



FINTECH INDIA
GENESIS

JULY 2015

The world is witnessing a major shift in financial services.

A combination of factors is at play. Reduced trust in the global banking system, low interest rates, data flows, analytics and the growth of smartphones – all of these have created the enabling conditions for start-ups to attack the traditional financial sector. Backed by venture financing, many of these companies are causing a massive disruption in financial services. The bank is being systematically unbundled, and new players are attacking every segment of the market. These companies have improved service levels, reduced costs and dramatically improved the user experience. Term loans in the US are possible within a day, and one no longer needs to be an HNI for investment advisory services. \$ 12 Bn poured into the sector last year (in the US alone), which also witnessed several Fintech IPOs. The Economist, rarely given to hyperbole, has called it the Fintech revolution. In June, Goldman Sachs considered the movement real enough to set up an online consumer loans business.

Closer to home, the penetration of digital banking is an undercurrent that may leave most people surprised – or shocked. We see the tipping point to be in 2017, when internet penetration in the country crosses 30%. By 2020, digital transactions are likely to account for more than a quarter of transactions in the banking sector. By 2022, digital banking will have more than 50% penetration levels. Mobile banking adoption rates are already outpacing web banking. The conditions are ripe. Across segments, there are new companies emerging. What may today appear like a couple of pin-pricks in the financial services landscape, have the potential to cause massive disruption. With the process of disruption and re-creation happening simultaneously, the competitive landscape is evolving rapidly. As an incumbent, should one worry about the tech-forward banks, the well funded mobile-first startup, the e-commerce players entering finance, or the emerging online financial supermarkets? Correspondingly, should one's talent agenda be focused on financial professionals, or on engineers and product managers?

This document is meant to provide a short overview of trends we see in the Fintech space. It is based on MXV's proprietary research, projects and advisory relationships in the sector. Hopefully, it will give you cause for reflection, and insights for how your business, or portfolio, is likely to be impacted. We look forward to a continued dialogue as the brave new world of Fintech dawns upon us.

Amit Garg
Founder, MXV Consulting

THE WORLD IS WITNESSING A MASSIVE SHIFT IN FINANCIAL SERVICES

ENABLERS

- Traditional financial services firms have lost their pre-eminent position
- Increased customer comfort with technology driven models
- Reduced barriers to entry



THE NEW NORMAL

- Rapid unbundling of services
- Democratization of information and services
- Uber-ification of the customer experience
- Dramatic increases in speed

NEW ENTRANTS ARE BEING SEEN IN EVERY SEGMENT

Wallets



Crowd funding



Remittances



Asset Management



Business Lending



Betterment and **Wealthfront** enable better investment management with portfolio and automated investing tools
Kabbage provide business loans and cash advances for small businesses
OnDeck provides 2 yr term loans to businesses in 24 hours
Square allows small businesses to accept payments with significantly lower fees
Lending Club matches investors with individuals who are looking to borrow money to refinance personal loans

Insurance



Payments



Consumer Lending



Credit Cards and Loans

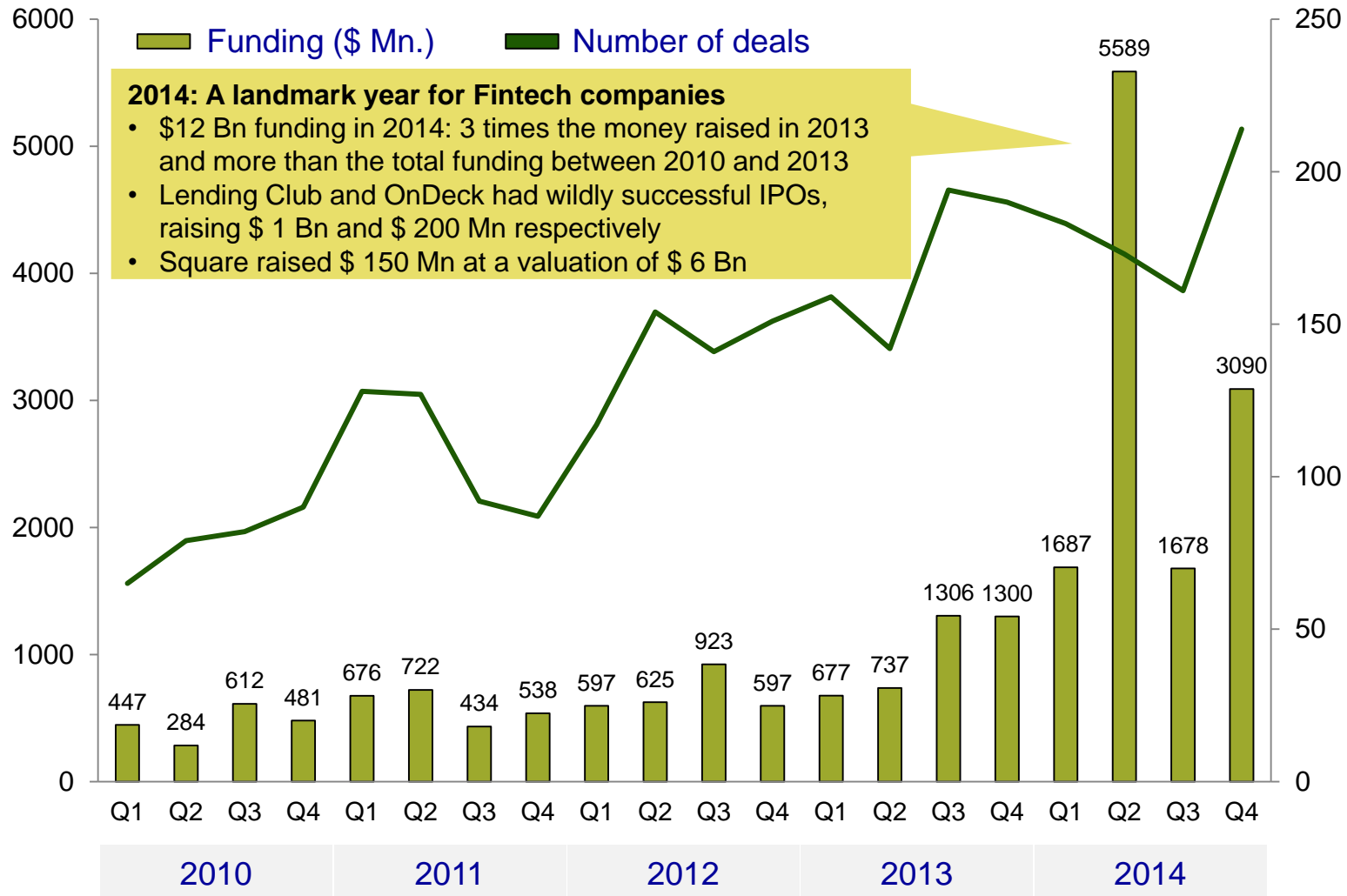


Share Trading



IN THE US, THE SECTOR RECEIVED \$12 BN OF FUNDING LAST YEAR Google and Intel Among the Major Investors

Funding activity in Fintech (USA)



Source: Silicon Valley Bank; MXV analysis

Under-penetrated and under-served from a financial services standpoint

- Across most categories of financial services, India remains under-penetrated
- Even for the financially included, service levels remain low
- Significant government push for greater inclusion – feasible only with the adoption of technology led models

A large and growing digital populace

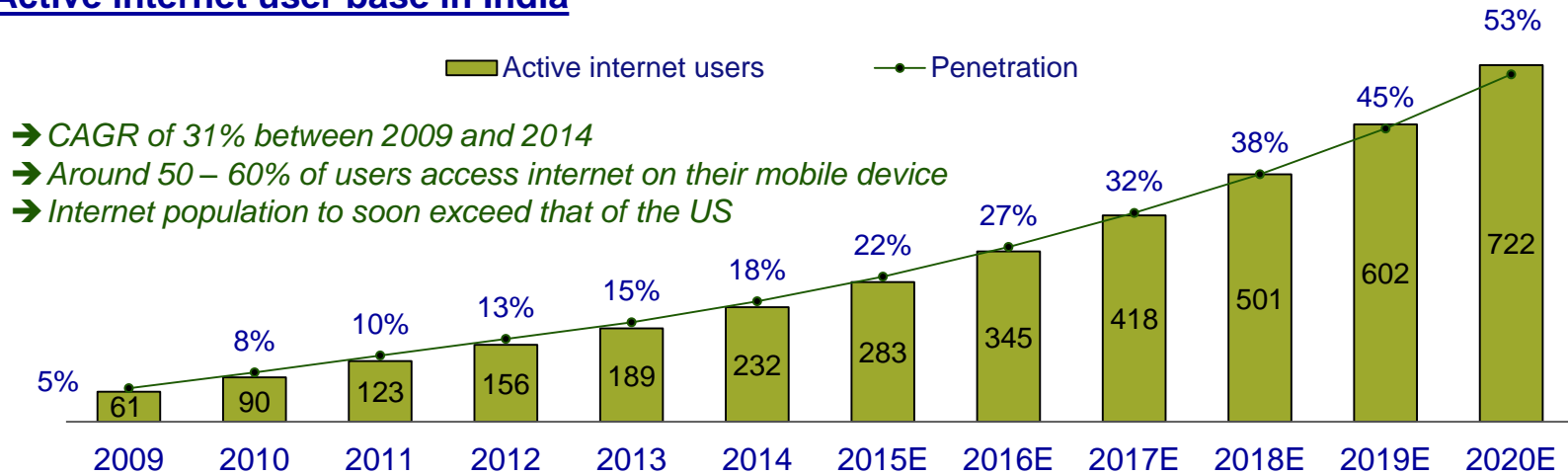
- Internet penetration has increased dramatically over the last five years
- E-commerce growing rapidly; driven by proliferation of mobile internet
- Smartphones have penetrated approximately half of the banked population

A thriving start-up community

- Start-ups now part of the culture; increased appetite for risk taking
- Significantly higher levels of venture and growth capital; investors have had successful exits and capital appreciation

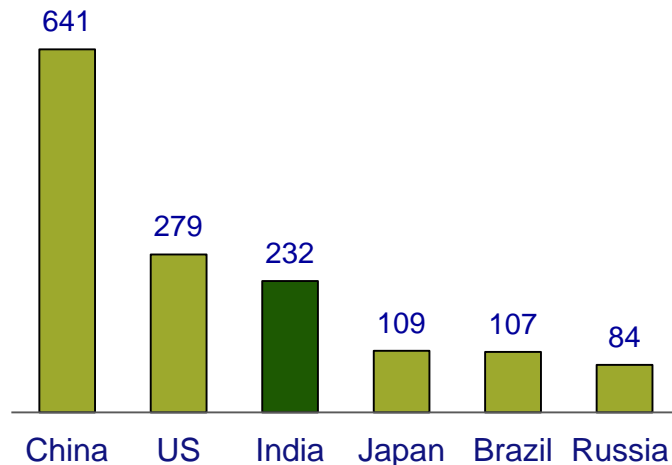
THE COUNTRY HAS AMONG THE HIGHEST NUMBER OF INTERNET USERS IN THE WORLD

Active internet user base in India

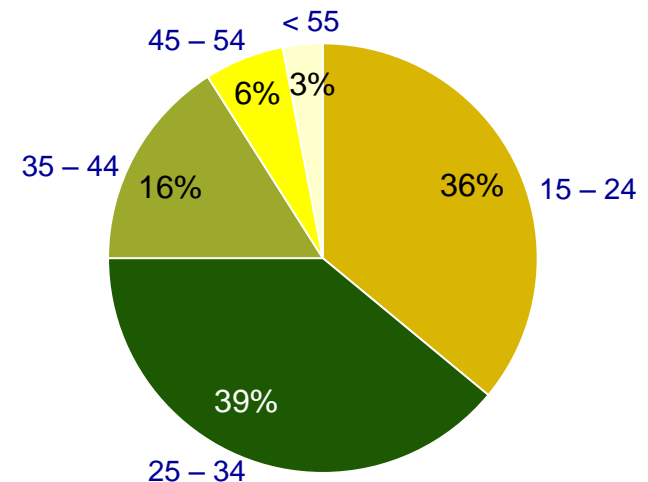


- ➔ CAGR of 31% between 2009 and 2014
- ➔ Around 50 – 60% of users access internet on their mobile device
- ➔ Internet population to soon exceed that of the US

Internet users by country - 2014



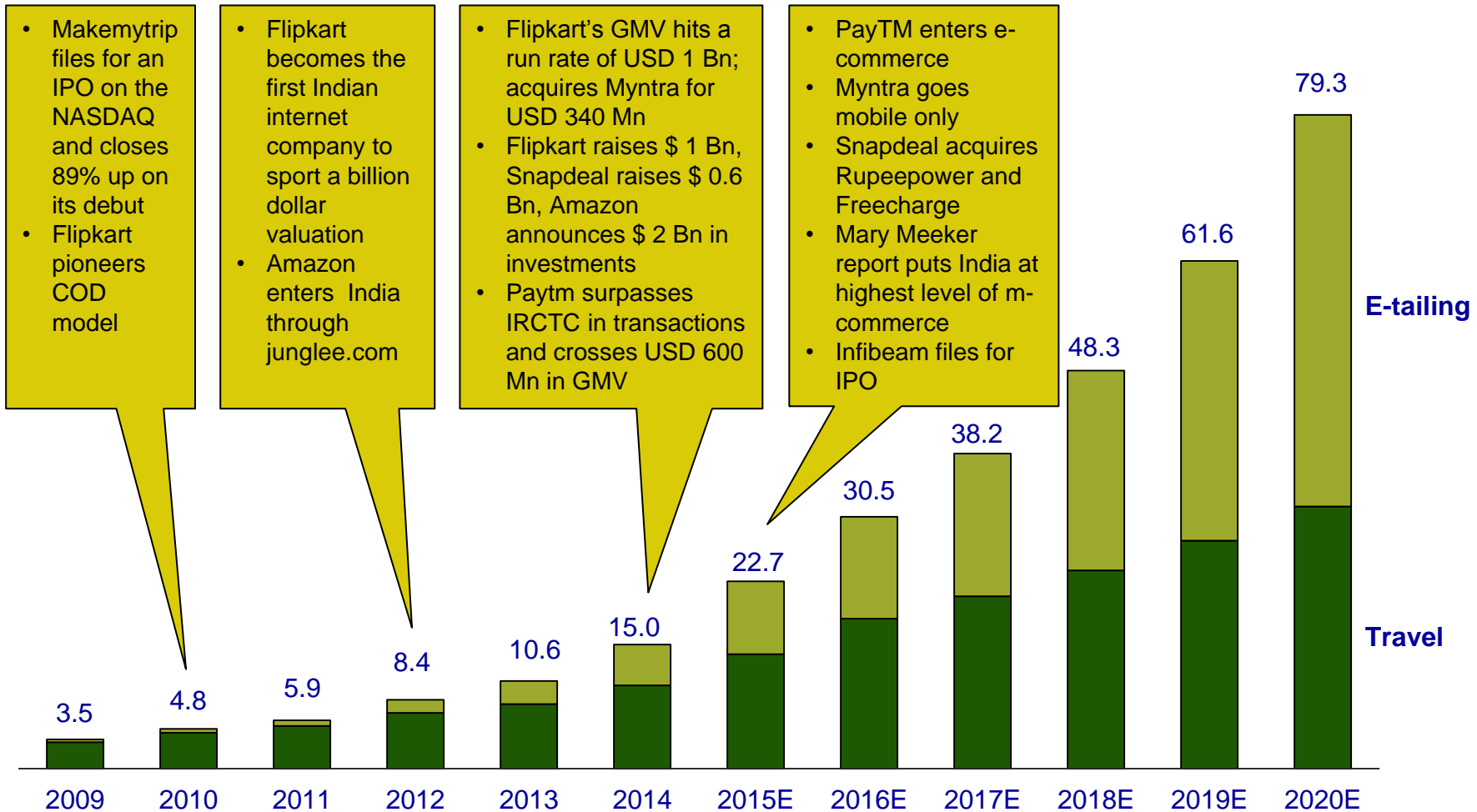
Age-profile of internet users in India



Source: Worldbank; IAMAI; Comscore; Morgan Stanley; MXV Analysis

ONLINE COMMERCE IS BOOMING E-TAILING TO ACCOUNT FOR 5-6% OF THE RETAIL MARKET IN 2020

E-commerce market size in India (USD Bn)

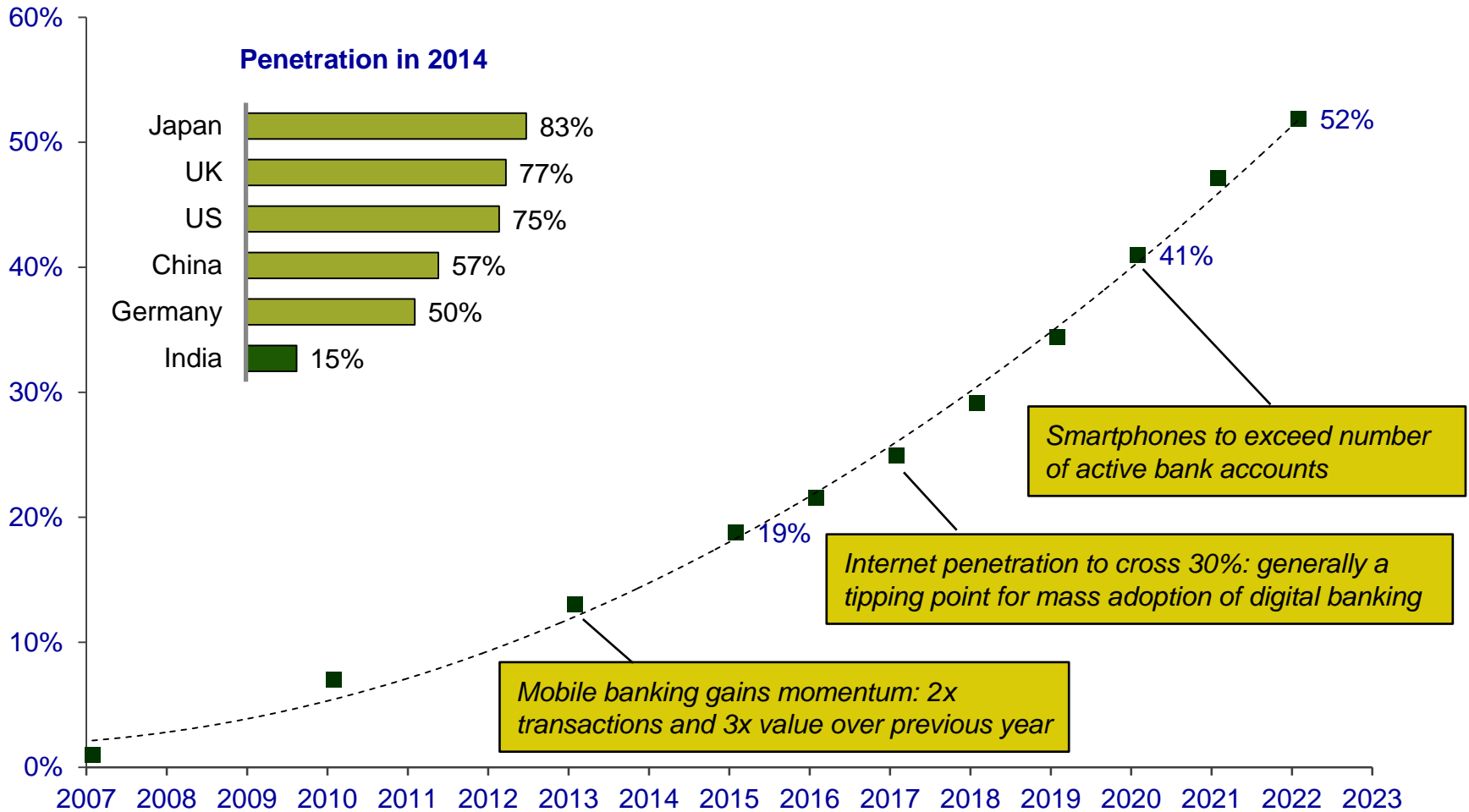


Source: MXV Analysis

DIGITAL BANKING IS RISING DRAMATICALLY

Penetration Levels To Cross 50% By 2022

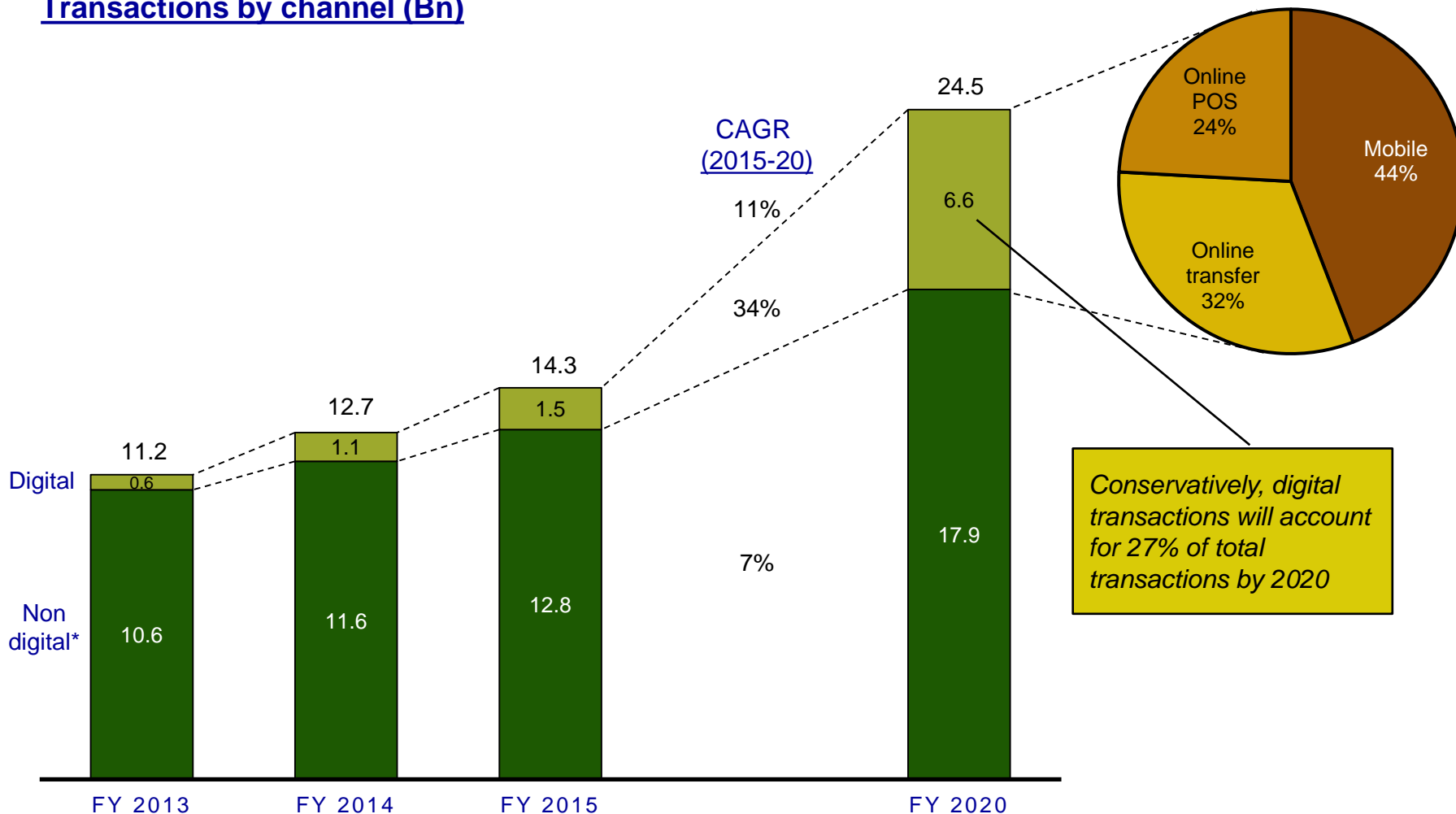
Penetration of Digital Banking (%)



Source: RBI; Literature review; MXV Analysis

LED BY GROWTH IN MOBILE BANKING, MORE THAN 25% OF BANKING TRANSACTIONS WILL BE DIGITAL BY 2020

Transactions by channel (Bn)



* Including cash and ATM transactions

Source: RBI; FIBAC, MXV Estimates and Analysis

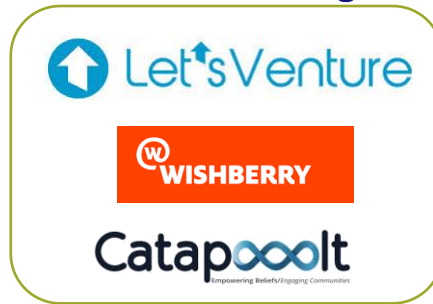
INDIAN FINTECH COMPANIES EMERGING ACROSS SEGMENTS

Wallets



Paytm
MobiKwik
Oxigen | WALLET

Crowd funding



Let's Venture
WISHBERRY
Catapault
Empowering Beliefs Engaging Communities

Remittances



InstaRem
EKO/-
ZERO

Asset Management



Aditya Birla Money
MyUniverse
retirewem.in
FundsIndia
Enriching India, one investor at a time
scripbox

Payments



Citrus
PayUmoney
Freecharge

Business Lending



LENDINGKART
CAPITALFLOAT
Digital SME Finance
SME CORNER.COM

Insurance



policybazaar.com
Insurance compare kiya?
Coverfox
insuringindia.com

Share Trading



ZERODHA
The Discount Brokerage
RKSVM
Finvasia
Invest with Intelligence

Consumer Lending



i-lend.in
LOANS FOR PEOPLE BY PEOPLE
FAICENT.com
EVERY % COUNTS
INDIA LENDS
Rang De

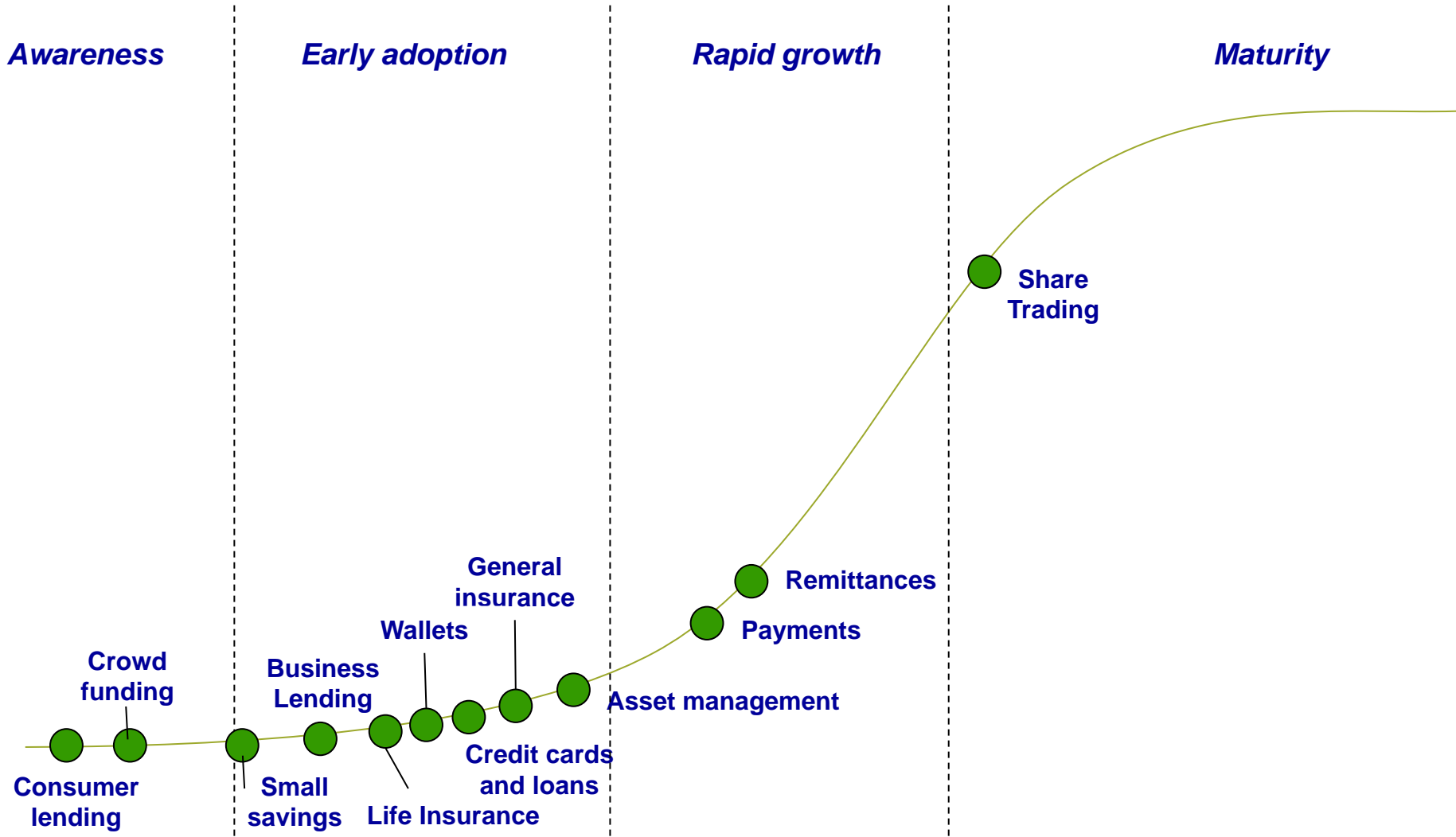
Credit Cards and Loans



bankbazaar.com
paisabazaar.com
EMI Ko Banao LMI
APNA PAISA
get smart!

Source: MXV Project Database

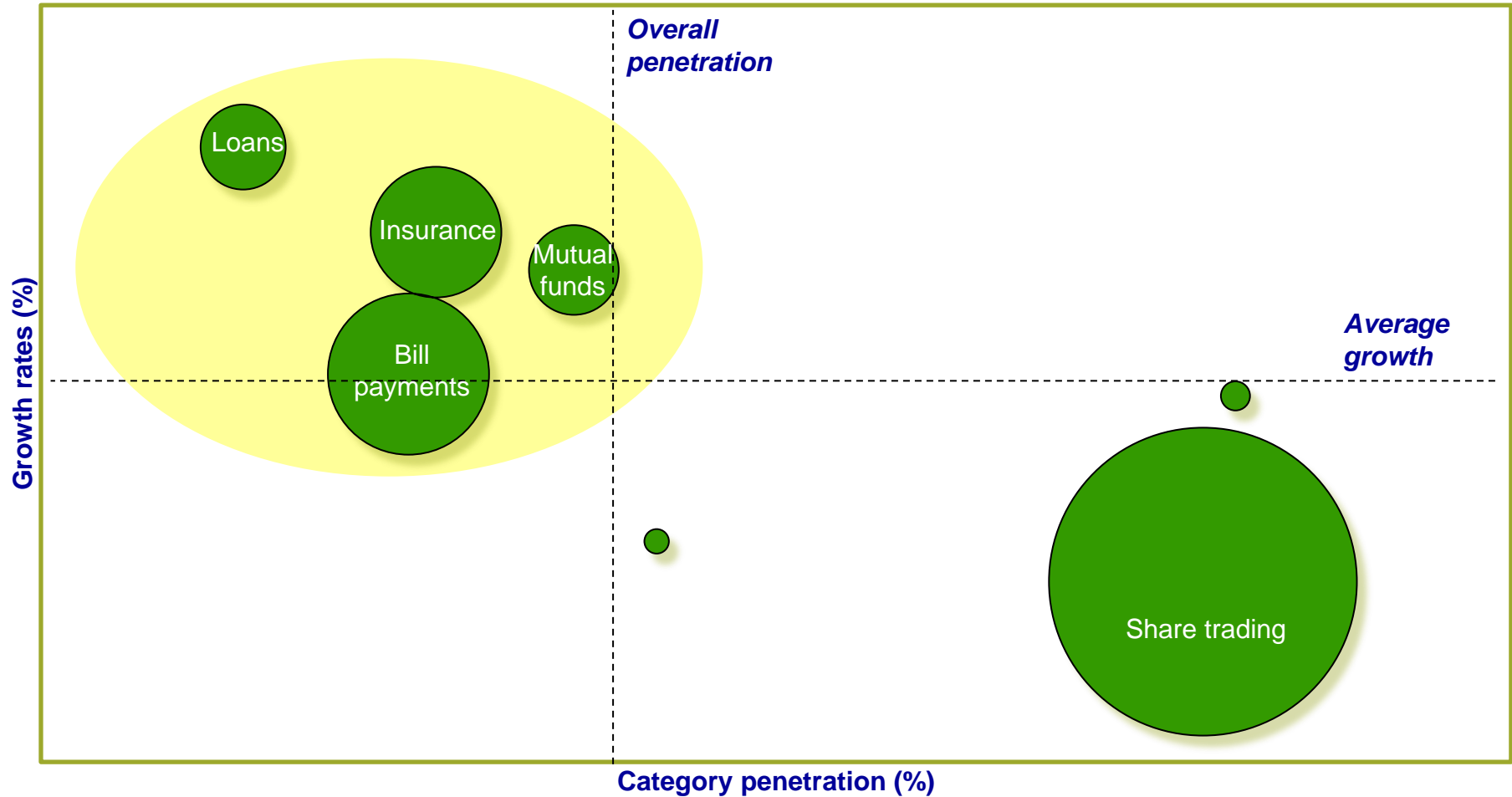
WHILE SOME AREAS ARE IN EARLY STAGES OF ADOPTION, OTHERS HAVE ALREADY GAINED WIDE ACCEPTANCE



Note: Relative positions are illustrative, and not to scale
Source: MXV research

MOST SEGMENTS PROVIDE CONTINUED GROWTH OPPORTUNITIES FOR SEVERAL YEARS

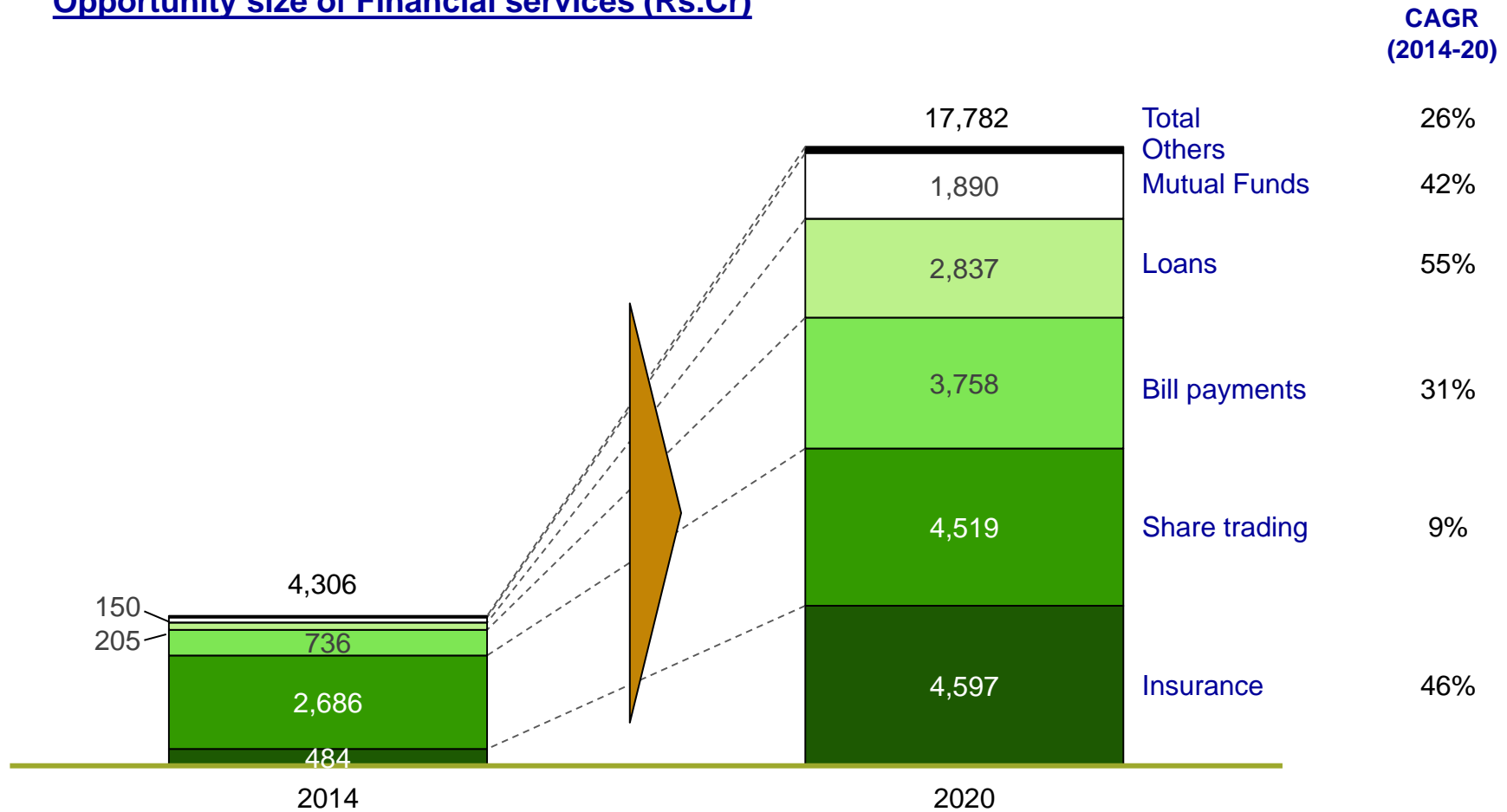
Market structure (2014)



Note: Bubble size represents 2014 market size
Source: MXV Project Experience and Analysis

ONLINE FINANCIAL SERVICES* TO BE A RS 17,800 CR MARKET BY 2020 More Than 4X The 2014 Market Opportunity

Opportunity size of Financial services (Rs.Cr)

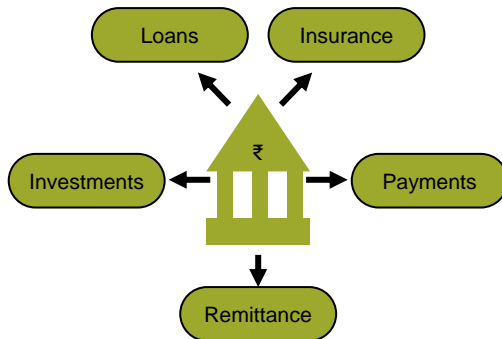


* Not including payments and remittances
Source: MXV Analysis

EROSION

1

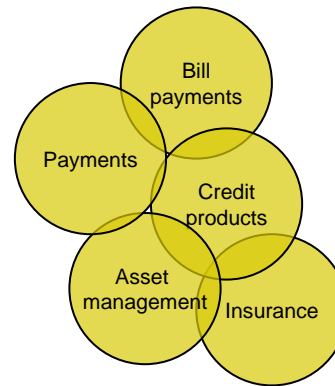
UNBUNDLING OF BANK SERVICES



AGGLOMERATION

2

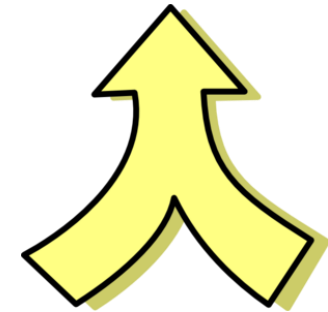
CREATION OF ONLINE FINANCIAL SUPERMARKETS



CONVERGENCE

3

MEETING OF E-COMMERCE AND FINTECH



1. EROSION: AS SERVICES ARE UNBUNDLED, BANKS ARE BEING FORCED TO DEFEND SEVERAL FRONTS SIMULTANEOUSLY

ILLUSTRATIVE

The screenshot shows the ICICI Bank internet banking dashboard. The main navigation bar includes 'Products', 'Apply Online', 'Payments', and 'Connect'. The dashboard is divided into several service categories, each highlighted with a green box and a line pointing to an external fintech logo:

- Accounts & Deposits** (points to **policybazaar.com**)
- Loans** (points to **FAIRCENT** and **i-lend.in**)
- Cards** (points to **bankbazaar.com** and **freecharge**)
- Insurance** (points to **Coverfox**)
- Pockets wallet** (points to **paytm**)
- Agri & Rural** (points to **RangDe**)
- Investments** (points to **FundsIndia**)
- My Savings Rewards** (points to **retirewell.in**)
- My Money** (points to **Aditya Birla Money** and **MyUniverse**)

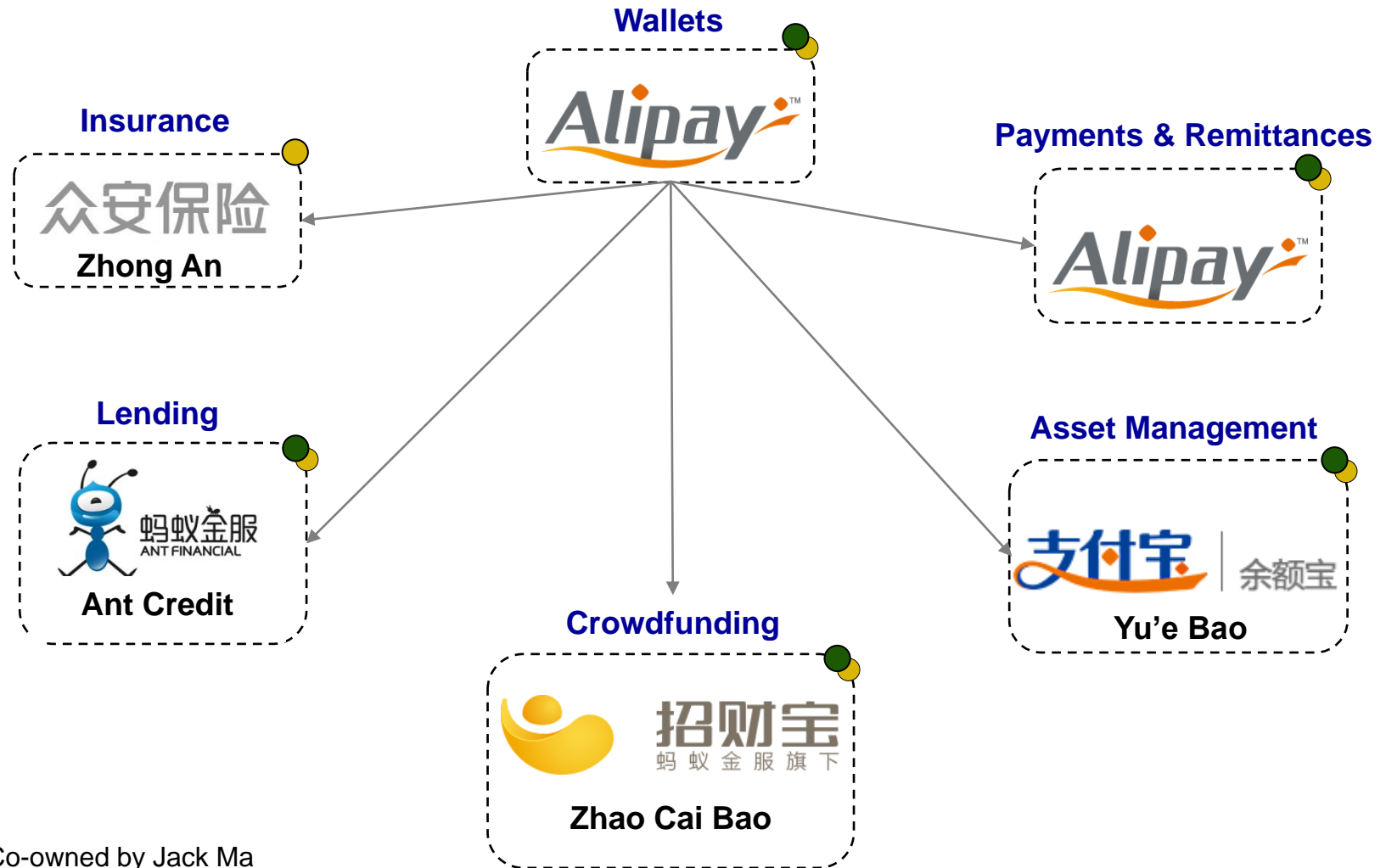
Other visible elements include the ICICI Bank logo, 'Apply Online' button, 'Payments' button, 'Connect' button, and a promotional banner for 'MyMoney' with a 'Free Trial' offer and a 'Hotmuggs' logo.

FundsIndia
Enriching India, one investor at a time
retirewell.in

paytm
MobiKwik

Aditya Birla Money
MyUniverse

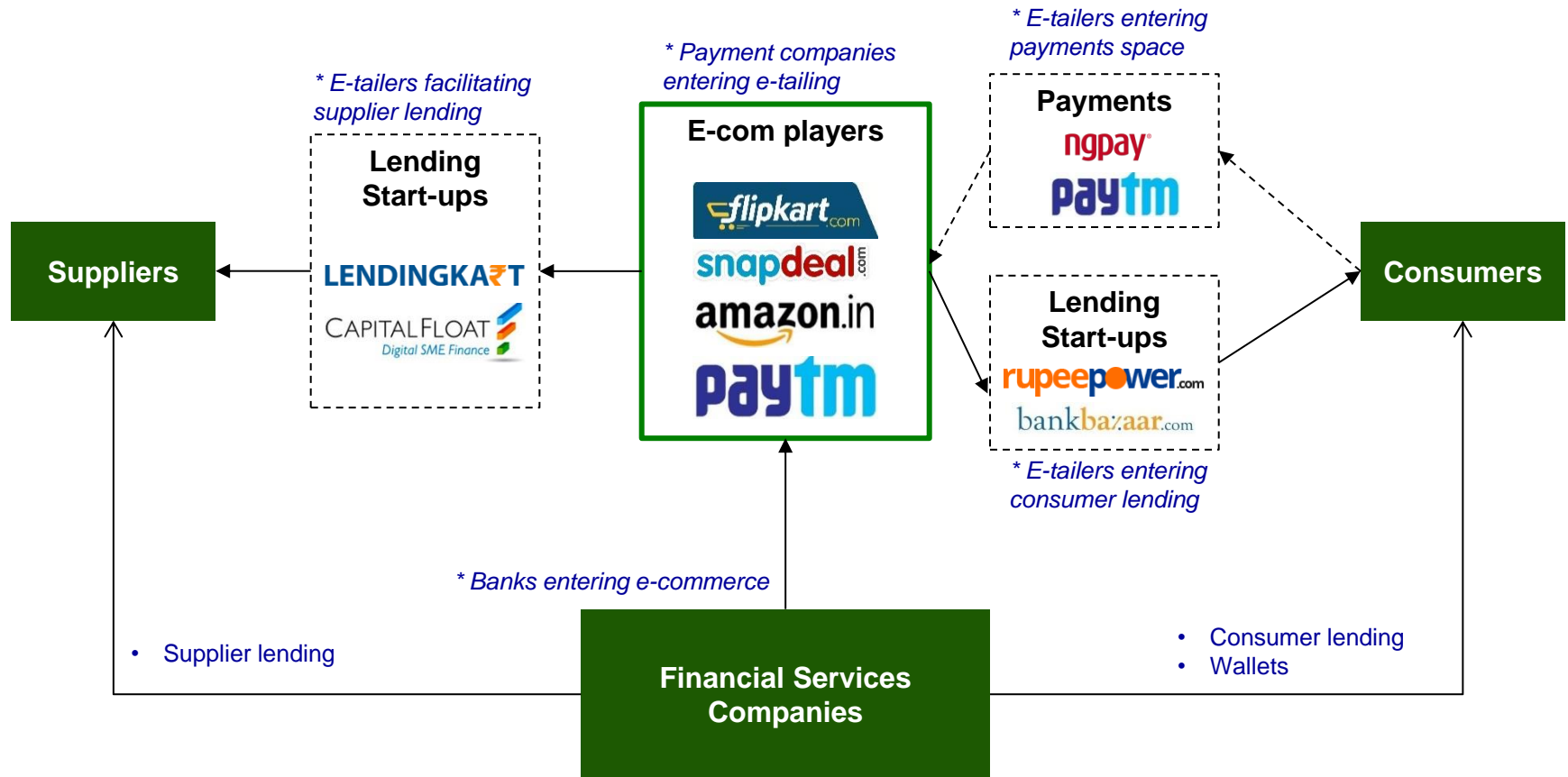
2. AGGLOMERATION: TRACTION IN ANY SEGMENT CAN LEAD TO A NETWORK OF CONNECTED SOLUTIONS



- Co-owned by Jack Ma
- Part of Ant Financial services

Source: MXV research

3. CONVERGENCE: E-COMMERCE AND FINTECH ARE COMING TOGETHER



Source: Company reports; MXV research

India is ripe for a Fintech revolution

- The third highest number of internet users in the world; e-commerce booming
- 50% penetration of digital banking by 2022; more than a quarter of banking transactions to be digital by 2020
- Continued governmental push for financial inclusion. Low cost inclusion will require the adoption of technology driven models
- Rapid dissemination of ideas from the US – where the Fintech revolution is well and truly underway

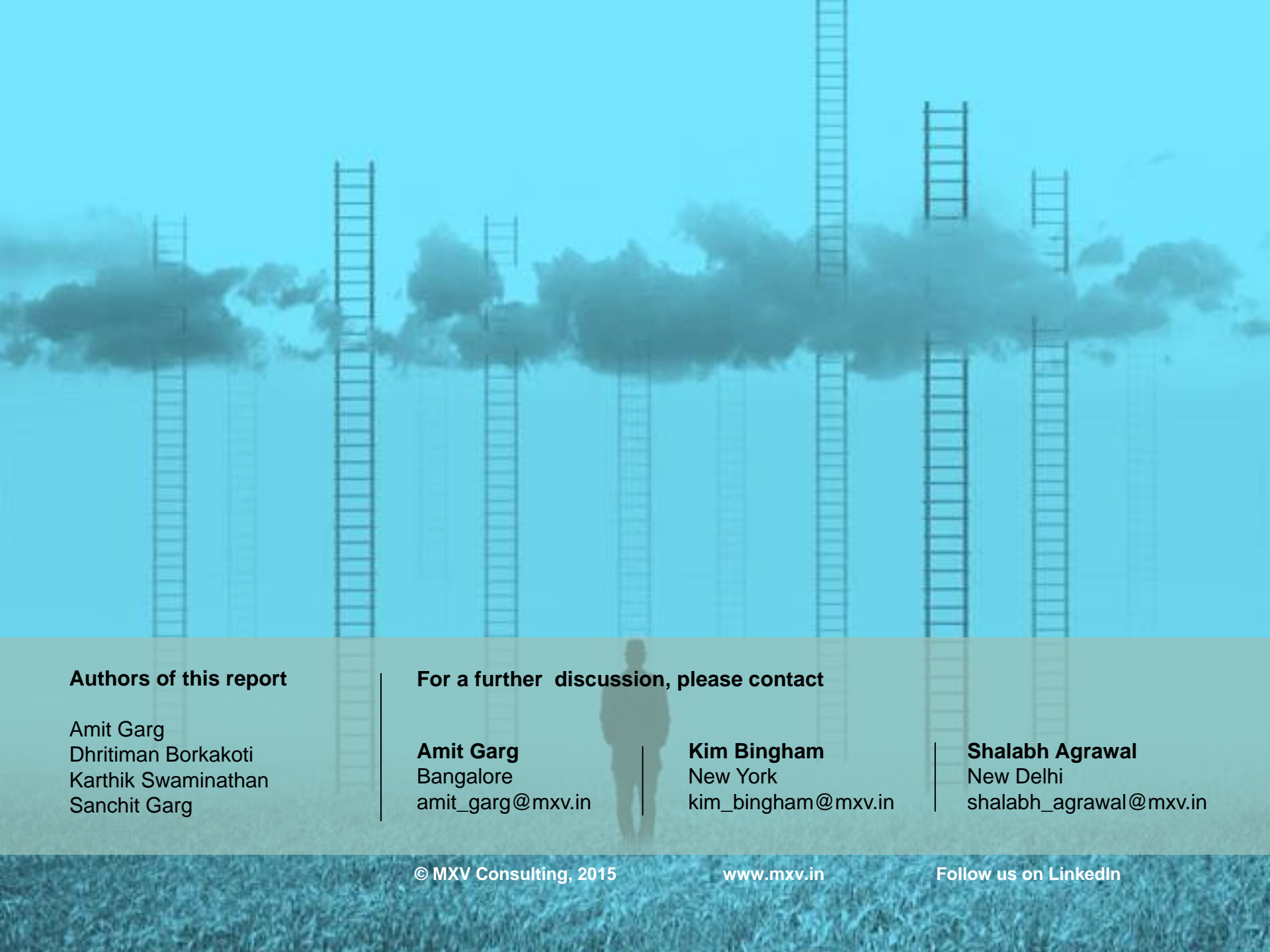
A host of start-ups are already making their mark

- Fintech startups in India are moving into every segment
- While overall adoption levels vary, almost every segment is growing rapidly
- The situation is complicated by the convergence of e-commerce and Fintech
- Success in any one segment can enable a player to enter other segments and create an online financial supermarket. There is already some evidence of this

Traditional financial services companies risk being “stuck-in-the-middle”

- While individual start-ups may appear tiny compared to the institutions, they are also nimble, tech-savvy and well funded - with a different profit horizon. They will force institutions into guerilla battles and head-on fights on multiple fronts
- The biggest risk faced by banks is the loss of share for their most profitable products – where the value of disintermediation is the highest. Automation and analytics will also help start-ups serve customers otherwise considered unprofitable

- MXV Consulting (www.mxv.in) is a strategy and management consulting firm based out of Bangalore in India. Our focus is on building sustainable competitive advantage for our clients and helping them become industry leaders
- We have the experience of working across multiple industries and functional areas - enabling us to bring in fresh ideas and a strategic perspective to every engagement. Our insights are backed up by a rigorous process of analysis and solution development. This ensures that our recommendations are well researched, practical and tailored to an organisation's requirements. In many instances, we also take on the role of implementation managers
- Our clientele includes leaders across various industries. We believe in long term relationships with our clients, and have worked on multiple engagements with most of them
- MXV has worked on more than a 150 assignments till date. Our clients are global in nature – including India, the US, Middle East, Europe and Asia Pacific
- In 2014, MXV Consulting was listed among the most promising business consultants in India

A person is standing in a field of tall grass, looking up at a sky filled with many ladders leaning against a layer of clouds. The scene is bathed in a soft, blue light, suggesting a dawn or dusk setting. The ladders are scattered across the field, some leaning against the clouds, others standing upright. The person is positioned in the center of the frame, looking towards the ladders.

Authors of this report

Amit Garg
Dhritiman Borkakoti
Karthik Swaminathan
Sanchit Garg

For a further discussion, please contact

Amit Garg
Bangalore
amit_garg@mxv.in

Kim Bingham
New York
kim_bingham@mxv.in

Shalabh Agrawal
New Delhi
shalabh_agrawal@mxv.in