

FINTECH LENDING

Unlocking Untapped Potential

August 2019

FINANCIAL REPORT
LAST UPDATED
4 MIN. AGO

INCOME STATEMENT

REVENUES	6,554,224.00
NOT SALES	3,420,563.00
Investment	6,764,984.00
EXPENSES	6,550,452.00
Research-Development	1,337,886.00
Operating expenses	2,894,500.00
Marketing	500,799.00
NET INCOME	59,877,892.00

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Foreword

The NASSCOM Research report titled “Fintech Lending – Unlocking Untapped Potential” aims to highlight the evolving trends in the field of Fintech Lending and intricacies involved in this business.

This study includes in-depth primary research and covers market opportunities, competitive trends, success factors, key business models, and growth stories. We hope you find this study useful, and we welcome your feedback and comments.



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Acknowledgement

This report on the Fintech Lending market in India has been developed by NASSCOM through a comprehensive research process.

The preparation of this report has been made possible with information from various sources and assistance from institutions, enterprises, and start-ups in India who have given their time and insights to the research team. We wish to sincerely thank all of them for their valuable contributions without which this report would not have been possible.

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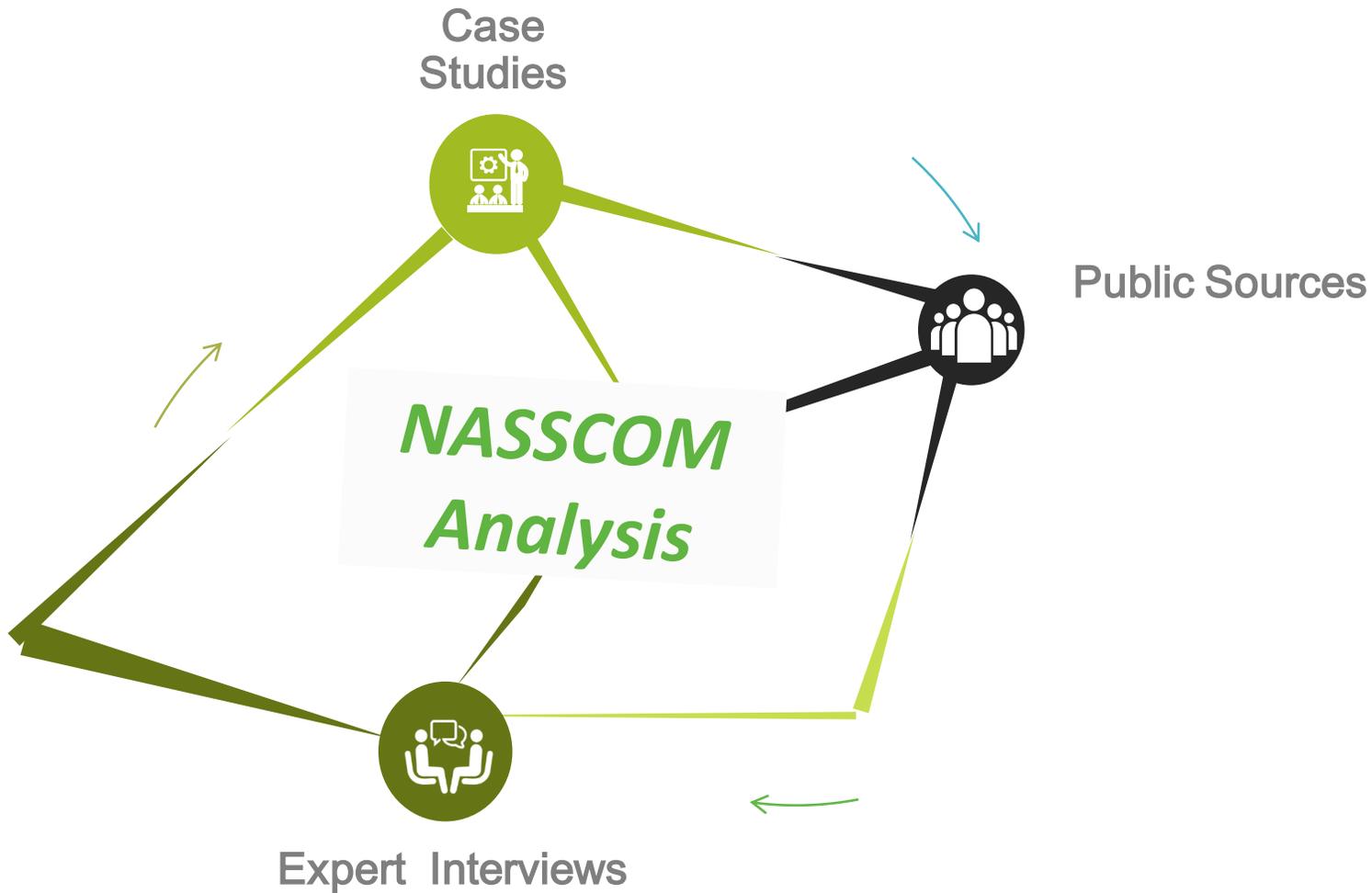
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Fintech Lending 2020 Outlook

Research Methodology



The *Fintech Lending- Unlocking Untapped Potential* Report is a comprehensive study based on in-depth interviews with NASSCOM members that include large and small technology firms, proprietary startup database, and key government stakeholders, supported by comprehensive secondary research.

Primary research has been the major contributor to the findings and recommendations of the report. We conducted multiple interviews over a span of 4 months with key industry stakeholders to develop an understanding around the themes covered in the report. Policy thinkers and data experts have also provided their inputs to enable us to present a holistic view on the rapidly transforming industry.

As part of the secondary research process, we looked at organization and industry reports, public statements, media articles, government releases, national and global databases and previous NASSCOM reports on Fintech startups.

Executive Summary

Introduction

Over the last decade, India has emerged as a Fintech industry leader. This can be largely attributed to the government initiatives that have led to greater investment opportunities in this sector while encouraging the consumers to shift to adoption of Fintech based products and services. Research indicates that at 87%, India has the highest Fintech adoption rate in the world, and is home to the 2nd largest Fintech start-up base in the world. Our research shows that digital lending, digital payments and wealth management are the three segments under Fintech where most of the start-ups are concentrated in India.

This report focuses entirely on Fintech lending segment under the broader Fintech umbrella. We have traced the evolution of Fintech Lending industry in India while highlighting the key drivers for growth, trends, challenges and opportunities. The report also highlights new business opportunities and key success factors for the Fintech lending industry in India, in addition to identifying bottlenecks faced by the industry, and recommend action steps to unlock the untapped potential of the industry.



Market Overview

The Fintech lending industry can be broadly classified under three major segments- SME lending, Consumer Lending and Online Lending Platforms. While start-ups started entering into this industry 2013 onwards largely to capture the untapped credit market, large tech companies seem to have recently targeted this segment. Credit demand from MSME and consumers presents an addressable opportunity of USD >1 trillion by 2023.

Most of these big tech companies, which have already been operating in other segments such as e-commerce, digital payments etc. have large consumer base, and related consumer data. By applying advanced data analytics, these companies have developed deep insights on consumer spending patterns. This has enabled them to come up with their own credit score of consumers based on recent bank history, repayment trends and other similar attributes. These companies are generally offering loan products as an add-on facility for consumers.

Executive Summary

Market Trends

Start-ups, non-banking financial companies (NBFCs) and large tech companies are competing against each other to capture a bigger market share. While start-ups have relatively lesser access to capital, they possess strong data analytics capabilities. Major Fintech companies such as Google Pay, Ola, Amazon, Truecaller, among others, have started entering into the lending business as a part of their expansion strategy. The major drivers include, easy market entry and targeted loan offerings due to large customer data insights, better margins than other Fintech business models such as payments and financial services, and prevalence of huge untapped market for unsecured loans.

While we have observed that each of the three types of competitors i.e. start-ups, NBFCs and large tech companies, have their own strengths, the Fintech lending industry at large benefits from partnership models. Fintech companies collaborating with established NBFCs or banks can reduce market entry time by 50% as compared to applying for its own NBFC license to enter the market. In addition, collaborating with NBFCs enables both partners to launch combine product based on customer portfolio. Strong data analytics, effective partnerships and low default rates are key success factors in this business.



Key Findings-

Business Opportunities

The major business opportunities prevailing in the Fintech lending industry are-

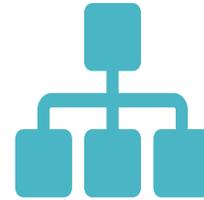
- Point-of-sale (POS) based lending which provides easy access to merchant related data which allows easy credit check.
- Peer-to-peer (P2P) based lending allows individuals to lend to another individual.
- Invoice based lending aims at financing merchants against the amount due from customer i.e. account receivables
- Short term lending gives users credit in customized manner, which allows them to make instant purchases. The 'buy now, pay later' model based on a similar concept is being adopted by companies to target a new set of customers. Even as new business models are being used to penetrate the market, increasing credit demand from consumers and MSME offers an addressable opportunity in the coming years.

Executive Summary

Key Risks and Challenges

The following risks/ challenges with Fintech lending have been identified-

- Liquidity squeeze can cause interest rates to rise directly impacting end customers.
- Business viability is questionable as default rate increases
- There are no clear guidelines for first loan default guarantee, which can provide safety to lenders.
- Bad loan ratio of NBFCs have almost doubled in last 5 years.
- Borrowed money from NBFCs and banks for lending comes with a high interest rate.
- RBI lending regulations such as P2P lending law which caps maximum lending or borrowing by a single vendor to USD 0.014 mn (INR 10 lakhs)
- Talent is a challenge for Fintech lending companies.



Recommendations

The report lists out a four-fold action agenda to be implemented by the government, industry and NASSCOM. These include, addressing ease of digital on-boarding of customers, reducing default rates, improving access to credit, and supporting new technology and innovation in lending.

Outlook for 2020

NASSCOM Research expects the following trends in Fintech lending in India in the future-

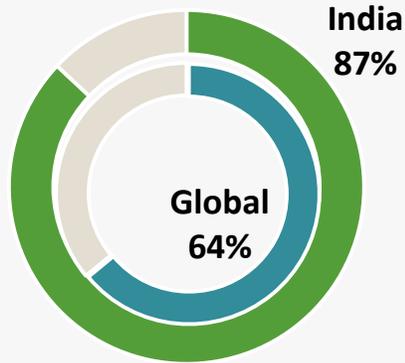
- More focus on data analytics for more accurate credit scores.
- More collaboration among Fintech start-ups, banks and NBFCs.
- Emergence of customized solutions like credit cards and accounts based on borrower's credit profile.
- Allowing portability of trusted data between service providers under Data Empowerment and Protection Architecture (DEPA) architecture.
- Lending companies to have in-house capability of offering loans, compliance, regulatory etc.



INDIA FINTECH OVERVIEW

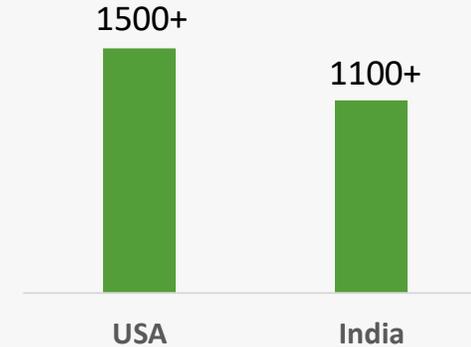
India Has Emerged As A Fintech Industry Leader

Highest Adoption Rate in the World



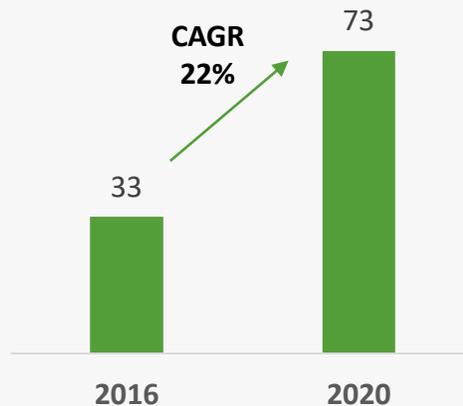
Fintech Adoption Index 2019

2nd largest Fintech Start-up Base in the World



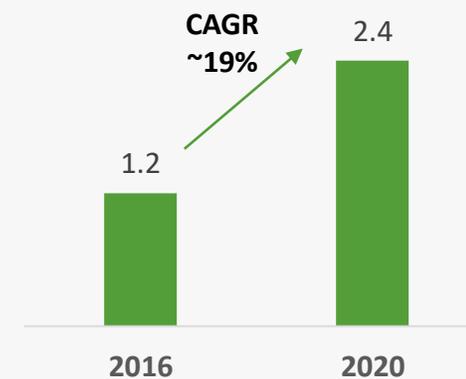
No. of Fintech Startups Founded (2015-18)

Rapid Growth in Transactions



Fintech Transaction Value (in USD bn)

Fintech Software Market



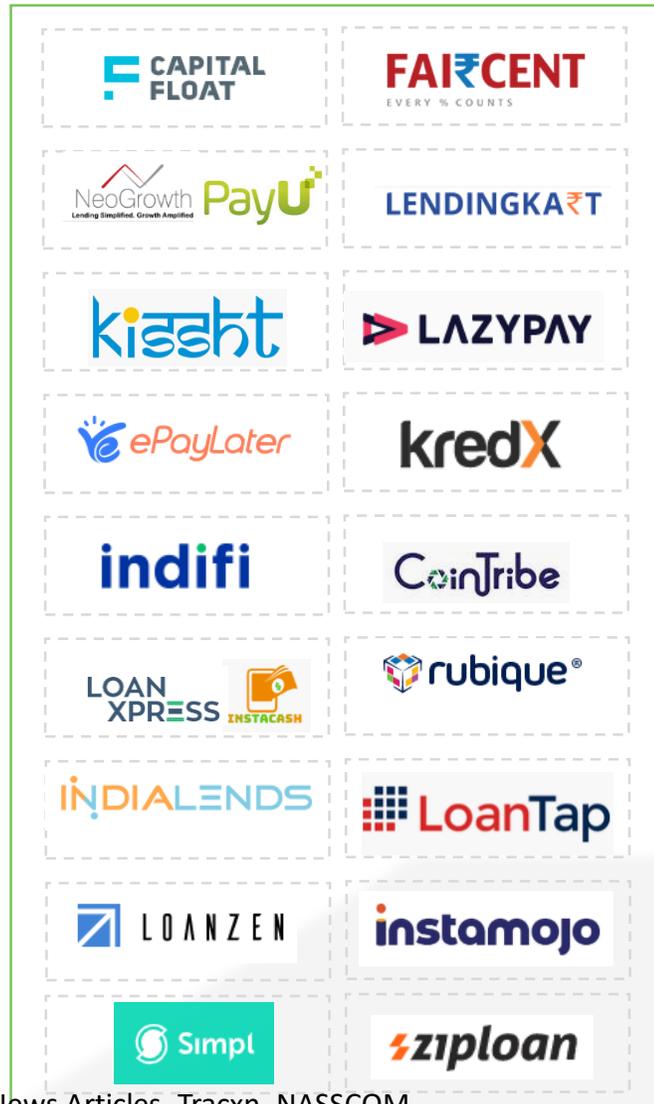
Fintech Software Market in India (in USD bn)

Diverse Fintech Landscape in India

Illustrative List of Start-ups

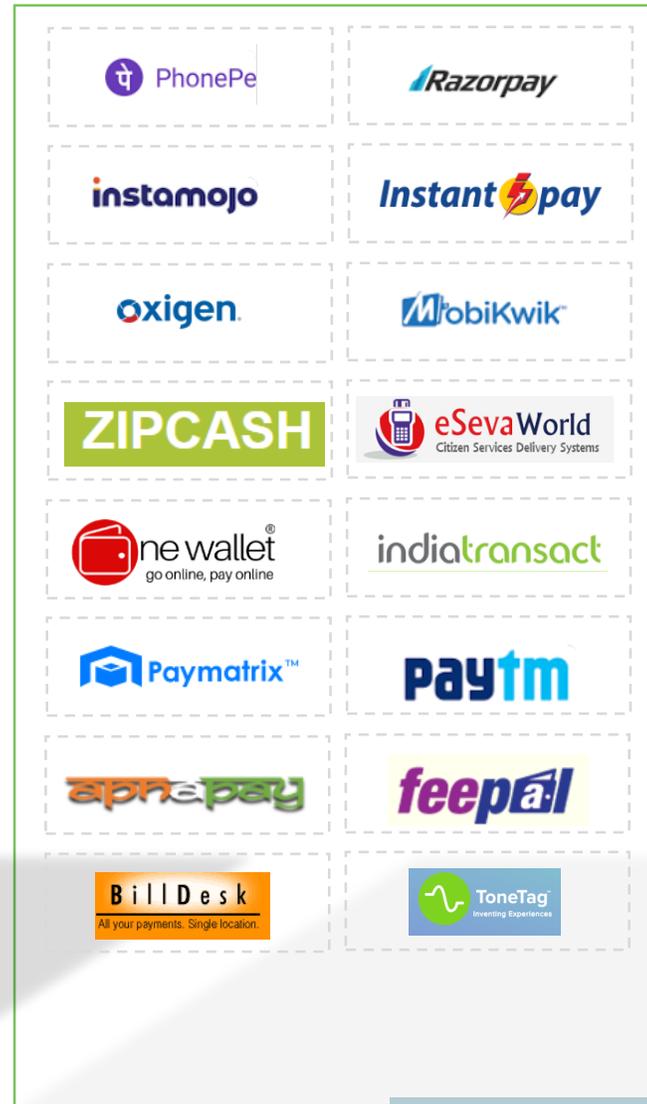
DIGITAL LENDING 330+ Start-ups

Digital Lending allow access to loan through digital mean and with minimal paperwork



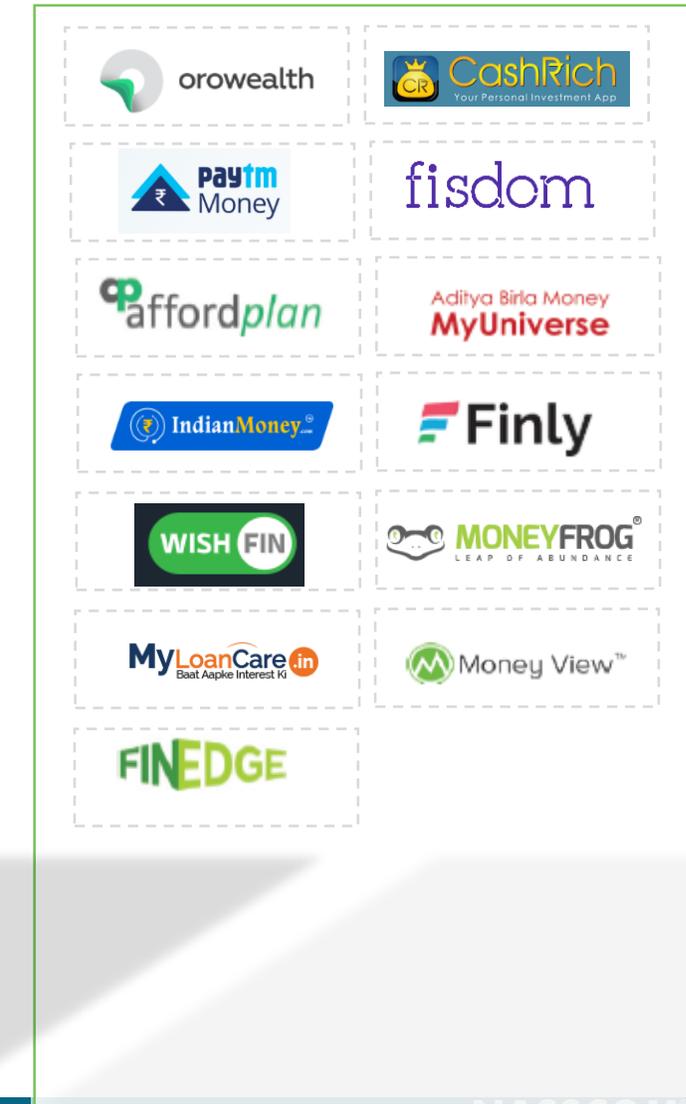
DIGITAL PAYMENTS 370+ Start-ups

Digital Payments allows making payments through digital instruments



WEALTH MANAGEMENT 300+ Start-ups

Digital Wealth Management offers tools, platforms for investments advisory





FINTECH LENDING MARKET OVERVIEW

Rapidly Growing Fintech Lending Landscape in India

SME Lending

Providing fast credit to small and medium enterprises through digital platform



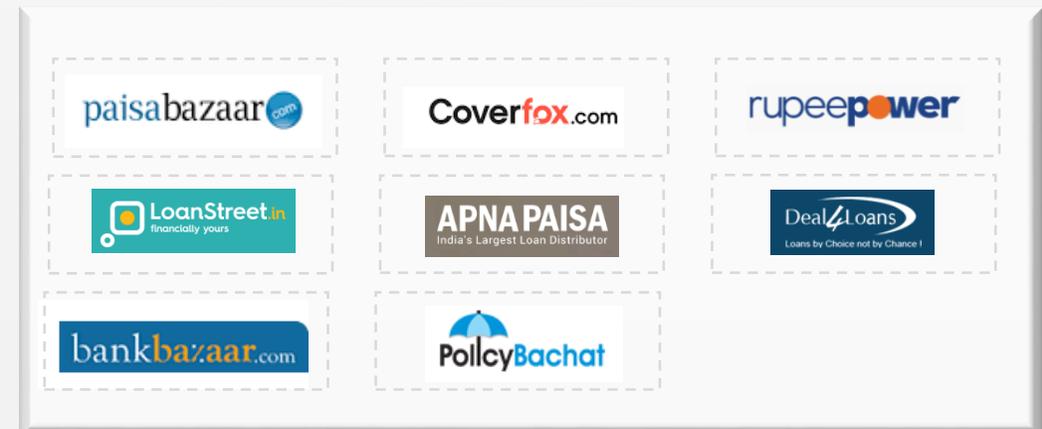
Consumer Lending

Providing credit to individual consumers through digital platform

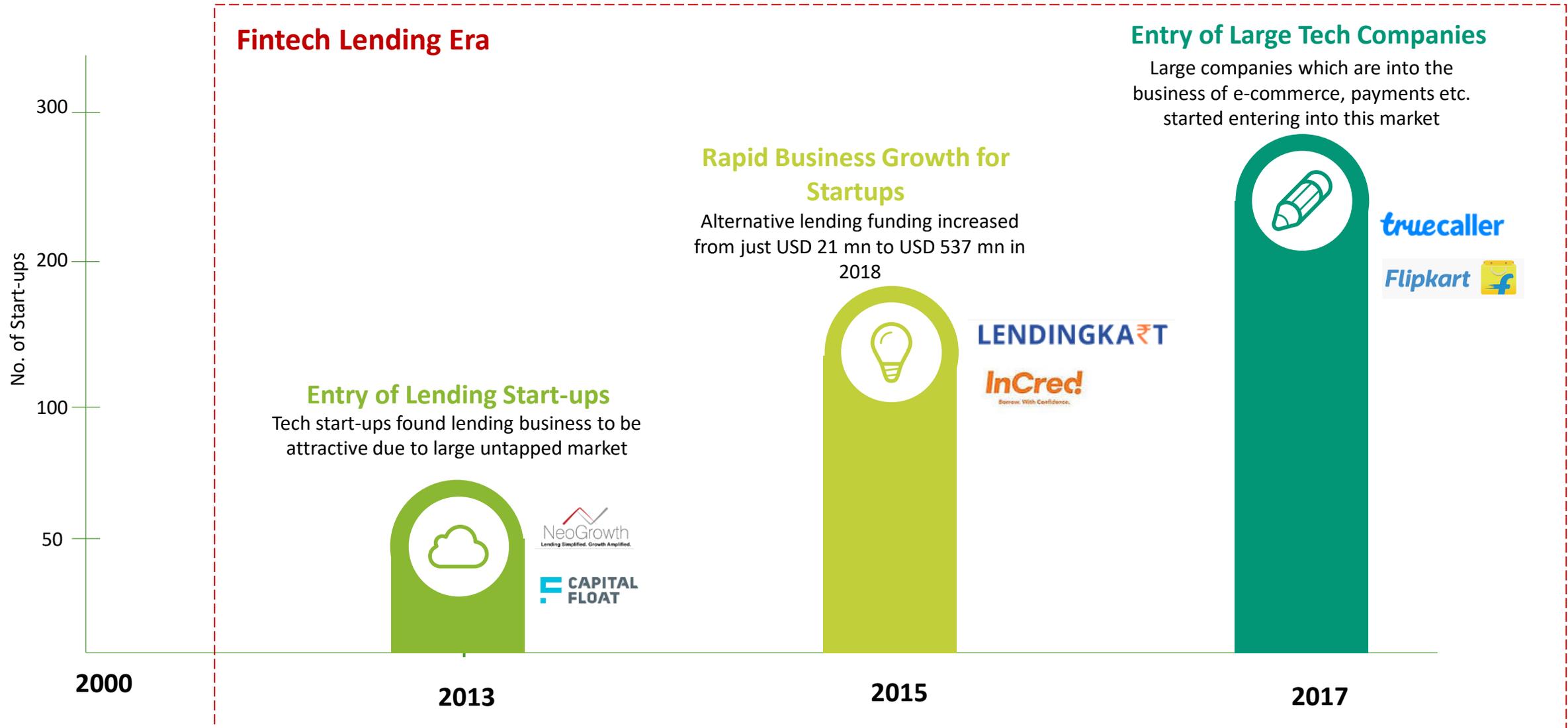


Online Lending Platforms

Provides a marketplace where individual consumers can connect with bank or lenders through online portals



Lending Business Evolution: Industry at Inflection Point



Fundamental Lending Challenges In India Translating To Massive Fintech Lending Opportunities



Low Penetration of Traditional Financial Instruments

- ATM penetration rates **0.5X** global average
- Credit card penetration at **0.01X** in India compared to USA



Unmet Needs

- Household to debt ratio **0.1X** of global average
- **300 million** Unbanked households looking for credit access
- MSME unmet credit gap expected to reach **~ USD 900 bn by 2023**



Banking Sector Challenges

- As of March 2019, Indian banks **NPA** stands at **~ USD 135 bn**
- **6** public sector banks are still under prompt corrective action due to rising NPA and facing restriction on lending



Traditional Customer Evaluation Methodology

- Physical, time-consuming and non analytics based background verification
- Collateral based lending

Addressable Opportunity



The background features a person in a dark suit and tie, holding a glowing lightbulb. The scene is overlaid with a complex network of white lines and nodes, resembling a digital or financial network. The overall color palette is dark with highlights of blue and green.

FINTECH LENDING TRENDS

Lending Market Attractiveness- Better Data → Better Analysis → Better Margins

Better Margins

Lending can offer better margins compared to other Fintech business models like payments, financial services etc.

Customer Data Enabling Market Entry

Large companies are sitting on huge volumes of customer data making it easier for them to enter

Advancement in Data Science

Rapid growth in big data and analytics tools and technologies in addition to availability of quality analytics talent driving the market



High Volume Market

Huge untapped market of unsecured loans

Transactional Data

Business transaction data help companies to understand the needs and offer them targeted and customised loans

Relative Lack of Competition

Lending business offers large untapped customer base offering substantial growth opportunities

COMPANIES ENTERING LENDING BUSINESS AS A FINTECH BUSINESS EXPANSION

truecaller



amazon

Flipkart

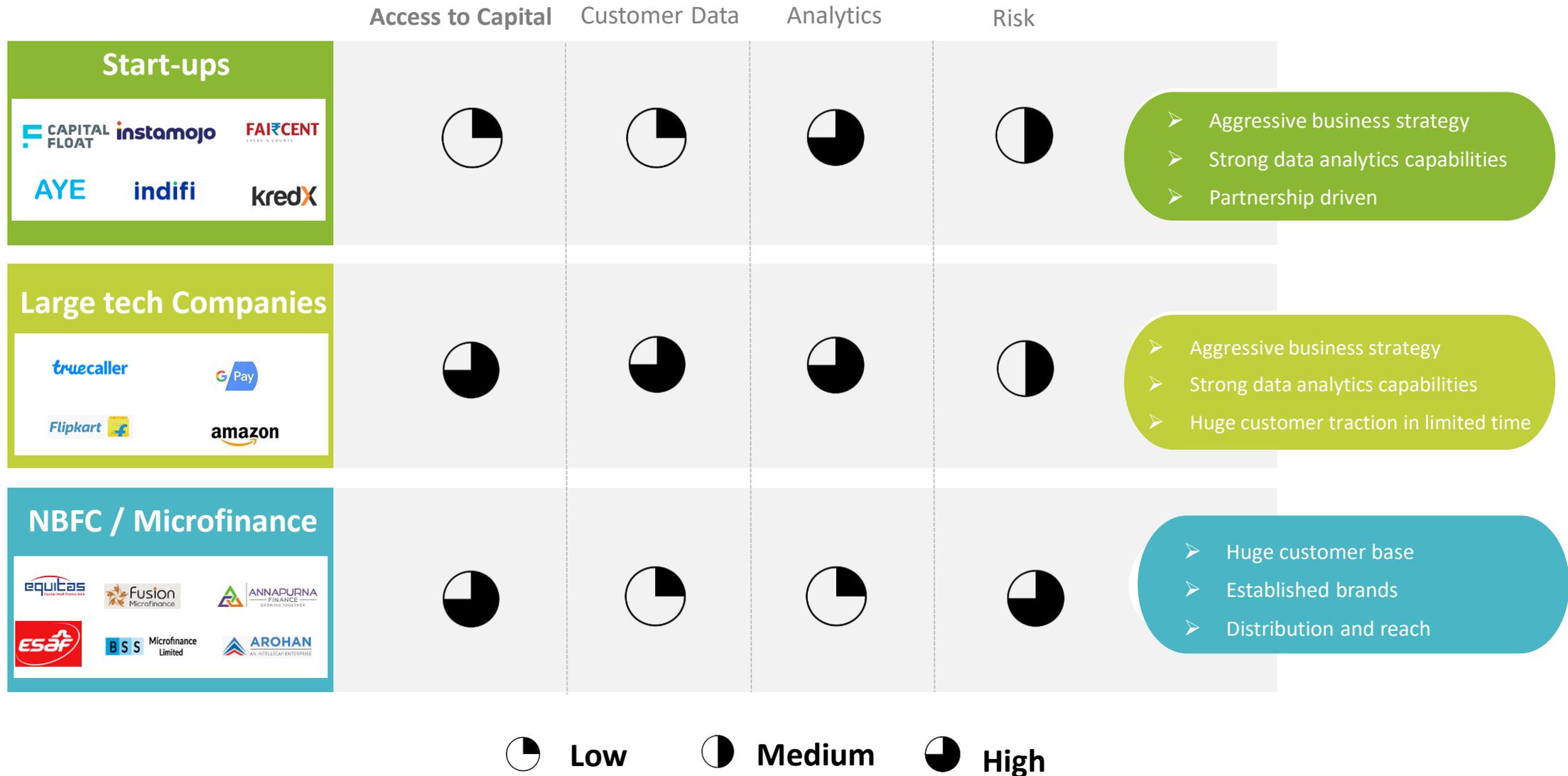


miXiaomi

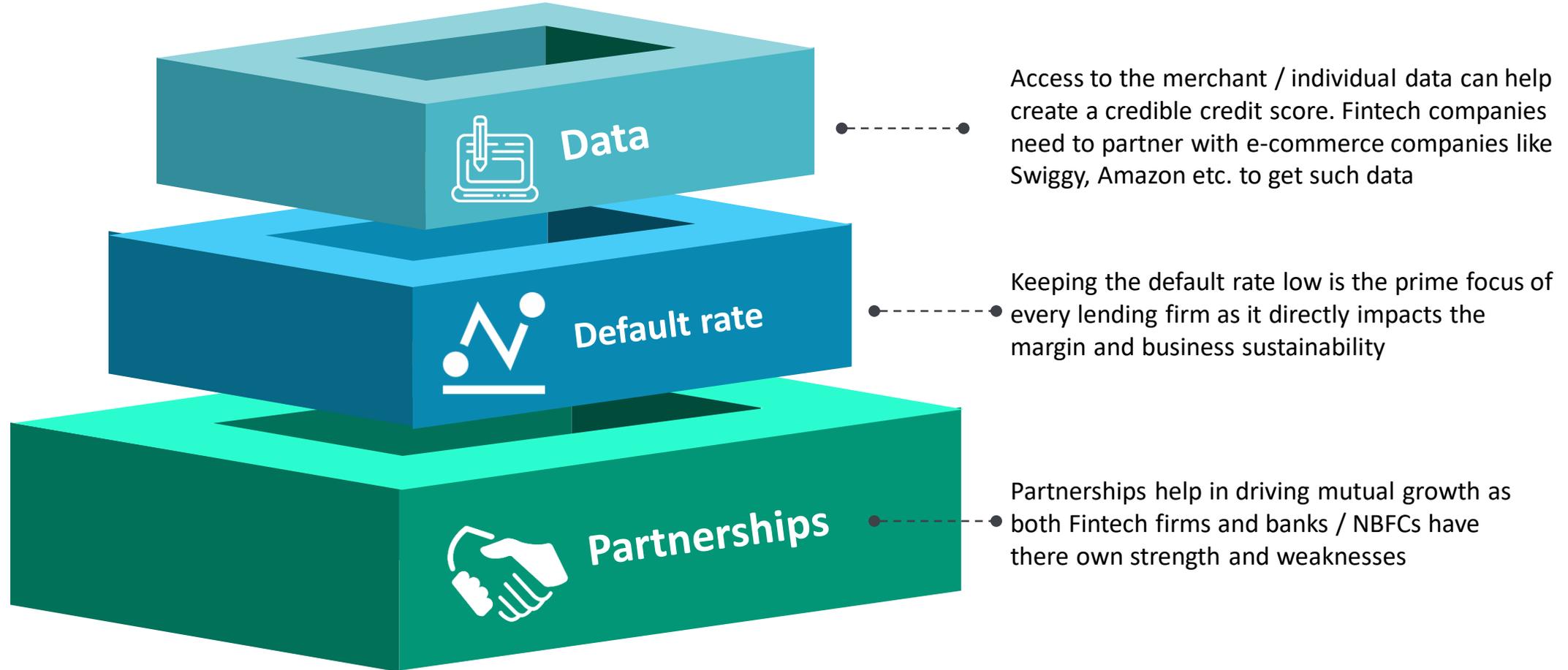
Bharat

Illustrative List

Start-ups, Large Tech Companies And NBFCs Are Key Competitors



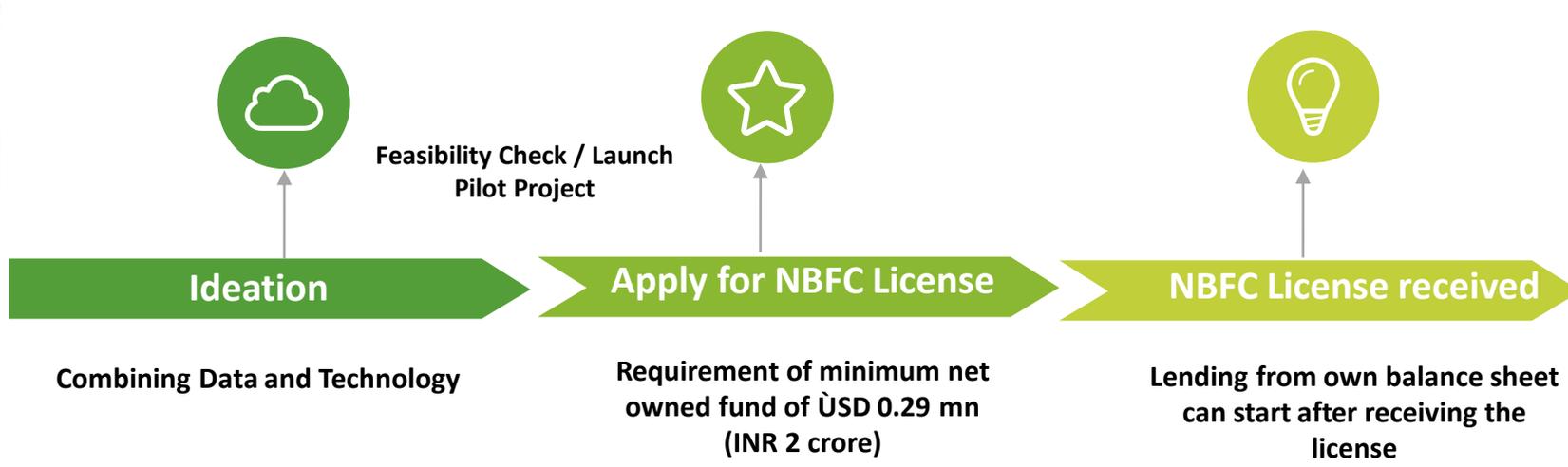
Lending Success Factors- Establishing Partnerships for Market Access, Using Data to lower Default Rates



A Partnership Approach Can Reduce Market Entry Time by 50%

Illustrative Timeline

Getting own NBFC License



Use Case:

To expand in Tier 2 and Tier 3 cities	To loan vehicles and finance dealers	To offer OLA credit (pay later product)

To offer credit and insurance to consumers and sellers	To offer credit and insurance to consumers and sellers	To offer consumer loans for electronics, home appliances etc.

Working with an established partner



Use Case:

	+		→	Offering a Money tap RBL Credit Card
	+		→	To lend capital to consumers and applicants

6 months

12 months

Case Studies- Partnerships and Default Rate



Nelito has partnered with **Sonata Finance** (a USD 212bn worth of asset based NBFC providing microfinance loans)

To address challenges in typical loan issuance process, over an year was spent to deliver tailor made solutions for Sonata finance:

- Business Correspondent Management
- Securitization Loan Management
- Repayment module of securitized loan
- Funder Repayment
- Pledge, unpledged FD management

Partnership

Low Default Rate



Instamojo offers byte-sized loans to help small businesses manage your cash flow and working capital requirements.

Lending Default Rate: 0.01%

Such a low default rate requires strong background analytics:

- Strong KYC approval process
- Weeding out fraudulent merchants
- Using computer vision algorithm for pattern detection and document authenticity
- Use of Natural Language Processing Algorithms to figure out merchant business

Data is the Holy Grail in Fintech Lending

Online Spending Data

Purchases and selling on online platforms like Amazon, Flipkart etc.
Avg. online retail spending at USD 224 per online buyer

SMS Data

SMS has all kind of information like credit, debit in the accounts
210 billion messages travelled in 2018

Point of Sale Data

Transactional data on POS where customer execute payment of goods or service
400+ million monthly debit cards transactions at POS terminals

Illustrative Data Sources

Credit Bureau Data

Bureaus Provides credit score of individuals by looking at individuals repayment behaviour

Risk Tier	Borrower
Prime Plus	801-900
Prime	751-800
Near Prime	651-750
Subprime	300-650

Social Media Activity

Data on google maps, payments to cabs, bill payments etc.
Almost 40% of daily media time people spend on digital media



Cross-Referencing Multiple Credit Data Points Can Significantly Reduce Default Rates

SMEs and Individual credibility check requires referring to multiple sources to create a credible credit score

App Based Data

- Expense tracker apps (like Walnut, FinArt, MoneyView, Beewise etc.)

Bank Data

- Past Lending Behaviour
- Debit / Credit Data

Business Data

- Promoters Info
- Volume of Business
- Geographical distribution of business
- Business Aging
- End Consumer of Business

E-commerce Data

- Merchants sales data information
- Value, number, frequency of e-money account credit / debit

Balance Sheet Data

- Cash Flow
- Goods & Service Tax Data

Proper Credibility Checks can reduce default rates by 1-2 %

Case Studies- Data Analytics and Cost Reduction



FlexiLoans is an online lending platform started with an endeavor to solve the problem that SMEs face in accessing quick, flexible and adequate funds for growing their businesses.

- **Step 1 - Customer Acquisition**: Dynamic prioritization of leads that leads to 50%+ faster onboarding and have 7 interfaces for customer acquisition
- **Step 2 - Application Processing**: Have an Image Classifier that reduces pre-processing time by 98%. They also extract publicly available 3,000 data points to better assess customers.
- **Step 3 - Credit Appraisal**: FlexiLoans has a suite of credit scoring models that generate proprietary scores
- **Step 4 - Collections**: Flexiloans has 1) integrated early warning system, 2) collection analytics that are looped into assessment and 3) deep integration with banks that helps in auto-escrow deductions & one-click disbursements.

Data Analytics

Borrowing Cost

BharatPe

BharatPe is a payments company serving the offline retailers and businesses empowering merchants to accept UPI payments for 'FREE' through the BharatPe QR

- BharatPe focus on creating a good book with risk & collections first approach which helps weed out the potential bad customers and hence build a profitable book with low NPAs . This in turn helped them to get maximum return on our equity and negotiate a better borrowing cost with our lenders.



**FINTECH LENDING
BUSINESS
OPPORTUNITIES**

POS Based Lending Is The Fastest Growing Lending Solution Segment

Point of Sale based Lending

It aims at financing merchants who use swiping machine for payment acceptance



Target Segment



Key Players



Business Highlights

POS based lending provide easy access to merchant related data which allows easy credit check. Data parameters provided by POS are:

- **Merchant Profiles:** category, business address etc.
- **Transaction Data:** Time, date, debit/credit of transaction
- **Post business Data:** tracking the health of the business



Key Data Sets for Credibility Check

- Swipe Machine Transaction Data
- Sellers Data on e-commerce platform like Amazon, Flipkart etc.



Market Numbers



- POS market expected to grow at 11% till 2022 due to digitization focus
 - POS industry in India can reach valuation of USD 3 bn by 2024

P2P Lending Driving Consumer Based Lending in India

P2P Lending

It links unsecured personal loan borrowers to the investors who want to earn higher interest



Target Segment



Key Players

FAIRCENT
EVERY % COUNTS

Lendbox

₹ML
Smart Financing



Business Highlights

P2P based lending is the consumer type of lending allowing an individual to lend to another individual. It has certain benefits:

Lender

- Better Returns: Up to 30%
- Monthly payment with interest

Borrower

- With no credit history once can ask for loan
- Paperless application



Key Data Sets for Credibility Check

- Credit Bureau Data
- Expense Tracker Apps



Market Numbers



India P2P Market (in USD mn)

- P2P lending market is expected to reach USD 4-5 billion by 2023.
- Only 30+ players in market have RBI licenses for executing P2P business.

Invoice Based Lending Providing Support to Many MSMEs

Invoice based Lending

It aims at financing merchants against the amount due from customer which is basically account receivables



Target Segment



Key Players



Business Highlights

- Credit history of the merchant can be checked whose invoice needs to be discounted
- NBFC credit squeeze have a direct impact on invoice based lending due to shortage of working capital

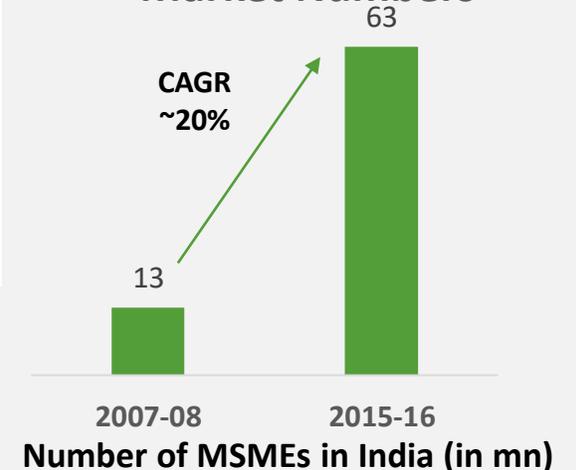


Key Data Sets for Credibility Check

- POS Terminal Data
- Bank Transaction Data
- Merchant transaction data from e-commerce



Market Numbers



- High growth in number of SMEs in past 10 years
 - SMEs are discounting bills worth more than USD 140 mn every month
- Mandatory for companies with turnover USD 70 mn to be part of TReDS (Trade Receivables Electronic Discount System)

Short Term Lending is Gaining Momentum Due to Instant Credit Need

Short Term Lending

It gives users credit in customized manner which allows them to make instant purchases



Target Segment



Key Players



Business Highlights

- Offer flow of money in the form of flexi EMIs
- Most of short term loans are dispersed in hours or within a day or two.

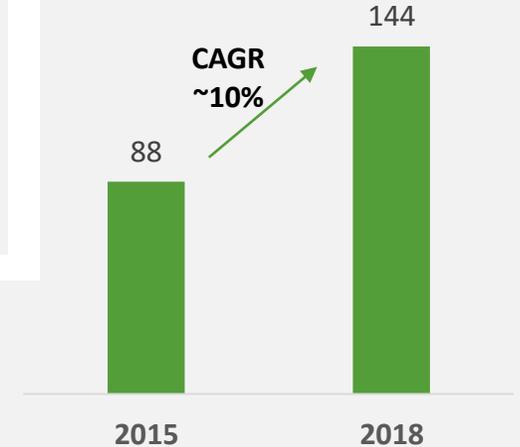


Key Data Sets for Credibility Check

- Credit Bureau Data
- Expense Tracker Apps
- Bank Transaction Data



Market Numbers



Credit under the personal finance segment (in USD bn)

- Credit under the personal finance segment at USD 144 bn
- Catering to wide market like salaried individuals, college students etc.

Case Studies- Buy Now, Pay Later



ePayLater is a digital payment solution that enables a "Buy Now, Pay Later" solution for frequent online purchasers

One can start transacting with this digital credit across categories such as travel, movies, food, retail, groceries and more. It allows the users a 14-day interest-free period from the date of purchase to settle the payment.

- It also offers UPI powered credit solution. The recent launch of ePayLater UPI enables the users to transact on top merchant portals that are UPI enabled.
- It has an in-app OTP option for IRCTC users to process faster tatkal bookings.

Innovative Business Model

Innovative Business Model



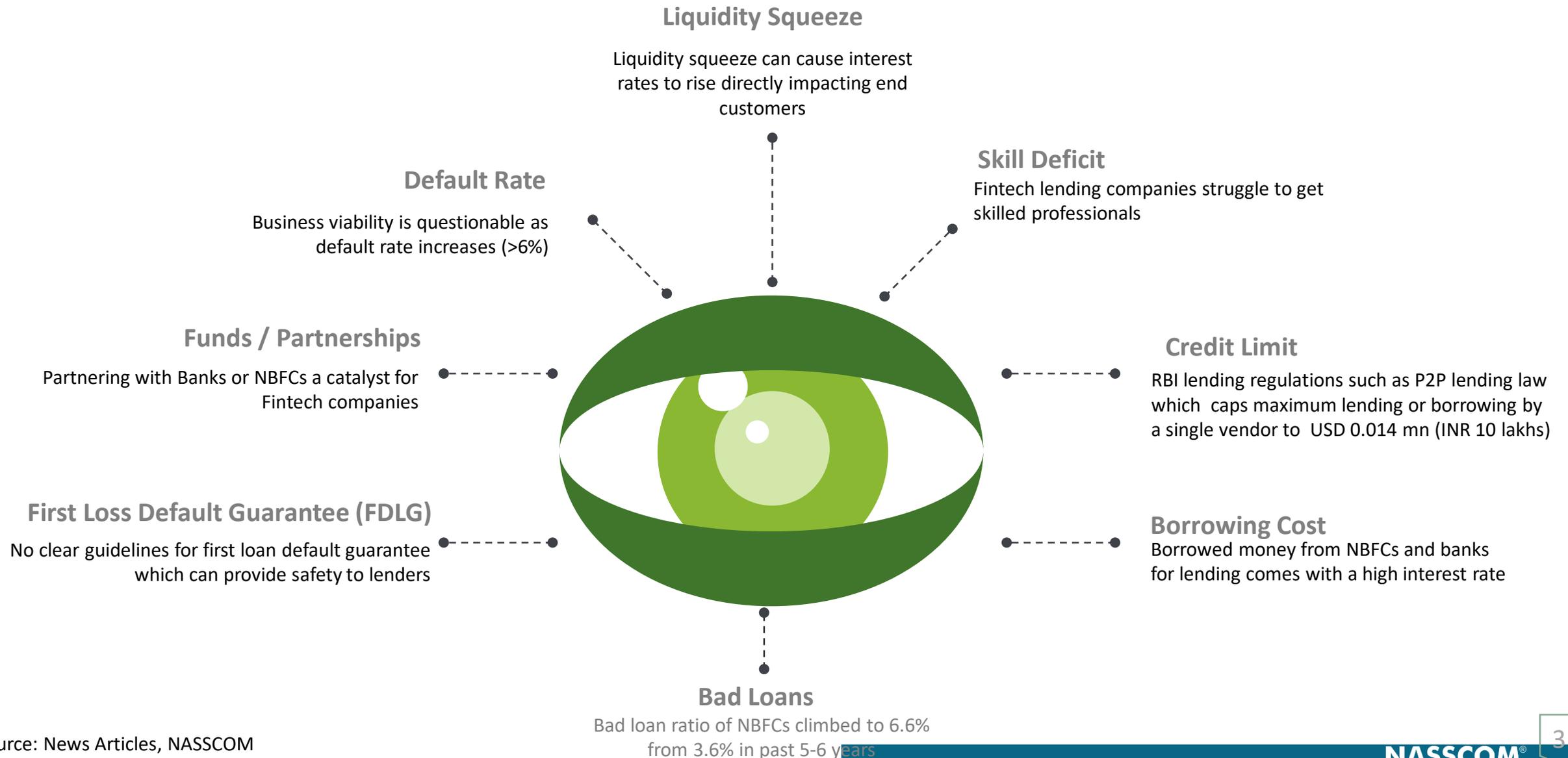
LazyPay is the product of PayU (a fintech company that provides payment technology to online merchants introduced a lending product). LazyPay works on the principle of "Buy Now Pay Later" which addresses short-term credit needs of consumers for their purchases

- Users need to check their unique credit limit by entering personal and KYC details about themselves.
- The customers can shop online across 100+ merchants and choose the option to pay later at checkout.
- All purchases are consolidated into a LazyPay bill, due on 3rd and 18th of each month.
- The app sends regular reminders to its users to make quick repayments and tracks spending.
- Partners: Swiggy, BookMyShow, Croma among others



KEY RISKS AND CHALLENGES

Risks / Challenges with Fintech Lending





NASSCOM RECOMMENDATIONS

NASSCOM Recommendations

Address issues pertaining to digital on-boarding of customers

Reconsider the application process for e-KYC

- Modifying MoF circular for the use of Aadhaar authentication services by non-banking entities
- Allowing lending companies to directly approach UIDAI for e-KYC authentication facility

Suggest appropriate modifications to various KYC related policies

- Making suggestions to the government on how to simplify the KYC rules

Proactive adoption of digital KYC

- Industry should show interest in the new process of video KYC

Reducing default rates

Mandatory Reporting of Default

- Mandate lending platforms to report default to Public Credit Registry

Create a common default reporting platform

- Every lending company should proactively submit their defaulters list to Public Credit Registry
- Abstain from taking memberships of different credit bureaus to run a credit profile check of borrowers

Support new technology and innovation in lending

Encourage lending products/services/technology to be tested in sandboxes

- RBI has excluded innovations pertaining to credit information and credit registry, from the sandbox, this exclusion will foreclose innovation where we need it the most

To act as a connect between Start-ups/ Industry and Government

- Catalyzing the whole discussion between government, industry and start-ups focused on implementing new age lending solutions

Provide support to new age tech start-ups

- Traditional lending companies should collaborate with new age Fintech start-ups

Improve access to credit

Incentivize traditional lenders to go digital

- Introduce a tax rebate for a significant period
- Mandate companies to collect interest and repayment of loan digitally

Make loan application less cumbersome for consumers

- Create awareness among consumers

Adopt collaborative & data driven models

- Embracing Account Aggregator model



FINTECH LENDING 2020 OUTLOOK

What To Expect in Fintech Lending In 2020

Stronger Data Analytics

To reach a more authentic credit score, more focus to be given to data analytics



Collaborations

More collaboration among Fintech start-ups, banks and NBFCs expected in near future



Offering Customized Solutions

Customized products like credit cards, accounts based on borrower's credit and profile



Full Stack Companies

Lending companies to have in-house capability of offering loans, compliance, regulatory etc.

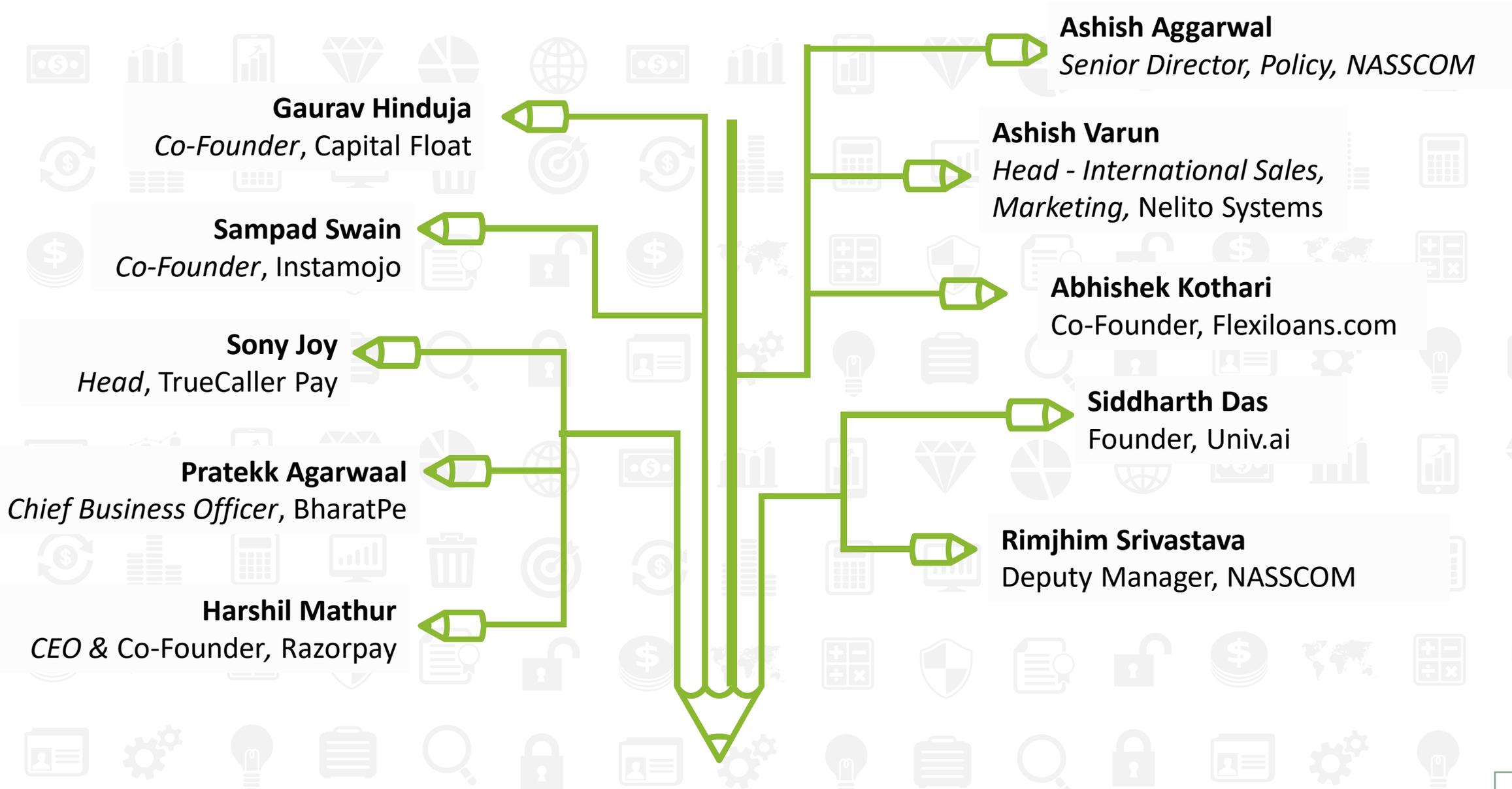


Democratizing Data

Allowing portability of trusted data between service providers under Data Empowerment and Protection Architecture (DEPA) architecture



KEY CONTRIBUTORS



About NASSCOM

The National Association of Software and Services Companies (NASSCOM®) is the premier trade body and chamber of commerce of the Tech industry in India and comprises over 2800-member companies including both Indian and multinational organisations that have a presence in India. Our membership spans across the entire spectrum of the industry from start-ups to multinationals and from products to services, Global Service Centers to Engineering firms. Guided by India's vision to become a leading digital economy globally, NASSCOM focuses on accelerating the pace of transformation of the industry to emerge as the preferred enablers for global digital transformation. Our strategic imperatives are to reskill and upskill India's IT workforce to ensure that talent is future-ready in terms of new-age skills, strengthen the innovation quotient across industry verticals, create new market opportunities - both international and domestic, drive policy advocacy to advance innovation and ease of doing business, and build the Industry narrative with focus on Talent, Trust and Innovation. And, in everything we do, we will continue to champion the need for diversity and equal opportunity. NASSCOM has played a key role in not just the growth of the Industry to become a \$180+Billion industry today, but we have helped establish the Tech industry in India as one of the most trusted partners, globally. NASSCOM continues to make significant efforts in contributing towards India's GDP, exports, employment, infrastructure development and global visibility. Our membership base constitutes over 95% of the industry revenues in India and employs over 4 million professionals, and as technology blends into every aspect of the economy, we expect the industry to become key driver of growth, development and inclusion for the country. Our mission is to make India a global hub for Innovation and Talent so when the world thinks Digital, the world will think India.

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Thank You

