Impact of COVID-19 on FinTechs
Country: India
April, 2021
As a result of the unprecedented impact of the COVID-19 pandemic, numerous industries, including FinTech and markets around the world were forced to either shut operations or started re-strategizing. The crisis was further compounded by global lockdowns and extended quarantine periods.

In the first report of our study of COVID-19’s impact on FinTechs, we compared the growth of the FinTech industry pre-COVID with the industry’s growth (or lack thereof) during the first three months of COVID-19 in India (Apr-Jun, 2020)

This report is the second in our research series. For this round:

- We spoke to a mix of early-stage and established FinTechs,
- Conducted extensive research on the actions and measures implemented by the government and regulators, and
- Studied the impact of the pandemic on PE and VC investors and tech associations.

We also applied strong data and sentiment analytics to support our analysis and insights through this report. Through this report, based on our understanding of the status of FinTechs in India, we attempt to deduce lessons for a positive future.

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Financial Inclusion (FI) Lab*

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Foreword

About the Financial Inclusion Lab

A part of CIIE.CO’s Bharat Inclusion Initiative, the Financial Inclusion Lab aims to improve the financial health of India’s underserved low-and middle-income (LMI) segments by supporting startups in the areas of Fintech, Skilling and Livelihood.

Designed as a startup accelerator program, the Lab has supported 33 early-stage startups in four cohorts so far. Cumulatively, these startups have already served more than 20 million individuals and raised over USD 50 million in funding post their participation in the Lab.

The Lab is collaborating with MSC (MicroSave Consulting) to provide the startups with high-touch advisory and insights into the LMI segments. It also offers training, mentoring, market and investor connects, and capital to help the startups validate their products and businesses.

Why we are supporting the Study

Over the last 3 years, CIIE.CO’s Bharat Inclusion Initiative has been the flag-bearer for the early-stage inclusive fintech ecosystem. The Initiative is a continuum that includes research, incubation & acceleration, seed funding and other programs that envision a more inclusive future through startups.

As disease and disruptions created crises for many among India’s most vulnerable segments, FinTechs that served these segments were also impacted. However, a focused study on how these inclusive FinTechs fared during the pandemic was missing. Did they fare differently? Are there unique challenges that need to be addressed urgently?

By capturing this impact we aim to start a discourse on the opportunities and challenges in supporting FinTechs that are building for the underserved LMI.
MSC conducted a countrywide study to gauge the impact of COVID-19 on FinTechs

**Key objectives of the study**

01 Assess the impact of COVID-19 on early-stage and established FinTechs

02 Understand the coping strategy of FinTechs and their survival plans

03 Analyze and compare major policy and regulatory concerns of FinTech startups in the second phase

04 Analyze the difference in the ecosystem across the timeline of study

05 Determine investor response to the ongoing crisis

**Structure of the report**

Section 1: Executive summary

Section 2: Recommendations

Section 3: The role and impact of players in the ecosystem on FinTechs

Section 4: Social media sentiment analysis

Section 5: Coping strategies adopted by FinTechs

Section 6: Impact of COVID-19 on FinTechs

Section 7: Case studies

Section 8: Annexes
Section 1: Executive summary
Executive summary

At the time of writing, MSC was conducting the study across three phases over 12 months. The current report is based on a study of phase II.

- Indian Fintech startups witnessed a 53% decline in investments in the first six months of 2020. They managed to raise almost USD 1.7 billion through 70 deals, compared to USD 3.6 billion through 102 deals during the same period in the previous year.
- Credit or lending FinTechs have suffered greatly owing to delayed payments because of the moratorium imposed by the RBI and its extension coupled with multiple lockdowns. Post-June, disbursal volumes diminished by approximately 80% compared to pre-COVID levels, with ~50% of lenders halting new disbursals altogether.
- Dismal market liquidity and a crunch in prospective external investments have led to several FinTechs failing to remain afloat in these trying times.

The highlights of this study are as follows:

**Reorientation: 70%+** of FinTechs started engaging with customers digitally. The interactions have risen ~2x per week through digital channels since the lockdown.

**New trends:** COVID-19 led to several effects. The interaction between FinTechs and NBFCs/MFIs accelerated, customer outreach expanded, while partnerships for digitalization, credit underwriting, and loan collections came into being.

**Selective growth:** InsurTechs have shown as much as 200% growth in revenue, while lending FinTechs have slumped by 60%.

**Coping strategy:** Startups continue to scale down operations, lay off employees, defer expansion plans, implement work-from-home for employees, and reskill them for multiple roles to save costs.

**Fund-raising:** With growth limited to a few sectors, investors have redirected funds to preserve their own portfolio companies, while seeking co-investment opportunities for new ones.

**Product design:** Since phase I, FinTechs have continued to innovate and diversify their solutions to retain customers. For example, credit FinTechs have started offering insurance and bookkeeping solutions as well.

**LMI focus:** FinTechs have been offering bite-sized (as low as INR 5) investment and savings products to support their low-income customer base. These FinTechs have witnessed a 15% M-o-M customer growth.

**Digitalization:** The demand for digital payments among Indians soared during the pandemic. FinTechs in the digital payments space witnessed a 2x growth in terms of transaction volume.

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1. KPMG | 2. KPMG | 3. RBI circular | 4. MSC Analysis | 5. MSC report

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Compared to phase 1, our phase 2 study reflects significant growth for FinTechs across the four sub-domains of consideration

• FinTechs attracted investments\(^1,2\) worth INR 96.9 billion (USD 1.33 billion) across ~106 deals in Phase 2.
• Empirical data suggests that most investments for FinTechs were skewed towards InsurTechs, AgriTechs and Payment FinTechs.
• Owing to the moratorium, there was a severe slow-down for Credit and Savings FinTech funding.
• In the period of phase 2 after the moratorium, larger Credit FinTechs with proven track records began to see large investments.

\(^1\)KPMG | \(^2\)YourStory | \(^3\)Digidhan dashboard | \(^4\)Mobile based payments include - BHIM, Mobile banking, NEFT, PPI, and others | \(^5\)MSC analysis

**FinTech investments**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1 - FY'21</th>
<th>Q2 - FY'21</th>
<th>Q3 - FY'21</th>
<th>Q4 - FY'21</th>
</tr>
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<tbody>
<tr>
<td>Deals</td>
<td>832</td>
<td>39</td>
<td>23</td>
<td>219</td>
</tr>
<tr>
<td>Deals</td>
<td></td>
<td></td>
<td>36</td>
<td>499</td>
</tr>
<tr>
<td>Deals</td>
<td></td>
<td></td>
<td></td>
<td>608</td>
</tr>
</tbody>
</table>

This figure represents overall funding received by FinTechs in India, where funding for individual sub-domains may vary.

**Business and product innovation**

<table>
<thead>
<tr>
<th>Period</th>
<th>Q1 - FY21</th>
<th>Q2 - FY21</th>
<th>Q3 - FY21</th>
<th>Q4 - FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth trend</td>
<td>7.2</td>
<td>9</td>
<td>10.5</td>
<td>10.9</td>
</tr>
</tbody>
</table>

This figure represents a 39% increase in mobile-based payments during Phase 2 of our study. It is indicative of the usage of multiple new offerings from FinTechs.

• FinTechs especially AgriFinTechs, changed their product offerings based on the unique needs created by the pandemic. They began offering essential household items such as groceries and provisions, triggering a huge rise in the use of mobile-based digital payments.
• Credit FinTechs began offering micro-loans, while Savings FinTechs offered low-volatility, liquid funds with “any time withdrawal” options.
• InsurTechs deployed nano-premium policies as low as INR 5 (USD 0.69) per month.

**Customer engagement/traction**

This figure represents data collected during Phase 2 of our study. It is intrinsic to our sample and not indicative of generalized data across FinTech sub-domains.

• During phase 1’s study, only InsurTechs were able to record positive customer growth\(^4\).
• In phase 2, Credit and Savings FinTechs were able to onboard new LMI customers, especially after the moratorium.
• Phase 2 also witnessed accelerated customer behavior shift towards digital modes of engagement.
• This change supported FinTech platforms to employ self-serving digital onboarding models through simple mobile applications. Customer support was also simplified through the use of chat bots and automated query-based solutions.
Section 2: Recommendations
### Challenges

**Availing relief or stimulus packages related to COVID-19:** FinTechs are unsure and unable to utilize the various stimulus packages announced by the policymakers.

**Procedural bottlenecks:** FinTechs are affected by extensive regulatory requirements, such as physical KYC processes, need for extensive paper-based documentation, and the use of canceled bank checks for account verification, among others. All these have hit FinTechs harder in terms of business growth during this time of COVID-19, especially with restrictions that resulted from lockdowns and limited mobility.

### Who should intervene?

- Policymaker
- Investors
- Accelerators, such as the FI Lab
- Startup teams

### What should be done?

**Improve information dissemination:** More than 70% of the interviewed startups lacked clarity on how they can apply for stimulus packages. Policymakers should clearly communicate the procedure and eligibility requirements for availing the MSME stimulus packages on their website and social media channels. This will mitigate existing confusion and shorten delays for FinTechs in applying for stimulus packages.

**Reduce the number of procedures:** According to data from the World Bank and analysis by MSC, FinTech startups in India have to go through 2.5x more procedures that cumulatively take them 4.5x the number of days than those in the UK—a leader in the financial services industry. Indian policymakers should proactively look at cutting down the number of procedures, especially for registration and verification of FinTech startups, and rapidly implement digital registration and verification processes of the FinTech ecosystem. Policymakers should look to narrow this gap by supporting and pushing more digital reforms.

**Make compliance less cumbersome:** Data from the World Bank indicates that founders of FinTech startups in India spend 7x the cost per capita on compliance as compared to their counterparts in the UK. Policymakers need to abolish outdated procedures, such as the submission of canceled bank checks during FinTech registration. Instead, using digital KYC and monitoring methods and streamlining compliance requirements would aid the FinTech ecosystem.
Based on the moratorium and current context of the pandemic, we recommend the following interventions by relevant actors in the rebuilding process for the FinTech industry (2/3)

### Challenges

| **Outdated market fit:** Common products, such as vehicle insurance have shown a sharp drop in favor of COVID-19-centric products, such as COVID-19 insurance for gig-sector workers. FinTechs have had to re-innovate their product range to appeal to existing and new customers.¹ |
| **Long road to the market:** Early-stage FinTechs lack insights on adjusting, operating, and growing amid the new normal |

### Who should intervene?

- Policymaker
- Investors
- Accelerators, such as the FI Lab
- Startup teams

### What should be done?

#### Prime FinTechs:
Accelerators should help create a comprehensive understanding of current market trends and ecosystem changes. Their guidance on strategic product market fit, financial products which solve unique needs of customers - especially mitigating the impact of COVID-19, e-commerce models, and virtual assistance through relevant platforms, among others, would give an impetus to business and operations planning for FinTechs.

#### Remote acceleration:
Accelerators should organize conferences, mentorship opportunities, and ecosystem networking events online to strengthen digital tools and infrastructure and increase their adoption. This would also allow greater flexibility and tailored support for FinTechs within programs based on their resources. In turn, this would allow the FinTechs to deliver value beyond the eventual—and yet uncertain—return of in-person acceleration.

¹Several FinTech startups we spoke with during our research echoed this sentiment. Organizations have had to create entirely new products to engage new customers; once complete with their existing product cycle, customers have shown a preference to save their money, rather than invest, owing to economic uncertainties. This has created a need for FinTechs to think on their feet and rollout new products to remain relevant with their customer segments.
Based on the moratorium and current context of the pandemic, we recommend the following interventions by relevant actors in the rebuilding process for the FinTech industry (3/3)

### Challenges

**Changing modes of user engagement:**
Over the course of the pandemic, owing to governmental restrictions on movement and public interaction, users have become increasingly comfortable interacting digitally with service platforms. When presented with an opportunity for physical onboarding and engagement, customers prefer to interact remotely through digital means. This has forced FinTechs to innovate and implement new customer engagement strategies.

### Who should intervene?

- Policymakers
- Investors
- Accelerators, such as the Fi Lab
- Startup teams

### What should be done?

- **From touch to tap:** FinTechs should increasingly engage customers through digital means, especially to streamline onboarding and customer engagement. FinTechs can widen their reach and attract more customers through simplified UI/UX, easy-to-understand instructions, use of regional languages, mobile-first solutions, and talkback features, such as IVR to amplify adoption in rural areas.

- **Scout digi-friendly FinTechs:** Investors should seek out FinTechs with business models that require minimal physical interaction and rely on virtual engagement with clients. They should also look at investing in enablers that will provide technology like natural language processing (NLP) to enable voice assistance and other services upon which other FinTechs can build specific financial solutions easily and more effectively.
Section 3: The role and impact of players in the ecosystem on FinTechs
Investor sentiments and activities: Where do they plan to invest? Which segments do they avoid? What do they expect ahead?

What investors think:

01 Change in investor portfolios: Since the pandemic struck, investors are increasingly concerned about the soundness of their business. Investment volumes for many FinTech sub-sectors might not return to pre-COVID levels soon. The credit and lending sector, especially P2P lending has been affected severely. However, investors continue to invest in InsurTech, AgriTech, and KiranaTech as they see a rise in consumer demand for such products and services.

02 Allocation of capital: VCs and private equity funds have been helping their portfolio companies through additional equity infusion to help them tide over the ongoing crisis, while they reduce the number of new investments they take on.

03 Valuations in the near term: The valuations of ongoing deals with Indian FinTech startups will be hit as a ripple effect of the COVID-19 pandemic. A decline in funding activity for new startups—that is, those that are not a part of the external investment portfolio yet—could be attributed to the anti-dilution or down-round protection rights being executed by the investors, making it difficult for these startups to negotiate deals.

04 Recovery and support: In the initial phase of the pandemic, P2P investors or lenders were willing to waive interest fees and make several other concessions to ease the path for startups. Yet as the economy has started moving and money has started to flow back to the market, these investors expect startups to pick up their pace of growth.

Outlook on future FinTech investments:

Savings FinTechs: Initial predictions suggested negligible change for this segment due to economic uncertainties in the initial phase of the pandemic. However, household financial savings boosted demand deposit usage till Q3 FY 21. Hence, investors are now ready to start reinvesting in savings FinTechs as new account openings for neobanks and other savings platforms are already above pre-COVID levels.

Credit FinTechs: Lending is perhaps the worst-affected sub-category in the FinTech sector. Short-term profit expectations are tempered by higher credit losses. This sector is likely to witness reduced focus from investors.

Insur-Techs: Insurance businesses are expected to see some tailwinds as 71%¹ of people now consider insurance as a necessity to fight unforeseen pandemics like COVID-19. Companies have created products for a world where virus outbreaks could be the new normal. InsurTech funding in 2020 increased by 12% and 20%² in terms of value and number of deals, respectively.

Enablers and payment FinTechs: Digital payment platforms witnessed a second spurt in growth after demonetization in 2016. While the short-term confidence in payments has not shown much change, this category is confident about their long-term outlook and investors have echoed these sentiments and plan to invest in such FinTechs.

Investor preferences in the current period:

- Willing to fund or lend to businesses with strong models and positive unit economics, while keeping an eye out for commitments from other investors
- Alternate lending, InsurTech, SaaS-based, and WealthTech FinTechs are expected to grow by 3x in terms of average growth in investments³

¹Indian Express | ²CB Insights | ³BCG-FICCI report
Regulators, policymakers, technology associations, and accelerators have introduced various measures to tackle the crisis

01 **RBI**

The RBI has directed banks to assign 0% risk weight on the credit facilities extended under the Emergency Credit Line Guarantee Scheme (ECLGS). RBI has also permitted banks to restructure existing loans to MSMEs (including FinTechs) without a downgrade in the asset classification.

**Impact:** FinTechs, both startups and established companies, are keen to apply for ECLGS. However, the lack of clarity about how to apply and the TAT for getting these loans are issues that have slowed the process.

02 **SEBI**

SEBI released a set of proposals to encourage FinTechs to go public through a discretionary quote to those floating an IPO. FinTechs can now allot up to 60% of the shares to be sold in the IPO to select investors on a discretionary basis before the issue opens to all other investors and the regulator.

**Impact:** FinTechs can reach out further for funding without risking a loss of control in their growth owing to investor pressure.

03 **IRDAI**

Because of the global pandemic, IRDAI has decided to mandate all general and health insurers to offer individual COVID-19 standard health policy.

**Impact:** This move has helped InsurTechs to have a COVID-19-specific product that addresses basic health insurance needs of insuring the public in the context of the pandemic.

04 **NASSCOM**

Keeping in mind the suggestions from NASSCOM, GoI extended the deadline for tax payments (against allowances for work from home) to 31st December, 2020.

**Impact:** FinTechs have more working capital to sustain their businesses and to channel funds wherever required.

05 **Accelerators**

Startup India has been conducting webinars, offering strategic mentorship to startups, and helping incubators go virtual. Omidyar Network India and others are calling in proposals for rapid response funding to tackle the challenges posed by COVID-19.

**Impact:** Startups now promptly receive mentorship, business continuity support, and pandemic-survival strategies through digital channels.
Policy measures introduced by the GoI and regulators to mitigate the impact of COVID-19 on FinTechs that are expected to have a net positive effect on the FinTech ecosystem (1/2)

**Policies**

SIDBI introduced the COVID-19 Startup Assistance Scheme (CSAS) to provide working capital term loan to startups whose cash-flow and liquidity were hurt by the pandemic. Eligible startups could avail loans up to INR 20 million (USD 0.27 million) for 36 months with a 12-month moratorium

RBI announced an INR-500-billion (USD 6.7 billion) special liquidity facility for mutual funds (SLF-MF)\(^1\)

The Finance Minister announced the establishment of an asset management company (AMC) to fund unlisted SMEs, with a pool of INR 100 billion (USD 1.3 billion)

**Impact**

\[ \text{Direct impact} \quad \text{Indirect impact} \quad \text{Positive impact} \quad \text{Neutral impact} \]

\[ \uparrow \quad \downarrow \quad \uparrow \quad \leftrightarrow \]

**Insights**

- Although startups expected to benefit from this policy, the strict eligibility requirements and tedious processes deterred them from applying and taking advantage of it.

- The objective of this move was to mitigate panic among savers and investors in mutual funds amid increasing market volatility by assuring them of adequate money to meet redemption pressures and to help banks to offer a smooth flow of funding. This has instilled confidence among small-time savers from the LMI segment to save and grow their money to meet exigencies during the time of COVID-19. Savings FinTechs investing in such instruments saw the net AUM increase during this period.

- This AMC will handhold unlisted SMEs to help them enlist on the stock exchange.

- Retail investors might take interest in the new AMC as the government works to provide them with income tax benefits.
Policy measures introduced by the GoI and regulators to mitigate the impact of COVID-19 on FinTechs that are expected to have a net positive effect on the FinTech ecosystem (2/2)

<table>
<thead>
<tr>
<th>Policies</th>
<th>Impact</th>
<th>Insights</th>
</tr>
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<tbody>
<tr>
<td>The GST Tax Council announced that it would halve the interest rate charged on overdue filings of small businesses till September, 2020¹</td>
<td>↑ D</td>
<td>The tax cuts have helped the startups to preserve their working capital and extend their runways by a small, yet significant duration.</td>
</tr>
<tr>
<td>The Finance Minister, while presenting the Union Budget 2021-22 made a major announcement for the insurance sector with the increase of FDI from 49% to 74%²</td>
<td>↑ D</td>
<td>This move will provide an impetus to InsurTechs. It will serve to liberalize the sector and bring in better technical know-how and innovation besides helping improve penetration.</td>
</tr>
<tr>
<td>The Finance Minister also announced a comprehensive stimulus package worth INR 2.6 trillion (USD 35.7B) and extended the ECLGS till 31st March, 2021³</td>
<td>↔ I</td>
<td>FinTechs, especially startups, are unsure how they should avail these packages. Lack of clarity about eligibility criteria, onerous documentation requirement, and long processing time make it less impactful for startups.</td>
</tr>
</tbody>
</table>

¹GST Council | ²Finance Ministry | ³PIB
Section 4: Social media sentiment analysis
To assess the response to the measures taken by policymakers and regulators toward mitigating the effects of COVID-19, we conducted sentiment analysis of public opinion on YouTube.

For this round of research, we considered YouTube reviews of relevant, popular, and authentic channels for conducting sentiment analysis. These channels were carefully picked from among several ones that address specific topics, such as government rules and regulations, capital market status, and policy implementation.

The keywords for this research were chosen using social media analytics tools, to understand which keywords generated high interest in social media users. After identifying the most prominent keywords, we scraped the comments from YouTube using our algorithm. The comments were then classified into their respective sentiments and emotions using a lexicon-based approach wherein individual words were mapped as per data provided.
Overall, India responded positively to the loan moratorium introduced by the RBI in March, 2020 and its subsequent extension; This is evident from the following insights (1/2)

### Sentiment score of YouTube comments (in %)

<table>
<thead>
<tr>
<th></th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive*</td>
<td>53</td>
<td>29</td>
</tr>
</tbody>
</table>

### Share of emotions in comments (in %)

- **Anger**: 18%
- **Anticipation**: 27%
- **Disgust**: 7%
- **Trust**: 37%
- **Sadness**: 16%
- **Joy**: 18%
- **Fear**: 20%
- **Surprise**: 11%

### A word-cloud representation of the most common words occurring in comments

- lockdown
- card
- someone
- want
- moratorium
- court
- HDFC
- amount
- lakh
- business
- minister
- personal
- people
- give
- public
- home
- can
- government
- march
- RBI
- month
- salary
- interest
- per
- money
- take
- will
- now
- months
- Axis
- Modiji
- common
- finance
- please
- time
- home
- stay
- help
- public
- can

The most common emotion was trust, followed by anticipation and fear. The multiple appeals and amendments in decision that the Supreme Court had to clear could be the possible reason for apprehension among the public.

### Breakdown of anticipation sentiment:

- **Positive**: 66%
- **Negative**: 3%
- **Both**: 31%

Most comments under the anticipation emotion have both positive and negative shades to them, with very few comments have a purely negative shade.
By clustering comments from social media channels, we see a degree of unanimity in the form of a positive opinion on the moratorium (2/2)

We conducted a network analysis on the comments collected in relation to the loan moratorium to identify the key theme and topics that people were talking about. The analysis revealed two clusters of words frequently used together for both positive and negative comments, which helped identify the key themes or topics behind public sentiments.

![Network analysis diagrams](image)

**Insights from positive clusters:**
Two clusters emerged while considering positive comments: {India-will-pay} and {give-stayed}. The second cluster includes comments that agree with the decision given by the Supreme Court.

*Example of a positive comment*

>| “Friend got loan EMI restructuring months moratorium today due email format sir got big relief” |

**Insights from negative clusters:**
Two clusters emerge while considering positive comments: {India-government-modi-give} and {will-pay}. The second cluster includes comments that talk about how the people will receive their payments.

*Example of a negative comment*

>| “Making fool Indians except false promises speeches nobody getting anything government” |

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1. The examples are verbatim comments posted by people after cleaning the data to remove words in Devanagari script.
2. Modi refers to the Prime Minister of India for the term of 2019-2024.
3. Inter and intra cluster linkages show associations between words within a cluster and outside a cluster respectively.
Section 5: Coping strategies adopted by FinTechs
FinTechs have adopted a mix-and-match of four broad coping strategies to survive and sustain their businesses amid the new normal

**Digital-first approach**
- FinTechs have increased digital interaction with customers across all customer touchpoints from onboarding them to providing customer support. FinTechs have been using online and social media channels like WhatsApp and Facebook in the absence of physical interaction.

**Strategy 1**

**Strategy 4**

**Strategy 3**

**Strategy 2**

**Product diversification**
- Customers have increasingly adopted digital platforms, including financial services platforms. This has been consistent across different customer segments from low- to high-income customers. Such platforms have opened up new opportunities for FinTechs to expand their customer reach digitally with low customer acquisition costs. At the same time, digital platforms have widened the offerings of FinTechs to encompass compatible services, such as bookkeeping with lending on their platforms. These value adds have helped increase the “customer stickiness” on their platforms.

**Building partnerships**
- Given the extended moratorium, credit FinTechs have begun partnering with payment gateways and developing APIs for loan repayment collections. These measures would reassure investors, gain investment, and increase runways.
- However, some FinTechs have had to shut down operations due to lack of capital or loss of customers.

**Lean operations**
- The pandemic helped some FinTechs gain perspective on eliminating operational redundancies through several steps. These include reducing staff, cross-skilling teams, automating processes, and re-strategizing their businesses to ensure survival over growth.

Refer to Annex 4 for details.
Section 6: Impact of COVID-19 on FinTechs
The pandemic has increased awareness around the need for financial reserves, boosting customer and investor traction for savings-based FinTechs

Despite the initial slump in overall demand and operations, the inclination toward financial security led to a surge in customer onboarding for savings FinTechs

- Some FinTechs recorded as much as a 30% increase in customers during the pandemic, with positive revenue growth as well
- Savers, especially urban Indians, started saving more frequently owing to economic uncertainties but in smaller amounts. As a result, liquid funds declined on average between Q1 FY 21 and Q2 FY 21, from INR 5.07 million (USD 0.06 million) to INR 4.2 million (USD 0.05 million) in terms of average net AUM but the AUM, in terms of absolute volume, grew by 7% during the same period. Even the total AUM as of February 2021 stands at INR 1.37 million (USD 0.018 million) with a positive growth of 8%, while average net AUM shows a decline of 22.75% over the period between July 2020 to February 2021.
- As lockdowns were lifted and the situation improved in Q3 FY 21, demand deposits held at banks surged
- Buoyed by this change in customer behavior, investments in the FinTech domain started seeing an upward trend since FY 20, in terms of funding and average ticket size at the time of reporting (refer the graph below). However, the deal count fell as investors got more selective in picking savings FinTechs to invest in.

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Saving is not common among youth**, despite FinTechs having strong youth representation in the workforce

- Based on our research, the younger generation has been looking beyond mainstream instruments, such as fixed deposits and mutual funds to invest. They prefer minimal procedure and liquid fund-flexi products that they can track digitally on FinTech apps.
- This is evidenced by the high onboarding numbers on platforms, such as Lakshya, where specific goal-based savings products have seen high traffic.
- Youth have low savings and moderate financial knowledge, which reduces their risk appetite. This renders them less than ideal targets for investment and saving FinTechs.
- In the LMI segment, youth prefer saving for specific targets like a vehicle, rather than making long-term investments.

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**youth implies those aged below 30

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Investment received by FinTechs¹ across APAC in USD billion

<table>
<thead>
<tr>
<th></th>
<th>Total Investment</th>
<th>Deal Count</th>
</tr>
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<tbody>
<tr>
<td>FY 18</td>
<td>15.44</td>
<td></td>
</tr>
<tr>
<td>FY 19</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>FY 20</td>
<td>14.2</td>
<td></td>
</tr>
<tr>
<td>Q3 FY 21</td>
<td>29.7</td>
<td></td>
</tr>
</tbody>
</table>

¹Deloitte
The change in market behavior urged savings and investment-based FinTechs to evolve their product, engage new customers, and digitalize operations.

**Key target segments**
- Gig economy workers
- White-collar segment

**Key models**
- Digital ROSCAs
- WealthTechs
- Savings-based FinTechs

**Primary drivers during COVID-19**
- Discretionary spending came to a halt
- Growing interest in financial education
- Introduction of new digital savings instruments better suited to the needs of the LMI segment

**Impact on product**
- Liquid funds and emergency funds have supplemented existing products including debt and equity mutual funds.
- With the changing customer mindset, FinTechs have started to position their savings products as highly liquid, with minimal admissible quantum.
- Based on this, products in the market have seen a positive trend toward smaller products (where customers can save as low as (INR 5 or USD 0.07) with shorter tenures (withdrawals permissible within 24 hours of deposits).

**Impact on organizational culture**
- Downsized employee numbers have become a common feature in the space, along with the preference for employees with multiple skills.
- Working remotely has become the new normal, and has not affected savings-based FinTechs significantly.
- Traditional processes by chit regulators created lags in approvals for ROSCA-based players. This has led to a shift toward digital approvals, through e-applications to make ROSCA-based lending more streamlined.

**Impact on business model**
- FinTechs have begun to digitalize their collections by utilizing the increased usage of mobile wallets and digital payment modes.
- FinTechs that deal with liquid mutual funds witnessed fewer investments but safe havens, such as bank deposits saw a rise¹ (INR 14.8 trillion or USD 200 billion) during the lockdown—this has prompted FinTechs to revise their strategy for more user engagement and market traction.
- Maintaining cash reserves has become a major focus area for most players.

The volatility in the market and regulatory bottlenecks, such as lack of e-KYCs adversely affected savings FinTechs.

Refer to Annex 5 for details | Economic Times

¹ Economic Times
Credit FinTechs faced difficulties in collection due to the moratorium, discouraging investors from investing and adding new credit FinTechs to their portfolios.

Although investors have been cautious while investing, they are willing to invest in sustainable, well-proven business models.

- Indian credit and lending FinTechs received total funding of INR 69.8 billion\(^1\) (USD 939 million) in FY 21, showing 16.5% Y-o-Y growth in terms of investment from the previous year.
- The graph demonstrates a higher amount of investment. However, it may be noted that this amount is across fewer deals. This is because well-established FinTechs\(^2\) have seen some large rounds of funding, which add to the total sum of investments.
- Generally, for smaller, newer FinTechs, 2020 has been an arduous year. However, some of these FinTechs that showed strong and sustainable business models were supported by investors and received investments with a higher average investment amount compared to the investments made for new startups in FY 20.
- Despite receiving more funding than the previous year, credit FinTechs suffered losses due to the pandemic, worsened by the moratorium. Investor interest in credit FinTechs remained strong until April, but wavered owing to the lack of borrower repayments.

"Investor sentiment is relatively neutral at this point, investors are trying still to keep away from models that are centered around lending. Even the ones who seek to invest want the startup to be well-prepared to operate efficiently with the pandemic still persisting. We will to continue to build and report back to potential investors to move conversations further”

- Anshul Khurana, Co-Founder, Entitled

---

\(^1\)Inc42 | H1 FY 21*: April-September, 2020 | \(^2\) Super apps such as Paytm are now offering credit to customers on their platform
Credit FinTechs faced a liquidity crunch until October, 2020, due to the moratorium announced by the RBI; market sentiments were also not conducive w.r.t. repayments till Q3 FY 21

Key target segments
- LMI segment
- MSMEs
- Traditional captive worker segment

Key models
- Small personal loans
- Salary advances
- Essential commodities loan
- P2P loans

Primary drivers during COVID-19
- Increasing demand for micro-credit in urban regions
- Rise in customer traction for digital lending platforms
- Individuals affected by layoffs preferring alternate lending platforms instead of banks, NBFCs, or MFIs

Impact on product
- Refinements across the UI and UX of e-commerce platforms, range of products, and buying and payment options to attract more users and remain relevant in the market.
- Customization of product offerings based on unique customer needs. The objective of this move is to increase the uptake of new products by specifically targeting low-risk customers in multiple segments.
- A drastic fall in P2P lending and salary advances owing to delinquencies and defaults have led to a proportional fall in usage for many startups in these sub-domains.

Impact on organizational culture
- Lay-offs to retain core employees and maintain working capital for essential expenditures.
- 15-20% pay-cuts introduced to prolong runway and divert funds toward immediate organizational requirements.
- Social distancing and working remotely has not hurt credit FinTechs, since the most integral parts of their business—that is credit scoring and analytics—are tech-driven.

Impact on business model
- P2P-based lending business models have suffered the most and many face closure of business.
- Adoption of an all-digital model for marketing, customer onboarding, and maintenance of services.
- Credit FinTechs are introducing new ways to prolong customer engagements. For instance, a credit FinTech we interviewed reduced its ticket size during the pandemic from INR 12,000 (USD 160) to INR 6,000 (USD 80) to continue serving its customers. This change helped it maintain 15% M-o-M portfolio growth, and limit borrower delinquency on the platform to 3%.

The overall credit market risk and falling repayment rates have hit credit FinTechs with a liquidity crunch

Refer to Annex 6 for details

All rights reserved. This document is proprietary and confidential.
With COVID-19 acting as a catalyst—the next generation of prospecting, selling, and customer experience in insurance has evolved quickly

“Our sales have picked up and are better than pre-COVID times now because of the surge in digital adoption”
- Dhyanesh Bhatt, Co-Founder and Group CEO, Gramcover

In early 2020, the prospect of hospitalization due to COVID-19, in addition to high medical costs drove more Indians to sign-up for private health insurance. This led to a 115% Y-o-Y growth in premiums collected.

This growth was followed by a spike in July ’20, as many Indians waited until the end of the grace period (that is, 31st July) to pay their premiums.

Premium collected by retail-health insurers from FY 18 up to Q3 FY 21 in USD million

At 58% CAGR since 2015, InsurTechs are likely to grow exponentially in the future. Moving beyond traditional forms of paper-based policies, InsurTechs have enabled access to multiple types of insurance, available on apps, at the press of a button, allowing for higher customer choice and awareness about insurance; as well as increasing insurance penetration3 to 3.7% in 2020. This has led to investors becoming more bullish about InsurTechs.

Investments received by Indian InsurTechs in USD million

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>112</td>
<td>306</td>
<td>141</td>
<td>640</td>
</tr>
</tbody>
</table>

Bite-sized insurance has enabled insurers to provide protection for smaller premiums and reduced coverage

- The insurance broker Gramcover reported an increase in demand with a ~2x growth in premiums paid.

- With the increasing demand for customized services and products, the industry has doubled down on “bite-sized insurance” or “sachet insurance” where insurers provide protection for smaller premiums and reduced coverage, which can be classified as per the need, time, or a specific event. For example, FinTech platforms, such as PhonePe offer COVID-19 insurance plans with rates as-low-as INR 396 (USD 5.4) per year. Similarly, Gramcover offers crop insurance plans with premium rates as low as only 1.5% of the sum insured.

1General Insurance Council | 2Medici | 3Medici InsurTech Report 2020

All rights reserved. This document is proprietary and confidential.
Insurers and InsurTechs need to be agile to use the positive changes in customer demand for insurance seen due to COVID-19

Key target segments
- Feet-on-street gig economy workers
- Agriculture

Key models
- Digital onboarding model
- Specialized direct-to-consumer products

Primary drivers during COVID-19
- Demand for COVID-specific insurance products
- Increased awareness on affordable bite-sized insurance products
- Convenience of availing insurance products via digital channels

Impact on product
- Micro-insurance\(^1\) products have become popular.
- Several InsurTechs have been expanding their product portfolio, while some have also widened their geographical presence.
- InsurTechs, through insurance companies, have developed need-based COVID-19 products.
- Embedding educational and awareness modules on to their platforms to inform existing customers about availing insurance plans to cover COVID-19-related illness expenditures.

Impact on organizational culture
- InsurTechs have seen an overall growth, which required a stronger workforce and scaled-up hiring. However, in certain geographies, declining COVID-19 cases have also led to layoffs to some extent.
- Companies undertook remote operations owing to restrictions on most field-based activities. As travel restrictions were mostly withdrawn at the time of writing, field operations have started to look more feasible.

Impact on business model
- InsurTechs have limited their physical presence while moving to digital onboarding and verification. This has helped reduce business expenses and CAC.
- FinTechs have ramped up their virtual interaction with users on platforms through chat-bots and in-app push-button solutions to reduce CAC and OPEX while increasing user LTV.
- Health insurance has seen high demand and could compensate for losses in other segments, such as motor insurance.
- Regulatory tweaks, such as digital claim settlements have allowed seamless digital operations of InsurTechs.

Insurers have re-innovated ways of engaging with a wider array of customers after IRDAI issued guidelines for all general and health insurers in the light of COVID-19

\(^{1}\text{IRDAI} | \text{Refer to Annex 7 for details} \)
While most FinTech services were hit hard by the COVID-19 pandemic, digital payments have accelerated significantly

The global pandemic has fueled the large-scale adoption of digital payments and digital commerce in India

- UPI 2.0 saw 7.8% M-o-M growth from July ’20-March ’21, with the introduction of an AutoPay feature for recurring payments
- Mobile-based payments touched 3.1 billion transactions in December ’20, reflecting a Y-o-Y growth of 43%. Relaxation in lockdown restrictions helped this growth. UPI became one of the most preferred payment modes for online and offline purchases (via QR codes) amid social distancing.
- RBI’s decision to hike the limit for contactless card transactions from INR 2,000 (USD 27.28) to INR 5,000 (USD 68.2) and the entry of several other players into the payments sector, albeit in a graded manner, is expected to further fuel growth in this sector³.

Digital payment transactions up to Dec ’20⁴ in billion

<table>
<thead>
<tr>
<th>Month</th>
<th>Apr ’20</th>
<th>May ’20</th>
<th>Jun ’20</th>
<th>Jul ’20</th>
<th>Aug ’20</th>
<th>Sep ’20</th>
<th>Oct ’20</th>
<th>Nov ’20</th>
<th>Dec ’20</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>3.03</td>
<td>3.24</td>
<td>4.09</td>
<td>4.00</td>
<td>4.33</td>
<td>4.99</td>
<td>4.91</td>
<td>5.02</td>
<td>5.41</td>
</tr>
<tr>
<td>Change</td>
<td>-1.1</td>
<td>0.2</td>
<td>0.8</td>
<td>0.1</td>
<td>0.3</td>
<td>0.6</td>
<td>0.0</td>
<td>0.1</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Transaction volume of the top-five UPI apps² in million

<table>
<thead>
<tr>
<th>Month</th>
<th>Apr ’20</th>
<th>May ’20</th>
<th>Jun ’20</th>
<th>Jul ’20</th>
<th>Aug ’20</th>
<th>Sep ’20</th>
<th>Oct ’20</th>
<th>Nov ’20</th>
<th>Dec ’20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google Pay</td>
<td>14</td>
<td>14</td>
<td>128</td>
<td>440</td>
<td>374</td>
<td>412</td>
<td>261</td>
<td>902</td>
<td></td>
</tr>
<tr>
<td>PhonePe</td>
<td>41</td>
<td>25</td>
<td>854</td>
<td>902</td>
<td>854</td>
<td>728</td>
<td>412</td>
<td>261</td>
<td></td>
</tr>
<tr>
<td>Paytm</td>
<td>25</td>
<td>100</td>
<td>854</td>
<td>902</td>
<td>854</td>
<td>728</td>
<td>412</td>
<td>261</td>
<td></td>
</tr>
</tbody>
</table>

Transactions on UPI platforms grew by 71% Y-o-Y in December 2020

- Interestingly, the top three players—Google Pay, PhonePe, and Paytm, which command over 90% market share in UPI have understandably been protesting against the cap of 30% on transaction volumes set by NPCI from 2021 onward. So, this graph might look very different around the same time in 2022!
- Person-to-merchant (P2M) payments on UPI accounted for 950.45 million transactions in December 20, showing a 10% CAGR in transaction volume. The jumpstart in the economy at the neighborhood-level has given rise in P2M digital payments

¹1.49 billion in July 2020 to 2.7 billion transactions in March 2021, as per NPCI data | ²NPCI | ³MSC analysis | ⁴Digidhan dashboard
Payment sector FinTechs anticipated a multi-fold growth in business owing to the increasing adoption of digital payments and use of digital banking services by consumers.

Key target segments
- P2P
- Offline merchants
- E-commerce

Key models
- B2B payment gateways
- B2C payment apps
- Card-based FinTechs
- MSME or Kirana-tech

Primary drivers during COVID-19
- Shift toward contactless payments to avoid cash transactions
- Adoption of multi-channel payment modes by traditional businesses
- DBTs into bank accounts resulted in increased digital activities of the LMI segment

IMPMS-based products have seen stable growth in transaction volume, that is, from 166.7 million in May to 279.61 million in September, 2020. This figure stands at 363.1 million transactions at INR 3.2 trillion (USD 43.9 billion) in March 2021. Mswipe, a PoS solution provider, reported growth of contactless payments from 13% of total transactions in January to 30% in December, 2020. Bharat Bill Payment System (BBPS), used to pay essential utility bills, saw a 37.5% increase in transactions in Q2 FY 21, compared to Q1 FY 21.

Payment companies have been hoping that the government will revisit the issue of zero MDR, as this is a disincentive to the industry.

Impact on product
- Increased focus on product experience over incentives, as payment FinTechs look to capitalize on contactless norms. This translates to a 40% reduction in the CAC.
- Growth has started showing a V-shaped recovery as digital payment transactions through UPI have bounced back. This is primarily because people have started using digital payments more for basic needs like groceries and bill payments by reducing their discretionary spending.
- FinTechs like Fino have begun levying a charge for low-value person-to-merchant (P2M) transactions.

Impact on organizational culture
- Payment FinTechs, owing to their more mature stage as compared to other subcategories of FinTechs, have not introduced layoffs or furloughs.
- However, a few firms have introduced pay cuts and deferred bonus as standard cost-cutting strategies.
- Employers have been pursuing a more holistic approach toward hiring by preferring multi-skilled candidates, seeking higher efficiency in work, and by lowering costs.
- Owing to the pandemic, many businesses have largely shifted their focus from field activities to product development and marketing.

Impact on business model
- DBTs into bank accounts resulted in increased digital activities of the LMI segment.
Section 7: Case studies
# Case study 1: Bridge2Capital

Provides short-term working capital to MSMEs through invoice financing

<table>
<thead>
<tr>
<th>Status</th>
<th>Impact of COVID-19</th>
<th>Coping strategy</th>
</tr>
</thead>
</table>
| **Active users** 1,200+ | Demand side:  
- Adverse impact on MSMEs due to poor revenues has led to lower or no demand for working capital  
- With the current phygital model, where on-boarding is done in the field, there has been no rise in new MSMEs on the platform  
- Delinquency rates have risen, while default rates have remained low  
- The retention rates on the app have been poor  
Supply side:  
- Limited lending partnerships affected the operations | **Expansion of digital means**  
Using digital marketing for customer acquisition  
Offering free book-keeping services to increase downloads and provide flow-based lending |
| **Geographies** 21 cities | | **Redesigning product construct**  
Providing customized products to adapt to new customer needs |
| **Current offering** | | **Conducting psychometric analysis of borrowers**  
Understanding borrower behavior to verify their repayment intentions |
| Bridge2Capital: Invoice financing to MSMEs through its customized credit-scoring model | | **Building new alliances and partnerships**  
Exploring possibilities with NBFCs and lenders to use existing customers and increase penetration |
| **New products in pipeline** | | |
| Bridge2Insurance  
Bridge2Gold  
Bridge2Hissab  
Bridge2Supplier | | |

### How will upcoming government policies affect Xtracap?

- **PM Svanidhi** with dynamic GST status tracking will act as an opportunity in adding new customer segments with flow-based lending facilitated for street vendors using its verifiable data.
- The law on data privacy will ensure that the customers’ data is not misused.
- Open Credit Enablement Network (OCEN) can lead to stiff competition in the market from many FinTechs.
Case study 2: Entitled
A financial wellness platform for blue-collar workers in India

**Status**

1. **Total Revenue**
   - USD 8,700

2. **User requests received**
   - 7,000+

3. **Monthly burn rate**
   - USD 4,000

4. **Runway (months)**
   - 4 as of December, 2020

5. **Number of staff**
   - 6

**Coping strategy**

1. **Utilizing user data**
   - Using data schematics to provide focused solutions

2. **Engaging digitally**
   - Moving customers from WhatsApp to Entitled’s app to increase user engagement in real-time

3. **Widening product construct**
   - Increasing the number of products on the platform to engage with a wider user segment

**Impact of COVID-19**

- **Human resources**
  - No change in team numbers over the pandemic period

- **Investors**
  - Building on the positive response from investors

- **Customer growth**
  - 32% Month on month from July-December 2020

- **Product usage**
  - 65:35 Credit/Savings/Health Products being used on the platform

- **Gross Merchandise Value**
  - USD 152K GMV over July-December 2020

- **Youth orientation**
  - 100% Employees below 30 years of age

**How has Entitled been rebuilding and recovering from the pandemic?**

- **Rebuilding focus**: App-based lending to the blue-collar employee segment
- **Expected recovery time**: Mid-2021
- **Technical support for recovery**: Data analytics, user behavior mapping
- **Support from the FI Lab**: Building connection in the FinTech ecosystem, tracking dynamic changes to help Entitled adapt to the new context, and recommending coping strategies and market strategies

**What policies should the government introduce?**

The government should clarify stimulus packages and other important information to dispel uncertainty in the market.
Section 8: Annexes
### Annex 1: Abbreviations used in the report (1/2)

<table>
<thead>
<tr>
<th>Full forms</th>
<th>Full forms</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMC</td>
<td>Asset management company</td>
</tr>
<tr>
<td>APAC</td>
<td>Asia Pacific</td>
</tr>
<tr>
<td>API</td>
<td>Application programming interface</td>
</tr>
<tr>
<td>App</td>
<td>Application</td>
</tr>
<tr>
<td>AUM</td>
<td>Asset under management</td>
</tr>
<tr>
<td>B</td>
<td>Billion</td>
</tr>
<tr>
<td>B2B</td>
<td>Business to business</td>
</tr>
<tr>
<td>B2C</td>
<td>Business to customer</td>
</tr>
<tr>
<td>BBPS</td>
<td>Bharat Bill Payment System</td>
</tr>
<tr>
<td>BHIM</td>
<td>Bharat Interface for Money</td>
</tr>
<tr>
<td>CAC</td>
<td>Customer acquisition cost</td>
</tr>
<tr>
<td>CAGR</td>
<td>Compound annual growth rate</td>
</tr>
<tr>
<td>CBIC</td>
<td>Central Board of Indirect Taxes and Customs</td>
</tr>
<tr>
<td>CII</td>
<td>Confederation of Indian Industry</td>
</tr>
<tr>
<td>CIIE</td>
<td>Centre for Innovation Incubation &amp; Entrepreneurship</td>
</tr>
<tr>
<td>CMGR</td>
<td>Compound monthly growth rate</td>
</tr>
<tr>
<td>COVID-19</td>
<td>Coronavirus outbreak (2020)</td>
</tr>
<tr>
<td>CSAS</td>
<td>COVID-19 Startup Assistance Scheme</td>
</tr>
<tr>
<td>ECLGS</td>
<td>Emergency Credit Line Guarantee Scheme</td>
</tr>
</tbody>
</table>
# Annex 1: Abbreviations used in the report (2/2)

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTV</td>
<td>Lifetime value</td>
<td>QR</td>
<td>Quick response</td>
</tr>
<tr>
<td>M</td>
<td>Million</td>
<td>RBI</td>
<td>Reserve Bank of India</td>
</tr>
<tr>
<td>MF</td>
<td>Mutual fund</td>
<td>ROSCA</td>
<td>Rotating savings and credit association</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance institution</td>
<td>SaaS</td>
<td>Software as a service</td>
</tr>
<tr>
<td>M-o-M</td>
<td>Month on month</td>
<td>SBI</td>
<td>State Bank of India</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro small and medium enterprises</td>
<td>SEBI</td>
<td>Securities and Exchange Board of India</td>
</tr>
<tr>
<td>NASSCOM</td>
<td>National Association of Software and Service Companies</td>
<td>SLF</td>
<td>Special liquidity facility</td>
</tr>
<tr>
<td>NBFC</td>
<td>Non-banking financial company</td>
<td>SME</td>
<td>Small and medium enterprise</td>
</tr>
<tr>
<td>NCR</td>
<td>National Capital Region</td>
<td>TAT</td>
<td>Turnaround time</td>
</tr>
<tr>
<td>NLP</td>
<td>Natural language processing</td>
<td>UI</td>
<td>User interface</td>
</tr>
<tr>
<td>NPCI</td>
<td>National Payments Corporation of India</td>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>OCEN</td>
<td>Open Credit Enablement Network</td>
<td>UPI</td>
<td>Unified Payments Interface</td>
</tr>
<tr>
<td>OPEX</td>
<td>Operational expense</td>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>P2M</td>
<td>Person to merchant</td>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>P2P</td>
<td>Person to person</td>
<td>UX</td>
<td>User experience</td>
</tr>
<tr>
<td>PE</td>
<td>Private equity</td>
<td>VC</td>
<td>Venture Capitalist</td>
</tr>
<tr>
<td>PM</td>
<td>Prime Minister</td>
<td>Y-o-Y</td>
<td>Year on year</td>
</tr>
<tr>
<td>PoS</td>
<td>Point of sale</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annex 2: Overview of sub-categories of FinTechs we have been tracking

Savings
Savings FinTechs have tapped into the demand for alternate and flexible investment avenues by offering mutual funds, bank-based saving products, and digitalizing ROSCAs.

Payment or enabler
The largest sub-category of FinTechs also includes two unicorns—startups with a valuation of USD 1 billion or above. These FinTechs largely offer services, such as P2P, e-commerce, merchants and bill-payment services, blockchain-enabled ROSCA, and BCNMs, etc.

Credit or lending
Credit or lending FinTechs in India cater to the customer segments financially underserved by traditional lenders, largely via unsecured retail credit and working capital loans for MSMEs.

InsurTech
InsurTechs offer tailor-made, do-it-yourself, and bite-sized insurance policies to customers through partnerships with insurance manufacturers.
Annex 3: Comparison of business indicators across different economies and correlation matrix for various FinTech parameters, based on World Bank data (1/2)

<table>
<thead>
<tr>
<th>Correlation between various FinTech-related parameters¹, *</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Startup procedures to register a business: number</td>
<td>0.36</td>
<td>0.73</td>
<td>-0.31</td>
<td>0.04</td>
<td>0.07</td>
<td>0.11</td>
<td>0.42</td>
<td>-0.45</td>
<td>-0.63</td>
<td>0.75</td>
<td>0.40</td>
<td>-0.71</td>
</tr>
<tr>
<td>Value added services: % of GDP</td>
<td>0.42</td>
<td>0.80</td>
<td>-0.37</td>
<td>0.09</td>
<td>0.03</td>
<td>0.04</td>
<td>0.42</td>
<td>0.49</td>
<td>0.42</td>
<td>0.27</td>
<td>1, * ≥70% - &lt;80% correlation</td>
<td></td>
</tr>
<tr>
<td>GDP deflator annual %</td>
<td>0.42</td>
<td>0.80</td>
<td>-0.37</td>
<td>0.09</td>
<td>0.03</td>
<td>0.04</td>
<td>0.42</td>
<td>0.49</td>
<td>0.42</td>
<td>0.27</td>
<td>1, * ≥70% - &lt;80% correlation</td>
<td></td>
</tr>
<tr>
<td>Starting a business: income per capita (USD)</td>
<td>0.07</td>
<td>0.13</td>
<td>-0.62</td>
<td>0.52</td>
<td>0.12</td>
<td>0.51</td>
<td>0.01</td>
<td>0.33</td>
<td>0.01</td>
<td>0.67</td>
<td>0.07</td>
<td>0.13</td>
</tr>
<tr>
<td>Gross savings: % of GDP</td>
<td>0.93</td>
<td>0.81</td>
<td>-0.96</td>
<td>0.07</td>
<td>0.09</td>
<td>0.92</td>
<td>0.58</td>
<td>0.72</td>
<td>0.35</td>
<td>0.76</td>
<td>1, * ≥90% - &lt;100% correlation</td>
<td></td>
</tr>
<tr>
<td>Trade % of GDP</td>
<td>-0.19</td>
<td>-0.30</td>
<td>0.28</td>
<td>0.95</td>
<td>-0.56</td>
<td>-0.18</td>
<td>0.93</td>
<td>0.25</td>
<td>-0.27</td>
<td>0.07</td>
<td>0.10</td>
<td>-0.21</td>
</tr>
<tr>
<td>Starting a business (cost): income per capita (USD)</td>
<td>-0.05</td>
<td>-0.60</td>
<td>0.50</td>
<td>-0.05</td>
<td>0.03</td>
<td>-0.66</td>
<td>-0.30</td>
<td>-0.55</td>
<td>-0.36</td>
<td>-0.46</td>
<td>-0.74</td>
<td>0.03</td>
</tr>
<tr>
<td>Starting a business: time</td>
<td>0.83</td>
<td>0.48</td>
<td>-0.76</td>
<td>0.08</td>
<td>-0.10</td>
<td>0.83</td>
<td>-0.11</td>
<td>0.63</td>
<td>0.29</td>
<td>0.53</td>
<td>0.79</td>
<td>-0.62</td>
</tr>
<tr>
<td>Paying taxes: profit tax (% of profits)</td>
<td>0.29</td>
<td>0.76</td>
<td>-0.20</td>
<td>0.41</td>
<td>0.82</td>
<td>0.31</td>
<td>-0.63</td>
<td>-0.24</td>
<td>0.75</td>
<td>-0.31</td>
<td>0.13</td>
<td>-0.34</td>
</tr>
<tr>
<td>Paying taxes: time (hours per year)</td>
<td>-0.01</td>
<td>-0.52</td>
<td>0.71</td>
<td>0.53</td>
<td>-0.25</td>
<td>-0.57</td>
<td>0.60</td>
<td>-0.22</td>
<td>-0.39</td>
<td>-0.44</td>
<td>-0.63</td>
<td>0.25</td>
</tr>
</tbody>
</table>

- This matrix represents a correlation between several parameters
- These aspects help us analyze the convenience of establishing and operating a business in India.
- One can select the relevant parameter(s) for evaluation, while starting their business and determine the interdependent factors they need to consider.
- Once applied together, we may observe a positive or negative correlation, indicating a strong relationship between any particular two aspects, or no/weak relationship between aspects, respectively. The higher the absolute score, the higher is the dependency of the two parameters.
- For example: The time required to start a business is significantly (about 79%) dependent on gross savings.

¹MSC analysis
*Parameters with a correlation of at least 70 percent or more have been considered for our analysis
Annex 3: Comparison of business indicators across different economies and correlation matrix for various FinTech parameters, based on World Bank data (2/2)

Component indicators to start a business across different economies

<table>
<thead>
<tr>
<th>Country</th>
<th>Average of starting a business: Time (days)</th>
<th>Average of paying taxes: Time (hours per year)</th>
<th>Average of paying taxes: Profit tax (percentage of profits)</th>
<th>Average of starting a business: Cost (percentage of income per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>19.5</td>
<td>435</td>
<td>31.1</td>
<td>8.7</td>
</tr>
<tr>
<td>China</td>
<td>8.55</td>
<td>138</td>
<td>6.3</td>
<td>1.1</td>
</tr>
<tr>
<td>India</td>
<td>17.47</td>
<td>251.88</td>
<td>21.6</td>
<td>7.2</td>
</tr>
<tr>
<td>Israel</td>
<td>11</td>
<td>234</td>
<td>18</td>
<td>2.7</td>
</tr>
<tr>
<td>Japan</td>
<td>11.15</td>
<td>128.5</td>
<td>23.9</td>
<td>7.5</td>
</tr>
<tr>
<td>UK</td>
<td>4.5</td>
<td>114</td>
<td>16.6</td>
<td>1</td>
</tr>
<tr>
<td>USA</td>
<td>4.2</td>
<td>175</td>
<td>20.7</td>
<td>1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>16</td>
<td>384</td>
<td>13.2</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Comparison of average cost of starting a business (percentage of income per capita)

<table>
<thead>
<tr>
<th>Country</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>15</td>
<td>14.4</td>
<td>7.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7.1</td>
<td>7.2</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Back  
1The World Bank - Doing business
Annex 4: FinTechs have devised various coping mechanisms in response to the pandemic, which have evolved since our last report (1/2)

**Redesigned products**
- FinTechs have rolled out new products and services based on the current context.
- The focus is to engage more customers, from a wider range of segments with products built to address diverse needs.
- Credit FinTechs have narrowed their scope for lending, and prefer customers able to shake off the impact of the pandemic.
- InsurTechs have rolled out COVID-19 insurance products while also creating products for customers to protect their businesses.

**Extending runway**
- FinTechs have slashed their burn rates by as much as half.
- Customer reward programs and offers, such as cashbacks are being offered more frequently.
- Some FinTechs have reduced salaries by up to 50%, deferred increments, and canceled bonuses.
- Marketing expenses have declined with an increased focus on digital marketing through social media platforms.
- Some FinTechs have roped in NBFCs to meet working capital requirements.

**Streamlining operations**
- FinTechs have digitized their on-boarding and integration processes, while also connecting with prospective and existing users through social media channels.
- They have started to use digital APIs and links to facilitate customer maintenance and other processes that otherwise required physical touch.
- FinTechs have shown a preference for a reinforced focus on profitability and steady scale up rather than cash-burn-induced hyper scale up.
- Staff with multiple skills are preferred to maintain smaller workforces.

**Pandemic work model**
- FinTechs have adapted to working remotely while maintaining the efficiency and quality of operations.
- Technology teams at FinTechs have grown, with a higher focus on digitalization of back-end processes.
- Gradual movements are being made toward automating workflows to reduce expenditure on personnel.
- FinTechs have networked through enablers and accelerators to use trends to their advantage by using common knowledge from the ecosystem.
Annex 4: FinTechs have devised various coping mechanisms in response to the pandemic, which have evolved since our last report (2/2)

<table>
<thead>
<tr>
<th>Humanizing engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>FinTechs have displayed a shared sentiment of care and understanding toward customer needs, owing to the impact of the pandemic.</td>
</tr>
<tr>
<td>Field-based employees have been insured through COVID-19 related policies and received advance salaries.</td>
</tr>
<tr>
<td>Some FinTechs have rolled out essential services for customers, beyond their regular product construct, to aid customers in need.</td>
</tr>
<tr>
<td>FinTechs have increased the number of customer interaction points to ensure customer support and maintain the buzz around the respective startup.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Restructuring work norms</th>
</tr>
</thead>
<tbody>
<tr>
<td>FinTechs have been evolving the way they conduct their business in terms of engagement strategies, technology application, and user execution. An InsurTech that we interviewed has actively used a combination of WhatsApp and payment links instead of physical POS devices.</td>
</tr>
<tr>
<td>FinTechs have also adopted open communication policies with customers about incumbent increases in TAT, owing to the lag from larger upstream players, such as KRAs and banks.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New target customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit FinTechs have begun to show an affinity for borrowers employed in the essential services category as preferred customers within the LMI segment.</td>
</tr>
<tr>
<td>Enablers and skilling FinTechs have found a large number of new customers, with an increased focus on online learning.</td>
</tr>
<tr>
<td>EdTechs have begun collaborating with platforms and virtual service providers to reach a previously untapped segment of young users under 25 years of age.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Innovation for future</th>
</tr>
</thead>
<tbody>
<tr>
<td>FinTechs have analyzed pandemic demand trends and created pivot products in the health, agriculture, education, e-commerce, and logistics sectors.</td>
</tr>
<tr>
<td>Most FinTechs have begun executing pandemic-learned strategies to enter their preferred market segments in 2021 with purpose.</td>
</tr>
<tr>
<td>InsurTech players have been tailoring need-based COVID-19 insurance products that adequately cover quarantine and detection event triggers.</td>
</tr>
<tr>
<td>Super apps like PhonePe and Paytm have begun selling insurance on their platforms.</td>
</tr>
</tbody>
</table>
### Annex 5: Data on the impact of COVID-19 on savings startups

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Sub parameters</th>
<th>During COVID-19 (phase 1)</th>
<th>Post first lockdown (phase 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product offerings</strong></td>
<td>Types and number of products</td>
<td>Most startups have one major product, ranging from ROSCA-based to MF-based savings</td>
<td>Most startups have been seeking to diversify their products and expand their portfolio</td>
</tr>
<tr>
<td></td>
<td>Product composition</td>
<td>Debt liquid mutual funds</td>
<td>Customized saving plans based on user requirement</td>
</tr>
<tr>
<td><strong>Customer retention and on-boarding</strong></td>
<td>Number of customers</td>
<td>1,600 to 27,000 active users. -0% M-o-M growth. Onboarding new users has taken a hit with AMCs and registrars, who could not continue KYC and other operations seamlessly. Customer onboarding has been digitalized completely</td>
<td>-40,000-13,00,000. 15-20% M-o-M growth. Though customer onboarding has been completely digitized in many cases, frequent changes in policies and KYC reforms make the customer acquisition process difficult. Awareness around and usage of savings products reflects a stronger desire toward saving and financial planning</td>
</tr>
<tr>
<td></td>
<td>Percentage change in marketing spend</td>
<td>Nil</td>
<td>All marketing strategies are being limited to BTL only</td>
</tr>
<tr>
<td></td>
<td>Demand-side behavior</td>
<td>AUM has not increased. Redemptions have increased from customers whose livelihoods have been affected</td>
<td>Redemptions have been gradually decreasing as compared to the first phase</td>
</tr>
<tr>
<td><strong>Revenues and expenses</strong></td>
<td>Revenue per month/ x percentage change in AUM</td>
<td>~USD 390</td>
<td>~USD 6,000 - USD 42,000 The AUM has increased slightly for those who had tweaked their product-offering strategies</td>
</tr>
<tr>
<td></td>
<td>Burn rate</td>
<td>Brought down by ~25%</td>
<td>Brought down by ~40%</td>
</tr>
<tr>
<td><strong>Business model</strong></td>
<td>Focus on unit economics</td>
<td>Focus on conserving cash in the short run, which has also inspired to loop in NBFCs for working capital</td>
<td>Experimenting with various business models while ensuring sufficient cash reserves</td>
</tr>
<tr>
<td></td>
<td>Impact on the model</td>
<td>While MF-based FinTechs have not been affected drastically, ROSCAs have stopped making groups since the regulatory approval is not digitally ready</td>
<td>MF-based FinTechs have started to see the path to recovery, while ROSCAs have been resetting to get up to speed</td>
</tr>
<tr>
<td><strong>Organizational culture</strong></td>
<td>Number of employees</td>
<td>-10</td>
<td>- 8-22</td>
</tr>
<tr>
<td></td>
<td>X percentage average pay cut</td>
<td>Founders have stopped drawing salary</td>
<td>The workforce has been downsized slightly. Employers have been seeking to hire multi-skilled personnel</td>
</tr>
</tbody>
</table>
## Annex 6: Data on the impact of COVID-19 on lending or credit startups

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Sub parameters</th>
<th>During COVID-19 (phase 1)</th>
<th>Post first lockdown (phase 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product offerings</strong></td>
<td>Types and number of products</td>
<td>Modified P2P lending to targeted segments employed in essential services</td>
<td>P2P lending startups across the country are severely affected, where some have already shut operations. Startups are pivoting to add insurance, digital gold loan, and other similar products to their portfolio</td>
</tr>
<tr>
<td></td>
<td>Total loan portfolio</td>
<td>~ USD 2.08 million</td>
<td>Credible data yet to be available</td>
</tr>
<tr>
<td><strong>Customer retention and on-boarding</strong></td>
<td>Number of customers</td>
<td>~75,000</td>
<td>~11,000-75,000</td>
</tr>
<tr>
<td></td>
<td>Rate of M-o-M portfolio growth</td>
<td>~0%</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>Demand-side behavior</td>
<td>New borrowers are not keen while existing borrowers have been delaying repayments because of the lack of predictability in future economic activities. Repayment bounce = 25% of the total customers</td>
<td>Slow recovery of the loan amount as a huge chunk of borrowers lost employment and many were compelled to take pay cuts.</td>
</tr>
<tr>
<td><strong>Revenues and expenses</strong></td>
<td>Revenue per month</td>
<td>USD 1,300</td>
<td>USD 1,100</td>
</tr>
<tr>
<td></td>
<td>Burn rate</td>
<td>USD 26,000</td>
<td>USD 2,700</td>
</tr>
<tr>
<td></td>
<td>Business model</td>
<td>New disbursals have been halted to conserve cash: Collections have increased 2.5x, whereas lenders have been holding on to their cash, resulting in a crunch in cash flow</td>
<td>The usual ticket size of the loan amount has been decreased for wider adoption of the product, with delayed payment periods to support customer repayment</td>
</tr>
<tr>
<td><strong>Organizational culture</strong></td>
<td>Number of employees</td>
<td>~50</td>
<td>~8-22</td>
</tr>
<tr>
<td></td>
<td>X percentage average pay cut</td>
<td>Planning to introduce pay cuts</td>
<td>-36% reduction in workforce</td>
</tr>
</tbody>
</table>
### Annex 7: Data on the impact of COVID-19 on InsurTech startups

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Sub parameters</th>
<th>During COVID-19 (phase 1)</th>
<th>Post first lockdown (phase 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product offerings</strong></td>
<td>Types and number of products</td>
<td>Explored group insurance against COVID-19 for corporate employees or other points of aggregation</td>
<td>Expand geographical presence while increasing product portfolio</td>
</tr>
<tr>
<td></td>
<td>Third-party products</td>
<td>Rural cross-selling business has completely stopped because of lockdown and social distancing norms</td>
<td>Seeking to diversify revenue sources</td>
</tr>
<tr>
<td><strong>Customer retention and on-boarding</strong></td>
<td>Number of customers</td>
<td>~800,000</td>
<td>~1.35 M</td>
</tr>
<tr>
<td></td>
<td>Demand-side behavior</td>
<td>A marked increase in awareness but the uptick in adoption will depend on whether the LMI segment prioritizes insurance over livelihood and debt repayment</td>
<td>As insurance adoption has seen a steep rise, more customers are getting on board</td>
</tr>
<tr>
<td></td>
<td>Claim settlement ratio</td>
<td>Unaffected with no drop in TAT</td>
<td>~98-100%</td>
</tr>
<tr>
<td><strong>Revenues and expenses</strong></td>
<td>Policies per month</td>
<td>~0</td>
<td>~180-80,000</td>
</tr>
<tr>
<td></td>
<td>Burn rate</td>
<td>USD 10,000 - USD 19,000</td>
<td>USD 6,000 - USD 60,000</td>
</tr>
<tr>
<td><strong>Business model</strong></td>
<td>Impact on the model</td>
<td>Points of sales (POSs) have been shut with non-crop businesses close to zero. Claims settlement is largely unaffected since the Rabi season is over.</td>
<td>Business has not been affected much but hospital admissions and claims have dipped by 30-45%</td>
</tr>
<tr>
<td></td>
<td>Impact on processes</td>
<td>IRDAI has allowed claim settlement without wet signatures, thus making it digital</td>
<td>Process digitization for claim settlement has saved significant time and cost</td>
</tr>
<tr>
<td><strong>Organizational culture</strong></td>
<td>Number of employees</td>
<td>20-42 (no impact)</td>
<td>~21-35</td>
</tr>
<tr>
<td></td>
<td>X percentage average pay cut</td>
<td>30-100%</td>
<td>Some have trimmed their workforce up to 50%, while some have increased the total workforce by ~52%</td>
</tr>
</tbody>
</table>

---
CIIE.CO is the Innovation Continuum that backs fearless entrepreneurs building disruptive solutions in consequential sectors

<table>
<thead>
<tr>
<th>THE INNOVATION CONTINUUM</th>
<th>INCUBATION</th>
<th>ACCELERATION</th>
<th>INVESTMENTS</th>
<th>INSIGHTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing incubation, infra, mentoring and support to best local ventures.</td>
<td>Providing catalytic capital (grant, debt, equity) and acceleration to the best disruptors in India.</td>
<td>Providing early-stage financing to disruptive ventures.</td>
<td>Analysing trends, translating data into actionable research, creating intelligent business frameworks.</td>
<td></td>
</tr>
</tbody>
</table>

**Building the Ecosystem**

<table>
<thead>
<tr>
<th>OUR WORK IN NUMBERS</th>
<th>1MN+ Inspired THROUGH OUR PUBLICATIONS LIKE STAY HUNGRY STAY FOOLISH</th>
<th>1000+ Accelerated THROUGH OUR PROGRAMS</th>
<th>5000+ Mentored BY OUR MENTORING NETWORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUCCESS STORIES</td>
<td>200+ Equity Investments 300+ Grants THROUGH OUR PROPRIETARY POOLS OF CAPITAL</td>
<td>30+ Profitable Exits TILL DATE ACROSS OUR INVESTMENTS</td>
<td></td>
</tr>
</tbody>
</table>

**SUCCESS STORIES**

- **Razorpay**
  - Started its journey at Startup Oasis. Is a unicorn now.
  - CIIE.CO was a seed investor. Acquired by Ola.

- **Forus**
  - Seed-funded by CIIE.CO. AI partnership with Microsoft and Google for eyecare.
  - CIIE.CO was the first investor. Acquired by US-based PE Turn/River Capital.

- **MUCHE**
  - Started its journey at CIIE.CO. Acquired by Flipkart.
  - CIIE.CO first investor. Backed by leading financial and strategic investors.

- **GNIKUL**
  - Backed by CIIE.CO, first private space-tech company to partner with ISRO.

- **CIIE.CO**
  - CIIE.CO was first institutional investor, world’s leading Emotion AI company.

**Fintech**

**Mobility**

**Energy**

**Mobility**

**Fintech**

**Med-tech**

**Med-tech**

**Gaming**

**Drones**

**Space-tech**

**Enterprise**

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International financial, social & economic inclusion consulting firm with 20+ years of experience

180+ staff in 11 offices around the world

Projects in ~65 developing countries

Our impact so far

550+ clients

Assisted development of digital G2P services used by 875 million+ people

Developed 275+ FI products and channels now used by 55 million+ people

>925 publications

Implemented >875 DFS projects

Trained 9,900+ leading FI specialists globally

Some of our partners and clients