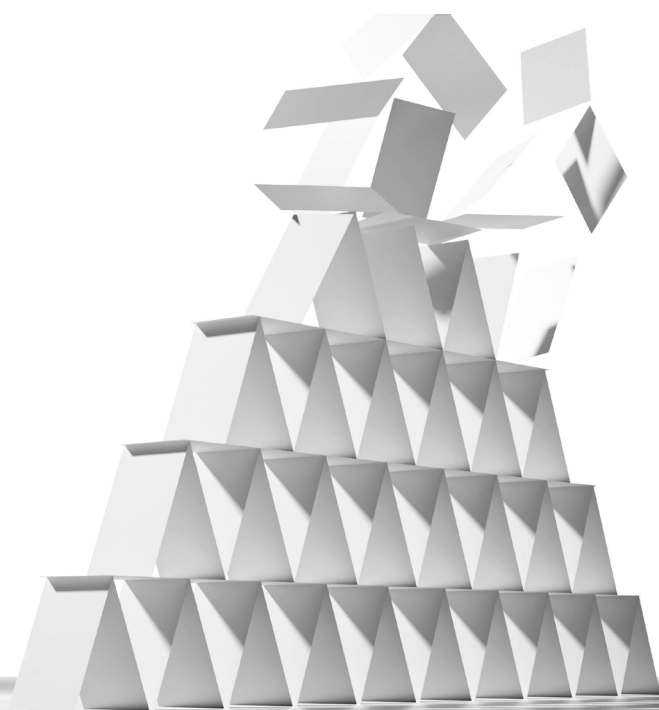
We believe that Fintech Reloaded or the next generation of fintechs, will bring significant changes to the financial services industry. These fintechs will focus on five personas:

- Niche plays - Niche plays will offer specialized products to cater to specific customer segments, meeting unique needs with highly customized offerings.
- Value chain specialists - Value chain specialists will focus on specific aspects of the value chain to address deep-rooted industry challenges.
- Re-engineering the tech core - Re-engineering the tech core involves prioritizing back-end transformation to enhance operational efficiency.
- Cutting-edge tech plays - Cutting-edge tech plays will leverage new technologies like AI, ML, and blockchain to revolutionize financial services.
- Tech-Fins - Tech-Fins, represented by tech companies, will integrate financial services technology into their products, leveraging their existing customer base to offer seamless and tailored fintech solutions.

These shifts will shape the future of fintechs, enabling them to deliver innovative and impactful solutions that, eventually will reshape the financial services landscape from what we know it to be today.

To forge meaningful partnerships between traditional financial institutions and fintechs, FIs must adopt a collaborative, long-term approach through an "Agility Centre" for partnership-led innovation strategy. By identifying the right fintech partners, understanding compatibility, and unlocking value realization, FIs can offer comprehensive solutions tailored to customer needs. This approach empowers FIs to embrace their transformative role and drive the industry forward.

The action agenda for key stakeholders in the fintech industry involves embracing collaboration and innovation to drive the industry forward. Financial institutions need to adopt an "Agility Centre" approach to identify and partner with fintechs, while fostering a culture that accepts failure as part of innovation. Fintechs must navigate the regulatory landscape and build lasting partnerships with incumbents, focusing on customer protection and data privacy. Regulators and industry associations can promote trust and education, facilitate collaboration through workshops, and consider the creation of a self-regulatory body for the fintech industry. By working together, these stakeholders can harness their unique insights to shape a transformative and inclusive future for financial services.



A black and white photograph of a woman with long dark hair, smiling and looking down at her smartphone. She is wearing a white button-down shirt. In her left hand, she holds a credit card. The background is a blurred cafe or office environment with a coffee cup visible in the lower left. A red rectangular overlay on the left side contains the text.

1 REFLECTIONS ON THE JOURNEY SO FAR

Over the past decade in India, fintechs have spearheaded a revolutionary shift in the financial services industry landscape of India. By embracing technology and introducing innovative solutions, they have fundamentally transformed the accessibility and usability of financial services, streamlining the processes to make it easier & efficient, and enhancing inclusivity. While incumbents, owing to their inherent structure remained focused on routine operations, fintechs, leveraging on their strengths - inherent agility and the use of new-age technologies, introduced fresh ideas and products to transform the industry. A key outcome of such changes was the rapid digitization across products and services and the impact is evident from the transitions they have brought in the industry as seen below:

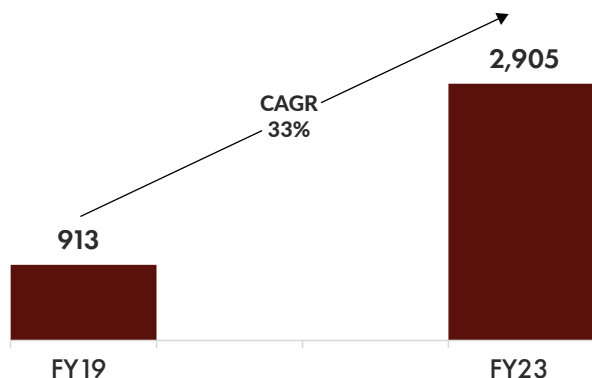
A few factors that have driven the impact & growth that fintechs have been able to achieve are:

1. **Customer-centric approach:** Fintechs have worked with a customer-first approach that has helped them understand customer needs and solve them with a unique approach. Examples include:

- Neo-banks offer streamlined onboarding and a wide range of banking services through a single app. Customers can manage accounts, make payments, access personalized financial tools, providing convenience and control over their finances
- Payment gateway providers offer user-friendly interfaces and customizable dashboards that enable MSME businesses to manage their transactions, track payments, and gain valuable insights for informed decision-making
- Insurance aggregators leverage technology to simplify the insurance purchasing process, allowing customers to compare and choose the best policies based on their specific needs, resulting in a hassle-free and efficient experience
- Investment platforms utilize intuitive interfaces and advanced analytics to empower individuals to invest in diverse assets, with features like goal-based planning, portfolio tracking, and automated investment options, making investing more accessible and user-friendly

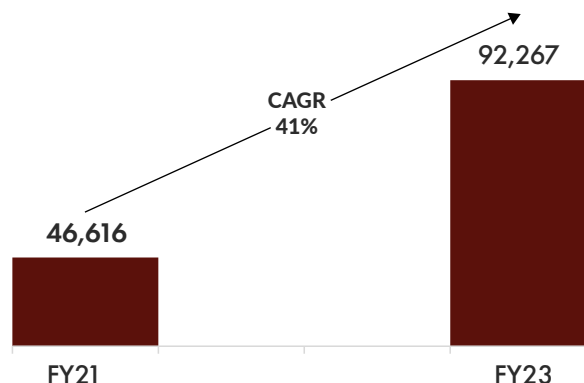
Digital lending market in India has grown at 33% CAGR from FY19-23, reaching INR 2,905 K Cr in FY23

Digital lending in India
(INR K Cr, FY19-23)



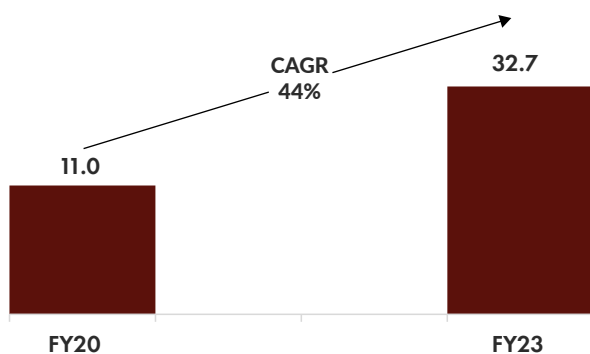
Disbursement amount by fintech in India has grown at 41% CAGR from FY21-23

Disbursement by Fintechs in India
(INR Cr, FY21-23)



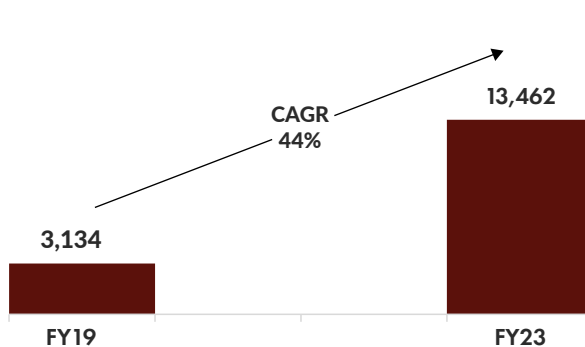
Active NSE clients for digital players have increased at 44% CAGR from FY20 to FY23

Active NSE clients of digital players
(#M, FY20-23)



Digital transactions has grown at 44% CAGR from FY19 to FY23

Volume of digital payment transactions
(# Cr, FY19-23)



2. **Enhanced Digitization:** Fintech's digital transformation brought a modernized approach that offers enhanced accessibility, convenience, and inclusivity. By leveraging innovative technologies, fintechs have digitized processes providing seamless and user-friendly experiences. Examples include:

- Claim management players in the insurance industry are transforming the way claims are handled, particularly in auto insurance. Through innovative digital solutions, they enable policyholders to submit claims digitally, track the progress of their claims in real time, and receive faster settlements. These advancements are revolutionizing the customer experience, making it more convenient, efficient, and transparent throughout the claim journey.
- PoS enablers leverage technology to simplify and streamline payment processes across different modes, making it easier for merchants to accept payments and reconcile transactions, enhancing efficiency and reducing manual effort
- Supply Chain Finance (SCF) fintechs have digitized the process of invoice discounting, connecting anchor companies with lenders, and enabling seamless and efficient financing solutions, improving working capital management for businesses
- Financial statement analytics providers are able to extract and analyze bank statements and other financial statements, significantly reducing manual effort and improving accuracy, thus providing businesses with valuable insights for decision-making

3. **Providing access to underserved segments:** Fintechs have demonstrated remarkable agility in reaching out to unserved and underserved customer segments with relevant, contextual product offerings. For example, digital lenders have built innovative risk assessment models to provide loans, even to individuals without traditional documents, thus making them discoverable for

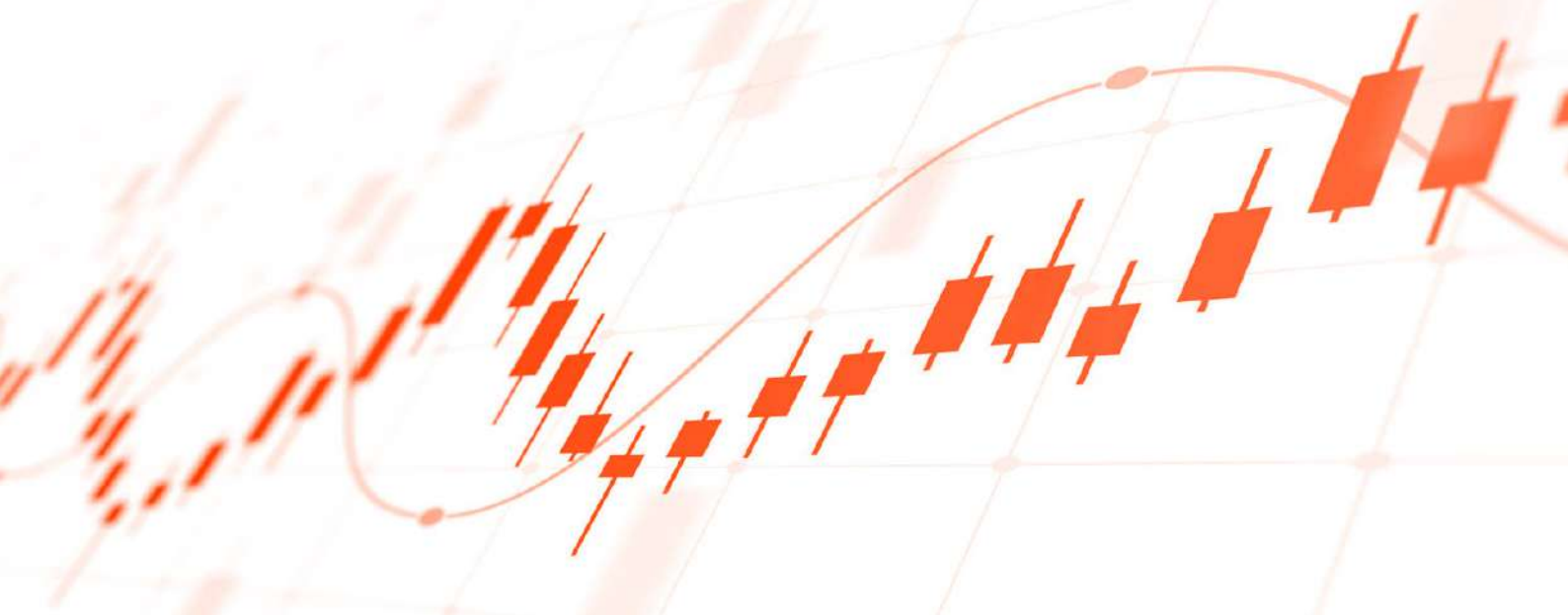
subsequent, larger loans depending on their credit history.

4. **Agility:** Fintechs have made a mark with their ability in quickly adapting to market demands and driving continuous innovation. Their nimbleness allows them to stay ahead in the ever-evolving financial landscape. Examples include:

- Rapid adoption of UPI (Unified Payments Interface) by fintechs, has revolutionized peer-to-peer payments in India. Fintech UPI players, such as PhonePe, Google Pay, and Paytm, have captured a >95% market share, showcasing their dominance in the UPI space and their impact on the digital payments ecosystem
- Fintech lending players have leveraged AI/ML technologies to incorporate advanced underwriting models, enabling faster and more accurate credit assessments. These technologies have streamlined the lending process, making it more efficient and accessible to a broader range of borrowers
- Fintechs have introduced API technologies that facilitate easier integration between different systems and platforms. This has enabled seamless data sharing, interoperability, and collaboration, leading to improved user experiences and enhanced efficiency in various financial processes

There is scarcely a Board room or leadership meeting in any traditional financial institution today where fintechs do not occupy a meaningful mindshare. This is testimony to the edifice that has been built over the last decade by fintechs.

While celebrating the achievement of fintechs in the last decade, it is crucial to acknowledge the challenges that lie ahead. The very nature of a fintech's functioning over the years has given rise to a fresh set of hurdles that demand attention.





2 A GLASS HALF FULL

While celebrating the achievement of fintechs in the last decade, it is also fair to acknowledge the learnings from the empty half of the glass. With the wisdom of hindsight and taking nothing away from the deep-rooted impact that fintechs have made across the financial services industry, we have identified three areas that could form the basis of the fintech roadmap for India.

1. Taking the road less traveled

Over the last decade, fintechs have made a significant impact in a few sectors that were at the forefront of the digital revolution in the financial space: payments and digital wallets, alternate lending, and investment tech. Having said that, it is interesting to notice the remarkably high concentration of fintechs in these sectors. For instance, in the payments and digital wallets segment alone there are over 2,000 fintechs, similarly in lending where a large number of fintechs are building out their business models. Ironically, entrepreneurial interest has continued to focus on discovered 'top-of-the-funnel' ideas, to a point when perhaps one could start seeing sameness and an onset of the law of diminishing returns as more players crowd into

















































similar opportunities. There is a need, once again, for fintechs to take the road less travelled!

2. Building deep partnerships ... at scale

On the face of it, it would appear that partnerships between fintechs and FIs have become common news - just in the year 2022, over 30 partnerships were announced in the BFSI sector. Traditional players have sought to meet four objectives from these partnerships - customer acquisition, process improvement, banking-as-a-service and innovative product design.

Yet the pertinent question is whether this is the true **potential of these fintech partnerships**. Were both institutions able to effectively leverage each other's resources, skill sets, and expertise to achieve the desired outcomes?

Fintechs have strived to establish themselves as players capable of owning the entire value chain, leveraging their agility and legacy-free tech stacks. This approach fostered a competitive rather than a collaborative environment with FIs. While partnerships have indeed been established, they have often ended up akin to service contracts that allocate

Partnership themes	Proposition	Indian	Global
Serve as a channel to increase customer acquisition	<ul style="list-style-type: none"> Fintech act as market place and refer the customers basis the requirements specified by the institutions Apart from referrals, fintech and Bank also work on co-lending models 	 X   X   X 	 X   X   X 
Leverage technology to streamline processes	<ul style="list-style-type: none"> Plug-in fintech APIs/services in overall journey to enable digitization and increase efficiency/speed Common use cases can be customer onboarding, managing collection/payments, and enhancing the platform services 	 X   X   X 	 X   X   X 
Capitalize on float by serving as a banker to the fintech and build brand(only banks)	<ul style="list-style-type: none"> Due to regulatory constraints or backing on bank's reliability, fintech deposits funds given by customers to their bank account Fintech manages customers and their product interaction 	 X   X   X 	 X   X   X 
Co-creation of product offerings	<ul style="list-style-type: none"> Create flagship product dedicated to the customers of the platform and building products/offers in collaboration with each other Many global partnerships are to allow fintech players to enter and operate in new countries 	 X   X   X 	 X   X   X 

tasks. We believe that more could have been done to foster genuine collaboration and trust between the parties involved, which could have sparked off a more deep-rooted trend of innovation.

3. Deeper appreciation of the principles of regulation

As fintechs become mainstream, they are increasingly having to internalize and accept not just the principles but also the processes and procedures that enable adherence to the extant regulations. At the same time, the regulators have started to embrace fintechs as catalysts of inclusive and yet superior customer experience. Regulators have adopted a proactive approach by recognizing the importance of fostering innovation while ensuring consumer protection. They have actively engaged in shaping and adapting regulations to accommodate the evolving dynamics of the market. This collaborative effort reflects the need to strike a balance between facilitating fintech innovation and maintaining a robust regulatory framework that safeguards the interests of all stakeholders.

It is noteworthy that fintechs, now being acknowledged as significant players in the economy, are finally gaining recognition from regulatory bodies. These bodies are making deliberate efforts to ensure that innovation occurs in a manner that benefits all stakeholders. This proactive involvement signifies the importance of maintaining a fair and secure financial ecosystem while fostering the growth of fintech innovation.

The last year has seen the introduction of some landscape-shaping regulations, especially in digital lending, broking & asset management as well as in insurance. These discontinuous shifts present both, challenges and opportunities for fintechs. As they prepare to navigate the new world, fintechs have the chance to reimagine their strategies and discover new avenues of growth. As they gain scale and emerge as meaningful market participants, fintechs will have to assume even greater responsibility towards building businesses that meet the standards of governance and compliance expected of them.

2020

Regulatory sandbox

- A controlled environment for testing and experimentation of new technology solutions before they are commercialized
- Intended to provide fintech's framework for testing solutions and for RBI to monitor and assess their impact on the financial sector

2021

Master directions on Prepaid Payment Instruments

- Prohibits the loading of PPIs by credit lines from non-banks
- Refrains co-branded entities from accessing the customer data, the core of their business to provide customer-centric offers & differentiated products

2022

Digital Lending guidelines

- All loan disbursements and repayments will be executed only between the bank accounts of the borrowers and the regulated entities
- Any fees or charges payable in the credit intermediation process will be paid directly by regulated entities and not the borrower

2022

Broking limitations by SEBI

- Every broker has to transfer all unused funds lying with their clients on the first Friday of every month or quarter
- This move is expected to increase brokerage costs
- Brokers will have to use their own capital to execute trades the following Monday

2023

Foreign remittance tax

- The Tax Collection at Source (TCS) for foreign remittances has been increased from 5% to 20% of the transaction amount
- It is applicable in some instances such as foreign tour packages, providing loans, sending gifts, and buying stocks of foreign companies, among others

2023

Revived FLDG model

- Post the DL guidelines of 2022, the FLDG model was barred
- However, later the RBI decided to revive the FLDG model by capping the risk guarantee taken by fintechs to 5% of the portfolio amount
- Backing required to prove the guarantee, like bank FD or cash deposit



3 TIME TO RENEW: EMERGING TRENDS

4. Time to renew: emerging trends

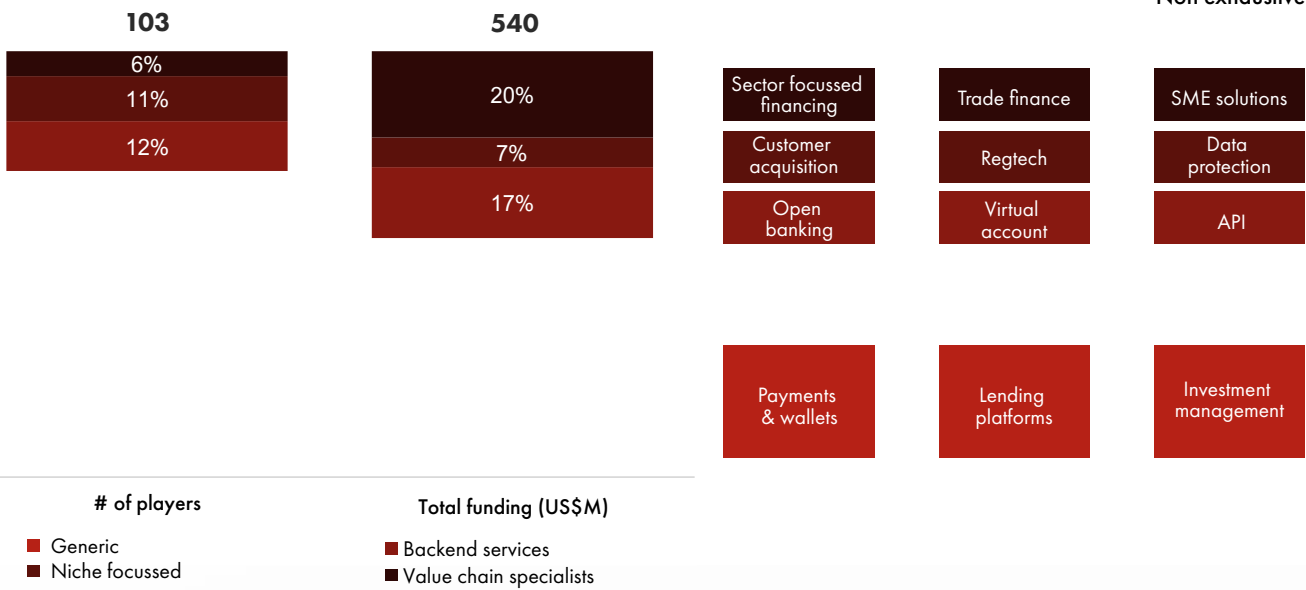
Looking at the investments happening in the fintech space in the last 4 quarters, it is observed that the new age fintechs have already started seeing traction. More & more fintechs are raising funds that are serving the niche sectors (~22%),

specializing in value chain (~10%), and serving the incumbents through back-end transformations (~13%), etc. This sets the trend for future opportunities and further strengthens our point of view on the matter.

of fintech players and total funding received (till series B)

CY23

Non exhaustive





4 FINTECH RELOADED

5. Fintech reloaded: The new era

The inevitable result of the above discussion is the changes in the business models of the existing and upcoming wave of fintechs that will solve for these challenges. The next generation of fintechs will have a different focus, centered on the following five personas:

A. Niche plays

Fintechs will focus on niche products and target specific customer segments to meet unique needs with highly customized product offerings. In the crowded fintech landscape, fintechs will offer specialized products to allow them to differentiate themselves from the broader, more generalized offerings of their competitors. Fintechs have numerous opportunities to focus their innovation efforts in specific areas. Here are a few industry examples:

- **Education loan aggregators:** With the growing demand for education loans in India, fintechs can play a crucial role in streamlining the process. They can offer platforms that help customers find the best loan options across multiple financial institutions, simplify document collection, and provide personalized repayment solutions.

E.g. – LendKey (United states) is a lending platform that connects borrowers to partner lenders. Its partners include banks and credit unions nationwide. Through LendKey, borrowers can apply for private student loans for undergraduate and graduate programs, as well as student loan refinancing.

- **Sustainable investment platforms:** Fintechs can cater to the growing demand for sustainable and impact investing, offering platforms that connect investors with socially responsible investment opportunities and tools to track the environmental and social impact of their investments.

E.g. – Kiva (United States) is a P2P lending platform that allows individuals to give out loans to underserved individuals and communities worldwide

- **Trade finance:** Blockchain technology can empower trade finance by enabling secure transactions of LCs and BGs. It reduces reliance on physical documents, streamlines verification, and enhances trust between banks across countries. Real-time visibility and transparency lead to smoother cross-border trade and greater global commerce efficiency

E.g. – IBBIC (India) Indian Bank's Blockchain Infrastructure Co Pvt Ltd, is a joint venture by 18 banks in India to revolutionize trade finance through block chain technology. IBBIC aims to digitize and automate the processing of inland letters of credit (LCs). By leveraging blockchain, IBBIC plans to address the challenges of legacy systems and paper-driven processes in trade finance, enhancing transparency, efficiency, and trust among stakeholders

B. Value chain specialists

Instead of attempting to own the entire value chain, we believe that fintechs focusing on a specific aspect of the value chain will emerge as a dominant persona. By doubling down their innovation efforts in specific areas, fintechs can offer specialized and customized products or services allowing them an opportunity to delve deeper to solve deep-rooted and persistent issues that plague the industry today. This shift towards specialization is an important development in the fintech industry and is driving impactful changes in how financial services are delivered.

Several changes have already been set in motion, with many more expected to unfold in the near future, including:

- **Customer acquisition in lending:** With the recent FLDG regulation, we can anticipate the emergence of fintechs solely focused on assisting financial institutions (FIs) in loan processing as Loan Service Providers (LSPs). These companies will enable FIs to reach a wider audience and streamline customer acquisition

E.g. – Chime neobank (United States) partners with traditional banks to offer its mobile banking services. It acts as a customer acquisition channel, enabling traditional banks to reach a broader customer base and leverage Chime's user-friendly platform

- **Regtech:** Fintechs are dedicated to helping FIs streamline their customer onboarding processes and ensure compliance with key regulatory requirements such as Know Your Customer (KYC). These Regtech solutions will contribute to more efficient and compliant operations for FIs

E.g. – ComplyAdvantage (United Kingdom) is using AI, ML, and natural language processing to assist regulated organizations in managing risk and combating financial crime. Their AML technology helps detect suspicious transactions, including those from high-risk locations and involving unusual currencies or account behaviour

- **Customer excellence:** Fintechs can greatly contribute to customer excellence by streamlining processes such as request raising and service processing, enabling financial institutions to efficiently resolve customer inquiries and issues.

Through innovative tools and technologies, fintech solutions integrate with various stakeholders across departments, facilitating seamless collaboration, real-time information sharing, and coordinated efforts to address customer needs. By leveraging these capabilities, financial institutions can enhance operational efficiency, reduce errors, and deliver exceptional customer experiences through optimized processes and seamless interactions.

E.g. – Screenshot (United States), a digital claims management company, has helped improve the customer experience for FIs by streamlining and

digitizing the claims process, enabling faster and more efficient resolution of insurance claims, ultimately enhancing customer satisfaction using a cloud-based claims processing software platform

- **Data protection:** Fintechs can also play a significant role in enhancing customer information security by implementing encryption technologies across various platforms. These measures will bolster customer protection and ensure the secure handling of sensitive data

E.g. – FortifyData (United States) assists FIs in securing their data through cybersecurity solutions and services, helping identify vulnerabilities in assets, implementing threat intelligence, and using patented & configurable scoring models that accurately account for threat vectors and risk tolerance, all the while ensuring regulatory compliance. FIs can enhance their data security measures and protect sensitive customer information from cyber threats.

C. Re-engineering the tech core

The digital transformation of the past decade had its focus on front-office & middle-office transformations. Inevitably, the back-end transformation was relegated to the back burner. But that so much innovation having been unleashed on the front-end customer experience, the tech core of most incumbents is becoming the new bottleneck of the assembly line. Very similar to what Alex Rogo, the protagonist of Eliyahu Goldratt's book on the Theory of Constraints 'The Goal' discovered, addressing one part of the assembly line does not yield the desired output since the bottleneck simply shifts to another node. We believe that something similar is likely to happen in financial services, unless a back-to-front approach is adopted by the entire ecosystem. Opportunities lie in the following fields:

SaaS / enterprise tech players: SaaS and enterprise tech companies are essential partners for fintech firms, offering ready-to-use software applications that seamlessly integrate into existing platforms, providing scalability, flexibility, and cost efficiency. By leveraging SaaS offerings, fintechs can achieve rapid time-to-market, benefit from continuous innovation, and focus on their core competencies while relying on reliable partners for technology infrastructure and support. These collaborations empower fintech firms to optimize operations, enhance customer experiences, and establish a strong presence in the digital finance landscape.

E.g. Zeta (India) – Zeta operates as an enterprise technology provider, offering its ACS (Advanced Clearing Solution) for high-volume transactions in the financial services sector. It serves banks and fintech businesses with innovative tech-based products. With a strong presence in India and expanding into the US and UK, Zeta aims to disrupt the banking industry by

providing a comprehensive digital banking solution, competing with prominent players in the market.

- **Open banking:** Back-end services for open banking facilitate secure data sharing and collaboration between financial institutions, fintechs, and third-party developers. These platforms provide API gateways, developer portals, consent management, data privacy controls, and security mechanisms to enable the secure exchange of financial data

E.g. – Plaid (United States, UK & Europe) offers open banking APIs that enable FIs to securely connect with their customer's bank accounts and access real-time financial data. By integrating with the platform, FIs can enhance their digital banking services by providing features like account verification, transaction history, and balance inquiries

- **Virtual account solutions:** Fintechs enable banks to offer virtual accounts and implement functionalities like Payment on Behalf Of (POBO) and Collection on Behalf Of (COBO). They provide the necessary infrastructure and technology solutions, allowing seamless digital transactions, centralized payment, and collection activities, and improved financial operations. This collaboration between fintechs and banks enhances customer experience and drives operational efficiency.

E.g. – Sila (United States) offers an API platform for developers to build financial applications, including virtual account services. FIs can integrate with Sila's API to enable virtual accounts for their customers, facilitating seamless transactions and fund management.

D. Cutting edge tech plays

While some level of digitization has already been accomplished, there is still a scope of leveraging the power of technologies. With the advent of new-age technologies such as generative AI, ML etc., which can fundamentally transform businesses, the adoption becomes paramount. Two critical aspects to consider while dealing with new tech are the **speed of development and its seamless integration into financial processes**. Fintechs excel in bringing in new technologies in an agile manner, enabling them to become experts in these innovations and efficiently apply them to financial services. Some key areas that have started to see meaningful traction are:

Moreover, the integration of new technology in financial processes is pivotal for making them more inclusive and easier to access. Fintechs have a distinct advantage in this area as they prioritize the adoption of emerging technologies, aiming to enhance the accessibility and inclusivity of financial services. By leveraging their expertise and agility, fintechs can effectively utilize these new technologies to revolutionize the financial industry, providing efficient and user-friendly solutions to a broader range of individuals and businesses. Some key areas that have started to see meaningful traction are:

- **Customer acquisition in lending:** With the recent FLDG regulation, we can anticipate the emergence of fintechs solely focused on assisting financial institutions (FIs) in loan processing as Loan Service Providers (LSPs). These companies will enable FIs to reach a wider audience and streamline customer acquisition

E.g. – Tractable (United States) utilizes AI technology to assist FIs in streamlining claims processing operations. By leveraging AI algorithms, Tractable enables FIs to automate and expedite insurance claim assessments, improving efficiency and customer satisfaction

- **Data Analytics:** Fintechs are utilizing data analytics to assist FIs in various ways, including risk assessment, fraud detection, customer segmentation, personalized marketing, and improving operational efficiency. By analyzing vast amounts of data, fintechs help to gain actionable insights, enhance decision-making, and deliver innovative financial services to their customers

E.g. – Belvo (United States) utilizes data analytics to help companies by providing access to users' financial data and provide valuable insights. This empowers companies to make informed decisions, improve risk assessment, and enhance their financial services data analytics capabilities.

- **Distributed Ledger Technology** (using blockchain): Fintechs involved in blockchain offer back-end solutions for digital asset management, blockchain network integration, smart contract development, and secure transactions. These solutions handle the complexities of blockchain protocols, wallets, private key management, and blockchain consensus mechanisms.

E.g. – Veem (United States) utilizes blockchain technology as one of its multiple rails to enhance the efficiency and security of payments. By leveraging blockchain, Veem eliminates the need for intermediary banks, resulting in faster settlement times and reduced costs associated with wire and FX fees. Through its blockchain route, Veem streamlines the payment process, providing businesses on its network with quicker processing speeds and cost savings.

E. Tech-Fins

Tech companies recognize the importance of increasing customer engagement and expanding their share of the customer's wallet. As a result, they have started incorporating financial services technology into their products by developing the technology in-house. Their aim is to create an ecosystem powered by these new fintechs, seamlessly integrated into their existing offerings. These tech companies hold a significant advantage over other players due to their already established customer base.

By leveraging their existing user base, they can enhance the sophistication of interactions and create a seamless customer journey with the integration of fintech services.

One of the key factors that make this approach lucrative is access to a vast amount of customer data. Through this data, tech companies gain insights into their customers' specific needs and pain points. This access to customer data enables them to develop tailored solutions that address the unique requirements of their user base. This new 'persona' of players, dubbed "Tech-Fin", have launched their services in India, but haven't really been able to achieve the intended scale yet, given the competitive and regulatory context in India. Some recent examples include:

• Amazon:

Global context: Amazon has been slowly but steadily making its way into the financial services sector in the United States, through various products/ initiatives like Amazon Cash, Amazon Lending, & Amazon Pay. A lot of these services are developed in-house and fulfilled with partnerships with FIs in the US.

Indian context: Amazon collaborated with several fintechs to provide financing solutions to their sellers. This partnership enabled Amazon sellers to access working capital loans and streamline their operations especially during the peak season. Amazon has also worked with credit card issuers and other digital lenders to provide financing to buyers on its platform. It launched Amazon Pay even before Meta launched WhatsApp Pay, but has not been able to scale it up at least as far as standalone payments are concerned.

• Meta:

Global context: Meta is playing a leading role in the development of the metaverse, through its popular platforms like Decentraland & Sandbox. By creating immersive and interactive experiences, developing new payment methods, and building a community of developers, Meta could help to transform banking in the metaverse. A recent example of the same is JPMorgan Chase's announcement of opening a virtual branch in the metaverse on Meta's Decentraland platform.

Indian context: Meta has entered the financial services space through WhatsApp, its widely popular messaging platform. Meta expanded its services by introducing WhatsApp Pay, a digital payment feature. WhatsApp Pay integrates with the existing messaging interface, making it convenient for users to send and receive money within the same platform they use for communication. While WhatsApp Pay hasn't made a dent in the market yet, the promise is immense!

• Apple:

Global context: Apple has established itself as a fintech player with its digital wallet offerings, including Passbook (now Wallet) and Apple Pay. Apple Pay enables secure transactions using NFC technology, prioritizing user privacy through encrypted data transmission and biometric authentication. With a significant market share and two billion active devices, Apple dominates the mobile wallet space.

- The launch of the Apple Card introduced unique security features and sharing options, targeting a diverse customer base. Additionally, Apple entered the BNPL market with Apple Pay Later, offering interest-free instalment payments. Partnerships with Stripe, Adyen, and GoDaddy demonstrate Apple's focus on in-store mobile wallet transactions
- Indian context: Apple is exploring tie-ups in India, including a UPI-integrated Apple Pay app. Previously interested in bringing its payment service to India, Apple faced regulatory challenges. However, recent efforts have resumed, with discussions ongoing with the National Payments Corporation of India (NPCI) to launch Apple Pay on the UPI platform. If successful, Apple Pay will offer UPI payments to Apple users without third-party apps.
- **Reliance Jio:** Jio Finance, currently known as Reliance Strategic Investment Ltd, is an RBI registered non-banking finance company and has been driving the financial services franchise for the Reliance group. By transforming it into a standalone fintech entity, Reliance is capitalizing on the growing digital ecosystem in India. The company has a massive subscriber base of over 440 million. With these initiatives, Reliance is actively venturing into the fintech landscape and poised to make an impact in India's evolving financial services sector

Exhibit:

Persona	Case study	Example
Niche plays	Education loan aggregators: Fintechs streamlining education loan processes	<i>LendKey</i> (United States) connecting borrowers to partner lenders for private student loans and refinancing.
	Sustainable investment platforms: Fintechs connecting investors with impact investing opportunities.	<i>Kiva</i> (United States) enabling P2P lending to underserved individuals and communities worldwide.
	Trade finance: Fintechs leveraging blockchain for secure trade finance transactions.	<i>IBBIC</i> (India) digitizing trade finance processes and enhancing transparency among stakeholders.
Value chain specialists	Customer acquisition in lending: Fintechs focused on loan processing as Loan Service Providers (LSPs).	Chime (United States) partnering with banks to provide mobile banking services and widen their customer base.
	Regtech: Fintechs helping FIs with customer onboarding and compliance.	ComplyAdvantage (United Kingdom) using AI to assist organizations in managing risk and combating financial crime.
	Customer excellence: Fintechs improving customer support processes for FIs.	<i>Snapsheet</i> (United States) streamlining digital claims management and enhancing customer experiences for FIs.
	Data protection: Fintechs enhancing customer data security for FIs.	FortifyData (United States) offering cybersecurity solutions to protect sensitive customer information.
	SaaS / enterprise tech players: These are companies that provide ready-to-use software applications and technology infrastructure to fintech firms, enabling rapid time-to-market, scalability, flexibility, and cost efficiency while enhancing customer experiences and optimizing operations in the digital finance landscape.	Zeta (India) offers its ACS (Advanced Clearing Solution) for high-volume transactions in the financial services sector, disrupting the banking industry.

Re-engineering the tech core	Open banking: This is a financial practice that enables secure data sharing and collaboration between financial institutions, fintechs, and third-party developers through API gateways, consent management, and data privacy controls.	Plaid (United States, UK & Europe) - Provides open banking APIs that enable secure data sharing and real-time financial data access for FIs.
	Virtual account solutions: These are fintech-enabled platforms that allow banks to offer virtual accounts to their customers and thereby enhancing customer experience and operational efficiency.	Sila (United States) Offers an API platform for developers to build financial applications with virtual account services.
	Artificial Intelligence / Machine Learning: Fintechs automating processes, fraud detection, and personalized finance.	Tractable (United States) using AI for faster and efficient insurance claim assessments.
Cutting edge tech plays	Data Analytics: Fintechs providing insights for risk assessment and customer segmentation.	Belvo (United States) offering data analytics services to help companies make informed decisions.
	Distributed Ledger Technology - Fintechs offering back-end solutions for secure transactions and smart contracts.	Veem (United States) streamlining payment processes and reducing costs through blockchain technology.
Tech-Fins	Tech companies understand the value of boosting customer engagement and expanding their share of the customer's wallet. To achieve this, they integrate financial services technology in-house, aiming to build an ecosystem empowered by fintechs seamlessly integrated into their existing products. Leveraging their established customer base, these tech giants gain a significant advantage, enabling sophisticated interactions and a seamless customer journey through fintech integration.	Tech giants like Amazon, Meta and Apple: Amazon, Meta (formerly Facebook), and Apple lead the way in incorporating fintech into their ecosystems, elevating customer experiences. Amazon offers Amazon Pay, Amazon Lending, and financing solutions through collaborations with FIs. Meta integrates fintech into the metaverse with WhatsApp Pay and JPMorgan Chase's virtual branch in Decentraland. Apple enhances mobile payments with digital wallets, BNPL options, and potential expansion on India's UPI platform. These tech giants are shaping fintech's future and revolutionizing how customers interact with financial services.



5 FORGING MEANINGFUL PARTNERSHIPS

In the evolving landscape of fintech 2.0, imagine a tapestry where each thread represents a unique financial service. With new companies entering the picture, it becomes vital to have a strong foundation that brings these threads together to revolutionize the industry. Traditional financial institutions (FIs) will play a significant role in this transformation. Unlike in the past, their partnerships with fintechs will be truly collaborative, resulting in disruptive and innovative solutions. Together, FIs and fintechs will shape the future of finance, combining stability and innovation to drive the industry forward

Are FIs ready for this new role?

Over the last decade, traditional financial institutions (FIs) have not been able to adopt partnerships as an effective innovation strategy. While FIs and fintechs have collaborated in the past, these partnerships often revolved around service contracts, with FIs earning commissions or float income. The focus was on short-term gains rather than jointly strategizing to build long-term innovative solutions. As a result, FIs have primarily been engrossed in their day-to-day operations, lacking the

capacity and bandwidth to take on this new role.

The question now is: How FIs can truly be prepared for the transformative role that awaits them in the evolving fintech landscape?

Agility Centre for partnership-led innovation strategy to make FIs ready for the new role:

The way to move forward is to move together. The partnership relationship between fintechs and institutions is a mine of potential opportunities that many times go untapped because of the rush to catch up. The utilization of these partnerships and understanding the true potential that these alliances possess is also important.

To drive these partnerships to their full potential, a **dedicated internal team called Agility Centre** would have to identify the right fintechs based on the need of the institutions and their customers, forge those partnerships, and work closely with the stakeholders from the ideation of the new products and services till their implementation would be the road to success.

FIs can leverage fintech partnerships to become industry trendsetters if they approach innovation by building solutions from the ground up



FIs need to build a dedicated in-house team, to drive innovation via fintech partnerships



Key propositions



Innovation Focus: Dedicatedly identifies areas for improvement and leverages fintech partnerships to deliver tailored solutions



End-to-End Partnership Management: Drives the entire lifecycle of fintech partnerships, from ideation to successful implementation



Collaborative Approach: Works closely with stakeholders across verticals to identify and implement solutions that address organizational needs



Inside-Out and Outside-In Perspectives: Combines internal expertise with external market insights to foster ground-up solutions and capture key market trends



Continuous Innovation: Conducts recurring activities to foster ongoing innovation, staying ahead of emerging trends and capturing new opportunities

To utilize each partnership and to assist and enable the fintech-enabled life cycle of innovation, partnerships, and value realization **4 key steps form the core.**

The creation of an innovation funnel to identify the areas where there is the prospect for change, making the current processes

more efficient and partnerships. A stage to understand the ideal partner for each use case and then to see if this partnership would be compatible for both stakeholders and finally unlock the value realization of this exercise for both the customers as well as the stakeholders.

Innovation Funnel

Set-up innovation office to identify **problems** & upcoming trends, ideate **solutions** and help **prioritize** innovation initiatives

- Ideation & solutioning
- Use-case prioritization

Value Realization

Evaluate ongoing / newly built partnerships to **assess potential v/s performance** and **diagnose** steps to maximize the relationship

- Gap assessment

Partnership Enablement

Make organization "Partnership-ready" i.e., equipped for collaboration by Identifying & implementing the right tech and people infrastructure along with processes

- Process implementation

Partner Finalization

Zero in on the right partner by **assessments and diligence** on various parameters

- Scouting
- Partner assessment
- Partner diligence



Legend

Key initiatives

Innovation potential: The following are some illustrative examples of innovative and comprehensive solutions that an Agility Centre create for the bank can provide through fintech enablement to meet the end-to-end requirements of **manufacturers:**

- **Cashflow management:** This suite can include working capital lending offerings and software-based analytics solutions to better manage operations and inventory, enabling manufacturers to efficiently manage cash flow
- **Invoicing solutions:** This solution provides customers with tools to generate, send, and track invoices, integrated with payment gateways to facilitate online payments, allowing the seamless generation of payment instructions
- **Vendor financing:** The bank can extend financing to vendors by offering anchor-based loans and invoice financing, providing immediate payments and boosting the manufacturer's supply chain efficiency
- **Logistics management:** FASTag-powered applications that allow companies to manage fuel and toll payments and garage repairs, and GPS functionalities enable tracking of vehicles to create visibility of the distribution network
- **Employee management:** Provide solutions to process payroll, tax management, and employee benefits administration services, making it easier for manufacturers to manage their workforce
- **Customized insurance products:** The partnership can lead to the creation of customized insurance products to cover potential risks such as equipment failure, supply chain disruptions, factory hazards, etc

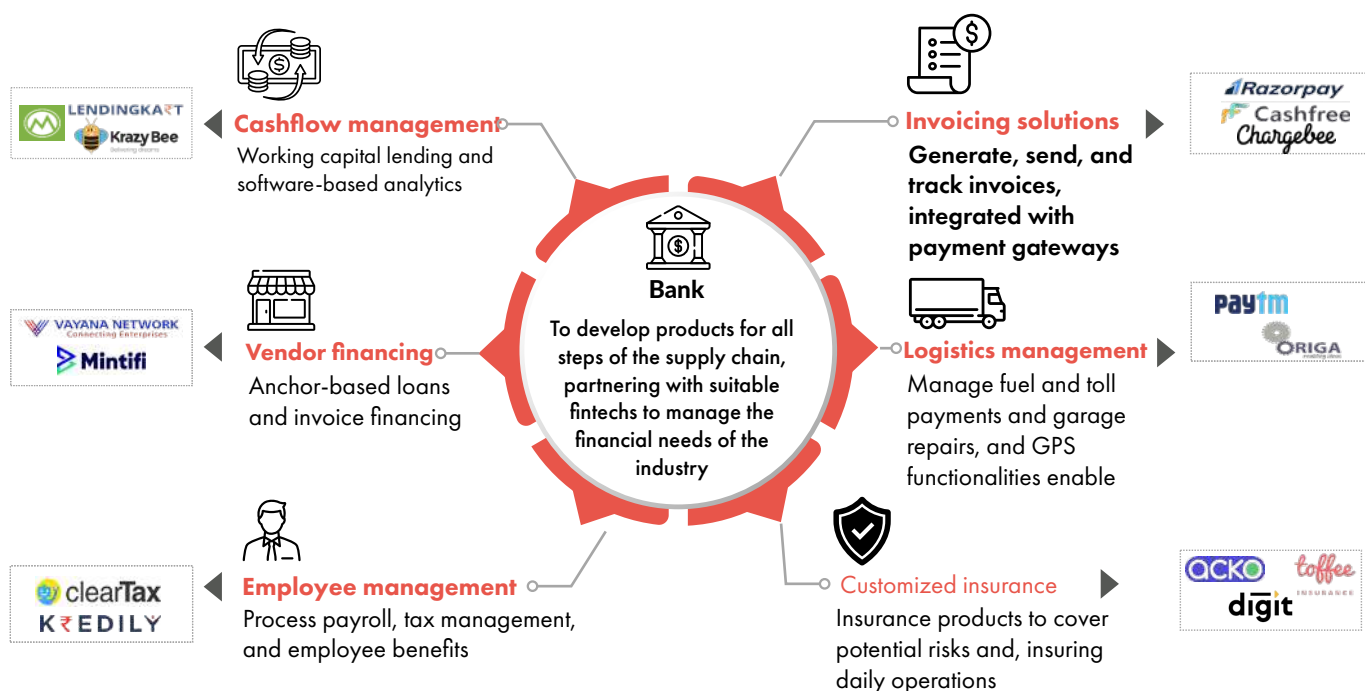
We are already seeing early signs of these partnerships wherein banks have forged alliances with fintechs to help them with their

customer acquisition & product buildout agenda, especially in niche segments where they are trying to make a mark

Federal Bank: Federal Bank has leveraged fintech partnerships to drive its digital transformation and enhance its banking services. By collaborating with fintech startups, the bank has been able to expand its customer base and improve customer experience. The bank's open banking platform, which has over 100 APIs and more than 100 partners, enables seamless integration with various fintechs like Jupiter, Paytm, Pine Labs, PayU, and Zest Money.

These partnerships have allowed Federal Bank to offer innovative digital services and tap into new customer segments. For example, the bank has partnered with Digivridhi to provide micro ATM services and a digital channel to dairy farmers in Gujarat, enabling them to make digital payments and become part of the formal banking system. Through these collaborations, Federal Bank has increased its business and cross-selling opportunities while maintaining a focus on digital literacy and frictionless customer experiences.

Equitas SFB: Equitas Small Finance Bank has proactively adopted fintech partnerships to strengthen its digital capabilities and drive its customer acquisition growth. The bank is actively adding new fintech partners to enhance its digital offerings. Equitas Small Finance Bank has existing partnerships with neobanking platforms Niyo and Freo for current and savings accounts and is in talks to close two more partnerships for liability customer sourcing. Additionally, the bank plans to add fintech partners for prepaid card distribution, targeting tie-ups with companies like Neokred, BankIT, and Paymint. By collaborating with fintechs, Equitas Small Finance Bank gains access to a pan-India customer base without the need for extensive branch networks. These partnerships help enhance customer experience and provide a tech layer above traditional banking services.





6 ACTION AGENDA FOR KEY STAKEHOLDERS

Learning from past experiences is essential for growth and development. The financial services industry is no exception. Fintechs, investors, financial institutions, regulatory bodies & industry associations all play an important part in shaping the industry's trajectory. Each stakeholder has unique insights and experiences that can provide valuable learnings to the entire ecosystem. By understanding and reflecting on these learnings, stakeholders can make informed decisions, adapt to changes, and capitalize on opportunities. The key responsibilities of each stakeholder group of the fintech industry are:

Financial institutions:

Embrace innovation: Financial institutions as custodians of public money have a key role to play in the continuous innovation that the industry must necessarily undergo. Hitherto they have tended to keep the fintech community at an arm's length, treating them either as competitors or customers or channel partners, but never really as true partners. This needs to change, and change quickly.

Learn to fail: Failure is the stepping stone to innovation-at-scale. Traditional players are by nature circumspect, and afraid to fail. They need to create acceptance of failure as an inevitable part of innovation, and reward those who fail fast and pick themselves up to test the next idea.

Capability building: What got us here won't get us there! Assimilating relevant talent which can act as a bridge between fintechs and incumbents is a vital part of the transformation that incumbents must undergo. And this is perhaps the most difficult piece in the entire puzzle.

Fintechs:

Understand the canvas defined by regulations: Perhaps the toughest ask of innovators is to play within the contours defined by someone else! One of the key learnings of the fintech journey in India ought to be that in order to be successful, fintechs will have to understand and internalize the regulatory context and nuances and drive their innovations within the boundaries thus defined. Dichotomous as it might seem, this, perhaps is the right way forward.

Build partnerships that stand the test of time: One of the essential ingredients of innovation going forward is to weave in the vastly different incentives that drive incumbent vs fintechs. As much as the customer problem that is sought to be solved, this is also a puzzle to crack. Fintechs who can crack this code will be able to build lasting and win-win partnerships with incumbents.

Greater focus on customer protection: In the dynamic and ever-changing regulatory environment, it is imperative for fintechs to place paramount importance on customer perception and trust, particularly in areas concerning data privacy and transparency. Even in sectors where specific regulations may not be in place, new FinTech ventures should

proactively prioritize these considerations from the outset. By implementing robust data protection measures and complying with relevant regulations, fintechs can build trust, reputation, and long-term customer loyalty. Making data privacy a top priority differentiates fintechs, attracting customers who value the security and confidentiality of their personal and financial information

Regulators and industry associations

Customer education and trust-building: Regulators and industry associations play a crucial role in customer education and trust-building within the fintech industry. Through clear and transparent regulations, regulators can establish standards that protect consumers and foster trust in fintech services. Additionally, industry associations can collaborate with regulators to develop educational campaigns that inform customers about the benefits and risks of fintech services, empowering them to make informed decisions. By working together, regulators and industry associations can promote a culture of trust, raise awareness about the value of fintech innovations, and ultimately enhance customer confidence in the industry.

Collaboration workshops and platforms: Collaboration workshops and platforms organized by industry associations play a crucial role in facilitating collaboration between financial institutions and fintechs. These platforms serve as a space for knowledge exchange, fostering collaboration and addressing regulatory challenges effectively. By bringing stakeholders together, including policymakers and regulators, industry associations enable the industry to collectively tackle common issues, promote innovation, and drive industry-wide growth. In addition, regulatory bodies should prioritize involving fintech players and industry associations in regular discussions to gain valuable insights into industry intricacies and consider their perspectives while formulating regulations.

Creation of a self-regulatory body: The establishment of self-regulatory bodies in industries such as the securities and telecommunications sectors, has demonstrated how self-regulatory organizations (SRO) can effectively enhance industry standards, promote consumer protection, and foster a culture of compliance. By setting standards for conduct and acting as a bridge between the sector and regulators, the SRO can ensure that fintech entities operate with integrity, transparency, and accountability.

This SRO would monitor the conduct of member fintech entities, addressing the unique risks introduced by fintech innovation while fostering a balance between innovation and regulatory oversight. Through this collaborative approach, the self-regulatory body can encourage responsible practices, protect consumer interests, and maintain the trust and confidence of stakeholders in the evolving fintech landscape, ultimately contributing to the growth and stability of the industry.

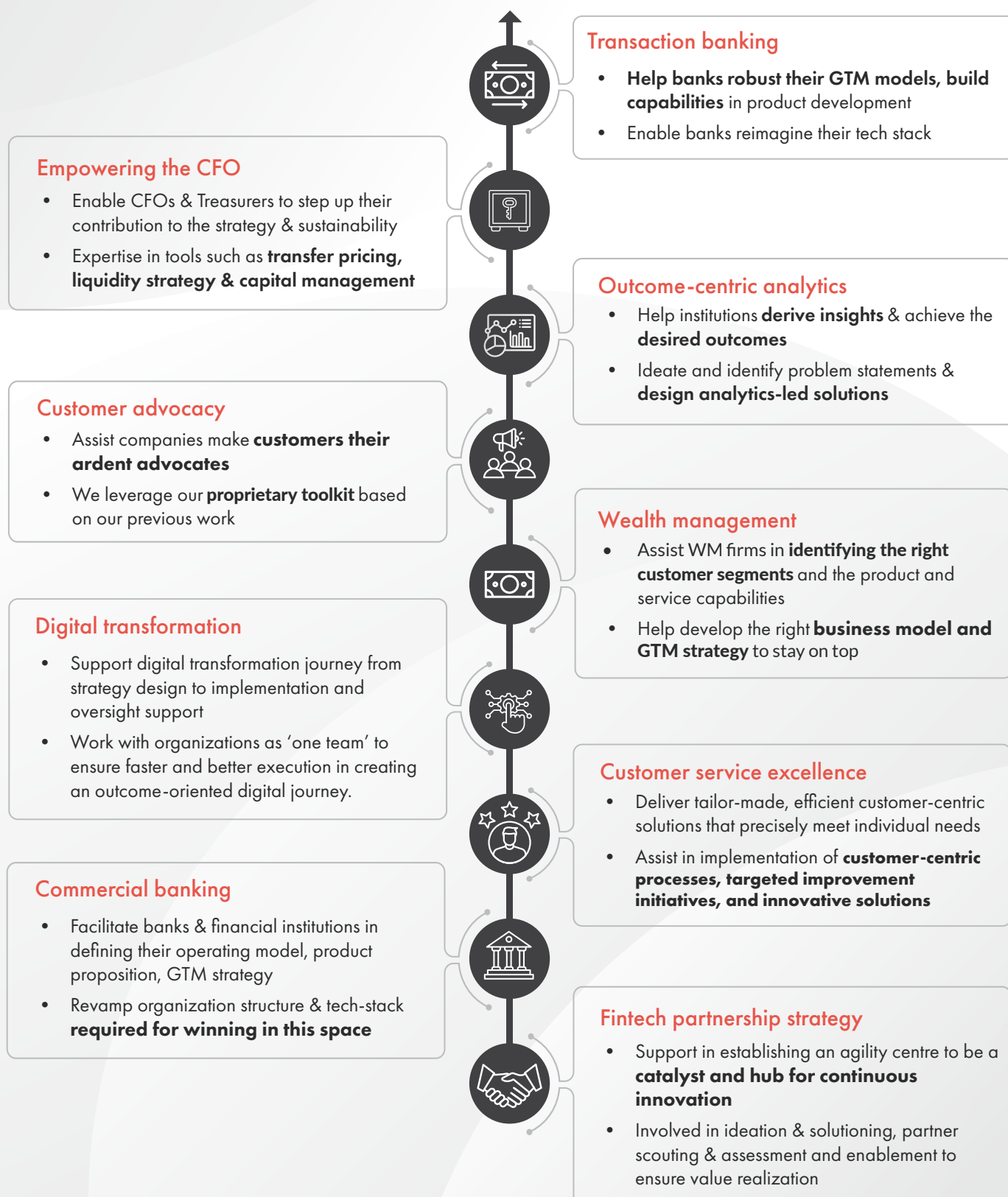
ACRONYM LIST

Acronyms	Description
AI	Artificial Intelligence
API	Application Programming Interface
ATM	Automated Teller Machine
BNPL	Buy Now Pay Later
COBO	Collection on Behalf of
FI	Financial Institution
FD	Fixed Deposit
FLDG	First Loan Default Guarantee
FX	Forex
MF	Mutual Funds

Acronyms	Description
ML	Machine Learning
NFC	Near Field Communication
NPCI	National Payments Corporation of India
P2P	Peer to Peer
POBO	Payment on Behalf of
RBI	Reserve Bank of India
SEBI	Securities Exchange Board of India
SCF	Supply Chain Finance
SRO	Self Regulatory Organisatoin
UPI	Unified Payments Interface



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Acknowledgements



Madhur Singhal

Managing Partner
Financial Services



Sandeep Ghosh

Senior Manager
Financial Services



Mit Parag Desai

Senior Manager
Financial Services

CONNECT WITH US

We will be happy to share perspectives

Madhur Singhal

Managing Partner - Financial Services

E: madhur.singhal@praxisga.com

Sandeep Ghosh

Senior Manager - Financial Services

E: sandeep.ghosh@praxisga.com

For media queries, please contact

Vaishnav Kumar Rai

Manager - Marketing

E: communications@praxisga.com

M: +91 782 794 4925

www.praxisga.com



New Delhi | **Gurugram** | **Mumbai** | **Bengaluru** | **Dubai** | **Riyadh**

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New Delhi

Unit 5, Ground Floor,
Uppal Plaza M6, District
Centre, Jasola - 110 025
New Delhi, India



Gurugram

Tower A, 4th Floor,
DLF Centre Court, DLF
Phase 5, Sector 42,
Gurugram-122 002
Haryana, India



Mumbai

112, First floor,
Workafella, AK Estate,
Goregaon West,
Mumbai - 400 062
Maharashtra, India



Bengaluru

2734, Fourth floor,
HSR Layout, Sector 1,
27th Main, 16th Cross,
Bengaluru - 560 102
Karnataka, India



UAE

Praxian MEA LLC FZ
6th floor, The Meydan
Hotel, Nad Al Sheba,
Dubai, UAE

Registered address: Unit 5, Ground Floor, Uppal Plaza M6, District Centre, Jasola, New Delhi - 110025