chiratae VENTURES | The Digital Fifth

UNLOCKING INDIAN ENTERPRISE FINTECH MARKET

Sudhir Sethi
Founder and Chairman
Chiratae Ventures

Foreword

The digital revolution of Financial Services in India began with the transformation of the population-scale retail opportunity. While Payments systems in the country evolved as a linear function from cash to cards to net banking, the transformation to UPI-based payments was more rapid and widespread. As of Dec 2023, UPI-led payments touched 12 Bn in volume and over Rs. 18 Trillion in value. On top of a massive base, this was a 54% YoY growth in volume and a 42% growth in value.

While Payments was the first bastion to be impacted by digitalization in Financial Services, Credit for the retail segment followed soon after. Fintech startups have spearheaded this innovation by leveraging consumers' digital footprints to enable credit for the previously under/unserved segments. As the retail Fintech industry gained ground, bolstered by significant interest from the investor community, the Enterprise Fintech space also evolved at a rapid pace.

Enterprises, such as banks, insurance companies and asset managers, by the very nature of their scale and complexities, took a measured approach to evaluating and adopting digital solutions. The initial focus was on upgrading front-end customer-facing interfaces, while the middleware and back-end systems remained less impacted. However, the onslaught of digital adoption and positive transformations resulting from partnering with Enterprise Fintechs have propelled the need for digitalization of core and complex internal systems. Stringent oversight by the regulators is further strengthening the shift towards robust technology primed for driving scale. Incipient transformations are on the way in CBS, Switches, and the like for banking, underwriting and digital loan processing for credit, distribution and servicing of insurance, as well as sophisticated and customized wealth management suites for the asset management industry.

Regulators have been torchbearers of technology-led innovation, from providing gentle nudges to spearheading digital initiatives such as the launch of CBDC and UPI lite. This innovation is expected to achieve scale rapidly by leveraging the transformative Digital Public Infrastructure such as the India Stack and ONDC. We expect that these Enterprise Fintechs will not only be capital efficient but also be geography agnostic and achieve success internationally.

We at Chiratae Ventures are big believers in innovation through digitalization and the massive opportunity that it represents for Enterprise Fintechs. Looking ahead, we are very excited about investing in and supporting Fintechs in upgrading the traditional technology stacks of the industry and partnering with Founders who will lead this bastion of change.

Sameer Singh Jaini
Founder and CEO
The Digital Fifth

Foreword

Fintechs are the game-changers that are revolutionizing the BFSI sector by introducing agile processes, flexible products, world-class customer service, enhanced customer interactions, accelerated time to market, and efficient multi-tier distribution systems. No other industry can match the level of innovation and disruption that fintechs have brought to the table.

India's Fintech sector has experienced an unprecedented surge in funding, with a staggering $19 billion raised over the past five years. The key drivers of this growth can be attributed to several core factors. These include robust Digital Public Infrastructure, which comprises India Stack, GST, TReDS, and GeM; regulatory support through initiatives like Digital Lending, PA & PG, KYC, and Co-lending Guidelines; innovative NPCI products, and Government initiatives such as Jan-Dhan, ONDC, and Bima Sugam. Additionally, the data governance frameworks, including the Digital Personal Data Protection Act (DPDP), Data Empowerment and Protection Architecture (DEPA), and Open Government Data, have been pivotal in driving this growth.

The industry has predominantly focused on the success stories of B2C Fintechs that have achieved unicorn status and gone public. However, the equally impressive tale of Enterprise Fintechs has been largely overlooked. Enterprise Fintechs comprise both front-end and back-end technology platforms enabling the BFSI sector. They streamline operations, improve customer engagement, automate workflows and enhance efficiency for enterprises/banks/NBFCs.

The present report aims to delve into the current state of Enterprise fintech platforms, identify growth catalysts, address pain points, propose innovative solutions, chart a future roadmap, and examine funding opportunities. This report serves as a comprehensive guide for individuals seeking to contribute to India's Enterprise Fintech narrative. It caters to a broad spectrum of stakeholders, including investors, entrepreneurs, industry leaders, technology providers, and technology adopters.

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Chiratae Ventures: A scaled home-grown venture firm

Chiratae Ventures is a 17-year old Indian technology venture capital fund advisor, having advised funds that collectively (across six funds) have $1.18 Bn AUM, 130+ investments, 50 exits, 9 Unicorns, 3 IPOs and a track record of having returned capital to LPs in each of the last 12 years. The funds advised by Chiratae Ventures have investments across sectors such as FinTech, ConsumerTech, SaaS, and HealthTech and have been early backers of companies such as Bizongo, Fibe, FirstCry, Flipkart, Lenskart, Myntra, Pixis, PolicyBazaar and Uniphore, amongst many others.

BACKING THE AUDACIOUS ENTREPRENEUR

SELECT PORTFOLIO

AgroStar, Bizongo, cure.fit, Curefoods, firstcry, Flipkart, GlobalBees, HealthifyMe, HealthPlix, Hevo, lenskart, Myntra, manthan, newgen, Pixis, PlaySimple, redcliffe lifetech, uniphore, yatra

SELECT FINTECH PORTFOLIO

Active.Ai, bonushub, Chainflux, ClaimBuddy, Fibe, CreditMantri, GetVantage, Kristal, policybazaar, ShopSe, Vayana

About The Digital Fifth

The Digital Fifth is Asia's 1st Fintech & Digital Finance Consulting & Advisory firm.

The fintech space is evolving rapidly, and we are committed to empowering this growth as active enablers within the ecosystem.

We offer Digital Finance consulting, catering our solutions to the BFSI segments such as Banks, NBFCs, Fintechs, Wealthtechs, Regtechs, and Insurance organizations. We have a practitioner's approach to solve our customer's challenges backed by our deep experience in building and scaling digital businesses.

BHARAT FINTECH SUMMIT

Organiser of Bharat Fintech Summit, one of the largest & most influential Fintech event in India.

1st in India to provide practical and pioneering training programs in Fintech and Digital Finance.

Amongst the Largest Player in Asia

Advisory Services

- Benchmarking services for digital maturity models and platforms.
- Digital strategy and roadmap development for Financial Institutions.
- Designing digital journeys for Financial products.
- Program management to drive digital transformation initiatives.
- Developing Neo Bank/Digital Bank Strategies
- API management and technology consulting services for seamless integration.
- Advisory services for embedded finance, including business building and go-to-market strategies.
- Technology architecture and CTO consulting services for informed decision-making

Digital Research & Content Management

The goal is to equip clients for effective decision-making.

- Specialization in detailed market segmentation
- Expertise in staying ahead with advanced technology research
- Continuous monitoring of emerging tech trends
- Utilization of research findings for strategic planning
- Ensuring that market revitalization contributes positively to your brand's visibility and influence
- Focusing on content generation to captivate the target audience
- Providing support in forming and nurturing business partnerships

CORE APPROACH

EVALUATE | EXPLORE | ENVISION

Technical Due Diligence

- Assessment of the technology stack and SWOT analysis.
- Identifying and addressing potential technology pitfalls.
- Analysing the performance, scalability, security and future potential of technology assets and overall business.
- Technical Architecture Review & Design

Security & Compliance Services

- Development of information and cyber security policy framework
- Technology risk management service
- Technical governance and compliance
- Compliance Advisory on Data privacy & Protection Services

Table of Contents

INTRODUCTION & DEFINITION

This report aims to unlock the massive opportunity that Fintechs are expected to tap into in the Enterprise and B2B segments (SME Lending and SME Neobanking)

ENTERPRISE FINTECHS

Banking | Lending | Payments
Regtech | Wealthtech | Insurtech

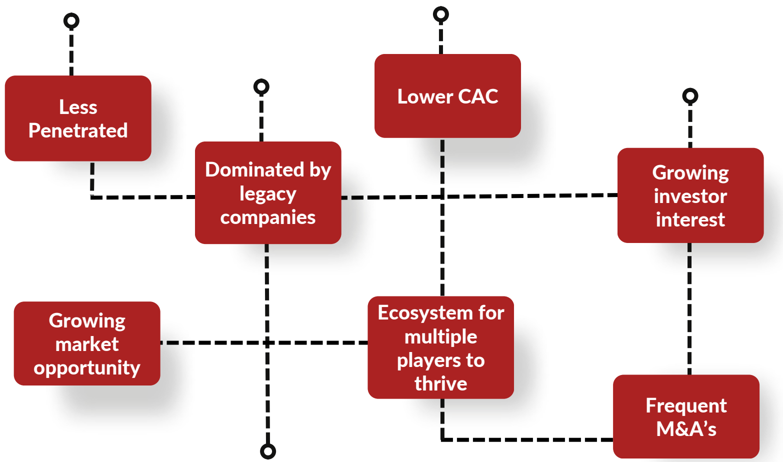
+

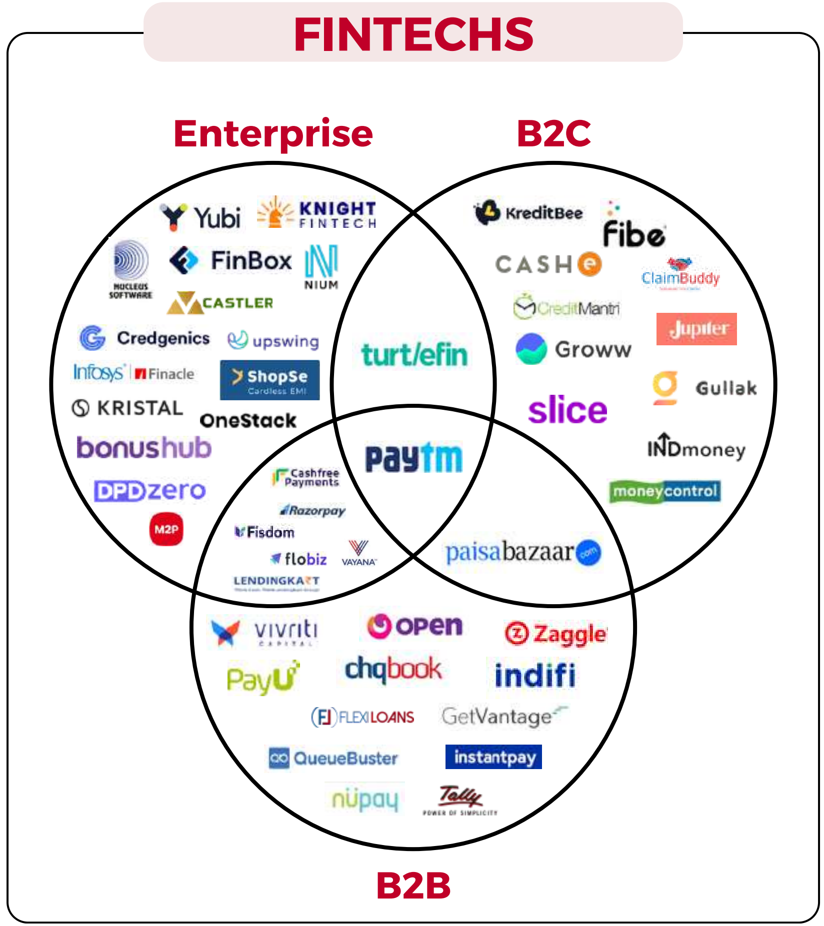
SME Lending | SME Neobanking

Enterprise Fintechs comprise both front-end and back-end software systems across the BFSI sector. They streamline operations, improve customer engagement, automate workflows and enhance efficiency for enterprises/banks/NBFC etc

SME Neobanks are Fintechs that utilize open banking infrastructure to provide banking services to SMEs. Likewise, SME Lending players provide credit services to SMEs.

UNIQUE OPPORTUNITY PRESENTED





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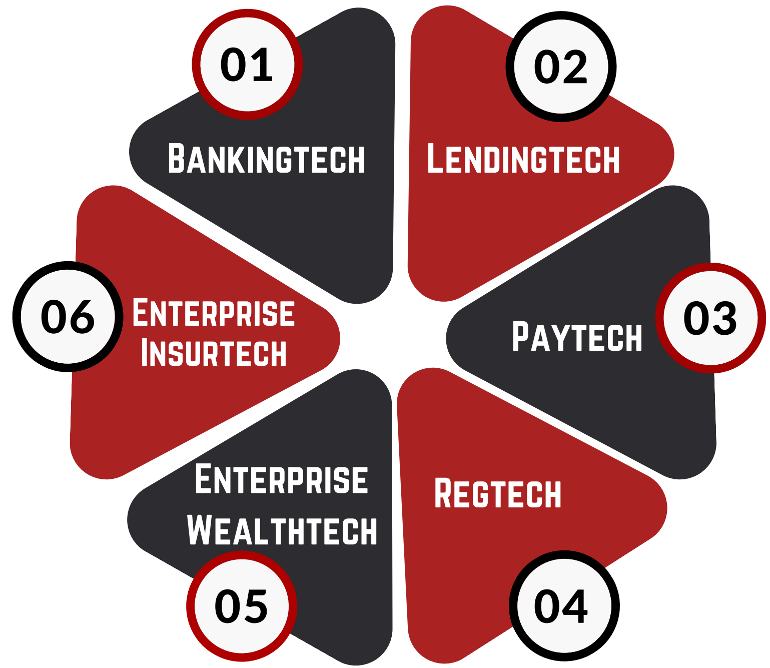
EXECUTIVE SUMMARY



Key Insights

Banks have learnt Digital from Fintechs

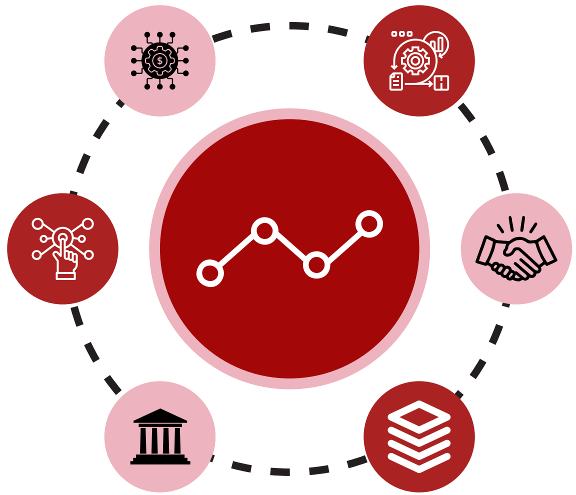
- Inspired by Fintechs, the BFSI industry has been rapidly transforming with continued investment in digital infrastructure. Investment in technology across financial segments is expected to witness high growth over the next 5 years.
- Banks and NBFCs will evolve to become fully digital for the Retail and MSME segments in the next 10 years.

Customers are Going Digital

- Smartphones, low-cost internet, digital commerce and UPI have made customers digital savvy.
- Digitisation is underway in the retail business for saving accounts, credit cards and personal loans.
- Digital transformation has just begun for the MSME and corporate segments.

Open Banking & Embedded Finance

- With the increasing growth of Embedded Finance platforms, the consumption of services is becoming seamless and hassle-free.
- Emerging partnership-led business models are driving FIs to invest in API-enabled infrastructure as well as revamp their back-end technology stacks.



Government & Regulatory Influence

- Major innovation in the Indian BFSI industry has been propelled by the set up of revolutionary public infrastructure like the India Stack, Account Aggregator, as well as KYC and DBU regulations.
- Digital Personal Data Protection Act (DPDP) of 2023 will push FIs and their partners to reorient their architecture and business for better data governance.

Emergence of Middle Tier - XaaS

- Decoupling of the Engagement layer (i.e. shifting to Embedded Finance players) & banking layer is creating an opportunity for Anything As A Service i.e. XaaS.
- Banking (BaaS), Lending (LaaS) and Payments (PaaS), have emerged as key areas of investment for VCs.

Economic Factors

- The demand for lower costs, scale, innovation and agility has been driving banks and other FIs to continue to search for technology investment, including cloud adoption.
- Instead of banks viewing technology as a cost centre, the thought process has started to realign and it is now being seen as a driver to manage P&L as well as reduce the cost-to-income ratio.

FI - Financial Institution | DBU- Digital Banking Units

Changing Technology Landscape - Themes

Banking

- Large banks have started investing heavily in technology and are focusing on scaling their digital business. Success templates are being replicated by small and mid sized banks.
- Fintechs and Embedded Finance players are driving customer engagement in partnership with banks.
- The digital push is gradually expanding to complex business banking, including Trade Finance and Treasury.
- The legacy replacement cycle has started in the Core Banking area, with a few banks also experimenting with Dual-Core Architecture.

CASE STUDY:[1] M2P

Founders		
Muthukumar A	Founded Year 2014	Location Chennai
Madhusudanan R	Total Funding USD 114M	Revenue(FY 22) USD 27.2M
Prabhu R	Segment Full Stack	M & A 5

Services

M2P is a full-stack solution provider with offerings ranging across Lending, Payments, Banking and Regtech for FIs and Embedded Finance players.

Innovations

- Integrated neobanking services
- Integrated AI, ML and Data Analytics platform
- New-age Core Banking Stack

Lending

- Regulatory frameworks around digital lending have continued to evolve and are positively influencing technology spend by lenders.
- Digital lenders are ramping up disbursements on a Q-to-Q basis, with segments showing independent profitability.
- Lenders are experimenting with innovations like Pre-Approved Loans, B2B BNPL, Supply Chain Finance, Secured Credit, etc.
- The business has transitioned from a License-based revenue model to a Percentage of AUM-based revenue model.

CASE STUDY:[1] lentra

Founders		
Dasharathi V	Founded Year 2018	Location Pune
Ankur Handa	Total Funding USD 104M	Revenue (FY23) USD 19.9M
Rangarajan V	Segment Full Stack	M & A 1

Services

Lentra offers seamless lending integration, customizable solutions and compliance assurance for secure and efficient loan processing with streamlined applications and rapid disbursements.

Innovations

- Full-stack lending solution for all FIs
- Ready-to-use 3rd party API connectors to various data sources
- New-age LOS platform and a no-code Business Rule Engine (BRE[x])

Payments

- India has finally moved to a less cash economy and will aim to eliminate it over the next decade.
- Regulatory initiatives drove payments innovation: NEFT, RTGS for non-banks, PIDF subsidy, 24x7 business payments, NETC, PA/PG licensing framework, MDR waiver, Tokenization, and Sandbox for digital experimentation.
- NPCI drove Digital Payments with multiple solutions: UPI, IMPS, RuPay, UPI on Credit, BBPS, eNACH and NIPL for international payments.

CASE STUDY:[1] PayGlocal

Founders		
Prachi Dharani	Founded Year 2021	Location Bangalore
Rohit Sukhija	Total Funding USD 17M	Revenue (FY'22) USD 0.6M
Yogesh Lokhande	Segment Cross-border	M & A 2

Services

PayGlocal provides end-to-end payment processing, risk management and a global stack for accepting payments, enabling merchants to accept payments from global customers.

Innovations

- Various payment acceptance methods
- Ready-to-use infrastructure with full encryption
- Integration with multiple currencies with control on data and risk management

PaaS - Payment as a service | AUM - Asset under management | PIDF - Payments Infrastructure Development Fund | NIPL - NPCI International Payments Limited | MDR - Merchant Discount Rate

Source : [1] Data points from Tracxn

Changing Technology Landscape - Themes

Regtech

- Factors like the Government's Digital India initiative, India Stack APIs and the regulator's focus on consumer protection have driven demand for Regtech solutions, ensuring compliance, data security and seamless transactions across the Fintech ecosystem.
- RBI's KYC Direction requires strict due diligence to prevent identity theft, fraud, money laundering and terrorist financing.
- FIs are working intensively with Regtechs to build compliance as well as reduce fraud.

CASE STUDY:[2] SIGNZY

Founders: Ankit Ratan, Arpit Ratan, Ankur Pandey

Founded Year: 2015	Location: Bangalore
Total Funding: USD 40M	Revenue (FY23): USD 8.4M
Segment: KYC/AML	Customers Onboarded (Jan'24): 99 M

Services

Market-leading digital infrastructure provider revolutionizing the onboarding experience.

Innovations

- Marketplace with APIs for Digital Onboarding, Lending, Identity Verification, etc.
- Ensure KYC/AML adherence in banks through AI-powered identity verification technologies

Wealthtech

- India's Wealth Management sector is experiencing growth with increasing asset classes, new entrants and tech investments.
- India has shifted to an investment mindset, with a declining focus on traditional physical assets.
- Millennials are driving digital wealth management with Robo-advisors and discount brokers.
- Digitisation of wealth management democratises investment access offering diverse options and personalised services across customer segments.

CASE STUDY:[2] KRISTAL

Founders: Asheesh Chanda, Vineeth Narasimhan

Founded Year: 2016	Location: Singapore
Total Funding: USD 19.1M	Revenue (FY'21): USD 3.6 M
Segment: WaaS	M & A: 1

Services

Tech-enabled solution provider offering diverse product categories like MF, Pre-IPO and Private Assets, institutional funds, etc. for Wealth Management.

Innovations

- 360-degree digital infrastructure focused on scaling up partner's Wealth Management experience
- Personalized services varying from portfolio building to active monitoring

Insurtech

- India is the 9th largest Life Insurance market globally and is expected to reach USD 200 B by 2027.[1]
- The Insurance Amendment Act 2021 raised the FDI limit to 74% and deregulated ownership.
- Technological advancements (IoT, telematics, surveyors) boost trust in insurance, reduce fraud, realign workloads and improve decision-making in claims and underwriting.

CASE STUDY:[2] zopper

Founders: Surjendu Kuila, Mayank Gupta, Neeraj Jain

Founded Year: 2019	Location: Noida
Total Funding: USD 100M	Revenue(FY'23): USD 23.9M
Segment: IaaS	Gross Premium (2022): USD 121 M

Services

Customizable end-to-end Insurance as a Service platform to enable insurance distribution by partners.

Innovations

- End-to-end solution for partners, including digital onboarding, propensity model, comparison, regulatory reporting, reconciliation module, claims and renewals.

AML - Anti Money Laundering | IoT - Internet of Things | SaaS - Software as a Service

Source : [1] Swiss Re Institute Report [2] Data points from Tracxn

Future Outlook: Focus Areas & Driving Factors

FACTORS

Retail & MSME credit to become fully digital over the next 10 years

Transition to cloud hosted micro services based architecture

Revenue model moving from fixed price licensing model to AUM linked revenue model

FOCUS AREAS

Banking - A majority of banks will either replace or upgrade their Core Banking Systems (CBS), or opt for dual-core architecture.
Entities with new banking licenses and untapped segments of Cooperative Banks will demand agile CBS, thus bringing about the emergence of new players in the CBS segment.

Payments - The customer engagement layer for payments will see demand for an agile Payment as a Service (PaaS) platform to orchestrate transactions with multiple bank payment infrastructures.
Legacy payment switch platforms will face stiff competition from new-age players building universal payment switches.

Enterprise Wealthtech - Enterprise solutions will drive better investment decisions and portfolios using enhanced availability of data.
Embedded wealth players will drive the usage of Wealth as a Service (WaaS) platforms with continuous growth in asset classes.

Lending - Lenders will digitize lending across all products and segments, including Secured Lending.
Embedded finance will ensure the growth of Lending-as-a-Service. LOS/LMS segment will get decoupled from CBS and be positioned independently.

Regtech - The continued increase in regulatory supervision, including the recent DPDP regulation, and the expected licensing frameworks for Fintechs will drive investments in Regtech solutions.
KYC, AML and Fraud Management would remain the primary areas of focus.

Enterprise Insurtech - The Government's focus on increasing market penetration, with a mission to provide insurance for all by 2047, is driving the Enterprise Insurtech market.
Insurance as a Service players with innovative plug-and-play stacks are in focus and gaining traction.

FACTORS

Technology investments are becoming business decisions

Fintechs will widen their outreach in the global arena

AML - Anti Money Laundering | CBS - Core Banking Solution | DPDP - Digital Personal Data Protection Act, 2023

1B

INDIAN ENTERPRISE FINTECH OVERVIEW

GROWTH DRIVERS

Increasing investor confidence and funding

Opportunities for inorganic growth

Fintechs as a growth accelerator & Enterprise Fintechs as an enabler

Regulator as a backbone of Fintech development

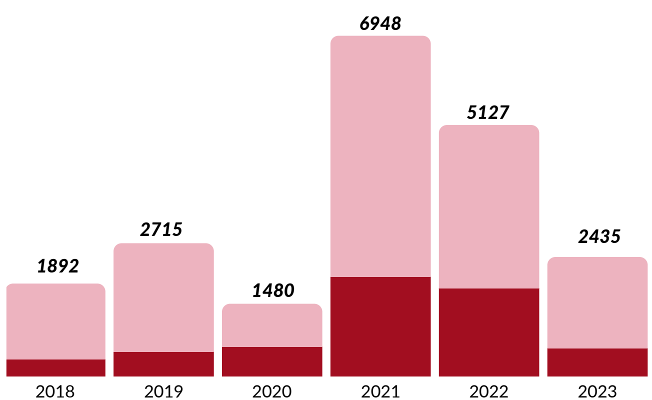
NPCI's drive to promote Fintech adoption

Digital Public Infrastructure powering financial services.

1. Increasing Investor Confidence and Funding

- The Fintech ecosystem is amongst the highest-funded sectors in the country.
- At Chiratae, we are excited about areas such as Cross-border PaaS, Cash Management, Financial Services in ONDC, Collections, Lending as a Service and Loan Origination System/Loan Management System.

Indian Fintech Funding: 2018-2023



Figures in USD Million
Data as of 31st Dec 2023

Top Fintech Investors: 2022 - 2023

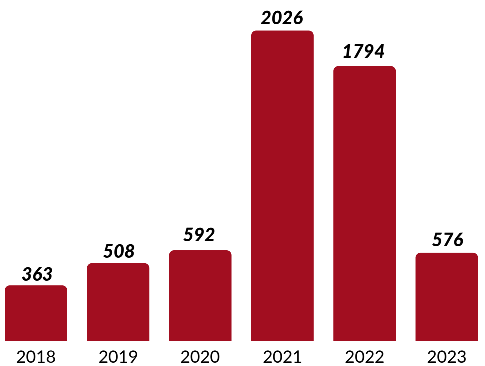
INVESTOR	TOTAL NO. OF INVESTMENTS	INDIAN INVESTEE STARTUPS IN THE FINTECH SPACE
Y Combinator	22	SALT, gromo, SAVEIN, BharatX, fello, yodaa, Koshex, pay crunch, VANCE
TIGERGLOBAL	17	slice, Jar, Oxyzo, CRED, Chargebee, INDmoney, zopper, open, moneyview
9UNICORNS	11	KENKO, Insurance Samadhan, Rupeek, MARKETWOLF, savart, ENSUREDIT, Vested, snapmint, CASTLER
BEENEXT	11	M2P, M1, Pazcare, mewt, ShopSe, PayGlocal, twid, CoverSelf, 42CS, KENKO
B Capital	11	ippo pay, M2P, tortoise, Gullak, Hyperface, DPDzero, LogiPe, GoGullak, FINSARA
BLUME	11	turtlemint, bluecopa, AEREM, BIMAKAVACH, zopper, Health Assure, wint, Jai Kisan, multipl, Rhino
SEQUOIA	11	digit, pine labs, ZET, Chargebee, FPL Technologies, twid, hubble, eduvanz, LeapFinance
The Sparkle Fund	11	M2P, slice, moneyview, scripbox, GetVantage, FINANCEPEER, KNAB FINANCE, 42CS, abhi LOANS, FINVU
Chiratae Ventures	11	KRISTAL, ShopSe, ClaimBuddy, Fibe, CreditMantri, bonushub, GetVantage, VAYANA, QueueBuster
100X	4	50Fin, Roopya, Byajbook
MUFG	4	KreditBee, DMI Finance, lentra, InsuranceDekho
Venture Catalysts	3	CASTLER, BASIC, OneStack

Note: All top investors have not been mentioned.
Source: Tracxn and The Digital Fifth Analysis

ONDC - Open Network for Digital Commerce

1.1 Indian Enterprise Fintech Funding is Picking Up Pace

Enterprise Fintech Funding: 2018-2023



Source: The Digital Fifth analysis & Tracxn

Top 3 Funded - 2021

Razorpay, Zeta, Open

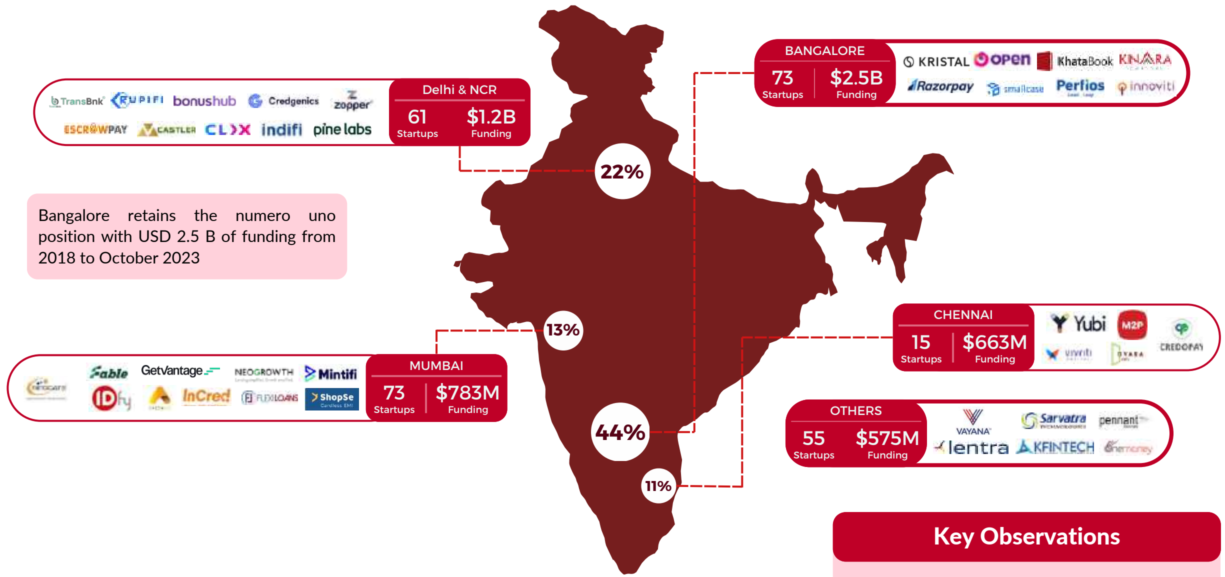
Top 3 Funded - 2022

Pine Labs, Oxyzo, Yubi

Top 3 Funded - 2023

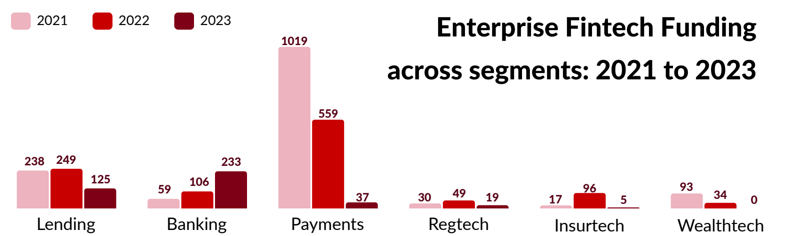
Perfios, Mintifi, Credgenics

Enterprise Fintech Funding Across India: 2018 - 2023



Bangalore retains the numero uno position with USD 2.5 B of funding from 2018 to October 2023

Enterprise Fintech Funding across segments: 2021 to 2023



Source: The Digital Fifth analysis & Tracxn

Key Observations

- There is interest in new infrastructure business models such as BaaS, PaaS, LaaS, WaaS and IaaS.
- New-age Payment Switch platforms, Credit Card Systems, LOS, LMS and Collection platforms have received significant funding.
- MSME Lending and POS/PG leaders continue to attract interest.

All figures in USD Million | Data as of 31st Dec 2023

2. Opportunities for Inorganic Growth

Enterprise Fintech has demonstrated active deal-making in the past, and this is only expected to increase as incumbent players demand updated stacks and scaled Fintechs look to grow beyond borders.

Acquisition in Enterprise Fintech

ACQUIRER	ACQUIREE	SEGMENT
Razorpay	curlec	Paytech
	Zealiant	Paytech
	POSHVINE	Rewards
	ezetap	Paytech
	billme	Paytech
pine labs	SETU	Bankingtech
	Qfix	Paytech
	mosambee	Paytech
	Qwikcilver	Paytech
	fave	Paytech
Cashfree Payments	zecpe	Paytech
LENDINGKART	UPWARDS	Lending
VAYANA	SahiGST	Compliance Software

Razorpay has acquired Curlec, which marks its foray into the global market. It has focused on expanding offerings into Offline Payments i.e. POS, NFC etc.

Players such as Pine Labs, Cashfree Payments, Lendingkart and others are moving towards capturing the entire value chain.

Acquisition in Enterprise Bankingtech

ACQUIRER	ACQUIREE	SEGMENT
M2P	finflux	LOS/LMS
	SYNTIZEN	Regtech
	BSG	CBS
	data > opinion	Analytics
Perfios	karza	Regtech
	fego	Open Finance Platform
	FINTECHLABS	LOS / LMS
Yubi	CORPOSITORY	Regtech
	spocto	Collections
	FinFort	BRE
aurionpro	A S Software Services Pvt. Ltd. Omnifin	LMS

M2P, which started as a Payments-focused company, has now acquired diversified entities to become a full-stack enterprise player.

Perfios has acquired startups in Analytics, LOS/LMS and Regtech to widen lending capabilities.

Yubi has acquired leaders in related areas to deepen expertise across the entire lending lifecycle.

3. Fintech as a Growth Accelerator

Creating Opportunity for Multiple Fintech Business Models

Banks are partnering with Fintechs to expand their reach and deepen customer engagement.

NEOBANKING

SME

RETAIL

EMBEDDED FINANCE

LENDING

SME

BNPL

CO-BRANDED CARDS

RETAIL

Partnerships brewing in 2022 & 2023

2022 and 2023 witnessed partnerships between banks and Fintechs for multiple areas such as Co-lending arrangements, extending credit to MSMEs, acquiring merchants and various other initiatives.

DBS Bank and CredAble partnered for **Trade Financing**.

HDFC Bank partnered with Paytm to build solutions across **Payment Gateway, POS machines and Credit products**.

ICICI Bank tied up with Niyo to issue **Prepaid cards** to workers of MSME segment.

Axis Bank partnered with BharatPe to expand its **Merchant Acquiring business**.

Punjab National Bank entered into a **Co-lending arrangement** with Lendingkart.

Fintechs offer incumbents the opportunity to devise tailored solutions to enhance existing business offerings and unlock new potential.

3.1 Enterprise Fintechs as Enablers

Banks are enhancing customer servicing and value through increased integration with Enterprise Fintechs.

AXIS BANK

Axis Bank's in-house modern tech stack is fostering Fintechs partnerships across the ecosystem.

JARVIS: In-house Lending Software

PARTNER ENGAGEMENT LAYER

LOS | LMS | BRE | Collections

AXIS CORE SERVICES
- KYC Service
- Customer Digital Identity
- Authentication service

Features

- Supports small ticket, small tenor limit/loans, and multiple interest rate/fee structures
- Supports digital journeys requiring no manual intervention
- Custom-built BRE which can run multiple policies
- Modular and loosely coupled
- 100% on AWS

Fostering Enterprise Partnerships

Perfios, Setu, digio

Fostering Partnerships

paisabazaar, Jupiter, freecharge, Groww, CreditMantri, open

FEDERAL BANK

Federal Bank has followed a platform approach and collaborated with PaaS players such as M2P and Hyperface to streamline Fintech onboarding and facilitate more Fintech partnerships in one go.

Enterprise Fintechs Powering the Bank

PaaS	CBS	Co-lending
M2P, Hyperface	Infosys Finacle	Yubi
Fed-e-Biz Transaction banking platform for Corporate and SME customers	**Cross-border BBPS system** Utility Bill Payment solutions for Non-Resident customers	**FedMi** Microlending LOS/LMS

Fostering Partnerships

Jupiter, one card, Fi, DGV Digivriddhi, BharatPe, Rupeek

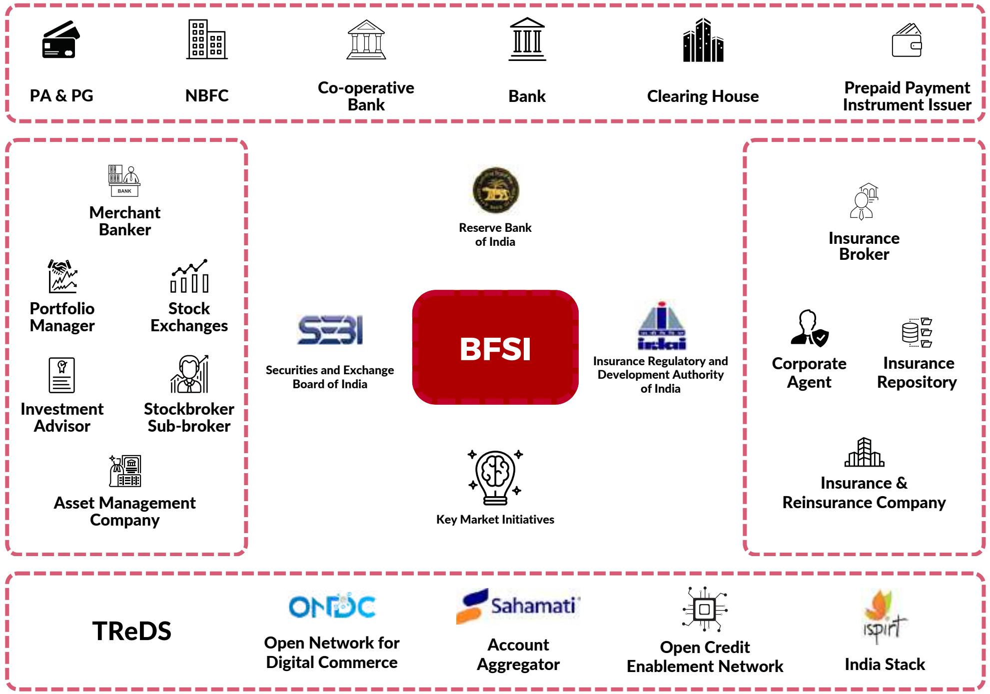
4. Regulator as a Backbone of Fintech Development

Open Finance

- Increased adoption of India Stack in Digital Lending and Payment journeys
- UPI to lead open payments
- Adoption of Open Data framework, i.e. AA, has increased with 38M accounts being linked (as of Dec '23)[1]
- Open frameworks of OCEN, ONDC to drive open credit

Digital Initiatives

- Ease of onboarding through V-CIP
- Branch-level digitalisation and adoption of Digital Banking Unit
- Scale up of Digital Finance



Compliance

- Increased compliance with more regulatory frameworks around PA & PG licensing, Digital Lending guidelines, NBFC scale-based classification, and CFSS
- Bringing a larger spectrum of entities under the regulatory oversight of PA & PG, LSP, Urban Cooperative Banks, and Credit Information Companies (i.e. Bureaus)

Inclusion

- Initiatives for financial inclusion - Jan Dhan Yojana and JAM Trinity
- Zero MDR framework and disbursal of subsidies through AEPS
- Support for government initiatives such as MUDRA loans, Atal Pension Yojana, and BIMA Yojana

IRDAI Regulations

Issuance of e-insurance

New add-ons in Motor Issuance

SEBI Regulations

KYC for Mutual Funds

Digital Personal Data Protection Act

RBI Regulations

Digital Banking Units	Digital Lending	PA & PG
Credit and Debit Cards	PA Cross Border	KYC

AA - Account Aggregator | V-CIP - Video Based Customer Identification process | CFSS - Core Financial Services Solution | LSP - Loan Service Providers

Source : [1] Sahamati

4.1 Key Regulatory Policies

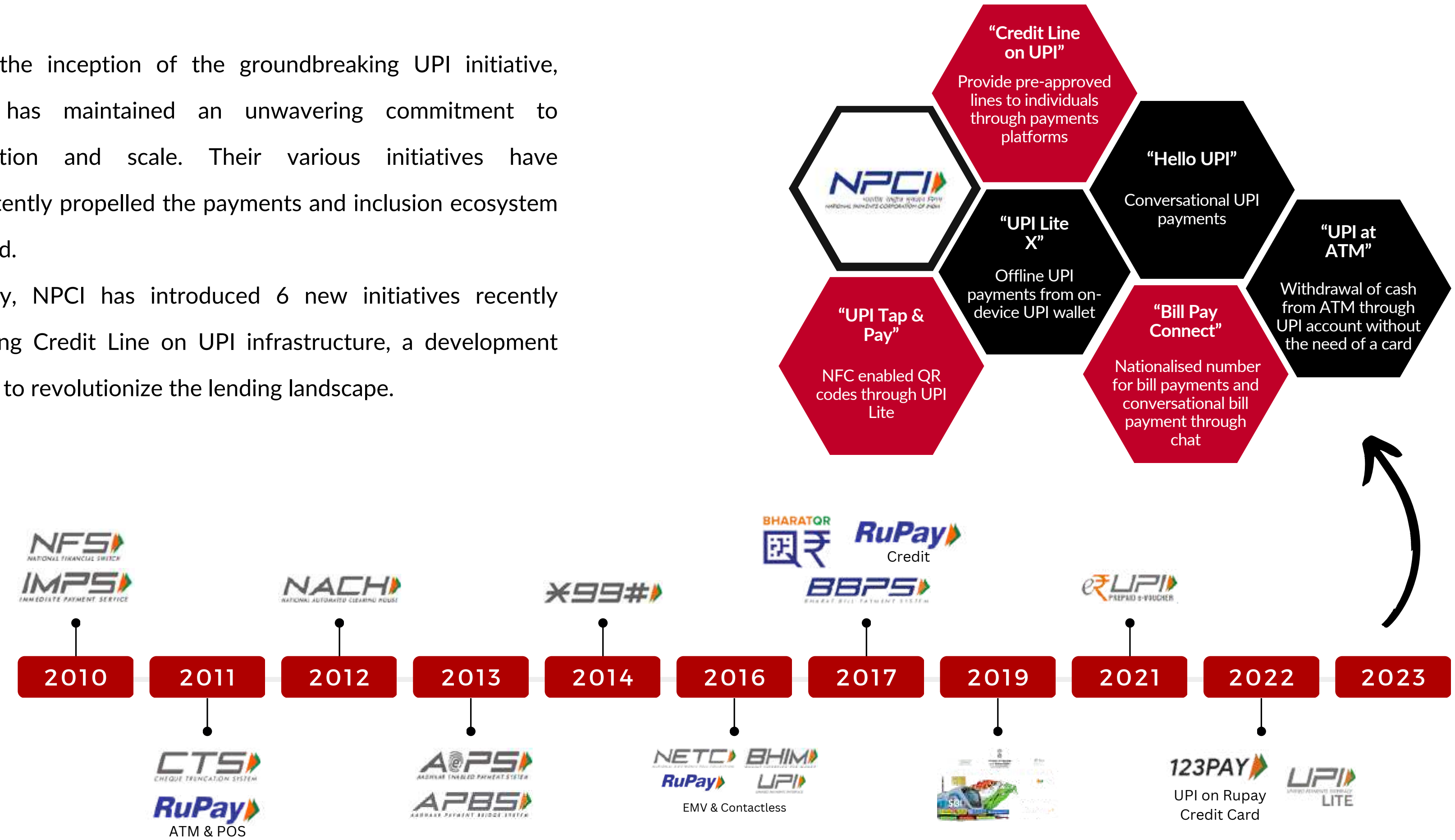
POLICY & OBJECTIVE	IMPLICATION & IMPACT	OPPORTUNITIES
Digital Banking Units *(Promote Digital Banking and establish digital infrastructure)*	• Banks would need to develop digital strategies & set an organisational structure for DBUs. • Eg: ICICI bank has segregated its DBU from Retail Banking.	• Opportunity to build digital platforms and supporting stacks like CBS, LOS and LMS to support DBU operations. • Opportunity to develop smart equipment for the front-end of DBUs. • With regulatory support to establish DBUs in partnership arrangements, Neobanking players are likely to emerge with support from BaaS platforms.
PA & PG *(Regulate and provide tech based recommendations)*	• Regulating E-commerce payments provides increased security for transactions within the industry.	• Potentially large opportunity to deploy technology solutions to address compliance in PA / PG for risk management, security, governance and reporting. • Opportunity for white-labeled solution providers to build a technology stack for new licensees.
KYC *(Prevent Money Laundering and other illegal activities)*	• Create the need for increased information-sharing among industry players, thus enhancing efforts against illicit activities. • Regulated entities and Fintech partnerships are required to collaborate on KYC & AML compliance.	• Opportunity to build advanced KYC solutions including Facial Recognition tech, Secure Customer Interaction channels and AI/ML-based Monitoring tools. • With guidelines on AML compliance becoming more rigid, AML and Data Management platforms will see an increase in demand.
Credit & Debit cards *(Card Management guidelines)*	• Regulations limit co-branding partners from accessing data. The issuer of cards is responsible for their co-branding partner, thus increasing control, data security and safety.	• Growing appetite for Co-branding cards, linked with clear guidelines, is resulting in the demand for Enterprise-grade Card solutions and Switch platforms. • With regulatory approval for wearables, many new players are expected to enter the market, requiring technology providers to provide a robust technology stack.
Digital Lending *(Regulate and promote growth of Digital Lending)*	• Digital Lending processes becoming more streamlined, transparent, and efficient will result in increased confidence and trust among customers.	• Opportunity for LaaS entities to provide comprehensive plug-and-play Digital Lending solutions, including Onboarding, Tracking, Risk Measurement and Analytics, Governance and Consent Management. • Increasing need for new-gen lending stacks to support Digital Lending through partner ecosystems.

4.2 Key Regulatory Policies

POLICY & OBJECTIVE	IMPLICATION & IMPACT	OPPORTUNITIES
e-Insurance Issuance *(Promote Digital Insurance and increase insurance penetration)*	• Insurtechs will now be able to provide insurance to customers directly. • Potential for incumbents to collaborate with Fintechs to establish a digital journey.	• Opportunity for startups to provide comprehensive plug-and-play solutions, including digital onboarding, claims and policy processing, underwriting, etc. • With regulatory support for establishing digital policies in partnership arrangements, positive developments can be expected from internet-first insurance manufacturers.
New Add-ons in Motor Insurance *(Pay-As-You-Drive, Pay-How-You-Drive)*	• Companies will provide insurance and cover as per the behaviour of the driver.	• Potential to build full-stack solutions with telematics as a backbone, enhancing underwriting for the insurer, offering flexibility to the buyer (pay-per-use), and strengthening the ecosystem with better claims management.
Digital Personal Data Protection Act *(Regulating the processing of personal data by organizations)*	• Developing robust Consent Management systems and updating terms, policies and forms. • Collaborations with third-party vendors require revision of contracts to align with DPDP standards.	• Scope to build comprehensive Consent Management solutions that provide Early Warning Signals, Data Breach Monitoring and Reporting tools, Encryption, Multi-factor Authentication, Access Controls and Security Audit services. • With consent-based personal data usage, there is opportunity to offer stacks for customized product offerings.
PA- Cross Border *(Governing cross-border transactions)*	• The Rs. 2.5 lakh transaction limit for both import and export transactions under the PA-CB regulations may impact larger cross-border transactions, potentially affecting businesses engaged in high-value international trade.	• Regtechs can innovate in streamlining due diligence for cross-border transactions over Rs 2.5 lakh in imports. Utilizing AI-driven risk assessment and blockchain can provide businesses with efficient, transparent, and secure documentation solutions, effectively addressing regulatory challenges.
MF - Execution Only Platforms *(Increase transparency and enhance governance standards for mutual fund companies.)*	• Stricter compliance requirements, improved disclosure norms and the need for enhanced technological infrastructure to meet regulatory obligations.	• Opportunities for Fintechs to offer innovative solutions for Compliance Automation, Data Management and Analytics.

5. NPCI's Drive to Promote Fintechs' Adoption

- Since the inception of the groundbreaking UPI initiative, NPCI has maintained an unwavering commitment to innovation and scale. Their various initiatives have consistently propelled the payments and inclusion ecosystem forward.
- Notably, NPCI has introduced 6 new initiatives recently including Credit Line on UPI infrastructure, a development poised to revolutionize the lending landscape.



5.1 Market Disruption: Credit Lines on UPI

FEATURES

- Instrument Independent: No Cards
- Revolving Credit with multiple debits & credits
- Cost effective to all the parties involved
- Faster Disbursals by banks

OPPORTUNITIES PRESENTED

CUSTOMER INTERFACE

Banks need to build journeys for the onboarding of customers for credit lines.

IMPROVISE BRE

BRE solution providers must adapt to offer cost-effective underwriting for credit lines with limited data and real-time decisioning.

SCOPE OF PSP

PSPs to enable in-principle sanction conversions to UPI credit lines, requiring real-time data collection and verification.

REVISIT BANKING SYSTEMS

Banks will be required to open their systems for credit line applications originating from any UPI network partner.

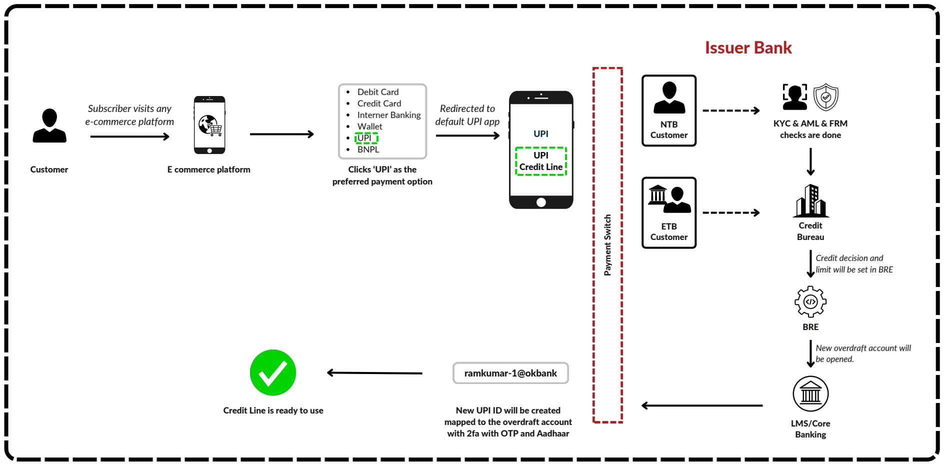
ROBUST DATA MANAGEMENT

Robust data management is needed for risk mitigation in rising unsecured portfolios due to credit lines.

TRACKING LIMIT UTILIZATION AND RECONCILIATION

Banks would require dynamic systems (LMS / Core) for real-time updation of credit utilization with reconciliation capabilities to share revenues.

POTENTIAL ARCHITECTURE



6. Digital Public Infrastructure Powering Financial Services

B.G. Mahesh
Co-Founder
Sahamati

Account Aggregator network has been designed to unlock the potential of data capital for individuals and enterprises. It provides control and easy access to their financial information across accounts, through a single channel in an aggregated form.
With 14 operational account Aggregators, cross-sectoral Financial Information Providers such as banks, insurance, mutual funds, GST on one side and over 35 million accounts linked on the AA platforms on the other, the eco-system is now ready for the next growth phase. We expect to see many innovative products riding on the authentic, detailed information provided by these FIPs in the coming years, thus unlocking the power of data capital for individuals.

Aadhaar

Aadhaar is a unique identification number which serves as proof of identity and address across India.

1.38B[1] Issued

103B[1] Authentication

- Establishes the foundation for Digital Public Infrastructure, enabling E-KYC, Digital Lending, etc.
- Reduces the TAT in digital journeys and creates opportunities for better customer engagement.

E-sign, DigiLocker

E-Sign, an online electronic signature service linked with Aadhaar and DigiLocker, is a cloud-based document storage and issuance system.

341M[2] Total e-Sign issued as of FY'22

157M[2] Registered users on DigiLocker as of FY'23

- DigiLocker simplifies the complexities of document management and serves as a key component in Digital Lending.
- E-Sign enables easy authentication and paperless transaction processing.

Government E-Marketplace (GEM)

An online platform for public procurement in India

11,926[3] Product Categories as on Dec'23

6468B[3] Order Value as on Dec'23

- Offers a diverse pool of registered sellers with complete transparency and digital servicing capabilities.
- Opportunities exist for Embedded Finance and Supply Chain Finance within this platform.

Account Aggregator

Acting as an intermediary between Financial Information Users (FIU) and Financial Information Providers (FIP), AAs facilitate consent-based sharing of data.

38M[4] Accounts linked as on Dec '23

40M[4] Consent Requests Fulfilled as on Dec'23

- Account Aggregator (AA) data enables Digital Lending and Personal Finance Management use cases.
- Fintechs are expected to build in spaces such as AA, Data Governance TSP and Certifier TSP.

Open Credit Enablement Network (OCEN)

Framework democratizing credit access by integrating Lending institutions and Loan Service Providers.

- With DLG guidelines and OCEN in place, there is scope for more players to emerge as LSPs.
- OCEN can facilitate easier access to credit for SMEs through SME platforms.

GST

It is an indirect tax imposed on the supply of goods and services.

USD 1648 B[5] GST revenue collected for Dec'23

- GST has enabled better and easier underwriting of MSMEs, thus bringing accountability to the system.
- GST has streamlined compliance and created opportunities for innovative business models, such as GST Suvidha Providers.

Source : [1] UIDAI [2] Meity [3] GEM.gov.in [4] Sahamati [5] Press Information Bureau

6.1 Open Network for Digital Commerce (ONDC)

Expected to enhance e-commerce by connecting buyers, sellers, and service providers.

ADOPTION

527 [1]
Presence in cities

2.9 L+ [1]
Sellers/Service Providers in the network

ONDC is set to unlock a multitude of opportunities - for direct to consumer companies, financial product manufacturers and technology service providers. Inventory aggregation of financial products across a wide variety of product manufacturers becomes the benefit for consumer facing applications. Demand aggregation and access to new customers is the benefit to product manufacturers. For technology providers, it opens up a multitude of opportunities like building consumer facing white-labelled plug-and-play solutions, helping product manufacturers digitize and providing data analytics and modelling services.

Hrushikesh Mehta
Senior Vice President
ONDC

INTEGRATORS

ONDC TSP

ONDC TSPs provide tech stacks for the seamless onboarding of merchants and are gradually picking up pace.

By integrating with ONDC, banks have the opportunity to:

- transform their digital platforms into fully functional super apps
- act as Network Participant Account Providers (NPAP) to facilitate settlements for buyers and sellers

NPAP

PAYMENTS

E-GIFT CARDS

Opportunity for Reward platforms to integrate with ONDC and build rewards incorporating all network participants in one go.

Players have the opportunity to emerge as Reconciliation Service Providers (RSP) and offer a range of solutions such as:

- Collector and Collection function
- Reconciliation function
- Preparer of Settlement Advice function

RSP

LENDING

Opportunity for SME Financing players to leverage the new ONDC data and enter areas like Supply Chain Financing, Working Capital Loans and Revenue-based Financing.

Opportunity for lenders to provide all types of Personal loans.

WEALTH

New-age Wealth firms have the scope to integrate with MF Utility in ONDC and provide sachet versions of Goal-based Investment products.

INSURANCE

Embedded as well as standalone Insurance offerings can be offered.

Source : [1] ONDC.org as on 26th Jan 2024

Trade Receivables Discounting System (TReDS)

A digital platform for MSMEs to auction their trade receivables to financiers, such as banks, through competitive online bidding.

ADOPTION	69445 [1] No of Sellers registered in Nov'23	4302 [1] No of buyers registered in Nov'23

3 entities have received the TReDS license

RXIL (AN NSE - SIDBI JV) | M1 | INVOICEMART

BENEFITS

Effortless ERP integration
Significantly reduces data processing time

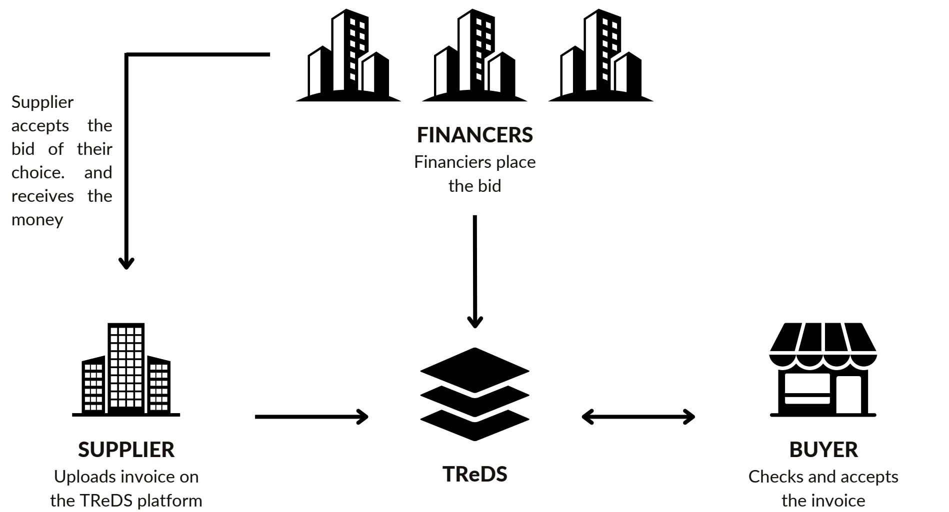
Swift Disbursements
Access to funds within 24 hours

Automated Reconciliation
Entire digital platform allows for seamless settlement and reconciliation

Multiple Financiers
MSMEs are not restricted to a single bank and have the option to choose the lowest bidder

Non-Recourse Borrowing
The buyer's account is debited automatically through a pre-approved NACH mandate

HOW IT WORKS



Source : [1] RBI

2

BANKINGTECH

Segment has the potential to seize an opportunity worth USD 3 B by 2030

The legacy stack replacement cycle is underway across multiple areas such as Core Banking and Digital Banking

Digital push is expanding to encompass Business Banking, Trade Finance and Treasury

Growing potential for newer areas like BaaS and Neobanking

BANKINGTECH OVERVIEW

CBS

Core Banking System (CBS) orchestrates essential banking operations such as account management, general ledger maintenance, interest calculation and transaction processing.

CRM

Customer Relationship Management (CRM) platforms enable businesses to manage end-to-end customer lifecycle and relationships, track interactions and streamline sales and marketing processes.

DIGITAL BANKING PLATFORM

Digital Banking platforms enable omnichannel capabilities across channels to offer banking products and services along with customer acquisition support as well as cross-sell and upsell.

TRADE FINANCE

Trade Finance platforms are specialised systems designed to streamline, manage operations and drive products such as Letters of Credit, Export-Import Financing, etc.

TREASURY

These platforms enable the automation of Treasury operations and ensure efficient cash flow and liquidity by enabling money market and fixed instrument transactions.

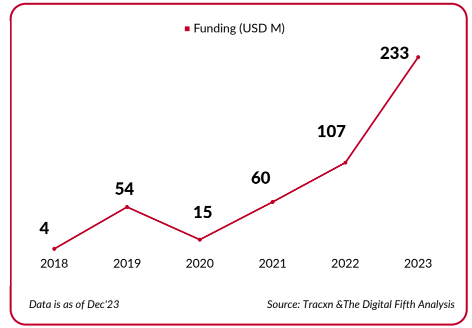
BAAS

BaaS (Banking as a Service) platforms offer banking services in partnership with banks to third parties via a cloud-based stack using APIs.

AA/TSP

Account Aggregators act as intermediaries between FIUs and FIPs to enable consent-based data sharing. TSPs help in integrating and providing the necessary technology stack.

FUNDING ANALYSIS



Funding in Bankingtech has consistently grown across both, existing and new startups. Traction has primarily been seen in Trade Finance, Supply Chain Finance and BaaS due to increase in demand for their offerings.

TOP FUNDED STARTUPS

STARTUP	FUNDED AMOUNT	SEGMENT
Perfios	USD 384M	AA/TSP
VAYANA	USD 61M	Trade Finance
CRM NEXT	USD 23M	CRM
SETU	USD 18M	BaaS
upswing	USD 4M	BaaS

TOP MERGERS & ACQUISITIONS

ACQUIRER	SEGMENT	ACQUIREE	SEGMENT
pine labs	Payment Gateway	SETU	BaaS
M2P	PaaS	BSG	CBS
VAYANA	Supply Chain	SahiGST	Compliance Software

FIP - Financial Information Provider | FIU - Financial Information User | TSP - Technology Service Provider

Data as on Dec'23 | Source: Tracxn and The Digital Fifth Analysis

India's Changing Banking Dynamics

Technology spent by banks reached USD 489 M in FY'22 from USD 328 M in FY'18. Banks are increasingly directing their investments towards Customer and Fintech Engagement layers such as API management and digital banking infrastructure.

A notable trend in the banking sector is the collaboration between banks of all sizes and Fintech companies, resulting in mutually beneficial partnerships. Notable examples include CSB Bank partnering with OneCard to offer co-branded credit cards, Federal Bank with Jupiter for Neobanking services, SBM Bank with Lazypay for BNPL solutions and PNB with Lendingkart for Co-lending.

Total deposits in the Indian banking system have increased at a CAGR of 7.81%, from USD 1436B in FY'18 to USD 2256B in FY'23 on the back of steady economic growth.

DIGITAL BANKING PROGRESSION

- As Digital Banking becomes a part of core strategic initiatives within the Indian banking industry, the demarcation between business and digital strategy is disappearing.
- Fueled by the rise of Fintechs and growing collaboration opportunities, banks have begun to make substantial investments in scaling their API stacks and infrastructure.
- Banks have strategically invested in enhancing their technology stack for digital customer acquisition initiatives, leading to a surge in demand for CRM platforms to enable the efficient management of leads from various channels.
- The emergence of Neobanking, Embedded Finance and BaaS models led to a rise in the adoption of Open Banking. This has prompted banks to upgrade their back-end core infrastructure, and specifically the Core Banking System to be API-ready.
- Digital Banks are becoming increasingly flexible and customer-centric, continually adding more offerings to compete with Neobanks across product and service catalogues. A notable example of this is INDIE by IndusInd Bank.

REGULATORY & GOVERNMENT SUPPORT

- RBI guidelines allowing banks to use Video-Based Customer Identification process (V-CIP) have completely changed the dynamics of customer acquisitions, with most banks expediting customer onboarding digitally, especially in retail segments.
- Sahamati has defined standards across Data, Analytics and User Experience, leading to the emergence of TSPs focused on implementing them across AAs, FIPs and FIUs to fast-track the growth of the AA ecosystem.
- RBI's support on mergers between Fintech startups & banks (such as Slice with North East Small Finance Bank) will have a profound impact on the way technology is used within banks.

Rajeev Ahuja
Executive Director
RBL Bank

"In the present day, technology has become a significant portion of the expenses for mid-sized banks and NBFCs. They are compelled to allocate substantial capital towards technology to remain competitive. Therefore, in addition to embracing technology, these financial institutions need to differentiate themselves and carve out a distinct niche like supply chain, MSME credit etc. Their goal should be to offer a comprehensive range of services tailored to their chosen segment to maintain their sustainability."

CBS - Core Banking System | CRM - Customer Resource Management System | FIU - Financial Information Users | FIP - Financial Information Providers

BANKINGTECH OPPORTUNITIES

EYEING A USD 3 B MARKET BY 2030

GROWING FINTECH PARTNERSHIPS

Banks, including Small Finance Banks, recognize the significant opportunity in scaling their business through partnerships and fostering collaborations with Fintech startups.

In response to the increase in Fintech partnerships across banking products, banks will upgrade or replace their core back-end stacks for API-enabled architecture and upscale their Open Banking capabilities.

CHANGING DYNAMICS OF DIGITAL BANKING

Service engine → Acquisition engine → Growth engine

iMobile Pay

811 kotak

yono SBI

Several leading banks have transitioned their Digital Banking platforms from a servicing engine to a growth engine. This transition has largely been limited to retail barring a few large banks.

All banks are expected to follow this trend, which will lead to a rapid increase in Digital Banking platform capabilities. This expansion will not only include the retail segment, but also encompass business customers.

INCREASE IN DIGITAL ADOPTION

With the increase in digital adoption by customers, banks have been experiencing scale and performance stress on their core banking and associated stacks for payments and lending.

Banks are likely to explore and adopt dual-core architecture by deploying a mix of on-premise and cloud-based core banking stacks. Dual-core may not be limited to the Core Banking System but can also extend to payments, API infrastructure, etc.

B2B

OPPORTUNITY AMONG MID & SMALL SIZE BANKS

Small and mid-sized banks have outdated core stacks that have limited scalability, modularity as well as flexibility to respond to changes introduced by the regulator or caused by the market.

As such banks widen their service portfolio and adopt a digital agenda, they will need modular stacks to support their growing businesses. Startups could focus on building new-age solutions for this segment.

MOVEMENT TO OPEN SOURCE & CLOUD

FYNDNA

The rising need for agility and scalability is driving banks to fast-track the adoption of cloud technology and leverage open-source stacks effectively.

The shift from proprietary platforms to open source will optimise costs and reduce reliance on such platforms. With the RBI relaxing cloud adoption guidelines, banks are expected to invest in expanding workloads on the cloud, driving demand for enablers operating in this segment.

DATA CENTRAL TO DIGITAL

AXIS BANK
Data Stack 3.0

As data in banks continues to expand, they are realigning to bring data and analytics to the core of their digital strategy. This shift, from nudging to personalization, aims to elevate customer experiences and boost the lifetime value of customers.

Banks are investing heavily in analytics stacks to build data models across use cases such as lending, risk management, and cross-selling/upselling. This shift prompts collaboration with new-age solution providers to maximise the utility of data.

chiratae ventures | The Digital Fifth

Evolution of Bankingtech Industry

	2010 & Before	2011 - 2015	2016 - 2020	2021 - 2023
Core Banking Platforms	TCS BaNCS, Oracle Flexcube, C-Edge, Infosys Finacle, Kiya.ai, TM Systems	iGCB intellect, Fortune InfoServe, Citius, M2P		FYNDNA, Txn
Digital Banking Platforms	Oracle Flexcube, Backbase, Comviva, Clayfin, Gradatim, Tagit	iexceed, LCODE	OneStack	
CRM	Oracle Siebel, CRM NEXT, salesforce, Zoho CRM, sugarcrm	SimpleCRM, leadsquared		
Trade finance & Treasury Platforms	Infosys Finacle, credence analytics, Murex, TCS BaNCS, Vayana, Nucleus Software	intellect, IBS FINtech	Finagg, FINASTRA	
BaaS		M2P	DECENTRO	FALCON, upswing, buildd
AA/TSP	Perfios			anumati, FINVU, saafe, Onemoney, fego

2010 & Before

- The period was dominated by the emergence of CBS to support the centralisation of banking operations.
- Digital solutions were extensions of banking platforms offered by incumbent CBS players.
- Trade and Treasury platforms were introduced during this period, but adoption remained limited to large players.
- CRM showed early signs of adoption, but was limited to a few banks.

2011 - 2015

- New Core Banking solutions emerged during this period but failed to gain traction.
- Digital Banking witnessed an upward movement, with banks continuing to launch mobile banking apps during this time.
- Banks saw an increase in the deployment of Treasury platforms which led to the entry of new players in the segment.
- Corporate Internet Banking and Cash Management saw traction among banks.

2016 - 2020

- Open Banking picked up momentum, with banks expanding APIs leading to partnerships with Fintechs and the emergence of BaaS platforms.
- CRM adoption began to gain traction amongst banks.
- Demand for core solutions increased due to rise in the distribution of licenses to Small Finance Banks and Payments Banks, with FIS bringing the Bank-in-a-Box concept.

2021 - 2023

- COVID-19 led to an increase in digitization, resulting in the upgradation and enhancement of platforms and investment in technology.
- The adoption of dual core-based and cloud-based tech stacks is showing early signs of traction.
- This period has seen the rise of Open Banking, BaaS and Embedded Finance.
- Rise in AA and the emergence TSPs, a completely new business segment.

Note: This is not an exhaustive list and many players have multiple lines of business in various segments other than the ones mentioned.

2A Core Banking Solutions

NEW PLAYERS PENETRATING LEGACY SEGMENT

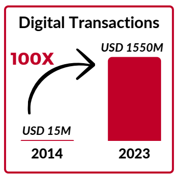
CURRENT SCENARIO

Due to their ability to manage complex banking operations well, incumbents have continued to dominate the market. Large banks have been apprehensive in making major changes to their Core Banking stacks.

The majority of Small Finance Banks and PSUs are marching down the path of digital transformation, resulting in them opting for API-driven modular stacks. This is an opportunity for Bankingtech startups.

In addition to the demand for APIs, Banks have focused on security and compliance as other key factors driving their choice of Core Banking solutions.

Digital transactions experienced a 100-fold increase from 2014 to 2023, with further growth anticipated in the coming years. This indicates that banks will actively transition to scalable and adaptable platforms.



FUTURE OUTLOOK & OPPORTUNITIES

Banks will increase the deployment of dual-core platforms to enable building market-focused products to manage increasing demands for scalability, flexibility and high performance.

With the RBI laying down guidelines for cloud usage, banks may explore moving parts or full CBS workloads on the cloud, which could open up demands for cloud-based CBS adoption.

The Government and RBI have been pushing for digitisation of Cooperative Banks. Due to their size and the nature of their operations, the market will need cloud-based, easy-to-implement new-age CBS stacks.

With the RBI and other Central Banks pushing for digital currency adoption through CBDC, there could be demand for CBS platforms to facilitate CBDC-backed transactions as well as support interoperability between fiat and digital currencies.

Madhusudanan R
CEO & Co-Founder
M2P Fintech

The rapid growth in payments demands banks to scale up and invest in technology for superior customer service. with an increase in volume and velocity, the focus will be on enhancing Core Banking Systems and expanding into different industry areas. While challenges like compliance, audits, governance, and cost considerations hinder progress, a collaborative co-working system between banks and fintechs is emerging. Investors will look to capture growth both horizontally and vertically, with a push for innovative lending products and digital-first solutions.

CBDC - Central Bank Digital Currency

2B DIGITAL BANKING PLATFORMS & CRM

SYSTEMS CATERING TO CHANGING EXPECTATIONS

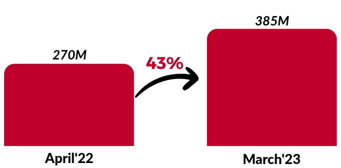
CURRENT SCENARIO

Banks are transitioning their Digital Banking platforms, including Mobile Banking platforms (across both retail and business segments), from a servicing engine to a growth engine to acquire and service customers efficiently.

There is growing emphasis on enhancing Digital Banking for rural segments. Notable examples include Bharat Banking by Axis Bank & Swadesh Banking by AU SFB.

Banks are upgrading CRM capabilities to include lead management, and are aiming to offer a comprehensive 360-degree view of customers for effective cross-selling and upselling.

Banks are increasingly integrating CRM with Digital Banking to manage the entire fulfilment process, from leads to onboarding.



Digital Transactions

Growth in Mobile Banking Active Customer base in FY'23

Source: RBI & The Digital Fifth Analysis

FUTURE OUTLOOK & OPPORTUNITIES

More banks, including Small Finance Banks, are enhancing their Digital Banking capabilities. Thus, the demand for omnichannel-based digital banking platforms is expected to grow.

As banks expect to add non-banking functionalities like Accounting and Taxation to their Digital Banking platforms, there is a growing opportunity to build for streamlining and simplifying implementation with plug-and-play solutions.

There is a growing need for comprehensive CRM systems for the seamless assimilation and servicing of customers being onboarded by third-party interfaces like Embedded Finance partners, Co-lending partners, etc.

Banks are exploring integrating or embedding CRM with contact centre solutions and digital marketing interfaces. These solutions are expected to possess analytics and generative AI capabilities to intelligently scan customer interactions from multiple sources.

Amit Kapoor

Founder & CEO
Onestack

The cooperative banking segment is one of the large and technologically ignored segments, while the customer base for cooperative banks is expanding, the Banking technology used by them today is bulky and outdated, thus suffering from issues of safety, security and integration challenges with other platforms. Thus, technology limitation in this segment creates a huge opportunity for Banking tech providers to capture in the future specifically in the areas of core and digital platforms.

HIGHEST FUNDED PLAYER

CRM NEXT — The cloud-based CRM platform received USD 23 M in funding.

2C TRADE FINANCE & TREASURY MANAGEMENT SYSTEM

SEGMENTS AWAITING HUGE DISRUPTION

CURRENT SCENARIO

Trade Finance functions today are largely manual, relying heavily on relationship managers for the onboarding process which involves multiple interaction points across the value chain.

Some key trends that will impact the industry are government initiatives promoting e-bill of lading, e-invoicing, entry of digital intermediaries and the APIfication of forex.

Fintechs operating in Trade Finance have built digital platforms to optimize every stage of the trade process, spanning across pre-trade to post-trade operations.

The Treasury solution space has primarily been dominated by existing players and is yet to witness a transformation similar to what has been observed in Core Banking and Lending systems.

Treasury Management platforms face limitations in integrating with Core Banking and Market platforms, often marred by manual interventions. Additionally, they offer limited digital interfaces for customer interaction.

FUTURE OUTLOOK & OPPORTUNITIES

Digital Trade platforms, integrated with Corporate Banking or ERPs, are poised for wider adoption, facilitating Online FX Management, Payments and Trade Documentation Exchange.

Blockchain holds significant potential to drive innovation in Trade Finance by streamlining document management through innovative solutions.

Banks are attempting to digitise treasury operations by developing APIs and establishing customer interfaces for both web and mobile platforms. This shift may generate demand for Fintechs to build on top of the core treasury stack.

With increased demand for better forex management and APIs-based services, Treasury solutions require to be transformed to cloud-based micro-services architecture.

Ramaswamy Iyer
Founder & CEO
Vayana Network

"Every business in a supply chain should have access to timely, affordable and formal finance. Traditional lenders stay away from lending to MSMEs due to the inability of small businesses to prove their creditworthiness and the cost of servicing them. There is a huge untapped underlying MSME-to-MSME trade worth over INR 42 trillion. FIs with smaller than INR 5000 Cr loan books, need to specialize in serving one target segment, doing away with a one-size-fits-all strategy. Vayana for its more than 20 FI partners has reduced CAC and enabled customization to offer convenient and affordable supply chain finance solutions."

HIGHEST FUNDED PLAYERS

Trade Finance		Treasury	
VAYANA	USD 61 M	IBSFINtech	USD 2 M

2D BaaS & Account Aggregator/TSP

BREWING BUSINESS MODELS GAINING HIGHER ADOPTION

CURRENT SCENARIO

With Open Banking adoption and Embedded Finance on the rise, Fintechs and Non-Financial companies are working with BaaS providers to embed financial services in their portfolio, leading to growth of BaaS platforms in the country.

Technology Service Providers (TSPs) have emerged as a key component in the AA ecosystem, working closely with the FIPs and FIUs to deliver AA-enabled products and services.

Demand for AAs and AA-TSPs is on the rise, with multi-segment players trying to embed banking data into their platforms to use it as a customer engagement tool.

14 No. of Account Aggregators in the ecosystem

60 No. of TSPs in the Account Aggregators ecosystem

Data as on Nov'23
Source: Sahamati

FUTURE OUTLOOK & OPPORTUNITIES

Due to the cumbersome nature of integration and maintenance of Fintech relationships, banks are exploring the BaaS route to expand their Fintech partnerships.

As SEBI and IRDA push for participants to onboard onto AA, there could be an increased demand for verticalized AA services based on AMC & Insurance data.

There could be a significant opportunity for TSPs to build for Financial Services stacks based on the detailed standardization and roadmaps offered on ONDC.

Shalini Warrier
Executive Director
Federal Bank

"Recognizing that collaboration with Fintechs enhances customer experience, many Banks are opting to work with these entities. The preferred approach is to integrate with Fintechs via a strong Technology Service Provider (TSP). This approach enhances agility, provides the ability to manage multiple partnerships in parallel and most importantly, provides a strong basis for regulatory compliance. In all areas from payment, cards, co-lending, and microfinance, to personal loans banks are looking for TSPs and there is a huge opportunity in this B2B space. Despite progress, there are still some areas like SME lending and systems like treasury that are not solved yet."

Anupam Bagchi
Founder
Upswing

"So far the innovations are limited to optimizing existing systems in the current banking landscape, but to drive real innovation ecosystem players must have a collaborative mindset and be ready to work with each other to come up with modular and microservices-based systems built from the ground up to support product innovations."

HIGHEST FUNDED PLAYERS

BaaS		AA/TSP	
DECENTRO	USD 4.7 M	Perfios	USD 384 M

2E SME NEOBANKING

WHILE LARGE NEOBANKS TURN PROFITABLE, OTHERS MAY PIVOT

CURRENT SCENARIO

SME Neobanks are SaaS-based integrated platforms which provide banking and accounting services to SME and MSME segments, catering to their day-to-day business needs.

Banks have partnered with SME Neobanking platforms to offer Current Account, Transactional Banking and Reconciliation services to SME customers of Fintechs.

open + ICICI Bank

SME Neobanking is yet to achieve its potential as current platforms are focused on specific needs rather than offering a full-stack experience spanning Taxation to Cash Flows to Collections as well as assistance in Working Capital needs.

As banks look to upgrade their SME banking platforms, many SME Neobanks have started offering their platforms as white-label solutions.

FUTURE OUTLOOK & OPPORTUNITIES

Adoption of Neobanking platforms by MSMEs are expected to increase over the next few years as platforms add more financial products, especially Lending and Corporate Cards, to address their Working Capital/Trade Finance needs as well as support for Taxation and Compliance.

open BankConnect 2.0

With NITI Aayog publishing a paper on the need for Digital Banks for the SME/MSME segment, a regulatory framework for Neobanks could evolve in the near future, opening up doors for white-label Neobanking solutions.

AXIS BANK Insta BIZ

This segment is expected to face intense competition from banks building their own Neobanks, which would require these Fintechs to create better value propositions and target niche segments. Some notable examples are ICICI Instabiz and Axis Neo.

SME NEOBANKING

RazorpayX, Vanghee, hylobiz, KhataBook, flobiz, nupay, instantpay, chqbook, open, TIJORI

ERP PLATFORM

Tally, ZOHO, Marg, Vyapar, myBillBook

HIGHEST FUNDED PLAYERS

open — The SME Neobanking platform has raised USD 187 M till date.

3

LENDINGTECH

Segment has received ~ USD 650M of investment in the last 5 years

Potential for Global Deployment

Increasing Digital Lending Regulatory Tailwinds

Increased demand for full-stack platform with LOS, LMS, BRE, Collections and LaaS capabilities.

LENDINGTECH OVERVIEW

LOS

SysArc | Hotfoot. | lentra

Loan Origination Systems (LOS) streamline the loan origination process by facilitating the workflow from the initial loan application to ingesting data for underwriting purposes and verifying necessary documents.

LMS

pennant | SYNORIQ | alcloud

Loan Management Systems (LMS) manage the loan lifecycle post-approval, encompassing activities from the disbursement of funds to the repayment phase, ensuring efficient loan account management and tracking.

BUSINESS RULE ENGINE

SCIENAPTIC | Think360

Business Rule Engine (BRE) automates the entire Credit Risk Assessment process by analyzing data from diverse sources to generate risk scores. It determines the creditworthiness of the borrower and provides a framework for risk-based pricing.

LENDING-AS-A-SERVICE

FinBox | Yubi | Niro

Lending as a Service platforms offer a plug-and-play technology stack, enabling non-financial institutions as well as lenders to provide lending services seamlessly across various sectors, thus enhancing efficiency.

DEBT COLLECTIONS PLATFORMS

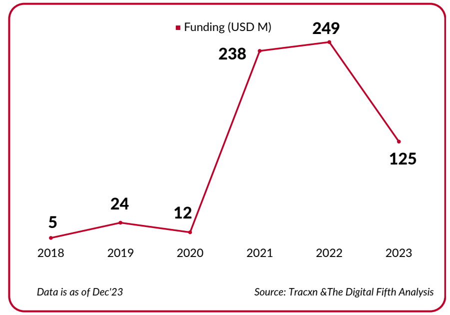
spocto | CREDITAS | Credgenics

Debt Collection platforms streamline collections and recovery processes, allowing lenders to prioritize efficiency, improve customer experience and mitigate risk.

“*The lending technology sector is in a state of transformation, marked by a shift towards collaborative and technology-driven solutions. The emergence of lending-as-a-service platforms, advancements in business rule engines, and the integration of conversational AI reflect the industry's dedication to utilising technology for an improved lending experience. Looking ahead, there are promising prospects in supply chain financing, regulatory adjustments, and enhanced data management, all aimed at optimising lending operations and delivering customer-focused solutions.*”

Ajay Thomas John
Chief Digital Officer
Shriram Capital

FUNDING ANALYSIS



The pandemic triggered the digitization of the credit journeys of key banks and NBFCs from Origination to Collection. This was accompanied by substantial funding to industry leaders in LOS, LMS, Collections and LaaS. As Digital Lending goes through secular growth, all players are expected to invest heavily in lending technology.

The international expansion of established players, improvement in margins and the entry of experienced founders will further enhance the potential of Enterprise-tech solutions for Secured Credit as well as for MSME and Corporate segments.

TOP FUNDED STARTUPS

STARTUP	FUNDED AMOUNT	SEGMENT
Yubi	USD 317M	Co-lending
lentra	USD 104M	LOS/LMS
Credgenics	USD 78M	Collections
pennant	USD 32M	LOS/LMS
RUPIFI	USD 31M	LaaS

TOP MERGERS & ACQUISITIONS

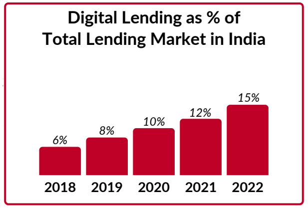
ACQUIRER	SEGMENT	ACQUIREE	SEGMENT
M2P	PaaS	finflux	LOS/LMS
Perfios	AA/TSP	FINTECH LABS	LOS/LMS
Yubi	Co-lending	spocto	Collections
		FinFort	BRE
aurionpro	Enterprise-tech	A S Software Services Pvt. Ltd. Omnifin	LMS

Data as on Dec'23 | Source: Tracxn and The Digital Fifth Analysis

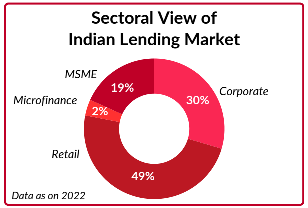
India's Changing Lending Dynamics

Disbursements by institutional lenders grew from USD 1,302B in FY'18 to USD 1,841B in FY'22, with MSME and Retail disbursements increasing by 56% and 77%, respectively.[1]

Digital Lending in India has grown well in the past five years at a growth rate of CAGR 29%, from USD 75B in 2018 to USD 270B in 2022.[2]



Source: Source: RBI, The Digital Fifth Analysis, CRIF Report



Source: Source: CRIF

MARKET DYNAMICS

Banks and NBFCs are gaining traction on Digital Lending and investing heavily in technology stack as they see increased profitability:

- Axis Bank - 60% of total disbursements were Digital in Q1 FY'24[3]
- Aditya Birla Capital - 3X growth in Personal & Consumer Credit (FY'23 Vs FY'22)[3]

Digital lenders are accelerating their disbursements and swiftly moving toward profitability:

- Paytm - $4.3B Disbursed in FY'23 with a commission of 2.5% to 3.5% on loan value[3]
- Kinara Capital - 96% increase in AUM from Mar'22 to Mar'23[4]

Players are moving aggressively towards deep integrations with lending partners:

- PolicyBazaar - 76% increase in loan disbursals in FY'23 with exclusive products with lenders[3]
- Axis Bank & Fibe - Launched India's first numberless credit card[3]

Improvement in operational efficiency of the institutional lenders resulting in reduced TATs and errors by partnering with Fintechs for loan processing.

E-commerce players lead the embedded finance market with their Pay Later and Credit Card products driven by deep integrations with lenders.

GOVERNMENT INITIATIVES & REGULATORY SUPPORT

Issuance of licenses: The regulator has issued NBFC licenses to many Fintechs and may also issue an estimated 10+ banking licenses over the next 7 years.

Digital Lending Guidelines: The regulator has already set the guidelines for Digital Lending, FLDG as well as Co-lending, thereby making guardrails clearer for the market.

NBFC Core Platforms & Digital Push: In 2022, the RBI made the implementation of 'Core Financial Services Solution' mandatory for large NBFCs, which has led to an increased demand for LMS implementation in NBFCs.

National Financial Information Registry (NFIR): The establishment of this registry will fast-track KYC and Underwriting processes for customers.

Widespread rollout of ONDC, OCEN & AA

- The success of ONDC and OCEN will enable the access of credit to all segments.
- As the Account Aggregator ecosystem grows, lenders will utilize the data for providing credit as well as managing portfolio risk.

Risk Weightage: An increase in the risk weightage of consumer loans by banks and NBFC to 125% and an increase in the weightage of credit card receivables (Banks- 150% & NBFC- 125%) is a step taken by the regulator to strengthen credit standards.

GST / E-Invoicing: Access to GST data has opened up credit avenues for MSMEs. The mandatory e-invoicing limit has been lowered to INR 5 crore turnover. This will help MSMEs in availing credit against validated invoices.

Source : [1] RBI and The Digital Fifth Analysis [2] CRIF Report and The Digital Fifth Analysis [3] Company reports [4] ICRA rating

Lendingtech Opportunities

EYEING A USD 2.7 B MARKET BY 2030

SHIFT IN LENDING FRAMEWORK

Traditionally, lending occurred solely through the channels of banks and NBFCs. A notable shift towards layers of lenders has been seen, with the addition of specialized tiers to manage lending processes comprehensively at each stage.

Lendingtech players have capitalized on this shift by horizontally expanding across the tiers of the framework, offering scalable tech stacks for seamless integration.

SHIFTING LANDSCAPE OF PERSONAL LOANS

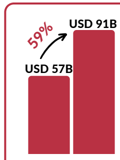
68%[1] ↓

in Average Ticket Size from FY'18 to FY '23

Personal loans are moving towards smaller consumption-based loans.

Lendingtech platforms have a unique opportunity to capture this market of smaller ticket retail credit. The projected surge in transactions demands greater digitization and lower costs with robust infrastructure.

ACCELERATED MSME LOAN DEMAND



DISBURSEMENT AMOUNT[2]

MSME loan demand has surged 1.7X from 2021 to 2023, propelled by innovative lending models and improved Credit Assessment led by digital infrastructure and GST data integration.

Lendingtech is anticipated to develop tailored product offerings for vertical-specific MSMEs by aligning with supply chain networks and streamlining processes via ERP integration. Additionally, there is a push from lenders to reduce manual interventions, aiming to foster growth while simultaneously lowering operating costs.

NTC SEGMENT IS OPENING UP

SCIENAPTIC

Fintechs have opened up the NTC segment, including women, youth, rural population and MSMEs, by offering sachet-sized loans by utilizing alternate data. This segment has performed comparably well, thus encouraging traditional players to targeting this segment as well.

There is an increased opportunity for Underwriting platforms to utilize alternative data to offer credit to the NTC segment. With the availability of data from Account Aggregators, ONDC, GST, E-Invoicing, Supply Chains and other sources, the services of Underwriting platforms would be significant.

SCALING CO-LENDING & SURGING SECURITIZATION

Yubi

KNIGHT FINTECH

Co-lending is scaling and has crossed USD 3B. Securitization volumes have surged to reach USD 8.8B. These products require deep integrations between FIs from Origination to NPA Management.

There is a demand for Co-lending and Securitization platforms to provide integration between lenders to manage the origination and lifecycle of such products.

UPI'S INTEGRATION WITH CREDIT LINES

NPCI

HDFC BANK

Credit on UPI is expected to witness mass adoption over the next 3 years, driven by simplified customer experience, interoperability and the omnipresence of UPI QR.

Banks will be required to invest in LOS, LMS and BRE platforms to scale the issuance of Credit Lines. This may impact the utilization of UPI on Savings and Credit Cards.

NTC - New to Credit Source : [1] "How India Lends FY'22" A Report by CRIF [2] MSME Pulse Report by SIDBI & CIBIL and RBI

Evolution of Lendingtech Ecosystem

	2010 & Before	2011 - 2015	2016 - 2020	2021 - 2023
LOS/LMS	Craft Silicon, finflux, EbixCash, Nucleus Software, CloudBankIN, SysArc, nelito, pennant	Namaste Credit, LCODE, allcloud, CloudNBFC, rupeepower	Synoriq, iServeU, finezza, Hotfoot, lentra, ezee.ai, Credility, SkaleUp, OneFin	IFINANCE, KP, 50Fin, FINSIRE, Biz2X, Adhyam
BRE	CRIF, experian, FICO		Think360, Scienaptic	
Collection Platforms		spocto, Creditas	Credgenics, moneytor, CreditNirvana, DocBoyz	DPDzero, clxns, reli connect
LaaS (including Co-Lending)		FinBox	Knight Fintech, Yubi, Roopya	Finayo, Finverv, Falcon, Niro

2010 & Before

- Lenders used manual processes, employing paper-based methods and Excel sheets to underwrite and onboard customers through branches.
- Minimal usage of LOS platforms was observed.
- LMS was used to offer standard products to customers. This period saw the emergence of a large number of LMS players.

2011 - 2015

- This period was marked by the initial adoption of LOS in India, spurred by the uptake of internet and mobile technologies, leading to the growth of Digital Lending practices specifically through assisted channels.
- There was a gradual progress observed in the collection processes within the lending landscape led by App-based Collection platforms for agents.

2016 - 2020

- This period witnessed a notable increase in the number of players across BRE, LOS/LMS, and Collections, despite the market operating under limited revenue and funding support.
- Co-lending platforms emerged as a significant area in the lending space.

2021 - 2023

- Rapid acceleration in Digital Lending is visible, highlighted by substantial investments made by banks, NBFCs and Fintechs in Lendingtech solutions.
- LaaS platforms are gaining momentum, facilitating multi-tier credit facilities.
- Collections platforms are attracting significant attention due to their efficiency in loan recovery processes.

Note: This is not an exhaustive list and many players have multiple lines of business in various segments other than the ones mentioned.

3A LOS / LMS

UNDERPINNING THE CREDIT TRANSFORMATION OF THE COUNTRY

CURRENT SCENARIO

Lenders are shifting from monolithic legacy platforms to cloud-native microservices platforms. They are willing to share revenues with Fintechs.

The evolving multi-tier lending ecosystem and complex lending products underscore the necessity for highly customizable and integration ready LOS/LMS platforms.

Low Code No Code (LCNC) platforms are building their own LOS platforms as the agility requirements of customers and regulators are on the rise.

Lending products are innovating beyond standard EMI payments to flexibility in disbursement, repayment schedule and repayment amount.

Prominent players have started expanding into MENA & SEA regions and getting early wins.

Secured lending is showing early signs of innovations with startups building the stack and lenders looking to digitise secured lending.

FUTURE OUTLOOK & OPPORTUNITIES

Banks and NBFCs will go fully digital for the Retail and MSME credits in the next 10 years. There is therefore a massive opportunity to build for this secular digitalization of the Indian lending sector.

Lenders will look to accelerate the digitization of secured lending, which has remained largely manual, expensive and inefficient.

Lending and CBS is expected to get decoupled, with banks migrating to specialist lending platforms

Implementation of a CFSS, mandated by the regulator, holds the potential to expedite growth and revenue generation for LMS.

Business models have seen a transition from a license-based revenue model to a % of AUM-based revenue model. Over the next decade, it is expected that there would be significant adoption of variable models as technology moves from support function to business function.

Market will witness building of full-stack solutions through inorganic growth, such as Perfios acquiring FintechLabs & Karza and M2P acquiring Finflux. This approach allows them to offer end-to-end solutions to clients, encompassing LOS, LMS, BRE, and Collections.

Rama Krishna Raju

Director & CEO,
Pennant Technologies

"In the dynamic Indian lending landscape, it is evident that there is a shift towards lending systems that bring flexibility, scalability and resiliency to operations. The right technology can be a crucial differentiator for financial institutions to launch innovative loan products, strengthen operational agility and at the same time quickly adapt to regulatory changes. Highly composable, with an ability to perform at scale, lending systems can help financial institutions be future-ready, build competitive advantage and drive business growth."

HIGHEST FUNDED PLAYER

The lending platform has raised USD 104M till date

3B Business Rule Engine & Collections Platforms

OPPORTUNITY FOR STARTUPS TO ENTER THE MARKET

CURRENT SCENARIO

Business Rule Engine

AROHAN · SCIENAPTIC

Lenders have started working with BRE startups as they intend to look beyond conventional underwriting frameworks.

The integration of diverse data sources has become fundamental for underwriting engines as they serve as foundational elements for credit assessment.

Sahamati · GSTN

udaan Capital · FinBox

Embedded Finance and Fintechs have started incorporating BRE into their systems to improve the decision-making process and route to relevant partners.

Collections

RBL BANK · CREDITAS

The pandemic made it imperative to handle collections digitally and via multiple payment instruments, thus driving lenders to enhance and expand their Collections platforms.

There is a growing demand for comprehensive collections platforms that encompass AI capabilities along with physical teams to cover the entire spectrum of collection efforts.

spocto

FUTURE OUTLOOK & OPPORTUNITIES

Business Rule Engine

Demand is expected to grow for BRE across all layers, i.e. banks, NBFCs, Fintechs and Embedded Finance players, for adaptable, scalable and real-time decisioning to fuel expansion.

While the general appetite for BREs is expected to grow, growth is anticipated in segment-focused BREs to cater to the specific requirements of large segments such as Retail, MSME, and Corporate, ensuring more precise and targeted functionalities.

BRE platforms will have opportunities worldwide, as shown by Scienaptic. These flexible platforms can easily be customized to local requirements and do not require prolonged country level workflow and product development, as is the case with LOS / LMS platforms.

Collections

Collections platforms may incorporate Early Warning functionality, enabling lenders to identify potential loan defaults or delays that further lead to NPAs. Discrepancies in the recorded collection transactions and actually received funds present additional opportunities for Collections platforms.

There is an expectation of higher defaults in Unsecured Credit, as called out by the regulator. This will propel additional investment in collection platforms.

Sony A
Chief Information Officer
South Indian Bank

"The dynamic landscape within India's lending tech sector is witnessing a notable shift towards an advanced technological integration, specifically focusing on the Business Rule Engines (BREs). The prime emphasis lies on the credit segment, where the pivotal question arises concerning real-time underwriting capabilities. There's a significant consideration regarding whether the underwriting model will rely on traditional methods or cutting-edge technological capabilities to adapt to the evolving financial landscape. This transformation aims to enhance efficiency, particularly in the assessment and management of credit, thereby shaping the future of lending technology in the country."

HIGHEST FUNDED PLAYER

BRE		Collections	
SCIENAPTIC	USD 9M	Credgenics	USD 78M

3C Lending as a Service (Including Co-Lending)

LEADER IN THE SEGMENT IN TERMS OF FUNDING

CURRENT SCENARIO

LaaS providers enable Fintech and Embedded Finance players to provide credit by offering plug-and-play tech stacks.

They offer banks and NBFCs additional revenue-building opportunities by extending lending beyond their digital channels to partner channels.

Banks and NBFCs are gradually embracing Co-lending platforms to enhance loan origination processes and efficiently manage the available capital.

LaaS platforms are focusing on removing friction at all levels across technology as well as capital. This is opening up the business model to transform either into a TSP, a TSP + Capital Provider or anything in between.

FUTURE OUTLOOK & OPPORTUNITIES

LaaS providers are shifting their focus towards Secured Lending products, an unexplored domain within Digital Finance. This is a completely new area of exploration for these service providers, and is driven by the demands of large lenders. Home Loans may be the first segment to be digitized.

Given deep revenue pools and increasing acceptance for LaaS, full-stack players are expected to offer LOS, LMS, BRE, Collections, Co-lending, and Securitization services.

Existing LOS and LMS platforms are venturing into developing Co-lending and LaaS stacks to diversify services, generate additional revenue streams, and stay competitive in the evolving lending landscape.

Rajat Deshpande

Co-Founder & CEO
FinBox

"As we look to the future, the lending landscape is poised for innovation and growth. Anticipated changes in LMS and BRE technologies, the rise of Low-Code/No-Code platforms, and the shift towards data-first strategies hold immense potential. Channel-agnostic, omnichannel experiences, along with international expansion, are the key to success. We're on the brink of a data-driven evolution in the lending industry."

HIGHEST FUNDED PLAYER

Yubi — The Co-lending platform has raised USD 317M till date

3D

SME Lending

CATALYZING GROWTH: THE EVOLVING LANDSCAPE OF MSME LENDING

CURRENT SCENARIO

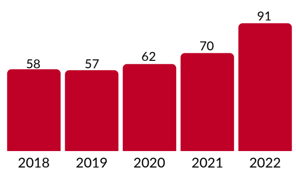
Digital Lenders are offering collateral-free loans with flexible repayments and end-to-end digital processing for MSMEs which are not targeted by established lenders.

Product innovations like Revenue-based Finance by GetVantage and Supply Chain finance by Vayana offer new opportunities for credit to MSMEs.

Industry leaders have been seen entering the Enterprise Fintech arena by offering their stack as Lending as a Service.

Disbursement to MSMEs

56.6% increase in disbursement to MSMEs by Institutional lenders, from USD 58.07B in 2018 to USD 90.94B in 2022



Source: RBI *All figures are in USD B*

FUTURE OUTLOOK & OPPORTUNITIES

Greater availability of data from GST, e-Invoicing, AA, etc. will help in the income assessment of MSMEs, thereby positively impacting credit.

MSME lenders will replicate the success of Consumer Lending and offer digital credit through their own channels as well as partnerships.

On the supply side, MSME lenders are expected to partner with larger lenders for Co-lending and Securitization opportunities.

ONDC offers a large opportunity for lenders as small sellers and service providers would be the biggest beneficiaries of heightened e-commerce transactions.

Deepak Jain
Co-Founder
FlexiLoans

India's SME lending sector is on the brink of transformation, holding a billion-dollar market potential. Digital lenders, fueled by innovation and regulatory adaptability, are set to rival traditional lenders. This shift, coupled with the move from cash to digital payments in smaller towns, promises substantial growth & evolution.

Bhavik Vasa
Founder
GetVantage //
GetGrowth Capital

Capital-As-A-Service unleashes a dual force -empowering innovation through boundless opportunity and catalyzing impact by democratizing access to financial fuel for the emerging brands of India.

HIGHEST FUNDED PLAYER

The NBFC has raised USD 195M till date

4

PAYTECH

This space has received USD 2B investment in the last 6 years

Immense scope for internationalisation and interoperability

Funding focus has shifted to Cross Border, PaaS and Rewards

Full-stack platforms are being built to provide plug-and-play capabilities

PAYTECH OVERVIEW

CARD MANAGEMENT

Hyperface | one card | 42CS | M2P

Card Management platforms enable the creation and management of prepaid, debit and credit cards.

PAAS

Cashfree Payments | zeta | CARD91

Payment as a Service (PaaS) platforms, in partnership with banks, enable Fintechs and Embedded Finance players to offer plug-and-play payment solutions via an API stack. These services include Card Management, Domestic Payments, Payment Gateways and Cross-border Payments.

CASH MANAGEMENT

aurionpro | intellect | FINASTRA

Cash Management platforms streamline Payments, Collections and Reconciliation for corporates and financial institutions.

REWARDS

Qwikcilver | indepay | twid | Ascenda

Reward platforms enable partners to offer rewards for loyalty, referrals, or performance with various incentives like discounts, points, vouchers, etc. which end customers can avail with ease.

SWITCH PLATFORM

mindgate | Sarvatra Technologies | Olive | M2P

Switch platforms enable Payment Networks to route and authorize payments to banks. These payment methods include Card, UPI, RTGS, NEFT, UPI, IMPS, BBPS, etc.

PAYMENT GATEWAY / POS

innoviti | pine labs | Razorpay | PayU

Payment Gateways process and authorize payments between sellers and buyers using infrastructure offered by Payment Networks and banks.

ESCROW PLATFORM

ESCROWPAY | ASCENT | CASTLER | TransBnk

Escrow Payment platforms enable banks and trustees to secure the collection and disbursal of transactions between buyers and sellers, thereby reducing transaction risk.

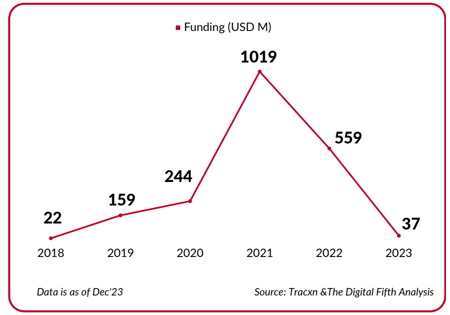
CROSS BORDER PAYMENT

tazapay | XFLOW | PayGlocal | Fable

Cross-border Payment platforms provide international money movement infrastructure to banks, forex and trade entities for Remittances and Trade transactions.

Source : [1] Data on PG from RBI

FUNDING ANALYSIS



There is a marked shift in funding towards Cash Management, Escrow, Rewards and PaaS platforms, whereas earlier, PG/POS players received a majority of the funding. This reduction is linked to regulatory constraints, wherein only 31 licenses out of the existing have been approved, while 72 existing/new licenses have been rejected or returned.[1]

Newer segments are expected to attract their share of capital as startups scale. In addition, significant potential also exists in the internationalization of Indian Enterprise Fintech startups to cater their offerings to the world.

TOP FUNDED STARTUPS

STARTUP	FUNDED AMOUNT	SEGMENT
pine labs	USD 1600M	POS
Razorpay	USD 817M	PG
zeta	USD 350M	PaaS
M2P	USD 129M	PaaS
innoviti	USD 128M	PG

TOP MERGERS & ACQUISITIONS

ACQUIRER	SEGMENT	ACQUIREE	SEGMENT
Razorpay	PG	Ezetap	POS
		ezetap	POS
		POSHVINE	Rewards
pine labs	POS	Qwikcilver	Rewards
		mosambee	POS

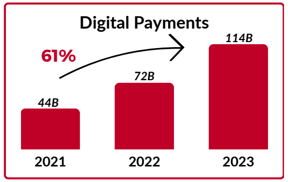
Data as on Dec'23 | Source: Tracxn and The Digital Fifth Analysis

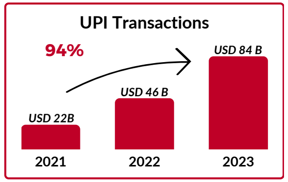
India's Changing Payment Dynamics

GROWTH IN PAYMENTS

Digital Payments have witnessed a remarkable surge, with the volume experiencing a growth (CAGR) of **61%** between FY'21 to FY'23. Volume till Dec'23 has already reached 91% of last FY volume. This has been fuelled by the pandemic as well as the emergence of population-scale payment systems. Paper-based instruments have dwindled to 0.6% (in volume) of total payments.[1]

UPI has emerged as a global leader in Digital Payments, showcasing remarkable growth (CAGR) with a **94% increase in volume** and an **84% rise in value**. This surge can be attributed to not only interoperability and the convenience it provides, but also to zero MDR on low-value transactions.[1]





Source: NPCI, RBI & The Digital Fifth Analysis
Figures are of Volume

MARKET DYNAMICS[1]

NEFT & RTGS: Demonstrated a consistent growth of **31%** and **23% CAGR**, respectively. These methods are predominantly used by enterprises for processing high-value transactions.

Credit Card: Issuance of Credit cards has seen a **16% CAGR** led by co-branded cards like Amazon & ICICI Bank, Flipkart & Axis Bank, as well as by new issuers like DBS Bank, AU SFB, Federal Bank and South Indian Bank. The usage has increased by **29% CAGR**, fueled by higher customer uptake, attractive rewards, and cashbacks.

Debit Card: Usage of Debit cards has **declined by 8% YoY**, with the convenience of UPI QR based payments, which has eliminated the need to carry a card.

NETC: Growth in transaction volume and value by 58% and 69% CAGR respectively is led by factors such as mandating of FASTag, embedding FASTag in vehicles during manufacturing, varied use cases like parking tickets and development of road infrastructure.

PPI: 2022 saw growth of 42% in usage of PPI but it went flat to 3% in 2023 owing to the stiffening of KYC regulations, banning of credit on prepaid, and movement to UPI.

AePS: Transaction values have witnessed a growth of **14% CAGR**, with a volume of 94.1M transactions to date. AePS has played the role of UPI for rural India, with the government utilising Aadhaar-linked accounts to implement schemes and disburse subsidies.

REGULATORY & GOVERNMENT SUPPORT

- The RBI has implemented a licensing model for PA/PG and PA-Cross Border. Master Directions on Digital Payments Security Controls, Harmonization of TAT and Co-branded Credit cards have been issued.
- The RBI created a Regulatory Sandbox setup for digital players to develop and test product innovations in a controlled live environment. So far, two payment-focused cohorts have been launched which have led to innovations like UPI 123Pay (for offline payments) and set the path for transformation in cross-border payments. RBI has also introduced CBDC to facilitate the adoption and usage of Digital Payments to reduce the usage of cash.
- The regulator launched 'RBI Kehta Hai' (Translation: RBI Says) to increase awareness about Digital Payment modes as well as to educate customers on how to use them safely.
- The RBI has launched the 'Digital Payments Index' to capture the extent of digitalisation of payments across the country, covering demand and supply side factors, payment performance and customer-centricity.

Praveena Rai
Chief Operating Officer
NPCI

"The payments industry in India is experiencing a pivotal shift towards tech-driven solutions. Emphasizing B2B engagement, advancing AI applications in credit services, and advocating for modern tech stacks among service providers reflect our commitment to revolutionising the ecosystem. Striking a balance between innovation and trust, we're steering towards hybrid tech approaches, propelling us towards a more personalized and efficient payment landscape."

NETC - National Electronic Toll Collection | AePS - Aadhaar Enabled Payment System | MDR - Merchant Discount Rate. Source : [1] RBI, Meity & The Digital Fifth Analysis

Paytech Opportunities

EYEING A USD 670 M MARKET BY 2030

RISE IN DIGITAL PAYMENTS

Digital Payments have continued to witness massive growth primarily led by UPI, which demands scalable and resilient switching infrastructure.

In response to rising growth and innovation in Digital Payments, banks are expected to enhance their legacy switch stacks with dynamic infrastructure. To manage workloads from varied payment methods through a Dual-core Switch Stack, banks are exploring both aggregation and division strategies.

CROSS BORDER AND ESCROW PLATFORMS

Cross-border payments and Escrow Management remain untapped due to complex regulations and inherent challenges of financial risk associated with those transactions.

API-led payment facilitators will see increased demand to ease integration with Cross-border transaction interfaces for better risk management, improved costs and turnaround time.

PAIN POINTS IN RECONCILIATION

The complexity of reconciliation is growing due to the availability of more payment methods and facilitators, making it challenging to manage settlements, refunds, cancellations, and liquidity.

Given the necessity for enhanced reconciliation among payment participants, both incumbent and new players are expected to employ agile Reconciliation platforms, driven by rule-based analytics.

NEED TO STREAMLINE B2B PAYMENTS

With a focus on B2B payments and a growing number of MSMEs in India, there is a need for technology stacks that simplify and streamline B2B payment processes.

There is a vast opportunity to build enterprise-grade solutions to simplify B2B payments that can seamlessly integrate with business systems. Platforms should have the capability to handle end-to-end requirements such as streamlining payouts, handling collections and managing cashflow within a single platform.

GROWTH OF CBDC

As 13 banks[1] are currently operational with CBDC and additional banks are anticipated to participate in the future, the adoption of Digital Rupee is predicted to rise.

As additional pilot programs emerge and various use cases develop around CBDC, the market is likely to seek interoperable and security technology solutions to provide numerous use cases, offering channel-agnostic interfaces.

EMERGENCE OF PAAS

There is a growing demand to accelerate the deployment of rapid payment products, led by the rise in embedded payments and emerging payment business models.

To tackle these areas, the market will continue to seek PaaS solutions to provide pre-built components, and ready-to-use, plug-and-play payment solutions.

Source : [1] iba.org.in

EVOLUTION OF PAYTECH MARKET

	2010 & Before	2011 - 2015	2016 - 2020	2021 - 2023
Switch & Card Management Platforms	[illegible], Yalamanchili, Kiya.ai, vsoft, Euronet, Finacus, FSS, Olive, AGS, Sarvatra Technologies, FIS, fiserv	EPS, paycraft		M2P, 42CS, one card, Hyperface
Cross Border Payments	Payoneer	NIUM, terrapay, wise, Fable	tazapay	EximPe, Xflow, PayGlocal
PG/POS	innoviti, iSG pay, ingenico, pine labs, Payomatix, Paymentz	Razorpay, Easebuzz, PayPhi, PayU, mswipe	Asian Checkout	PayAid
Rewards	Qwikcilver, indepay	Ascenda, thriwe		twid
PaaS	mindgate	zeta, Cashfree Payments, M2P	safexpay, CARD91, Credopay, bonushub	
Business Payments (Escrow & Cash Management)	aurionpro, HCLTech, AGS, Finacus, Nucleus Software, intellect	Ascent, EscrowPay	CarefreePay, vouch., FINASTRA, Castler	TransBnk, GoCrow
	• Electronic payments made inroads in the country with ATMs, NEFT and RTGS. • Foreign players entered Switch and Card Management which were mostly operated through private data centre setups in multi-tenant structures or on-premise deployments for banks. • Banks started deploying Cash Management platforms. • Payment Gateway/POS platforms were launched.	• NPCI launched IMPS, following which Switch platforms launched IMPS switches for banks. • E-commerce started gaining traction with the growth of Flipkart and Amazon, leading to increased demand for White Label PGs. • Cross-border payments also showed early traction during this period and banks started deploying technology stacks.	• UPI and AePS were launched during this period. Banks invested heavily in UPI Switch infrastructure. • Analytics-based reconciliation took centre stage with multiple payment methods being introduced and an increase in the volume of digital payments. • PG players pivoted as full-scale PaaS players.	• With growth in Credit cards and an increase in the adoption of co-branded cards, a new breed of Switch and Card platforms emerged. • Rewards Management also started gaining wider interest in the industry. • Escrow Payment tech players emerged to show acceptance among banks and players. • Forex As a Service emerged as a new business proposition.

Note: This is not an exhaustive list and many players have multiple lines of business in various segments other than the ones mentioned.

4A PAYMENT GATEWAY, POS & PAAS

PAYMENT SYSTEM PROVIDERS TO ENTER A PHASE OF MATURITY

CURRENT SCENARIO

Demands for PGs increased the growth of e-commerce, while POS continued to transform offline businesses.

Many PG platforms have evolved as white-label platforms, providing technology solutions to other payment service providers.

PGs are adopting full-stack solutions, including CMS, PaaS and Cross-border services. This trend is reflected in the acquisition of Ezetap by Razorpay and the launch of Pine Labs' Plural.

With the regulator tightening the issuance of licenses, entities that have or will receive one will observe a surge in their business.

PaaS players provide a comprehensive solution, including SaaS and IaaS components, offering startups a convenient toolkit to enter the Payments market rapidly.

FUTURE OUTLOOK & OPPORTUNITIES

Banks will opt for their own PGs to boost their online payment services, which could lead to an increased demand for white-label platforms.

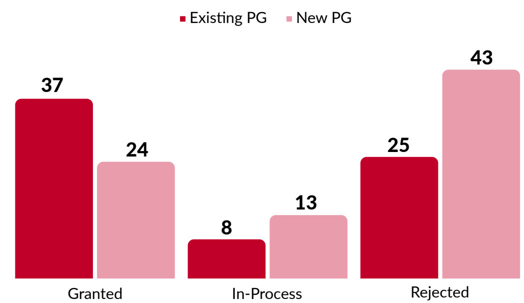
ONDC expansion is likely to drive the need for customized PA/PG/PaaS solutions, especially in e-commerce and MSME sectors.

The recently released guidelines on PA - Cross border are expected to attract players into this segment. This move aims to facilitate import-export payments for small and mid-sized businesses, consequently driving an increased demand for the OPGSP platform.

With the growing digitalization of enterprise payments, demand for solutions such as Collection, Reconciliation and more is expected to increase. Therefore, there is an opportunity to build in these domains which previously would have had limited potential.

There is a growing internationalization of Indian Enterprise Fintech solutions, especially for POS/PG/PaaS solutions.

PA / PG License Distribution



Source: RBI

The tightening of rules and regulations for PA/PG license is fostering market maturity, thus prompting heightened scrutiny and monitoring.

HIGHEST FUNDED PLAYERS

POS	pine labs	USD 1600M
PaaS	M2P	USD 129M
PG	Razorpay	USD 817M

POS - Point of Sale / OPGSP - Online Payment Gateway Service Provider | SaaS - Software as a Service | IaaS - Infrastructure as a Service

4B Cross Border Platforms

INNOVATIONS IN CROSS BORDER ARE REVOLUTIONISING THE SEGMENT

CURRENT SCENARIO

India's Cross-border system largely relies on RBI-licensed AD-I Category Banks which serve as both mediators and facilitators.

AD-II and FFMC players are now delving into a broad spectrum of products and services through bundled Cross-border transactions, frequently collaborating with AD-I Banks and MTOs.

Leveraging technology, FXaaS capitalizes on the expanding remittance market and foreign trade, addressing consumer concerns related to latency, transparency as well ease of transaction.

Retail investors are leveraging Fintech-driven Investment platforms to actively participate in Cross-border trading and investment activities

FUTURE OUTLOOK & OPPORTUNITIES

The anticipated growth in demand for international education may create an opportunity for new entrants with advanced technology capabilities in both university and student interfaces to simplify cross-border payments for student fees and expenses.

With e-commerce import-export in India projected to exceed USD 100B+ by 2030, payment facilitators may see an opportunity to support e-commerce platforms like Etsy, Shopify and IndiaMart for seamless cross-border transactions.[1]

RBI has raised online Payment Gateway limits for cross-border transactions in the latest PA-CB guidelines signifies a promising market opportunity amidst technological advancements and growing demand.

Partnering with AD-I banks, FXaaS increased demand for providing Forex-related APIs to support Remittance, Forex Cards, EXIM transactions, education payments and other related services.

Driven by the escalating demand for the digitization of Invoice Discounting and various Trade Finance solutions in this sector, Payment facilitators are poised to explore Forex Supply Chain Financing further in the near future.

MARKET SCENARIO

REMITTANCE

Inward	Outward
USD 100B 12% YoY	USD 27B 38% YoY

TRADE

Import	Export
USD 892B 17.38 % YoY	USD 770B 13.75% YoY

INVESTMENT

Total FDI inflows received in FY 2023, which includes equity inflows, reinvested earnings, and other capital sources. USD 71B 19.3% YoY

Data as of 2022-23
Source: Press Information Bureau, GoI

HIGHEST FUNDED PLAYERS

Cross Border Payments

PayGlocal	USD 17M
XFLOW	USD 16.2M

OEIF - Online Export Import Facilitator | FXaaS - Forex As A Service | OPGSP - Online Payment Gateway Service Providers | FFMC - Full Flegded Money Changer | AD - Authorized Dealer | MTOs - Money Transfer Operators

Source : [1] Press Information Bureau & Indian brand equity foundation

4C SWITCH & CARD MANAGEMENT SYSTEM

FORESEEING INNOVATION TO DRIVE GROWTH IN THE SEGMENT

CURRENT SCENARIO

International entities have predominantly led the Card Switch platforms utilised in banks.

A majority of Switch platforms are interconnected with Card Management platforms. Newer players are decoupling these solutions to drive innovation.

The market is witnessing demand for microservices-based agile Card Management platforms to provide customisation, quick launch, and co-branded cards.

There is an increasing trend towards bundling value-added services such as Reconciliation and Settlements for providing a new-age full-stack experience.

Cloud-based Switch platforms and Card Management solutions are increasingly being sought by the market for their flexibility, scalability and customizability.

FUTURE OUTLOOK & OPPORTUNITIES

Banks are expected to diversify away from their current reliance on a single-switch model. The growing scale of digital payments is likely to push this demand higher.

Lenders are increasingly looking at catering to the demand for credit cards, especially by the NTC category, in partnership with Fintechs. This is expected to increase the opportunity to build customized and sophisticated co-branded Card Management Systems.

As the RBI plans to globalise domestic payment systems, there could be a need for technology enablers to facilitate seamless transactions between homegrown and global payment methods.

IOT-based payments will increase the demand for tokenization in transactions, thus requiring more Token Service Providers to integrate with Card Management players in order to facilitate safer card payments.

Aishwarya Jaishankar
Co-Founder & COO
Hyperface

"Customers demand personalized, enriched banking experiences and experimentation in their payment journey. Banks, facing challenges with legacy systems and pricing models, must adapt to meet these evolving expectations. The growing demand for middleware and API enrichment, coupled with the use of AI, is reshaping the banking and payments landscape. Collaborative innovation between fintech and banks is essential to address these evolving use cases and deliver data-driven solutions effectively."

CARD INFRASTRUCTURE

NO. OF CREDIT CARDS ISSUED

Newly Issued	Total
12M FY23	85.3M 17% CAGR (FY21-23)

NO. OF DEBIT CARDS ISSUED

Newly Issued	Total
44M FY23	961M 3% CAGR (FY21-23)

Source: RBI

HIGHEST FUNDED PLAYERS

Switch	Card Management
Sarvatra Technologies USD 26M	Hyperface USD 10M

4D Rewards Platform

MARKET LEANING TOWARDS INCENTIVISATION

CURRENT SCENARIO

POSHVINE by Razorpay

Banks are opting to collaborate with Rewards platforms to provide rewards tied to card usage. For instance, IDFC Bank has partnered with PoshVine to offer reward points to its credit card customers.

Rewards platforms are attempting to solve issues pertaining to personalization, efficiency, transparency, scalability, recognition scope, tax issues, effectiveness tracking and reward delays.

Ascenda

thriwe

Rewards platforms are building technology to consolidate reward points across banks and retailers to enable them to use it at POS terminals using cards.

As the adoption of rewards increases, Payment facilitators are attempting to tap into this opportunity and plug rewards in as a part of their offerings.

pine labs → Qwikcilver

Increasing frauds around the rewards ecosystem are creating a need for fraud management.

FUTURE OUTLOOK & OPPORTUNITIES

With the increasing digitalization of commercial activity, there is a strong case to build interoperable Rewards platforms offering platform-agnostic utilization to drive customer loyalty and engagement.

Rewards platforms will aim to increase their value proposition by enhancing analytical capabilities and meticulously tracking customer behaviour, optimizing the utilization of rewards, refining customer profiles, enhancing interactions and aligning redemption.

Platforms are positioning themselves as providers of Loyalty as a Service, diversifying incentives based on redemption through gold and cryptocurrency. This necessitates a technology stack to facilitate incentive delivery.

As the market expands, functionalities such as Fraud Detection and superior Customer Communication can be strong differentiators for the adoption of rewards platforms.

Amit Koshal

Founder & CEO
Twid

"In the past, people worldwide lacked the know-how to utilize their hard-earned rewards. With the push towards digital payments, the adoption of technology will create a potential market for better scale-up. The key is to create a sense of self-ownership for rewards, fostering utilization and engagement. With a focus on building user awareness, India's rewards market will see more technology adoption to expand, offering more fungible and ubiquitous points for redemption. Rewarding users for byte-sized transactions coupled with their willingness to transact more for additional rewards are fueling the growth of the rewards market."

HIGHEST FUNDED PLAYER

twid — The Rewards platform has raised USD 17M till date.

4E Business Payments (Escrow & Cash Management)

REAL TIME PAYMENTS WILL DRIVE INNOVATIONS IN THE SEGMENT

CURRENT SCENARIO

Escrow setup, which used to be a fully manual activity, is now being solved by new-age Escrow platforms that offer end-to-end digital setup processes.

Modern Escrow platforms present a broad spectrum of services beyond handling transactions. These include services for Document Exchange and Shares Exchange.

In tandem with the growth in digital payments, CMS providers are becoming more configurable, automated and ERP integration-enabled.

As market expectations lean toward integrating Corporate Banking services with Escrow services, existing players may enhance current systems, while new entrants will focus on seizing the opportunity to introduce innovative solutions that cater to both needs.

FUTURE OUTLOOK & OPPORTUNITIES

Growth in cross-border trade, coupled with a regulatory drive towards digitalization and formalization of the economy is expected to drive demand for CMS and Escrow solutions customized for international complexities.

There is a demand for new-age Cash Management platforms that can handle the entire value chain, including Supplier Payments, Collections and Receivables Management, Salary Payments, Liquidity Management and Reconciliation in a convenient and user-friendly manner.

Cash Management and Escrow platforms equipped with Fraud Detection and AML capabilities are essential to ensure a secure and trustworthy cash flow experience for users.

Vaibhav Tambe

Co-Founder & CEO
TransBnk

"Escrow will play as an entry point for new payment tech players to enter into banks to provide robust business banking services. Escrow and Digital banking will be combined to form a comprehensive corporate banking stack. RBI's push for real and digital accounts disrupts escrow pooling, while innovations like BBPS, UPI autopay, and maturing NACH drive sector growth. The democratization of corporate stacks across banks, coupled with infrastructure development, transforms the technology layer in the sector."

HIGHEST FUNDED PLAYER

CASTLER — The Escrow platform has raised USD 14M till date.

5

REGTECH

In FY'23, banking fraud cases leapt by 2x with the number of cases concentrated in card or internet-related frauds.

The Regtech sector is expected to experience growth, with numerous emerging players securing funding.

Regulatory legislations, such as the DPDP, will necessitate advanced Regtech systems

Regtech Overview

IDENTITY MANAGEMENT

KYC solutions automate client identification processes to enhance security and prevent identity theft and financial fraud.

AML & FRM

AML solutions leverage data for monitoring transactions and reporting money laundering, while Fraud Risk Management employs analytics and machine learning for fraud detection and prevention.

REGULATORY REPORTING

Regulatory Reporting solutions enable the timely preparation of regulatory reports based on financial and operational data for submission to regulators, ensuring compliance and financial stability.

GOVERNANCE, RISK & COMPLIANCE

GRC platforms provide an integrated framework for managing governance, risk and compliance, thus promoting better decision-making and operational efficiency.

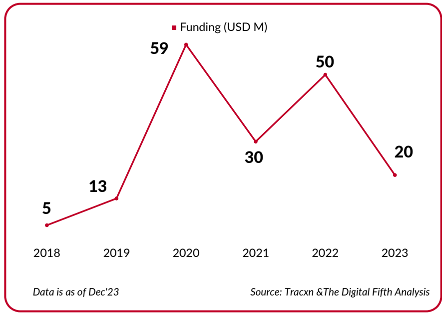
RISK MANAGEMENT

Risk Management solutions safeguard organisations from fraudulent activities, manage credit risks and ensure regulatory compliance.

CYBERSECURITY

Cybersecurity solutions use advanced technologies to guard financial assets and data, protect against cyber attacks, and comply with data security & privacy regulations.

FUNDING ANALYSIS



The Regtech sector witnessed major funding in the Identity Management segment. Funding was majorly captured by a few players like Signzy, IDfy and Digio.

The RBI's decision to extend the regulatory net as well as growth in Data and AI are creating opportunities for Regtech solutions to innovate and disrupt.

TOP FUNDED STARTUPS

STARTUP	FUNDED AMOUNT	SEGMENT
Signzy	USD 40M	Identity Management
IDfy	USD 21M	Identity Management
digio	USD 12M	Identity Management

TOP MERGERS & ACQUISITIONS

ACQUIRER	SEGMENT	ACQUIREE	SEGMENT
Perfios	Bankingtech	Karza	Identity Management
M2P	Full Stack	Syntizen	Regtech
Yubi	Co-lending	Corpository	Regtech

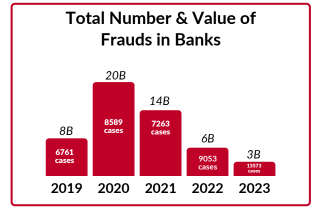
Data as on Dec'23 | Source: Tracxn and The Digital Fifth Analysis

India's Changing Regtech Dynamics

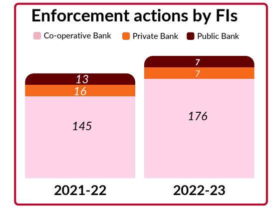
In India, banking fraud cases leapt by **2x** from 6761 in FY'19 to 13,576 in FY23 with the number of cases concentrated in card or internet-related frauds. The defrauded sum on the other hand plummeted by **~80%**, from USD 8B to USD 3B, thus signalling a surge in lower-value frauds.[1]

Enforcement Actions: [1]

- Enforcement actions by the RBI increased significantly from 189 in FY22 to 211 in FY23, with the total penalty volume declining from USD 7.95M to USD 4.9M.
- The increase in instances of penalties imposed on regulated entities during FY'23 was led by cooperative banks constituting ~83%. For both PSBs and PVBs, the number and total penalty amount declined during the year. The average penalty per instance was the highest for PVBs.



All Figures are in USD



Source: RBI & The Digital Fifth Analysis

REGULATORY TECHNOLOGY PROGRESSION

The growth of Insurtech and Discount Broking platforms intensifies the need for Regulatory Reporting, Trading Anomaly Detection, Fraudulent Claim Identification, Data Privacy and Document Verification.

The expansion of NBFCs and inclusion of Urban Co-operative Banks under the RBI's regulatory ambit will lead to rising demand for Regtech solutions to ensure exhaustive compliance across the diverse financial entities.

The growth of Digital Lending and Neobanks expands the scope of Regtech solutions to streamline compliance, manage operational risks and safeguard data security in the dynamic Digital Finance landscape.

The rise of e-commerce and associated digital frauds and data breaches amplify the need for Regtech solutions to maintain compliance with Consumer Protection rules and prevent fraudulent activities.

With the DPDP Act 2023 emphasizing 'Privacy by Design' and 'Right to Be Forgotten', the demand for Regtech solutions from players like Seqrite specializing in Data Management, Automatic Reporting and Secure Data Erasure is surging in India's Digital Finance sector.

REGULATORY & GOVERNMENT SUPPORT

India Stack APIs are a key component of the Digital India initiative and have bolstered the demand for Regtech solutions. Novel players like Difenz & Tookitaki are stepping up to offer Fraud Risk Management tools and Real-time AML Monitoring systems, respectively.

The RBI's emphasis on transparency and fair practices is triggering the demand for data-driven Regtech solutions. Players like Crediwatch and Ziagram are rising to the occasion with data-led solutions to drive compliance with the KYC and AML regulations.

The RBI's new frameworks are catalyzing the demand for Regtech solutions. Companies like Fintellix and Signzy are leading the way in Identity Management, while Jocata provides AML transaction monitoring and Data Privacy/Security solutions, enabling collaboration between Regtech players and Financial Institutions for regulatory compliance and data protection.

AML- Anti Money Laundering | DPDP Act - Digital Personal Data Protection Act | OCEN - Open Credit Enablement Network | FIU - Financial Intelligence Unit   Source : [1] RBI & The Digital Fifth Analysis

Market opportunity of Regtech

INTRODUCTION OF THE DPDP ACT

DIGITAL PERSONAL DATA PROTECTION ACT, 2023

The introduction of the DPDP 2023 Act mandates a strong governance framework for Data Collection and Consent Management, rigorous Data Protection Standards encompassing privacy and security and regulations for Cross-border Data Transfers.

To comply with the act, technology solutions are required for data discovery and to act as an end-to-end tool for managing the consent framework, enabling financial institutions to manage personal data seamlessly across backend applications through a single interface.

LEVERAGING AI FOR REGTECH SOLUTIONS

As banks and financial institutions get data rich, they are building controls by analyzing and correlating information across different platforms, shaping a new way of compliance and risk management.

Amid the surge in AI, banks are actively exploring the adoption of Regtech solutions, leveraging AI models to enhance various aspects, including risk management, fraud prevention, automation, screening, and regulatory compliance.

RBI'S EXPANDING REGULATORY NET

The RBI has been extending its regulatory net beyond banks to encompass Payment Gateways, Aggregators, and Digital Lending players. Additionally, there is an increased focus on governance around Bank-Fintech partnerships.

Growing regulatory oversight across the ecosystem is compelling not just banks, but Fintechs, LSPs, and other players to bolster their governance and compliance frameworks, leading to increased investment in Regtech solutions.

VENDOR RISK MANAGEMENT IN FOCUS

RBI's guidelines are transforming the financial landscape with banks and Fintechs increasingly embracing third-party vendors. The focus is shifting towards exhaustive Vendor Risk Management and operational resilience.

This shift amplifies the need for solutions like VRM platforms for precise third-party risk assessment, GRC platforms for seamless compliance, and resilience tools to fortify systems against disruptions.

ADF REPORTING > CIMS

RBI's transition from the legacy-based ADF reporting format to the more advanced CIMS indicates a modernized regulatory reporting shift with an aim to enhance data handling, integration capabilities and data integrity.

This will drive the demand for CIMS Integration tools for system interface, Metadata Indexing for data searches, Security Management Systems for protection, Data Visualization and Analytics tools for insights and User Management Modules for user administration.

DIGITAL PAYMENTS SECURITY CONTROLS

The widespread adoption of Digital Payments, driven by UPI, has prompted the regulator to provide comprehensive Digital Payments Security Controls. Concurrently, the rise in cyber threats and fraud incidents demands the need for heightened security measures.

The RBI's focus on enhancing security controls for payments and digital infrastructure, from banks to Fintechs, is anticipated to drive demand for advanced security solutions addressing compliance and security requirements.

Evolution of Regtech market

	2010 & Before	2011 - 2015	2016 - 2020	2021 - 2023
Identity Management		digio, WorkApps, IDfy, Hyperverge	SignDesk, pixl, PChain, finahub, mogo ID, attestr, Kwik.ID, PaySprint, Digitap	INVINCIBLE, Bureau
AML & Fraud Risk Management		simility, ADVARISK, Clari5, anaCee	PChain, Kwik.ID, DIFENZ, ZIGRAM, KEPLER, AML, napID, NEXTANGLES	
Cybersecurity	Cyberoam	KRATIKAL, TAC, SECLORE	appknox, BLOCK ARMOUR, INNEFU, Wi-Jungle, SEQURETEK, CYBERARK, LOGIX, CloudSEK	
Risk Management		FINTELLIX, RUBIX, EigenRisk, BCT DIGITAL, SURYA FINTECH, DataFotis	FINMECHANICS, DIFENZ, PredictRAM, Spacenet	
GRC		happiest minds, gieom, LEXCOMPLY, axiom, SURYA FINTECH	Etrends, Smart Automation, GRC STACK	
Regulatory Reporting	sas, iRIS	nelito, ComplyScore	TRACKWIZZ, simplyfive, RegPac, CUBE	

2010 & Before

- This period was characterized by manual operations across all segments of Regtech.
- KYC and AML relied heavily on physical document verification. Fraud Detection was primarily reactive, relying on manual processes and consumer reports. Risk management was based on traditional risk models.

2011 - 2015

- Early stages of digital adoption were seen in KYC, AML, and risk management processes. Data analytics started being used in AML and fraud detection. Early stages of automation were seen in regulatory reporting and GRC management. Technology began to be used for risk modelling and analysis.

2016 - 2020

- This period saw significant growth in the Regtech industry due to increased digital transactions following Demonetization, changes in policies such as the introduction of GST and collaboration between Fintech startups and established FIs. The establishment of a Regulatory Sandbox by the RBI in 2019 encouraged innovation, thus building confidence in the sector.

2021 - 2023

- Emerging technologies were consolidated and used for Real-time Transaction Monitoring, Anomaly Detection and Decision-making across all segments.
- Predictive analytics and AI were used for Real-time Fraud Detection as well as advanced Risk Predictions and Mitigation.

Note: This is not an exhaustive list and many players have multiple lines of business in various segments other than the ones mentioned.

5A Identity Management

DRIVING INNOVATION IN THE VERIFICATION OF IDENTITIES

CURRENT SCENARIO

Aadhaar-based eKYC initiatives are catalyzing market growth and potential consolidation of KYC solutions. Startups are facilitating efficient KYC checks during onboarding by offering API-based systems that easily integrate into financial institutions' applications.

KYC providers are enhancing their capabilities by incorporating features such as Liveness Checks, Location-based Verification and Facial Recognition into their systems through the extensive utilization of analytics.

Kwik.ID

Between 2019 and 2023, the RBI issued 12 KYC Master Directions and amendments, showcasing its commitment to customer protection while fostering an inclusive Digital Payment ecosystem.

As banks and lenders persist in advancing digital customer acquisition and service, the expectation is for KYC providers to deliver a comprehensive suite of services to accommodate the needs of an even broader range of customers.

FUTURE OUTLOOK & OPPORTUNITIES

The increasing use cases of OCR, NLP and biometric authentication in Regtech open up new avenues.

As digital services expand globally, Indian players like Perfios, Signzy and IDfy have begun to venture into Southeast Asia and the Middle East, exemplifying wider geographical growth potential.

As regulatory oversight broadens to encompass more entities, the demand for KYC solutions providers is expected to increase.

As digitisation expands to MSME/SME from the Corporate segment, there's a growing need for enhanced identity verification to streamline the somewhat manual or semi-digital KYC processes.

Arpit Ratan

Co-Founder & Business Head
Signzy

"New-generation solutions are transformational for Regtech, allowing banks to build compliance journeys themselves without being limited by developer bandwidth. This unlocks speed, control, and scale for banks - the real bottleneck today is the need for scarce developer resources. Going forward, the highest application of Generative AI, apart from healthcare, will be in the Regtech segment to streamline onboarding & compliance processes."

Amit Das

Founder & CEO
Think360.AI

"Analytics will be employed by entities in different areas such that banks will enhance their operational efficiency with analytics, while fintech companies will concentrate on optimizing customer interactions and refining user journeys. It can also be used to create smart solutions like Intelligent routing and scheduling in KYC to ensure optimal customer experience and agent utilization."

1.37B	Aadhaar Cards issued	Source: UIDAI	Data as of Dec'23
17B	E-KYC transactions	Source: UIDAI	Data as of Dec'23
21M	Udyog Aadhaar Registration	Source: Ministry of MSME	Data as of Nov'23
14M	Active GST Taxpayers	Source: Gst.gov.in	Data as of June'23
430M	PAN Cards linked to Aadhaar	Source: PIB	Data as of Jan'22

OCR - Optical Character Recognition | NLP - Natural Language Processing

5B AML & FRM

BEYOND PROTECTION: AML & FRM IN THE FINTECH ERA

CURRENT SCENARIO

As regulatory scrutiny intensifies on AML compliance, banks and regulated entities are expanding their use of technology beyond basic Transaction Monitoring Systems to Data Assets provided by Regtech players.

Banks and regulated entities continue to grapple with challenges related to AML compliance and digital fraud, as evidenced by a sustained increase in AML-related fines and fraud incidents.

Regtech, leveraging India's AML framework and employing NLP and Big Data, along with FRM providers' multi-factor, layered authentication and custom algorithms, offer a comprehensive solution for timely fraud detection.

The RBI's recent Master Directions require banks to have Risk Systems for PEPs, Fund Checks, Account Approvals, Mule Detection, Suspect Transaction Reporting, Due Diligence for FATF Non-Compliance and adherence to FCRA rules.

Solutions for predictive analytics and network analysis to enhance risk identification, uncover suspicious links and scrutinize unstructured data are required to strengthen AML/FRM strategies.

FUTURE OUTLOOK & OPPORTUNITIES

As the complexities of AML increase, supervised ML algorithms are set to enable more efficient and tailored monitoring of business relationships.

Vertical solutions focused on Real Estate, Precious Metals and Digital Assets will gain traction due to increased regulatory focus on these sectors.

Data-led intelligence-based fraud solutions are expected to emerge to mitigate human vulnerabilities and combat fraud.

AML / FRM PLAYERS

DIVA Software, VeriSmart, PChain, mFilterIt, DIFENZ, napID, KEPLER, Kwik.ID, ZIGRAM, AML

Abhishek Bali
Co-Founder & CEO
FinBox

"As regulatory measures in India widen, the demand for Regtech solutions is growing. The real potential lies in creating globally applicable RegTech products for smaller entities, not just large corporations. Many current Regtech applications lack cloud-native capabilities and scalability, hindering global expansion and adaptation to different regulations. Reputational risk due to non-compliance or association with shell entities is a major concern. Regulatory agencies often target large enterprises due to the significant effect of fines."

PEP - Politically Exposed Person | NLP - Natural Language Processing | STR - Suspicious Transaction Reporting | COTS - Commercial Off The Shelf

5C Governance, Risk & Compliance (GRC) & Reporting

NAVIGATING REGULATORY COMPLEXITY

CURRENT SCENARIO

Banks have largely been using Risk Management solutions for individual purposes such as financial or liquidity risks.

Cloud-based GRC solutions are gaining traction. They cater to industry-specific regulatory and risk needs such as financial risks and India's emerging data norms.

Advanced analytical tools in GRC suites offer real-time risk and compliance data analysis as well as adaptability to regulatory changes

Managed GRC services provide an all-inclusive solution, handling third-party risks and security breaches, leading to a growing appeal to businesses.

The transition from ADF to CIMS by banks has led to an increased demand for real-time regulatory reporting.

Ensuring data accuracy and quality is paramount as financial institutions increasingly prioritize Data Governance practices and Data Lineage to trace and validate the sources used in reports.

FUTURE OUTLOOK & OPPORTUNITIES

With the rise in risk events and threat vectors, solutions based on NLP and Big Data Analytics are expected to grow and reshape Risk Management by offering precise assessments and proactive strategies.

Cyber Risk Quantification models will be leveraged to identify potential threats and evaluate risk-related metrics by creating unique InfoSec programs for risk remediation and security services.

ERM technology stacks will be integrated into Risk Management solutions to evaluate risk positions, spot compliance gaps, manage incidents and policies as well as automate internal audit procedures.

Due to the growing demand for enhanced reporting from regulators and the data extraction complexity resulting from Banks-Fintechs partnerships, Regtechs are anticipated to provide cloud-based Reporting-as-a-Service for improved reporting.

NLP - Natural Language Processing

5D CYBERSECURITY

SECURING THE DIGITAL FRONTIER

CURRENT SCENARIO

PingSafe
SHIELDSQUARE

The cybersecurity landscape is shifting from legacy to modern tech, with entities like Pingsafe and ShieldSquare offering Cloud Security and API Protection solutions to secure complex digital structures and tackle newfound cyber threats.

Demand for AI-based solutions is rising with entities like Darktrace and Sequretek offering solutions for Real-time Threat Response, Enterprise Security and Digital Risk Quantification.

DARKTRACE
SEQURETEK

Financial institutions are shifting towards outcome-focused, subscription-based managed services like Cloud SOCs, aiming for streamlined vendor management, cost reduction, and versatile platform solutions

From January 2020 to March 2021, DDoS attacks surged by 55%, growing more complex with 54% using multiple attack vectors.[1]

In 2022, India, which constitutes 13.7% of total global cyberattacks, saw attacks on government agencies doubled compared to the year 2021.[2]

FUTURE OUTLOOK & OPPORTUNITIES

Strategic partnerships are set to grow alongside the increasing number of Cybersecurity platforms which frequently combine products from various diverse vendors, integrating them into a unified offering.

Banks and FIs, to align with DPDP Act compliance, anticipate emerging tools for streamlined data discovery, storage, and retrieval across diverse banking systems, easing data lifecycle management complexities.

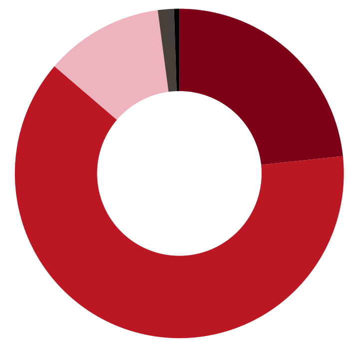
The usage of enhanced security technologies like WAF, AM, EPP and SWG, which enable a more secure work environment, is expected to rise.

The implementation of Zero Trust Architecture and Access Networks, which is preferred over traditional VPNs for secure access, is expected to increase.

CYBERSECURITY PLAYERS

ZERON | Blockeye | DISECTO | BugBase
HACK-X | secpod | intruder

Breakup of Security Incidents handled by CERT - In



Unauthorized Network Scanning/Probing
Vulnerable Services
Virus/ Malicious Code
Website based threats
Others

Source: CERT-In Annual Report & The Digital Fifth Analysis

Web Application Firewalls (WAF) | Access Management (AM) | Endpoint Protection Platform (EPP) | Secure Web Gateway (SWG)

Source: [1] F5.com [2] CloudSEK

6

ENTERPRISE WEALTHTECH

Segment received ~ USD 180M investment in the last 6 years

Enterprise Wealthtech has potential for further growth

Enabling end-to-end implementation and execution

Demand for hybrid wealth solutions

Enterprise Wealthtech Overview

WEALTH MANAGEMENT PLATFORM

Fintso · WealthSpectrum · valuefy

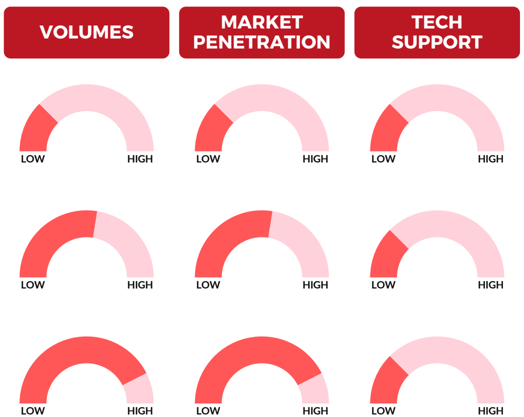
Portfolio Management | Trading Platform | Robo Advisory | MF Platform

Wealth Management platforms offer end-to-end services such as Portfolio Management, Trade Execution, Onboarding and Administration of MF and Demat accounts to financial institutions, advisory firms and wealth managers. This category also includes individual components for specific services.

Wealth as a Service (WaaS) platforms offer a range of services as well as a technology stack that can be easily integrated to enable banks, Fintechs and third-party platforms to conveniently provide various wealth management products consisting of crucial elements like Robo-advisory, Mutual Fund Execution and Portfolio Planning.

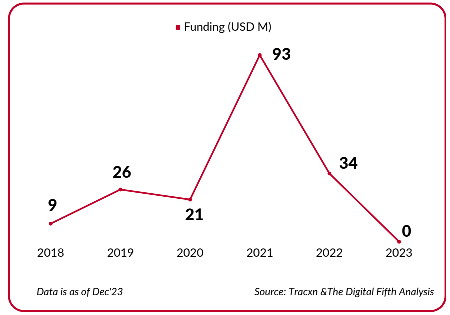
WEALTH AS A SERVICE

Fisdom · smallcase · KRISTAL



	ENTERPRISE WEALTHTECH OPPORTUNITIES
MASS	Accessible investment platforms, aimed at beginner investors, which are low-entry, intuitive and educational
MASS AFFLUENT	Personalized Financial Planning offering AI-driven advice and goal-oriented strategies
HNI/ UHNI	Bespoke Wealth Management services and Alternative Investments with sophisticated analytics

FUNDING ANALYSIS



Enterprise Wealthtech received considerable attention from investors between 2020 and 2022 to support product innovation and distribution. Considerable funding has gone to the WaaS players, while the Wealth Management sector experienced turbulence in funding.

In the overall Wealthtech space, 2023 witnessed USD 70M injected into B2C Wealthtech firms, indicating investor confidence in the overall segment as a whole.

TOP FUNDED STARTUPS

STARTUP	FUNDED AMOUNT	SEGMENT
smallcase	USD 71M	WaaS
Fisdom	USD 44M	WaaS
KFINTECH	USD 42M	WMP
KRISTAL	USD 19M	WaaS
Fintso	USD 4.5M	WMP

TOP MERGERS & ACQUISITIONS

ACQUIRER	SEGMENT	ACQUIREE	SEGMENT
Ebix	Insurance	MILES SOFTWARE	WMP
CAMS	Wealth	fintuple	WMP
InCred Capital	Wealth	orowealth	WaaS

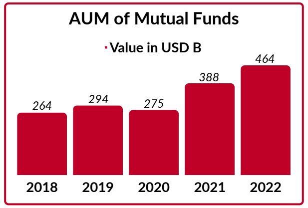
Data as on Dec'23 | Source: Tracxn and The Digital Fifth Analysis

India's Changing Wealth Dynamics

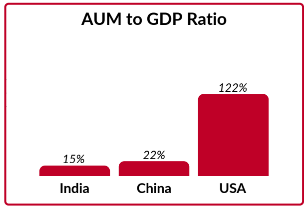
India's mindset towards investing and saving is undergoing a transition driven by growth in disposable incomes, growing knowledge regarding financial products as well as increasingly accessible ways to invest in FDs and gold to market-linked investments, primarily.[1]

The HNI and UHNI segments grew by **64%** and **84%** respectively between 2016 to 2021, leading to increased demand for Wealth Management services.[2]

The AUM of the Mutual Fund (MF) industry surged from USD 263B in FY'18 to USD 487B in FY'23, marking an impressive **80% increase** over the span of five years.[3]



Source: SEBI & The Digital Fifth Analysis



Source: Digital Fifth Analysis

MARKET DYNAMICS

New-age players are looking to build platforms to make Wealth Management affordable and accessible to retail investors at large.

Discount Broking has changed the dynamics of the industry and led the shift from brokerage-based income to fee-based income.

AIFs have gained momentum as investors chase higher returns and diversified portfolios. There has been a 476% increase in commitments- from USD 63B in FY'18 to USD 363B in FY'23.

With the younger population opting for equities, there has been considerable rise in both the quantity of Demat accounts within NSDL as well as the total worth of assets held.

- 57% in volume of Demat accounts from 17M (FY'18) to 26.7M (FY'22)
- 79% in value held in these Demat accounts from USD 2096B (FY'18) to USD 3756B (FY'21)

The Wealthtech sector has witnessed players pivoting from B2C to the Enterprise segment or operating with dual capacity.

Lack of revenue pool in Mutual Fund Distribution: Direct Mutual Funds hold a significant share in the retail market. However, several smaller players have shut down due to inadequate monetization avenues

GOVERNMENT INITIATIVES & REGULATORY SUPPORT

Introduction to Bonds: The regulator is increasing support for Online Bond platforms and has also issued licenses.

SEBI has created guidelines for securities market participants to join Account Aggregator, allowing consolidated financial asset views with client consent. It will eliminate the challenge of Wealthtech players of having to use different resources to build a financial portfolio.

KYC regulations have been aligned for digital onboarding.

SEBI's Sandbox for innovation enables controlled experimentation of cutting-edge Wealthtech solutions, fostering innovation and growth in the Securities market.

SEBI has launched the "Saa₹thi" app to offer investor education on the Securities Market, KYC, Trading, Mutual Funds, etc.

The regulator has introduced T+1 settlement from January 2023 and is further planning for instant settlement.

Source: [1] PIB, Government of India [2] The Knight Frank Sizing Model 2022 [3] SEBI & The Digital Fifth Analysis

MARKET OPPORTUNITY FOR ENTERPRISE WEALTHTECH

SURGE IN DEMAND FOR ALTERNATIVE INVESTMENTS

Increasing demand for alternative funds, including Hedge Funds, Gold ETFs, REITs, InvITs necessitates adaptability in Wealth Management platforms. Investors seeking diversification drive this shift.

Considering investors' continued growing interest in AIFs and the limited capabilities within existing platforms, enterprise Wealthtech firms building a supporting technology stack are expected to grow to manage the entire value chain of various AIF products.

RISE OF TAILORED WEALTH MANAGEMENT

There's an increasing demand for customized investment strategies facilitated by digital platforms, reflecting the preference for tailored Wealth Management services among clients.

Enterprise Wealthtech has potential for tailored investment advice and meeting diverse investor needs with personalized portfolio recommendations.

CUSTOMIZED ANALYTICS FOR STREAMLINED REPORTING

Creating customized reports to offer in-depth insights into portfolios has been a major challenge for many Wealth Management firms. This is mainly due to the presence of disconnected platforms that cater to different asset classes.

Enterprise Wealthtech can tap into this opportunity by creating a data-driven layer atop disconnected platforms, unlocking integration and fostering innovation.

TRANSFORMATIVE SHIFT TOWARDS CROSS-BORDER INVESTING

This shift reflects the growing interest among Indian investors to explore and engage in international markets for portfolio diversification, risk management and capitalizing on global opportunities.

Enterprise Wealthtech firms have an opportunity to create user-friendly cross-border investment platforms for Indian investors by navigating diverse market requirements and adapting to regulatory frameworks.

DEMOCRATISATION OF WEALTH SOLUTIONS

The majority are unable to invest in certain asset products such as Private Equity funds, Hedge funds, PMS, etc. due to their complexity, substantial investment requirements and a heavy reliance on advisors.

Democratization of assets is anticipated to open access to these asset classes. Enterprise Wealthtech platforms design products through asset fractionalisation, pooling of funds and facilitating price discovery to make these investments more accessible.

Evolution of Enterprise Wealthtech Market

	2010 & Before	2011 - 2015	2016 - 2020	2021 - 2023
Wealth Management Platform	KFINTECH, MILES SOFTWARE, Winsoft, WealthSpectrum, FIN-SOFT SOLUTIONS, REDVISION Technologies, valuefy, TCS BaNCS	moneybloom, Nexus	ARTHA, INDwealth	Centricity
WaaS	finvasia	orowealth, smallcase, Fisdom	Novel Patterns, Wealth Elite, tarrakki, KRISTAL, Fintso	OnFinance, Kniru

2010 & Before

- Before 2010, Wealth Management was done manually through face-to-face interactions with high-net-worth clients.
- Basic software existed for portfolio management, but it was cumbersome and lacked user-friendly interfaces.
- Automation and data analysis were rudimentary, offering limited insights.

2011 - 2015

- In this era, robo-advisors disrupted Wealthtech, using algorithms for automated investment advice accessible to a wider clientele.
- Wealth Management platforms improved user interfaces, elevating the digital experience.
- WaaS expanded, integrating tools like financial planning and retirement calculators.

2016 - 2020

- Wealthtech embraced AI and machine learning for personalized investment advice.
- Hybrid models combined Robo-advisors with human advisors, offering tailored recommendations.
- This allowed clients to access both automated and personalized advice based on their preferences.

2021 - 2023

- Wealth Management platforms evolved to holistic financial wellness hubs, offering diverse services like tax optimization, will planning, etc.
- Companies are integrating advanced analytics and AI layers into existing solutions to offer customised investment strategies aligned with clients' goals and risk preferences

Note:
- Note: This is not an exhaustive list and many players have multiple lines of business in various segments other than the ones mentioned.
- Though Trading platforms constitute a significant segment, are not included in this report due to the presence of limited players.

6A Wealth Management Platform

EVOLVING LANDSCAPE AND EXPANDING INTO MASS AFFLUENT

CURRENT SCENARIO

Traditional providers have primarily offered monolithic architecture-based core Mutual Fund platforms for their backend operations, coupled with integration layers connecting to RTAs and AMCs.

Full-service Wealth firms have used multiple technology stacks to support various asset classes but have faced limitations in delivering integrated Portfolio Management services to customers.

The growing trend of DIY and Robo-advisory services has gained considerable popularity, particularly within millienials.

Recognizing the limitations of individual stacks offering either back-end or front-end solutions, many of these players evolved to provide comprehensive full-stack end-to-end Wealth Management solutions.

With the adoption of India Stack, new-age Wealth firms have streamlined digital onboarding for both Mutual Funds and Equities, reducing the turnaround time from 3-7 days to just 10 minutes.

Equities and MFs reached the masses through tech interventions, but PMS and AIFs have largely remained limited to HNI/UHNI due to tech constraints and dependencies on third parties like custodians.

FUTURE OUTLOOK & OPPORTUNITIES

With a growing number of available asset classes, Enterprise Wealthtech platforms are expected to offer solutions supporting onboarding and servicing, including portfolio analytics for all asset products.

As SEBI pushes for T+0 settlement, Wealth firms are expected to reassess and upgrade their core stack for both back-end and front-end operations.

NSDL/CDSL and AMCs joining the Account Aggregator ecosystems create opportunities for Wealthtech firms and new solution providers to enhance data-driven customer engagement and portfolio insights.

Wealth platforms are expected to develop technology capabilities to support new asset classes like PMS and AIFs while offering ancillary services such as Succession Planning.

SEGMENT'S CURRENT SERVICES

Portfolio Management	Analytics	Mutual Fund	Discount Broking
Foreign Investment	Social Trading	Alternative Investments	Trading
Succession Planning	Micro Investment	Asset Management	Private Wealth

Subramanya SV
Co-Founder
Fisdom

As we explore the landscape of wealth management platforms in India, there is a paradigm shift towards an integrated and digitized future. The growing demand for advisory services and the evolution of regulatory technology presents a significant market opportunity. Banks are well-positioned to provide comprehensive portfolio management solutions, fostering holistic financial well-being for their customers. The road ahead is about overcoming challenges to offer an all-encompassing financial ecosystem that simplifies access and ensures compliance.

HIGHEST FUNDED PLAYER

The Wealth Management platform has raised USD 42M till Dec'23

6B WEALTH-AS-A-SERVICE

RESHAPING THE INDUSTRY FOR A LOCALIZED, PROFITABLE FUTURE

CURRENT SCENARIO

Several B2C Wealthtech firms have shifted focus to construct operational WaaS platforms, enabling banks to swiftly launch Wealth services for their customers.

FIs partner with WaaS providers to co-create innovative financial solutions, leveraging the technological expertise and API-driven architecture of these platforms for streamlined Wealth Management.

WaaS providers have expanded their service portfolio beyond traditional offerings to include bonds and international markets.

By utilizing the offerings of WaaS platforms, enterprises can streamline Wealth Management processes, seamlessly integrating compliance measures into their service structures.

FUTURE OUTLOOK & OPPORTUNITIES

As Embedded Finance gains traction, coupled with the growth of ONDC, non-financial players are likely to integrate WaaS and offer Wealth Management solutions as a part of developing their full-stack platforms.

RIAs and independent Financial Advisors are expected to increasingly demand WaaS offerings, driven by a growing need for sophisticated portfolio analytics and comprehensive financial planning resources.

WaaS will shift focus from Portfolio Management to comprehensive Financial Planning solutions, addressing diverse client needs including Retirement Planning, Estate Planning, Succession Planning and Tax Optimization.

As Indians explore cross-border investments, WaaS providers simplify investment processes in international markets.

ARCHITECTURE

Banks / Wealth Firms + Embedded Finance Players

WAAS

AMC | Exchange | Custodians | AIF | MF

Asheesh Chanda

Founder & CEO
Kristal.Ai

As we look ahead, the wealth management landscape in India is evolving towards a more hybrid model, combining human interactions with technology. Innovations like generative AI hold the promise of enhancing efficiency and personalization. Adoption and expansion of technology will help reach a wider customer base. The emergence of wealth-as-a-service platforms and wealth operating systems marks an evolutionary future for wealth management in the country.

HIGHEST FUNDED PLAYER

smallcase: The Wealth as a Service platform has raised USD 71M till Dec'23.

7

ENTERPRISE INSURTECH

The segment has received ~ USD 150M investment in the last 6 years

Potential to provide "Insurance for All" by 2047

Government initiatives and health stack driving the market

Growing demand for Embedded and Byte-sized Insurance

ENTERPRISE INSURTECH OVERVIEW

IAAS

zopper turtlefin SYMBO Riskcovry

Insurance-as-a-Service (IaaS) platforms offers plug-and-play services to Fintechs and Embedded Finance players in partnership with insurance firms. These services include Sales, Compliance, Policy Management and Claims Processing.

Policy Administration platforms manage the entire lifecycle of the insurance policy, from creating and maintaining policies to pricing, managing renewals and administering claims.

POLICY ADMINISTRATION

eicore insurnest

UNDERWRITING

pibit.ai CogniSure MEDINYX

Underwriting platforms help insurers evaluate and set the prices of policies for their customers. They enable them to measure the risk accurately while saving money and time.

Claims Management systems automate the process of filing, processing and settling insurance claims. They also help in organising claim details, assessing claims, handling documentation, preventing fraud and ensuring timely payouts.

CLAIMS MANAGEMENT

TrueCover VITRAYA ClaimBuddy

SNAPSHOT - INSURANCE-IN-A-BOX

EXTERNAL APIS

INSURANCE PLATFORMS

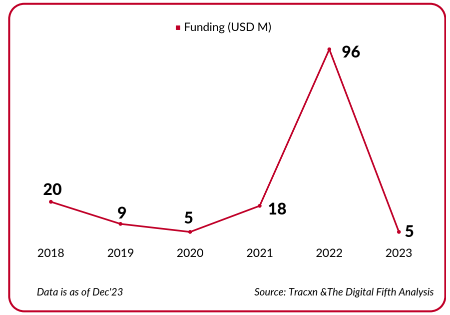
Sales & Underwriting | Claims | Policy Management | Billing & Collection

API INTEGRATION LAYER

CORE COMPONENTS

Solutions | Authentication | Security | Compliance

FUNDING ANALYSIS



As the Enterprise Insurtech sector grows, the focus of funding is slowly shifting towards Insurance Infrastructure which needs major overhaul.

Insurance-as-a-Service (IaaS) platforms have received significant investments. Notable examples of this are Zopper and Coverstack.

Policy Administration, Claims Management and Underwriting are poised to gain attention too as insurance companies are keen to improve their sales and operational efficiencies.

TOP FUNDED STARTUPS

STARTUP	FUNDED AMOUNT	SEGMENT
zopper	USD 96M	IaaS
coverstack	USD 26.8M	IaaS
SYMBO	USD 9.4M	IaaS
VITRAYA	USD 9 M	Claims Management
Riskcovry	USD 6.7M	IaaS

TOP MERGERS & ACQUISITIONS

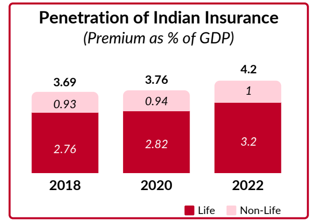
ACQUIRER	SEGMENT	ACQUIREE	SEGMENT
turtlefin	IaaS	Last Decimal	IaaS
RenewBuy	Insurance Marketplace	AV	Underwriting

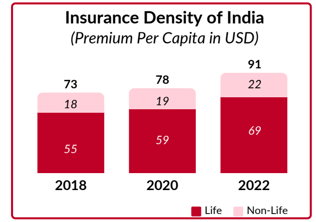
Data as on Dec'23 | Source: Tracxn and The Digital Fifth Analysis

INDIA'S CHANGING INSURANCE DYNAMICS

India ranked as the 10th largest Insurance market globally in 2021, and is expected to rise to the 6th position by 2032. The total insurance premiums are expected to grow by an average of 14% annually over the next decade.[1]

Insurance density (per capita premium) in India has substantially grown from USD 78 in 2020-21 to USD 91 in 2021-22. Insurance penetration (percentage of premium to GDP ratio) in India has grown to 4.2% in 2020-21. The growth of Insurance sector was partly due to the pandemic, which raised risk awareness and led to a surge in demand.[2]





Source: IRDAI Annual Report 2021-22

MARKET DYNAMICS

- In 2021, India achieved the ninth position globally in the Life Insurance industry, holding a market share of 3.23%. The country saw a significant 14.16% increase in life insurance premiums, largely due to increased awareness of life insurance during a health crisis.[1]
- Health premiums in India grew by 24.5% in the first half of 2023 compared to 2022, making the industry second only to life insurance.[3]
- The Motor Insurance market is facing unique trends: while vehicle sales are booming, insurance growth is slower due to strong market competition. Nevertheless, digital insurers like Digit and Acko are quickly making strides in this challenging environment.
- The proportion of digital insurance sales facilitated by web aggregators has been on the rise, now constituting 30% of the total Digital Insurance Market.[4]

GOVERNMENT INITIATIVES

- Pradhan Mantri Fasal Bima Yojana (PMFBY) has led to significant growth in the premium income for crop insurance. Between 2018 and Nov 2023, 437M applications were received under the scheme and claims of about USD 16.86 B have been paid to farmers.[5]
- Ayushman Bharat Pradhan Mantri Jan Arogya Yojana SEHAT scheme is the world's largest health insurance/assurance scheme and provides a coverage of Rs 5 lakhs (USD 6,074) per year for each family. They can avail secondary and tertiary care at any hospital in India that is a part of this scheme.
- The Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) provides a risk coverage of Rs. 2 lakhs (USD 2,429) in case of the insured person's death, irrespective of the cause.

REGULATORY INITIATIVES

- Bima Sugam, set to be launched in June 2024, is an online platform to streamline insurance processes in India. It will integrate various insurance services, from policy purchase to claim settlement, allowing users to compare and purchase policies easily. The platform is designed to increase insurance accessibility and transparency.
- Bima Vahak is an initiative by the Insurance Regulatory and Development Authority of India (IRDAI) designed to increase insurance penetration, especially in rural areas of India. It involves appointing individuals and companies as Bima Vahaks who act similar to business correspondents in banking to sell and service insurance products.
- IRDAI has increased the maximum FDI allowed in Indian Insurance Companies from 49% to 74% and removed restrictions on the ownership and control of the company.[2]
- Regulators have introduced "use and file procedure" which allows an insurer to launch a product first and then file its details with the regulator. This move will help insurers in innovating faster and iterating rapidly.
- The Regulatory Sandbox initiative aims to build compliant, responsible and sustainable innovation within the insurance industry. This program provides a structured setting for insurers, Enterprise Insurtech platforms and intermediaries to validate new products and services.

Source: [1] India's Insurance Market Report, Swiss Re Institute [2] IRDAI Annual Report - 21-22 [3] GIC Statistics [4] Invest India - Insurance Segment [5] Rajya Sabha Speech by Mr. Narendra Singh Tomar

Market Opportunity of Enterprise Insurtech

INTRODUCTION OF COMPOSITE LICENSE

An amendment to the composite license would allow insurance companies to offer multiple insurance products (Life, General and Health) under a single license.

With the issuance of composite licenses, insurers would need platforms to handle these products cohesively. This will provide a huge opportunity for Enterprise Insurtechs to replace legacy platforms and build surrounding platforms.

NATIONAL HEALTH STACK (NHS)

NHS is revolutionizing healthcare through digital infrastructure, unified health data, telemedicine, claims processing and insurance.

NHS will use open standards and avoid platform lock-in. Players will have to bring APIs to help providers get consent from consumers for data sharing, which will eventually act as an AA for insurance.

BIMA SUGAM

IRDAI Approved Bima Sugam Portal

The BIMA SUGAM portal will make insurance more accessible and convenient, similar to how UPI simplified payments.

Bima Sugam, a unified marketplace, will be a part of India Stack, requiring Insurtechs to develop technology to integrate with this portal. It will help enhance issuance and claims processing and streamline the insurance journey as well.

INCREASED HEALTH AWARENESS

ICICI Lombard + practo → IL TakeCare

Increasing focus on fitness and self-care is driving innovation in health insurance products and services.

Insurers will emphasise the introduction of individualised insurance plans. This would be implemented through the integration of telemedicine services, incentives for promoting wellness, and the utilization of AI for claims processing.

EMERGENCE OF EMBEDDED INSURANCE

HOUSING.com + Riskcovry

Embedded Insurance is evolving rapidly as non-traditional players integrate insurance services into their value chains, reshaping the industry.

Embedded Insurance is poised to unlock substantial prospects for IaaS providers, but it will also entail the overhaul of outdated legacy platforms used for Policy Management, Claims Processing and Underwriting.

IRDAI PLANS TO ISSUE 15+ NEW LICENSES

CreditAccess India
Kshema
acko

IRDAI approved the applications of two life insurance companies - Acko Life Insurance Ltd. and Credit Access Life and Insurance Ltd. - and one general insurer - Kshema General Insurance Ltd. earlier in 2023.

IRDAI aims to provide 15+ additional license approvals to new insurance companies soon, indicating a positive outlook for the Enterprise Insurtech sector.

Evolution of the Enterprise Insurtech Industry

	2010 & Before	2011 - 2015	2016 - 2020	2021 - 2023
Insurance-as-a-Service (IaaS)	C2LBIZ, exegesis, Dream Tekis, INSILLION, coverstack, GRADATIM, AGILE	zopper, COVER GENIUS, iNube, turtlefin	Riskcovry, bimaplan, actyv.ai, METAMORPHOSYS, ONEASSURE, SYMBO	LIMTED TRACTION
Policy Administration	eicore		FuturaInsTech, MATAYO AI, insurnest	
Claims Management	INT.	exponentia.ai, GoInsured, ABI Health, Arya.ai	VITRAYA, ENVIRYA, TrueCover, CleomeSoft, DSW, ClaimBuddy	
Underwriting	MEDINYX, appian		CogniSure, intellectAI, pibit.ai, AV	
	Indian Enterprise Insurtech market was limited to a few players that offered traditional products and services.	The market witnessed the emergence of Enterprise Insurtech startups supported by limited funding.	With the growing popularity of Digital Insurance in India, there was a surge in the use of platforms for issuing policies and settling claims. This trend led to an influx of multiple startups across various segments of the market.	Though IaaS has experienced notable adoption and financial backing, there remains a need for investors to pump money into this segment to boost growth of the Insurtech segment as a whole.

Note: This is not an exhaustive list and many players have multiple lines of business in various segments other than the ones mentioned.

7A Insurance as a Service

DRIVING EMBEDDED INSURANCE PLAY IN THE COUNTRY

CURRENT SCENARIO

Riskcovry

IaaS has been the leading recipient of funding in the Enterprise Insurtech sector, attracting nearly 90% of the total investment.

Insurance companies are embracing a plug-and-play insurance model. They can now integrate smoothly with customer-oriented platforms like e-commerce entities. This lets them add insurance directly into the customer's shopping experience, improving ease of access and convenience.

coverstack

As Regulatory Sandboxes foster innovation and insurance companies respond to the sophisticated needs of their customers, niche offerings like Pay-per-use are gaining momentum. This trend necessitates the use of IaaS services to effectively engage with the consumers.

Well-funded players are now beginning to explore international markets, leveraging their capital and expertise to expand their global footprint.

zopper

FUTURE OUTLOOK & OPPORTUNITIES

Insurers and brokers will shift their focus from operational efficiency to a customer-centric ecosystem that offers products based on data analytics and behavioural insights with IaaS driving customer engagement.

IaaS providers are set to deliver comprehensive solutions for Embedded Finance players covering the entire spectrum from Sales and Service Provision to Claims Management and Policy Renewal.

With the introduction of composite licenses, players will need an IaaS platform capable of offering an array of products (Life, Health, Motor, etc.) in a unified manner, allowing for the implementation of bundled sales strategies tailored to specific customer requirements.

IaaS platforms will innovate to cater to the needs of emerging customer segments such as gig workers (independent contractors or freelancers), micro-SMEs and low-income groups who require flexible, affordable, and customized insurance solutions.

Bragadish Sureshkumar
Chief Technology Officer
Zopper

"Innovations in the insurance sector, powered by AI, ML, and Insurtech startups, hold the potential to revolutionize the industry. Our commitment to embracing these advancements positions us to simplify insurance, elevate customer experiences, and introduce game-changing products that adapt to the evolving market – a transformative journey for the insurance landscape."

HIGHEST FUNDED PLAYERS

IaaS			
zopper	USD 96M	coverstack	USD 26.8M

7B Policy Administration & Underwriting

ANALYTICS PLAYERS DIVERSIFYING INTO THE INSURTECH SECTOR

CURRENT SCENARIO

Policy Administration

Most insurers have a technology debt due to their outdated systems. The need to modernise coupled with the need to integrate with Embedded Finance players is driving insurers to modernise their core platforms.

The trend for Policy Administration Systems is moving towards personalizing policies and pricing to align with specific user behaviours and preferences. Generative AI will be leveraged to digest and interpret large datasets.

Underwriting

Traditional insurers still depend on manual underwriting, a time-consuming process. The industry is now digitizing this with the introduction of analyzers and rule engines, thus streamlining and accelerating underwriting processes.

Generative AI is boosting the Underwriting sector. Some industry players are using new tools based on GenAI, such as Pi-ingest by Pibit.ai.

FUTURE OUTLOOK & OPPORTUNITIES

Policy Administration

Insurers must decide whether to change or add new technologies to their systems. They will probably use two systems (one for new products and another for old ones) to manage their policies. This means they would be required to connect new technologies with their old system.

This segment might grow sluggishly due slower digital adoption in policy administration by insurers

Underwriting

Insurers have a tough time meeting the growing demand for cyber insurance. They also have to undertake fast and accurate Cyber Risk Assessments, which are not easy. This opens up a big opportunity for Underwriting players to change the industry.

Insurers can use alternate data sourced from telematics and IoT devices to underwrite more accurately and efficiently. However, this has not been adopted in a widespread manner due to a few legal and technical barriers to using this alternate data, leaving scope for innovation.

Ramkumar Thirumurthi

Co-founder & COO
Actyv.ai

“The insurance sector will see growth with byte-size insurance available for the short term primarily driven by technology enablement, insurance will grow with cross-selling and mandating insurance in India for various use cases. Insurance companies are revamping and will continue to expand their technology capabilities to penetrate the insurance market deeper in India and improve the overall value chain.”

EMERGING TECHNOLOGIES

- Advanced Analytics
- Natural Language Processing
- Optical Character Recognition
- Robotic Process Automation
- Internet of Things
- Application Programming Interface
- Blockchain

7C Claims Management

FOCUS SHIFTS TOWARDS EFFICIENCY & CUSTOMER SATISFACTION

CURRENT SCENARIO

Many insurers are still stuck with older systems that make the claims process slow and complex, thus leading to long TATs and unsatisfactory customer experience.

Brokers and Web Aggregators have also started providing Claim Assessment and processing from their platforms. This creates a demand for Claims Processing Software that can be deployed quickly. Plum's e-reimburse tool (for reimbursement of claims) reduces the claims processing TAT from 7 days to 1 hour.

B2C entities providing simplified claims resolution experience are gaining traction, and therefore attracting investors' interests too. For example, ClaimBuddy is a service that helps customers with their health insurance claims.

FUTURE OUTLOOK & OPPORTUNITIES

National Health Authority (NHA) is introducing the National Health Claims Exchange (NHCX), a digital infrastructure for claims processing. This initiative aims to standardize the claims processing system, necessitating insurers and hospitals to integrate a technology stack compatible with the processes defined by NHCX. Startups can build to meet the upcoming need for integration of health providers and insurers with NHCX.

There is an opportunity to build Claims-as-a-Service (CaaS) platforms for insurers to offer a full-stack claims service offering which would include a Customer Engagement layer, Data, Verification, Settlement and Fraud Detection.

Rakesh Goyal

Director
Probus Insurance

"In the future, insurance companies are likely to shift their focus towards designing products, while operations and claims management may be handled by other entities, such as insurance brokers or independent third-party companies. This transition could lead to significant cost savings and improved customer service, as technology-driven insurance players become more like quasi-insurance companies, effectively managing various aspects of the insurance business, including operations, claims tracking, and distribution."

HIGHEST FUNDED PLAYERS

Claims Management

VITRAYA	USD 9 M
ADI HEALTH	USD 6.1M

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