

F R O S T & S U L L I V A N

FinTech Market Insights – India

With investments of over \$1.9B from 2015-2017, Indian FinTech industry is booming and is poised for an exponential growth enabled by steady economic growth and supportive government incentives

Executive Summary

Disruptive Trends in 2017

Disruptive Themes

- 1 An increased pace of investment and innovation will spur **mainstream adoption of blockchain** to replace traditional services spanning transmission and exchange of digital identities and assets. Regulatory frameworks are being more aggressively defined to drive commercial adoption.
- 2 **Community finance and P2P Lending** is fast growing to be as big as the conventional bank lending. The average annual market rate for such offline and unsecured loans is approximately 30%, which is almost 2–2.5 times the rate of an average personal loan charged by banks and other lending platforms.
- 3 With increased adoption of smartphones and access to internet, Financial service providers will more aggressively adopt **biometric and cybersecurity** solutions for services authentication, credit profiling and customer experience enhancement
- 4 **Open Banking** will see a rise where 3rd party permission based apps can access your banking data to recommend real-time curated offers and offer frictionless payment and reward redemptions process.
- 5 With wide-spread adoption of adopting internet usage as a habit, **mobile-only and digital-only services will grow**. This will enable start-up and incumbents to adopt new business models and partnerships to maintain relevance in the new FinTech ecosystem.

Key Highlights of 2016 and 2017

Overview

- 1 Demonetization** – Demonetization triggered shift from a traditional cash-driven economy to a cashless one. Post Demonetization, over 1.1 Million POS terminals have been setup and a surge in adoption of mobile wallets and debit cards for merchant payments.
- 2 Supportive Government Initiatives** – Government has announced multiple proactive policies like tax rebates for merchants accepting more than 50% as electronic payment, withdrawal of surcharge for card payments etc. in order to reduce use of cash for day-to-day transactions.
- 3 Friction-less Payment Technology** – Secure and easy to use Unified Payment Interface applications such as BHIM, Phone Pe, SBI Pay etc. has found strong favor among consumers. Since its launch, there has been a growth of over 100x in usage and over 1000x in transactions value.
- 4 Growing Industry Investments** – There is an upsurge in investment attention by established incumbents and VC firms. From 2015 onwards the FinTech space in India has had investments over \$1.9 Billion. Funding momentum is back to 2015 peaks after experiencing a drop in 2016.
- 5 Aadhaar Enablement** - The Reserve Bank of India has regulated the usage of Aadhaar based biometric authentication. This will allow faster roll-out and enablement of KYC dependent financial services at a lower overall transaction costs for customers.

Industry Overview

Industry Overview

What is FinTech

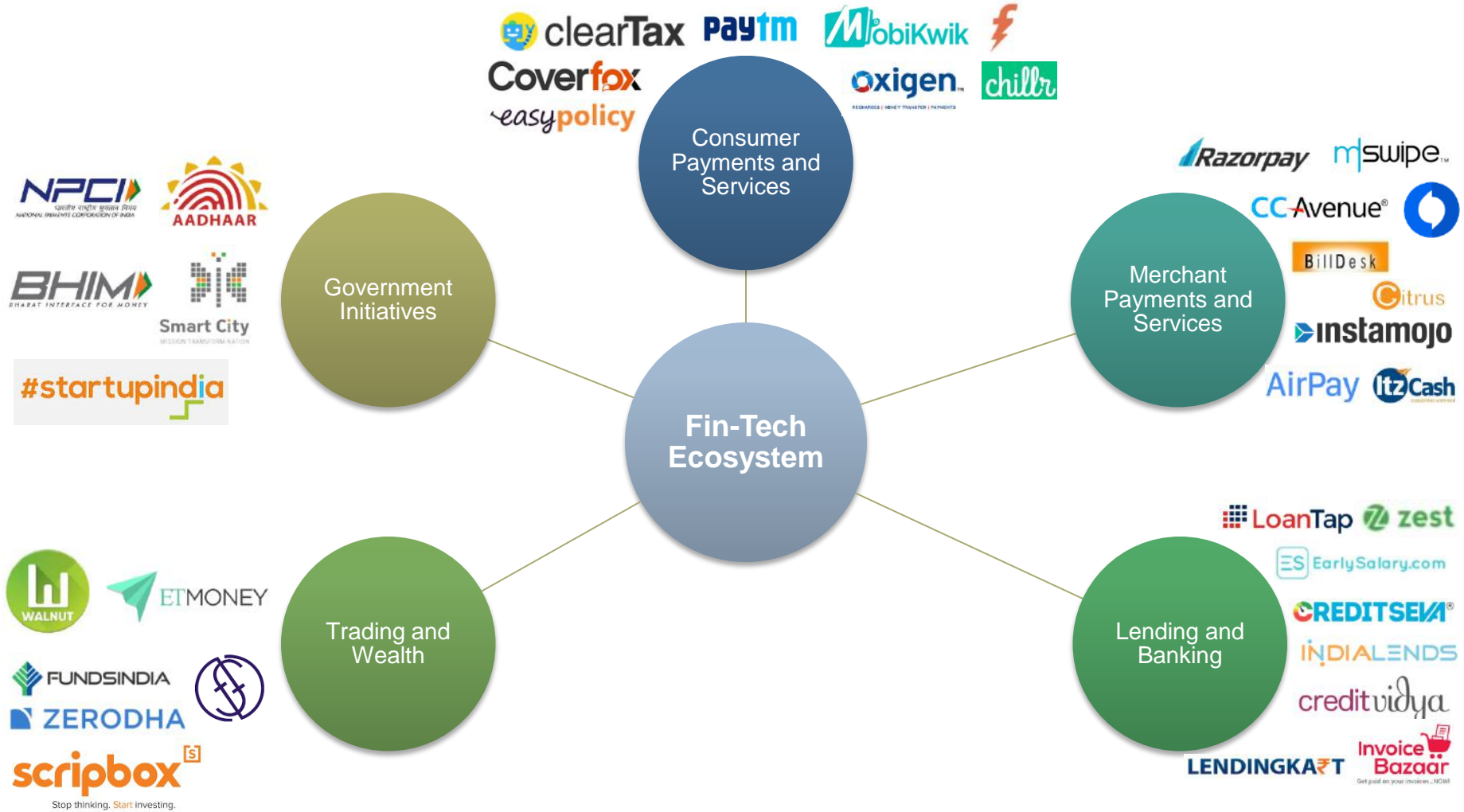
Financial Services Technology or commonly referenced as '**FinTech**' is the application of new-age technologies to deliver traditional financial services such as Consumer Banking, Payments, Lending, Insurance, Remittances and wealth management.

In last few years, the FinTech technology has significantly disrupted the way traditional financial services are perceived and delivered due to emergence of innovative startups and supportive government incentives. In-order to remain competitive in this extremely fast and evolving landscape, established incumbents are also aggressively exploring partnership and acquisitions strategy in order to better leverage existing customer data to improve customer engagement and setup new range of products and services.

Global FinTech software services market is expected to reach \$45 Billion by 2020* and India is expected to play a crucial role in sustaining this growth momentum. Buoyed by the continued investments and supportive government regulatory frameworks, India FinTech software market is estimated to become \$2.4 Billion by 2020* from about \$1.2 Billion in 2016. Future growth in India will not only be led by innovation alone, but through collaboration between FinTech service providers and traditional banking and lending organizations to design and deliver solutions for under catered non-digitized market in India.

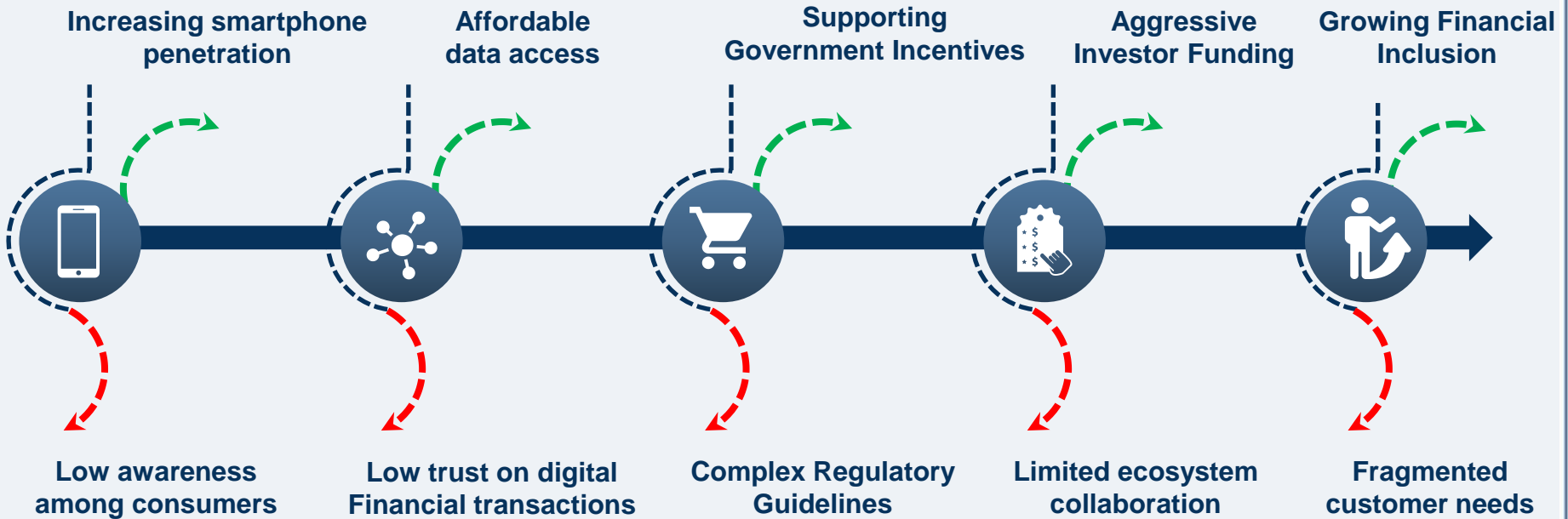
* Source: NASSCOM, Press Releases

Fin-Tech Landscape* in India



* Non Exhaustive List

Drivers and Restraints for FinTech in India



Industry Snapshot



1.3 BILLION

Population



1, 710 USD

GDP per Capita



250 Million

Number of Households



940 Million

Number of Mobile Connections



300 Million

Number of Smartphone Users



432 Million

Number of Internet Users



793 Million

Number of Active Debit Cards



31.4 Million

Number of Active Credit Cards



650 Million

Number of Bank Accounts



222 Million

Number of Monthly Mobile Wallets Transactions



2.7 Million

Number of POS



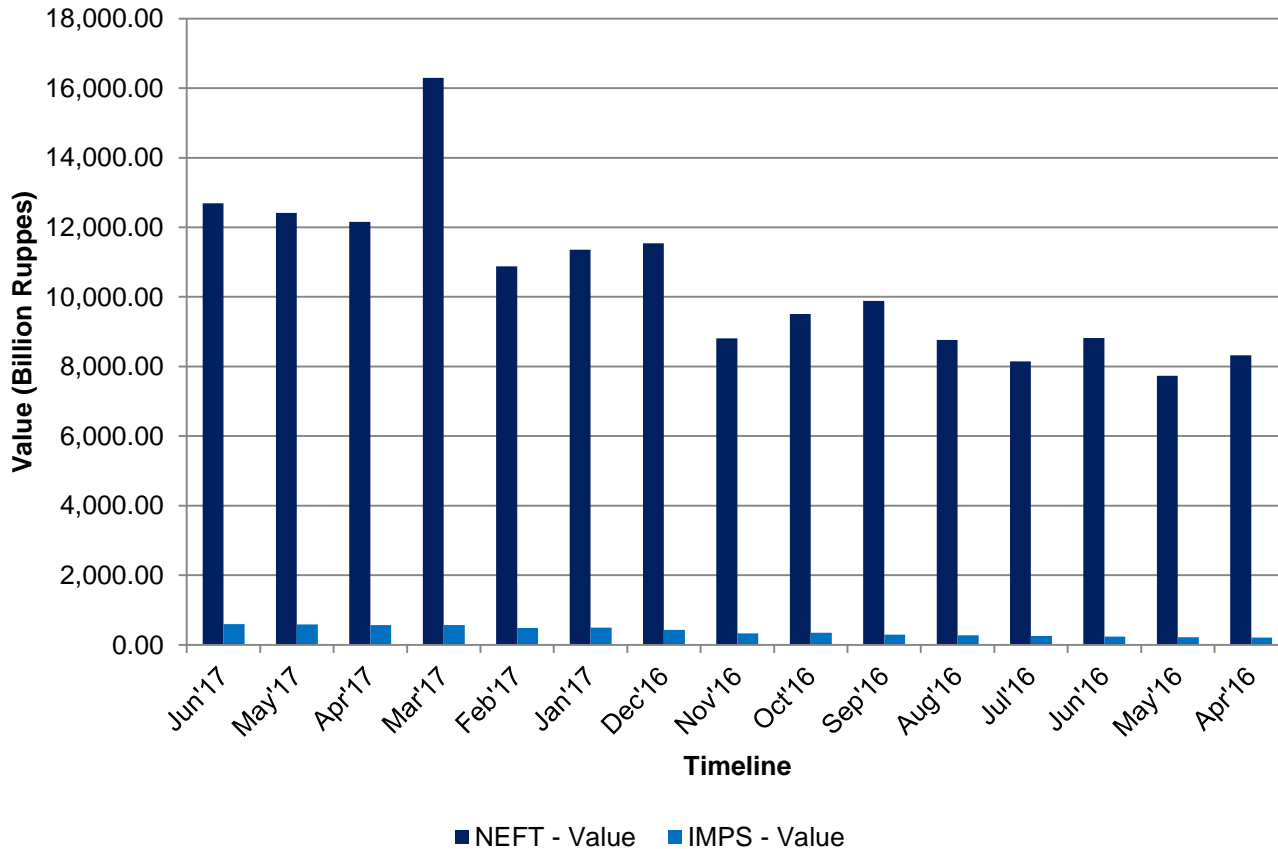
116 Million

Mobile Banking Transactions

Source: World Bank, Reserve Bank of India, COAI, Press Releases

FinTech Adoption Trends - Payment Instruments (April'16 to June'17)

National Electronics Fund Transfer (NEFT)/ Electronic Fund Transfer (EFT) and Immediate Payment Services (IMPS) Adoption

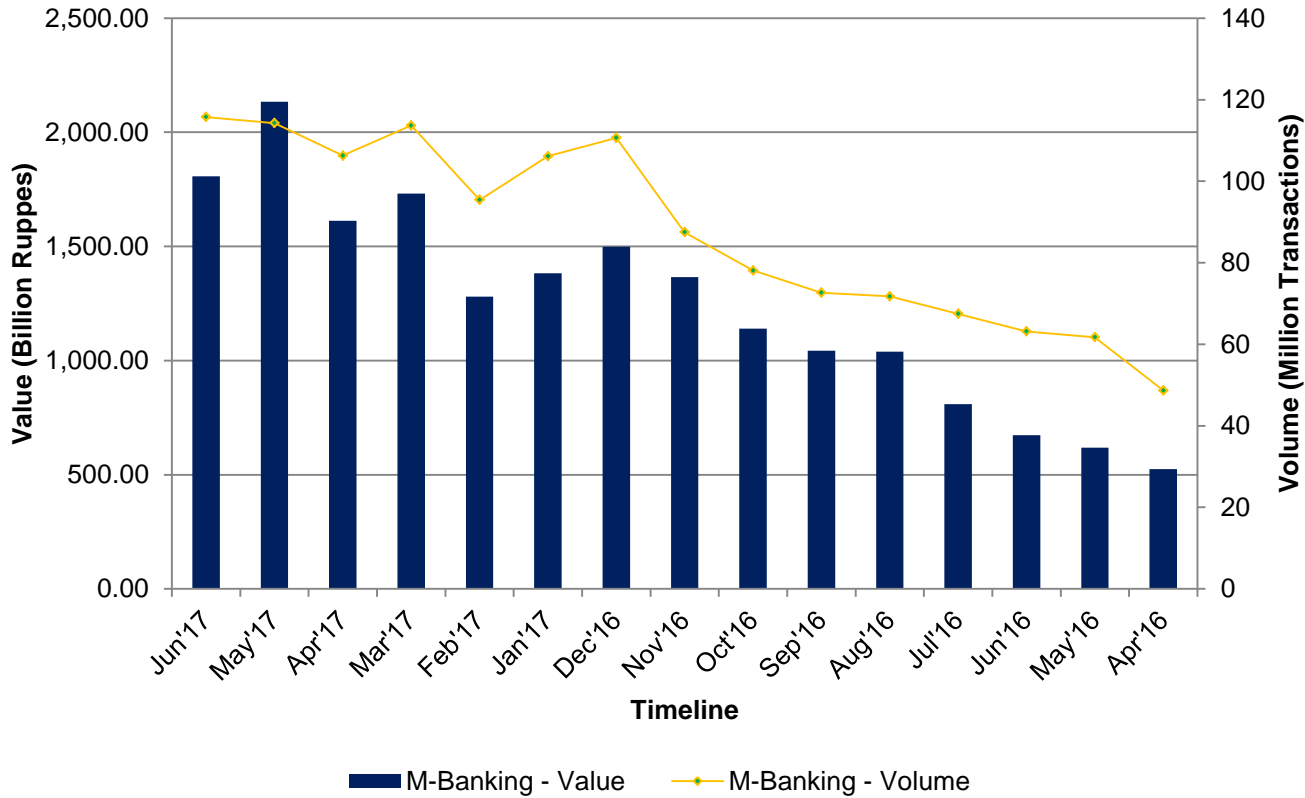


- 52% and 183% growth respectively in NEFT/EFT and IMPS payment services.
- NEFT peak in March can be attributed to FY year-end transactional surge
- IMPS has indicated higher growth due to near real-time performance and 24x7 availability

Source Reserve Bank of India Frost & Sullivan Analysis

FinTech Adoption Trends - Mobile Banking (April'16 to June'17)

Mobile Banking Adoption

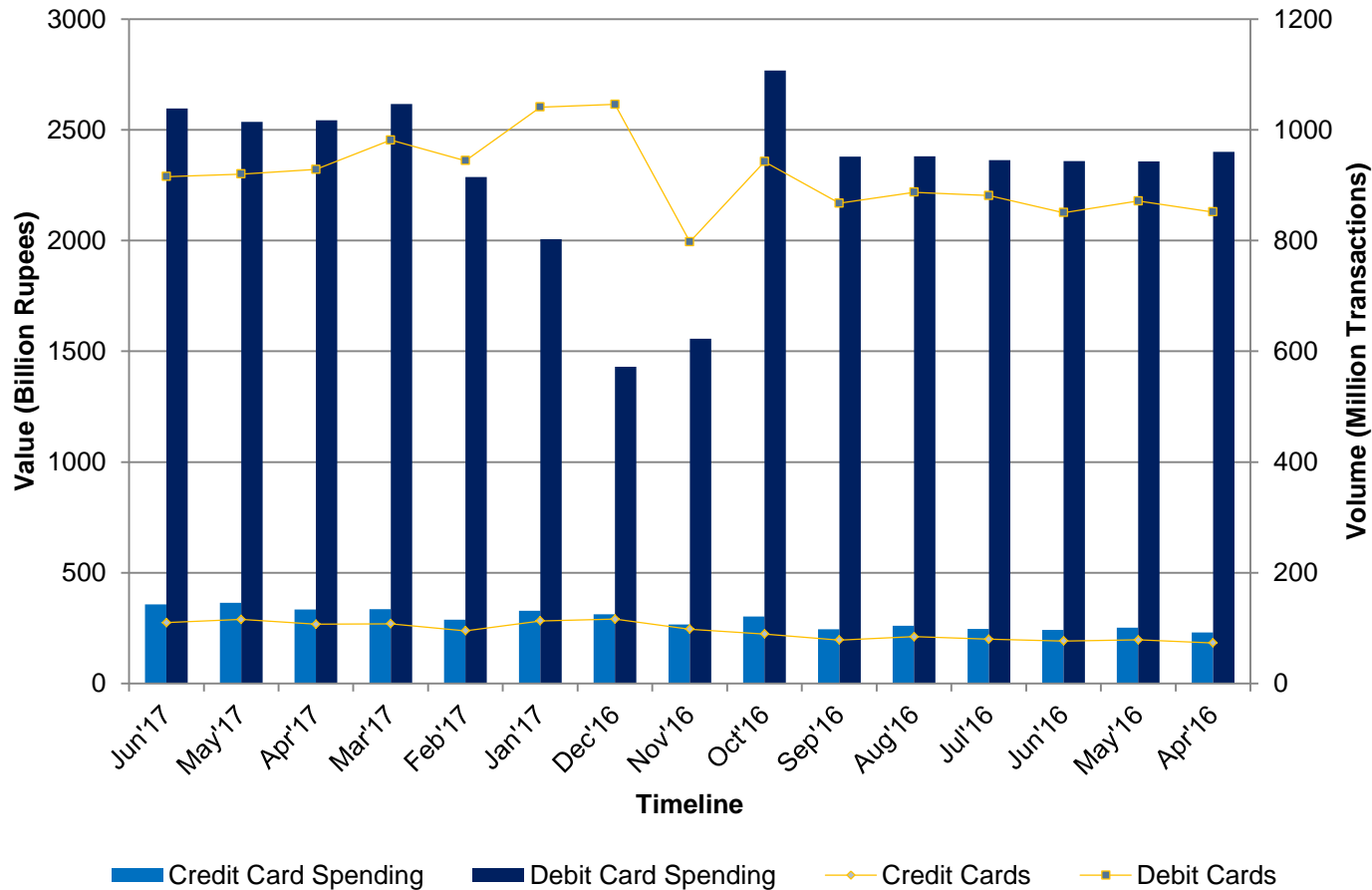


- 140 % CAGR in m-banking transactions, primarily driven by affordable access to data
- 138% increase in monthly m-banking transactions
- M-banking has been able to sustain demonetization catalyzed growth

Source Reserve Bank of India Frost & Sullivan Analysis

FinTech Adoption Trends - Credit & Debit Cards (April'16 to June'17)

Credit and Debit Card Adoption

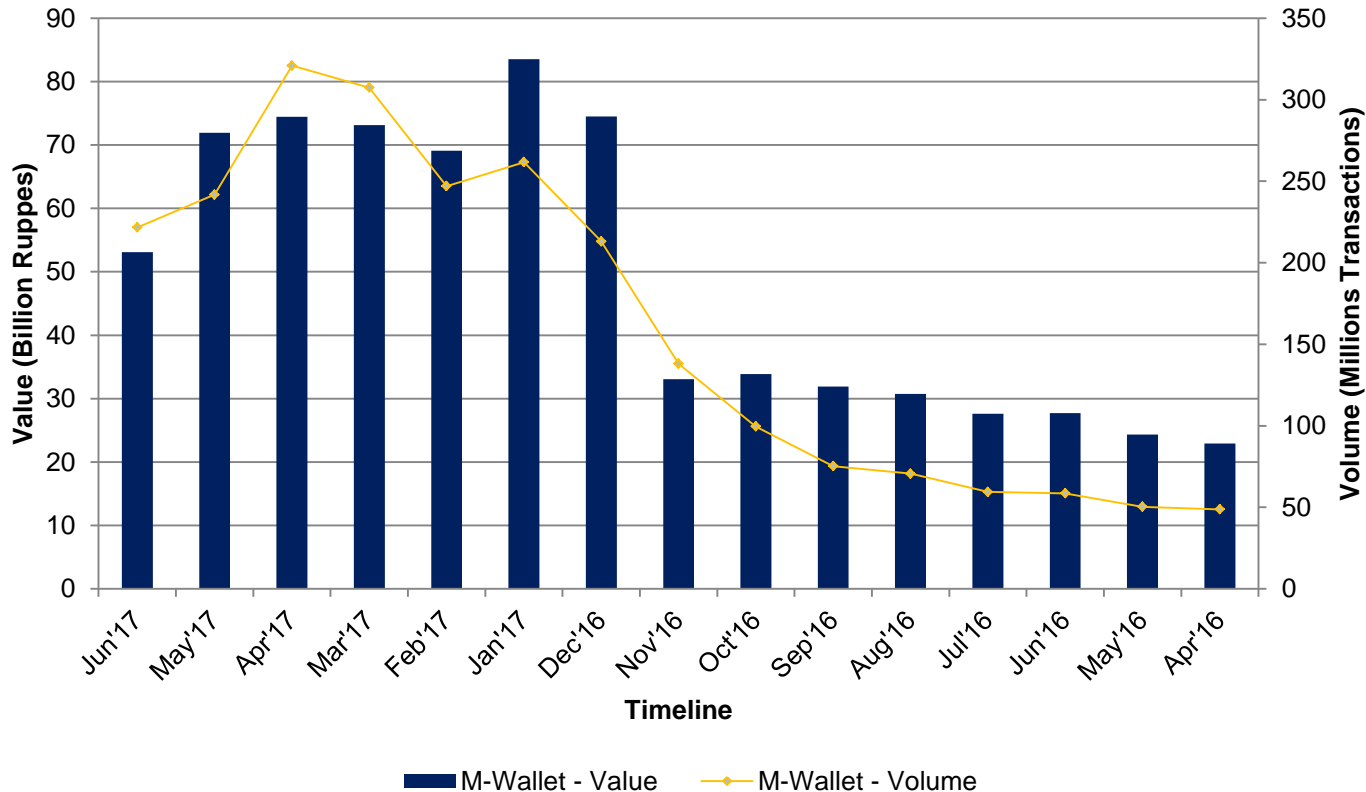


- 50% and 8% increase in credit and debit card issuance and spending respectively
- Both credit and debit card have recorded a negative growth in ATM usage, however POS usage has increased by 56% and 153% respectively

Source Reserve Bank of India Frost & Sullivan Analysis

FinTech Adoption Trends - Mobile Wallets (April'16 to June'17)

M-Wallet Adoption



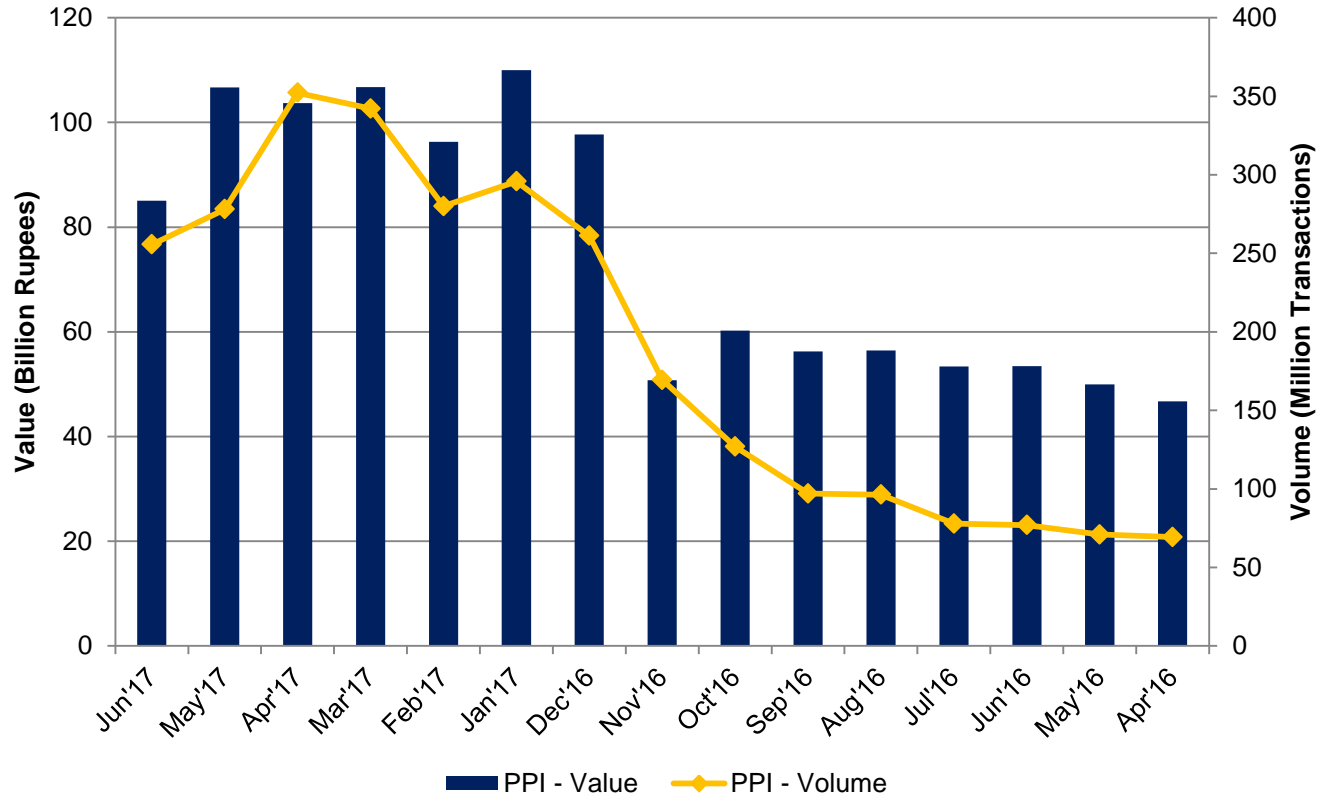
- At peak, accomplished a staggering 558% increase in M-Wallet transacts led by demonization initiative
- May'17 recorded a drop in mobile wallet transactions however there was an increase in average transaction value.
- In last 2 month, m-wallet transactions have dropped by nearly 100 million

Source Reserve Bank of India

Frost & Sullivan Analysis

FinTech Adoption Trends - Prepaid Instruments (April'16 to June'17)

Prepaid Instruments Adoption

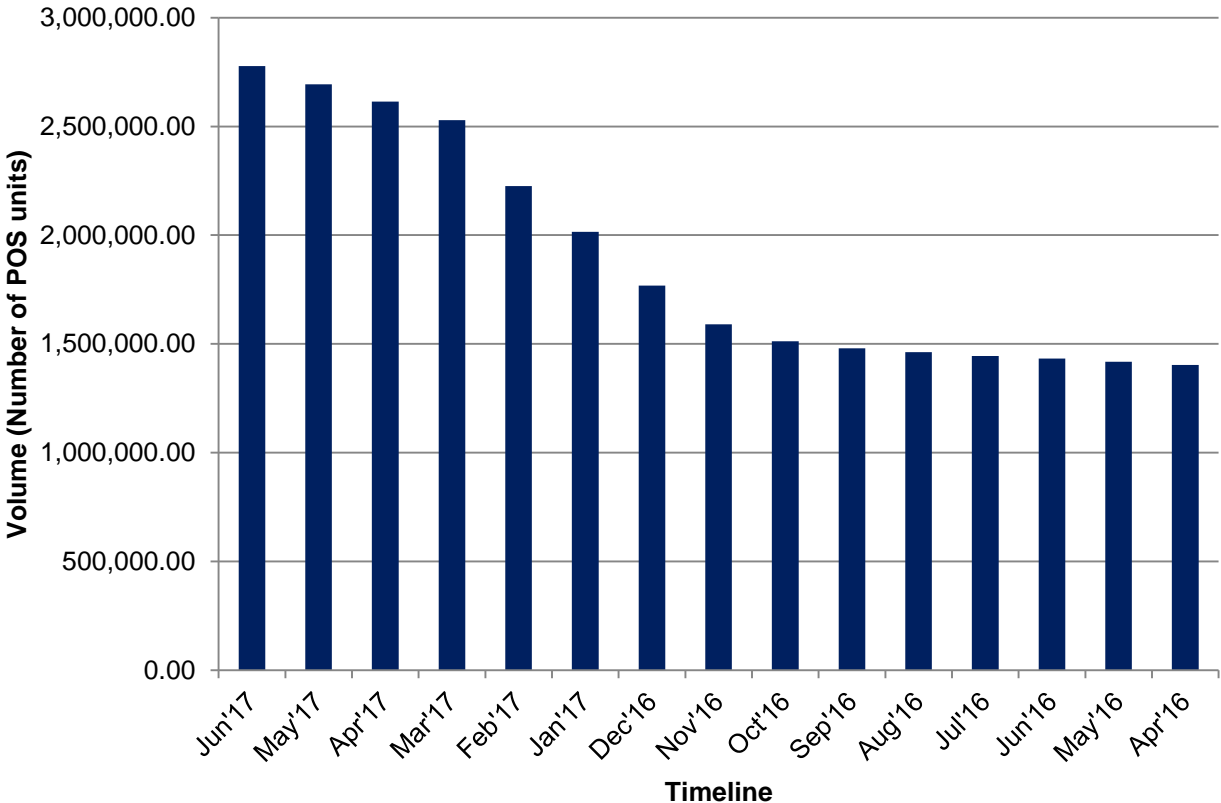


- 269% growth in transactions using Pre Paid Instruments. During the month of Mar and Apr, 400% growth was recorded.
- Despite the exponential growth in transactions, in terms of value a peak of 135% was achieved in Jun'17.

[Source](#) Reserve Bank of India Frost & Sullivan Analysis

FinTech Adoption Trends – Point Of Sale Terminals (April'16 to June'17)

Number of POS

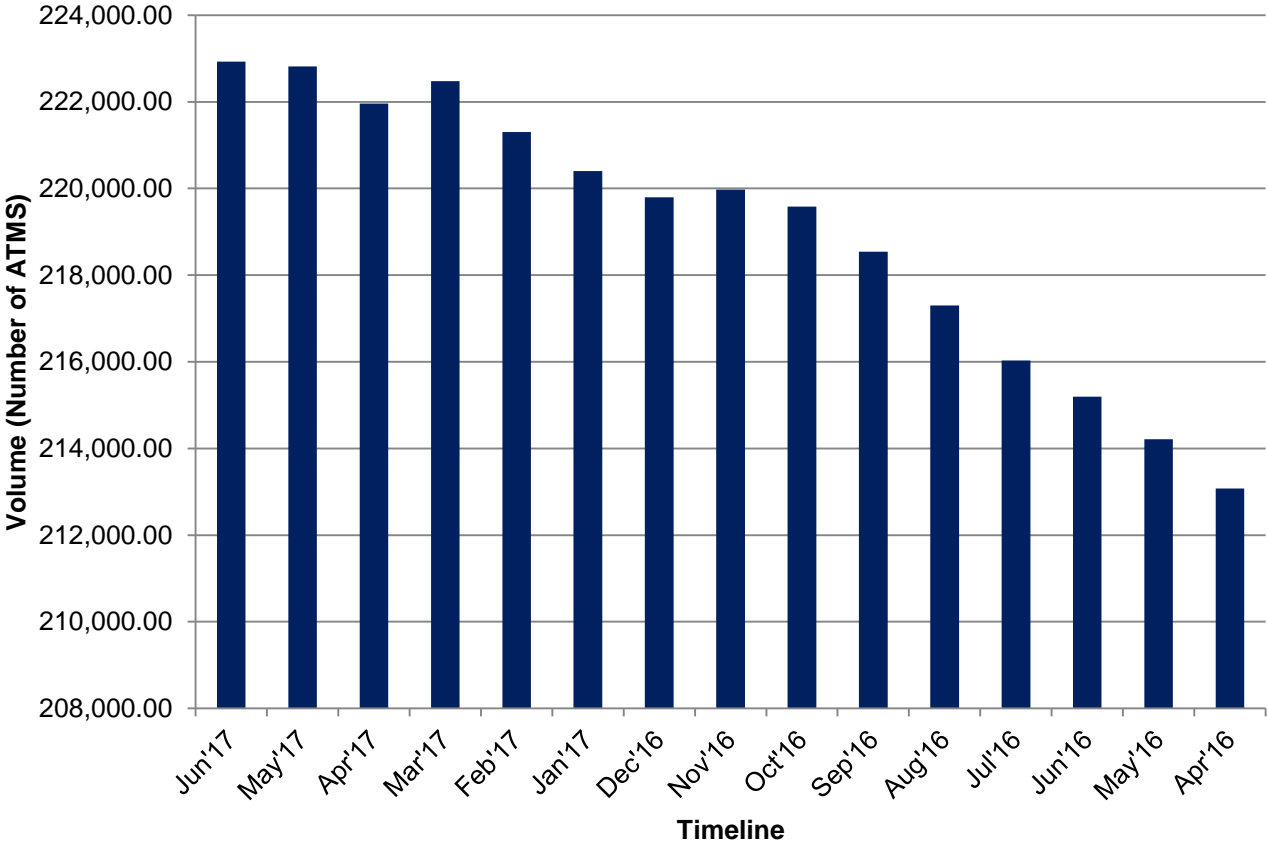


- 98% increase in number of POS terminals in last 15 months. This was driven by Government's thrust towards cash-less India
- Nearly equal split of transaction between debit and credit card spending

Source Reserve Bank of India Frost & Sullivan Analysis

FinTech Adoption Trends – Automated Teller Machine (ATM) (April'16 to June'17)

Number of ATMS

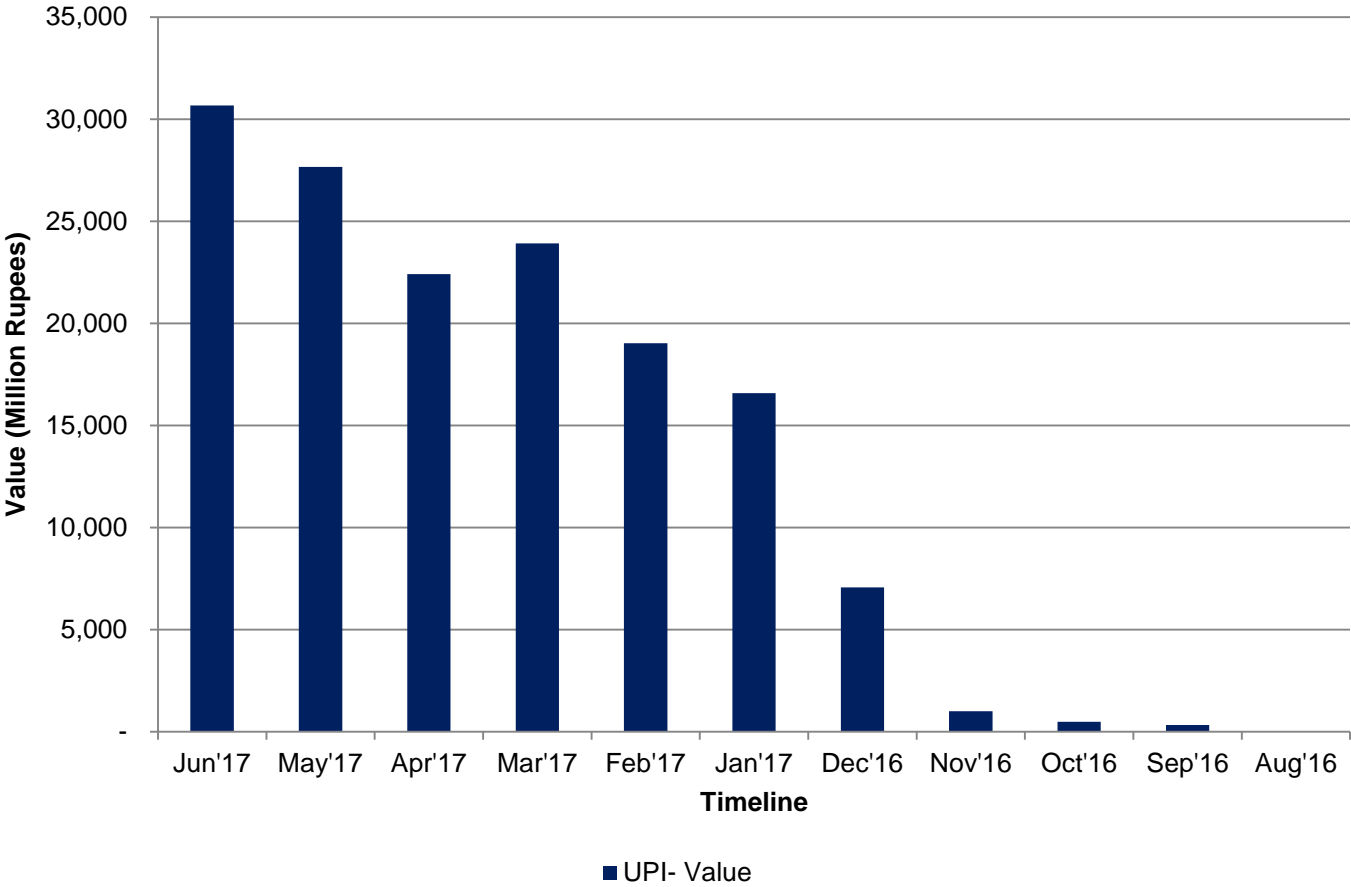


- Only 5% increase in number of ATM in operation in last 15 months
- There has been a negative growth in usage of debit and credit cards at ATMs – This can be attributed to easy availability of POS terminals for all merchant services.

Source Reserve Bank of India Frost & Sullivan Analysis

FinTech Adoption Trends - Unified Payment Interface (UPI) (August'16 to June'17)

UPI Adoption



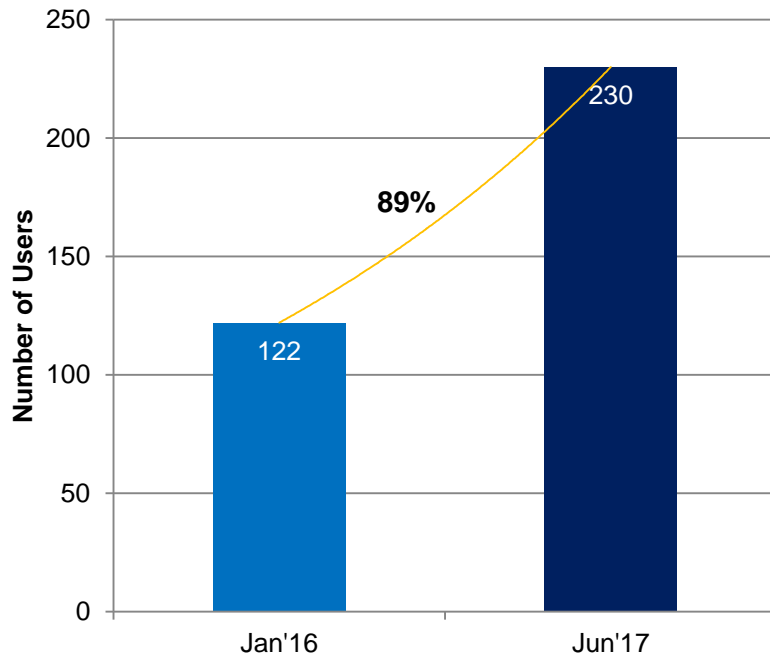
- Since the launch of UPI platform in Aug'16, it has seen more than 100x increase in usage and 1000x increase in value transacted.
- Government enabled BHIM has the most significant market share, followed by Chillr and PhonePe

Source: National Payments Centre of India, Frost & Sullivan Analysis

FinTech Adoption Across Key Industry Enablers – Mobile Wallets: PayTM



User Adoption



80 Million Monthly Active Users in Dec'16

106 Million Wallets with money or saved cards

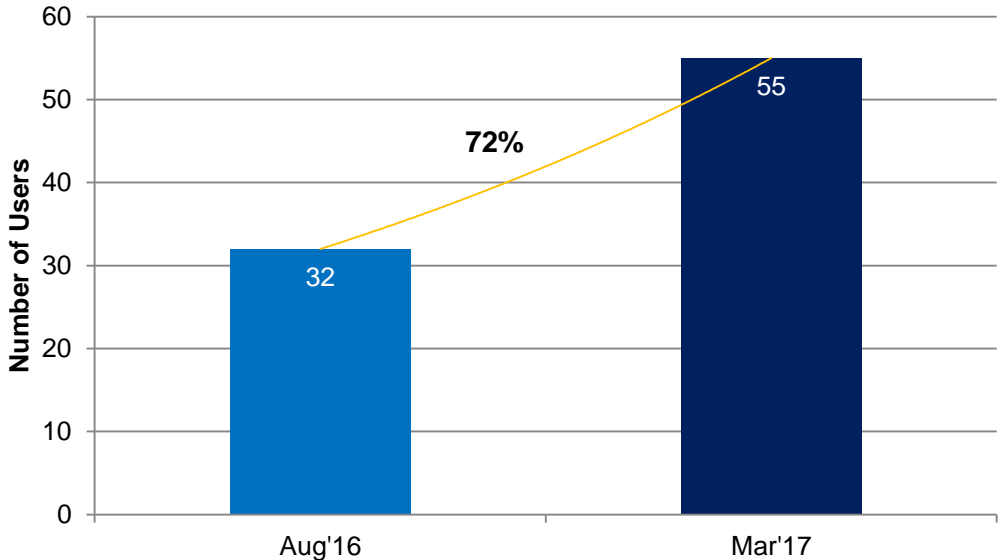
84 Rupees Average Balance per wallet

Source Company Website, Press Releases

FinTech Adoption Across Key Industry Enablers – Mobile Wallets: MobiKwik



User Adoption



3x Growth Driven by Demonetization

1.5 Million Merchants on the platform

700 Rupees Average transaction size

Source Company Website, Press Releases

FinTech Adoption Across Key Industry Enablers - E-Commerce



100 Million Registered Users in Sep, 2016

30 Percent All orders on Amazon from its PRIME membership program

10 Million Android Downloads for PhonePe, A UPI Based payment application

670 Million Funding to build Amazon wallet Payment services

30.7 Percent Share of Indian mobile E-commerce space

30.3 Percent Share of Indian mobile E-commerce space

10.8 Percent Growth in unique purchasers

113.8 Percent Growth in unique purchasers

108 Million Total Number of visits across desktop and mobile web

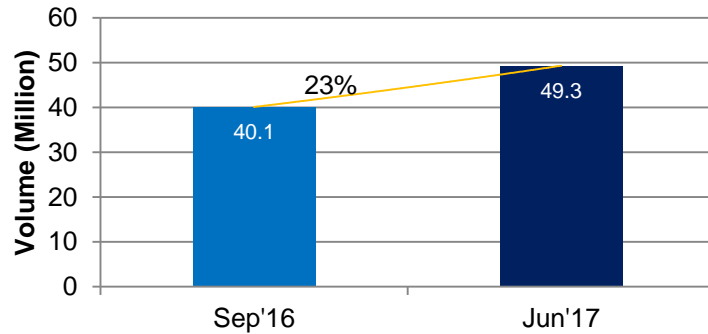
225 Million Total Number of visits across desktop and mobile web

Source Company Website, Press Releases

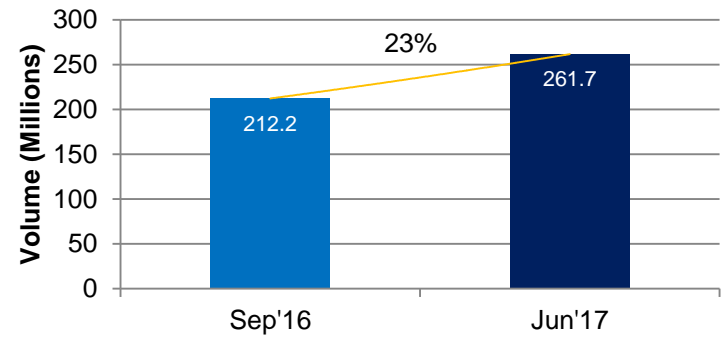
FinTech Adoption Across Key Industry Enablers – Banking: SBI



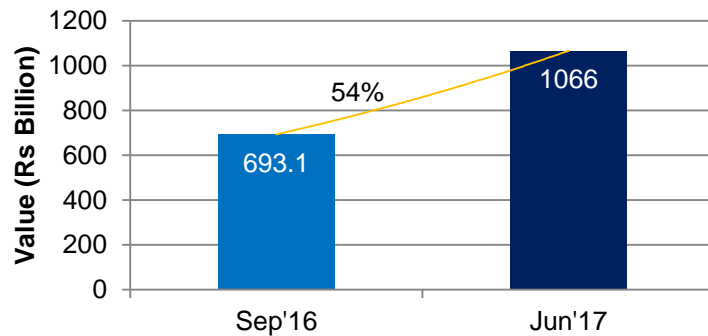
Number of Debit Cards



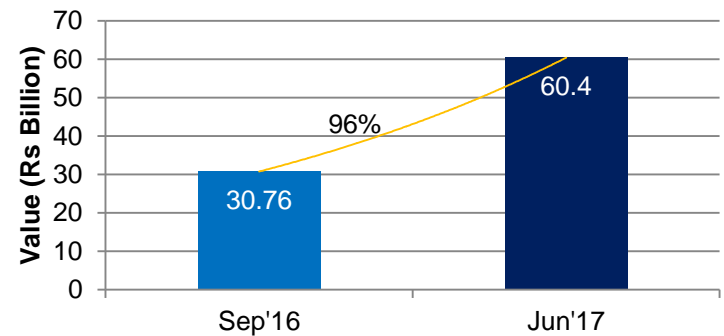
Number of Credit Cards



Debit Card Spending*



Credit Card Spending*



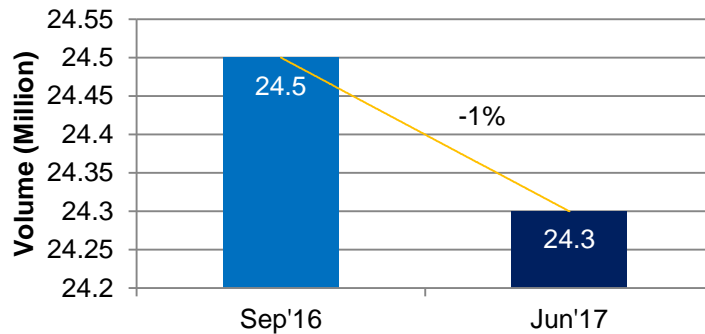
* Spending only refers to POS and ATM usage

Source Reserve Bank of India

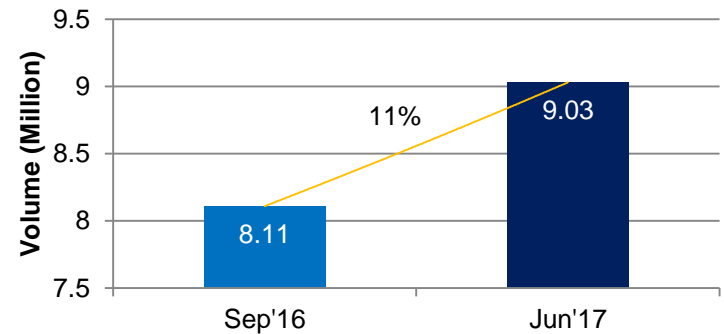
FinTech Adoption Across Key Industry Enablers – Banking: HDFC



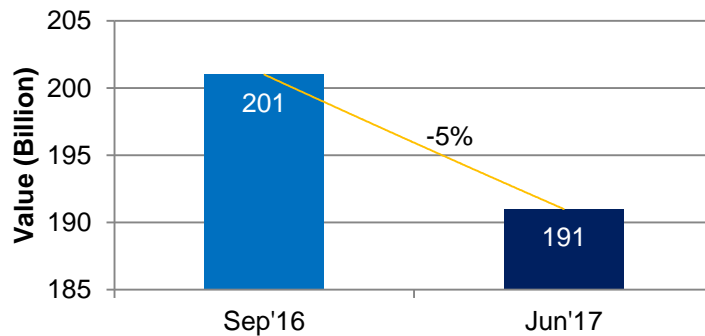
Number of Debit Cards



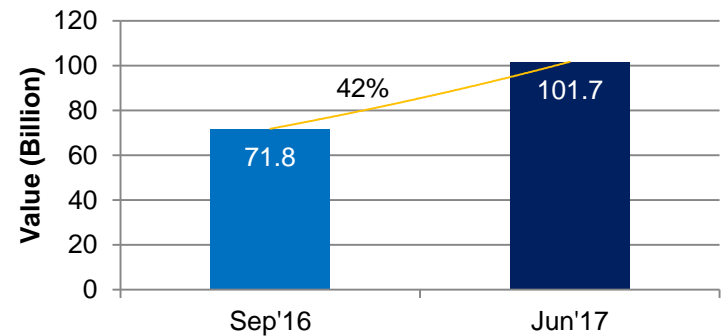
Number of Credit Cards



Debit Card Spending*



Credit Card Spending*



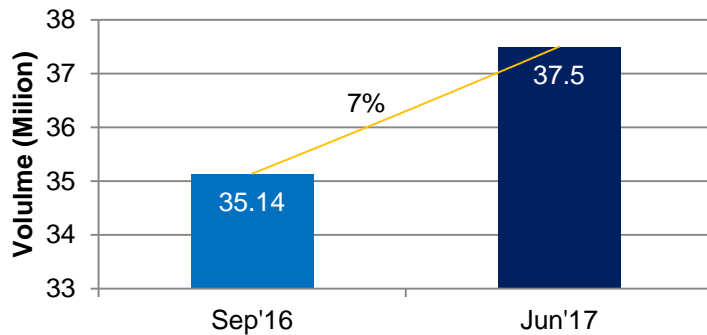
* Spending only refers to POS and ATM usage

[Source](#) Reserve Bank of India

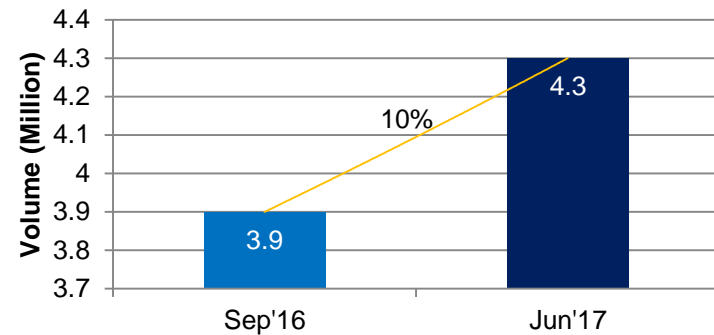
Adoption Across Key Industry Enablers – Banking: ICICI



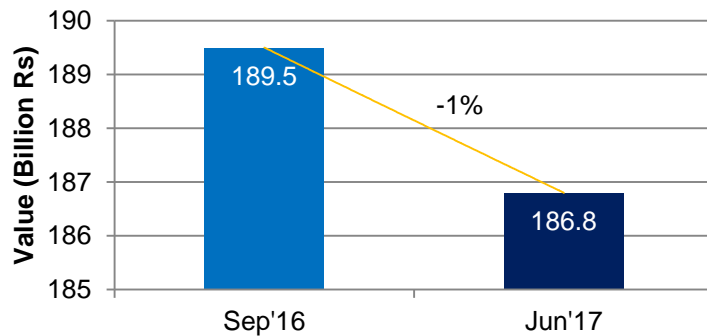
Number of Debit Cards



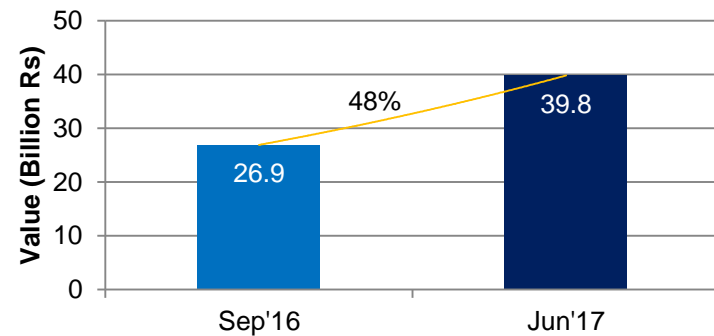
Number of Credit Cards



Debit Card Spending*



Credit Card Spending*



* Spending only refers to POS and ATM usage

[Source](#) Reserve Bank of India

Thank You