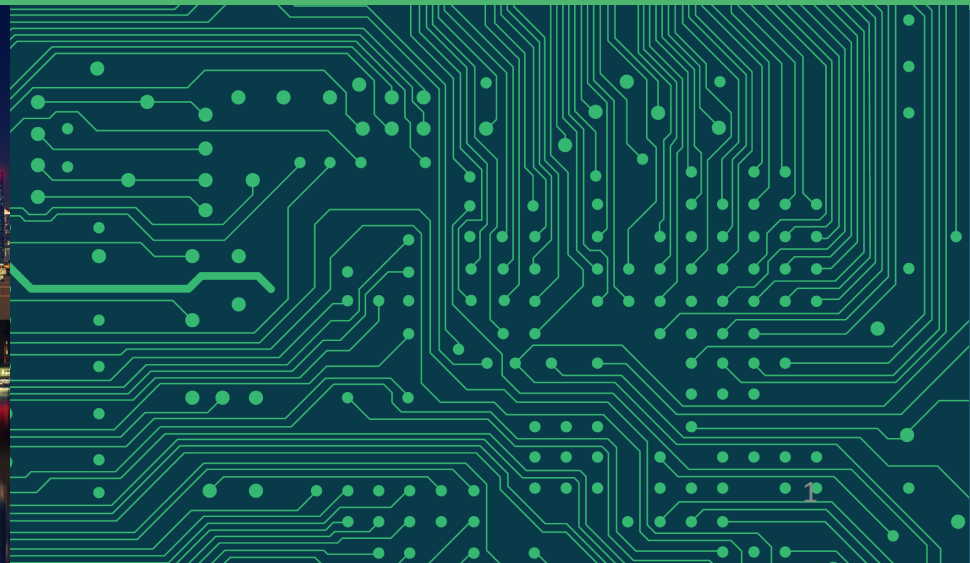


State of the Fintech Union 2023

Building sustainable long-term businesses in Financial services

Global Fintech Fest, September 2023







Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities

BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage and driving bottom-line impact. To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change

BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive



Early stage investors targeting companies in the Indian consumer and enterprise market. Matrix Partners began in Boston in 1977, and today invests actively in the USA, India and China. Matrix Partners India was established in 2006, and invests across a variety of sectors including consumer technology, B2B, enterprise & SaaS, and Fintech, among others. We look for the best and brightest founders and teams. In our experience, the quality, passion and commitment of a company's core team are more important than any other element

We invest in between seed and series B initially in each company. We like to get to know founders early, ideally well before they are ready to raise capital, with a focus on companies primarily targeting the Indian market. We prefer to be the lead investor. We often invest on our own but also co-invest with other investors

Founders are always first in our eyes, whether you have just a nascent idea or are already running a business, let us help you turn your ideas into reality and grow your business

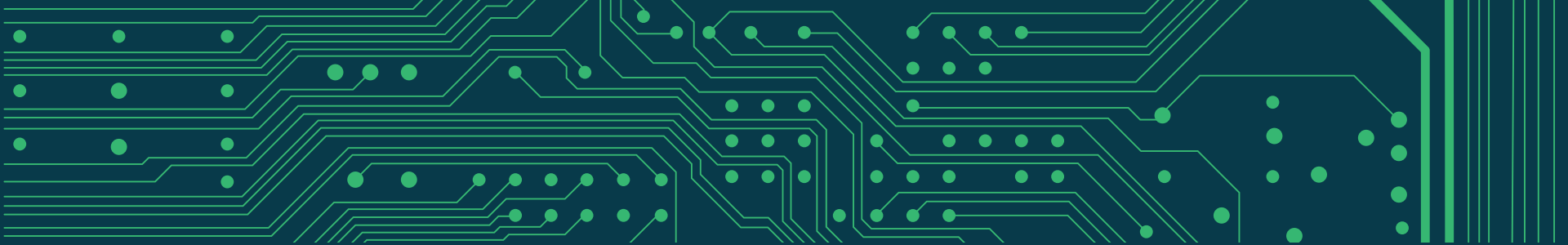


TABLE OF CONTENTS

01

State of the Indian Fintech market

Market landscape, key growth and challenges

08-21

02

Voice of CXOs: Roadmap to profitability

Opportunities & challenges to build sustainable, high growth businesses

22-83

03

Key priorities for future growth

Short & medium term priorities to unlock full potential

84-88



Executive Summary

- India has been at the forefront of Fintech innovation, being the 3rd largest and one of the fastest growing Fintech markets globally
 - Ecosystem has crossed the 0-1 phase and entered the 1-10 phase or “middle journey”. Steady growth is expected, with focus shifting to profitability and curtailment of systemic risk
 - Increasing recognition and importance now also being given by the regulator with Fintech specific departments and committees formulating specific guidelines for both ease of operations, while keeping in mind risk management
 - Emerging pockets of profitability in private and public markets with multiple Unicorns breaking-even and turning profitable
 - Newer companies in same category are achieving milestones faster
 - Zerodha getting to No 1. spot (active clients) in under 10 years, top 5 in ~5 years.
 - PhonePe getting to ~50% of UPI market share vs. tech giants and Incumbents
 - OneCard crossing ~1.5M+ cards in force, in under 3 years.
 - Oxyzo displaying benchmark metrics - ~5% post-tax RoA, <1% NPA and PAT growing 100%+ YoY.
- Early signs of recovery with 30% higher capital momentum in H1 CY23 vs H2 CY22. Global recognition of our differentiated tech infrastructure and operating models.
- Expect to continue to see large company creation, more Fintech IPOs with diverse value distribution (payments, lending, insurance etc.) and newer segments being disrupted by challengers.
 - Traditional businesses with tech at the back end such as Five Star Business Finance have also IPO’ed and are a clear example of using tech and processes to deliver operational leverage. (Stock appreciation of >50% since listing)
- Indian Fintech revenues to grow 35%+ annually to reach \$190B+ revenues by 2030.
- As the Indian Fintech landscape navigates the funding winter and prepares for future growth, few key priorities emerge.
 - Driving sharp focus on fiscal prudence, sustainable profitability, high quality governance, resilience
 - Leveraging new technology frontiers such as GenAI, to improve effectiveness of existing solutions
 - Clear policy framework articulating the guardrails of Fintech, bank and regulator roles and responsibilities
 - Build avenues for private innovation over emerging DPI 2.0 stack to solve for inclusion, access and usage @ scale
- Tap growth opportunities across emerging products such as embedded finance, BaaS 2.0, CBDCs, Green lending etc.
- "Competition" to "Collaboration" – Optimism on Fintech partnerships continues but solving for higher technical maturity along with optimizing regulatory guardrails remain key
 - Lines are now blurring between Incumbents and Challengers. “All financial services companies are Fintechs”
 - Incumbents investing heavily in beefing up digital capabilities (in-house + partnerships) and Challengers are increasingly looking to operate in the regulated regime
 - Increasingly “offline-online” approach being adopted by Banks and Fintechs to serve customers

Executive Summary

Voice of CXOs

- Our survey with 70+ Founders/CXOs of top Fintechs and Incumbents revealed that a roadmap to profitability and sustainable growth are key priorities for 75% investors today
- Outlook for Fintech profitability significantly improved from 20-30% in 2022 to 40-60% in 2023; Indian Fintechs driving reduction in marketing cost & CAC to achieve profitability
- Setting up dedicated teams for Fintech partnerships along with clearly defining guardrails for risk management viewed as effective levers to improve collaboration by ~60% CXOs.
- Both Fintechs and Incumbents are positive on the regulatory environment from the perspective of safeguarding systematic risk. However, potential to further optimize clarity and consistency exists remain.
- Regulatory compliant solutions (by design) preferred while partnering by ~60% Incumbent CXOs.
 - Marginal improvement (27% vs 20% in 2022) noted across outlook on Fintech governance standards, however potential exists to further strengthen integrated governance mechanisms

Key priorities for future growth

- As we move ahead, there are a few key imperatives for our Fintech founders:
 - Sharp focus on sustainable profits key to future growth
 - Building fiscally prudent and innovative solutions with low reliance on external funding
 - Embrace regulatory compliance by design from day 0
 - Strengthening and driving partnership plays with Incumbents by creating win-win business models





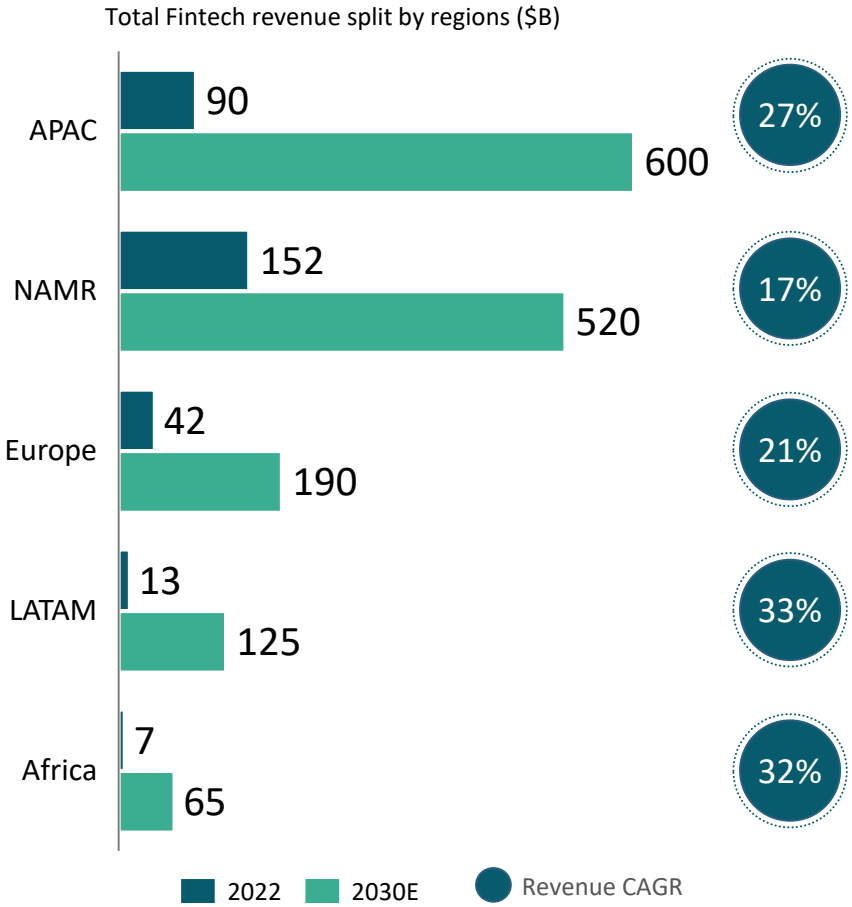
01/03

State of the Indian Fintech Market

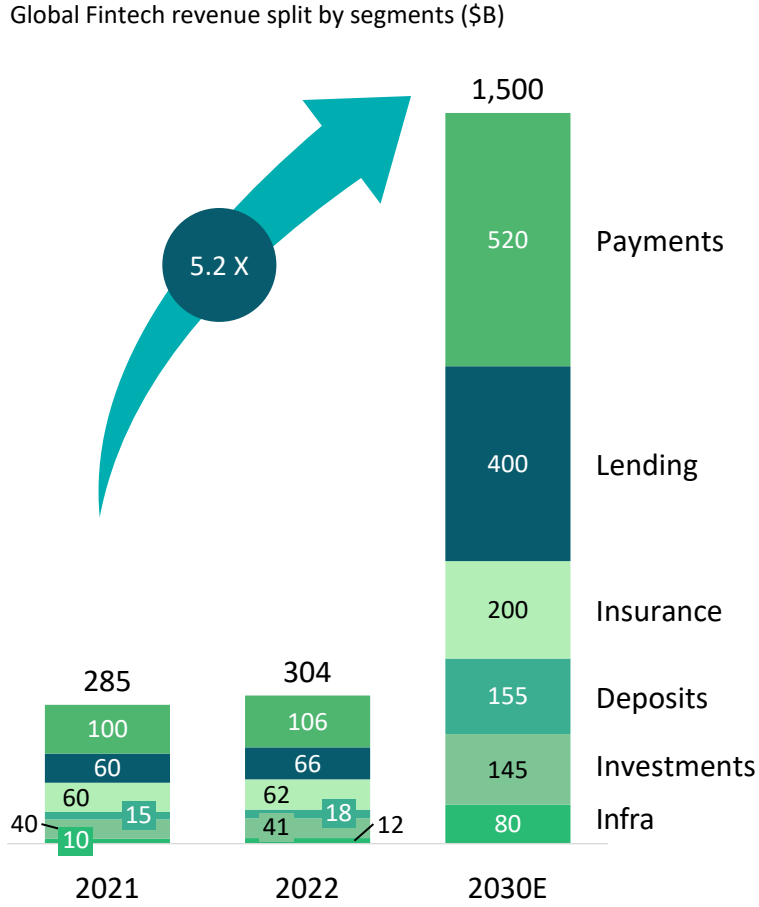
Market landscape, key growth and challenges

Global Fintech landscape scaling up fast, APAC continues to lead growth

■ APAC region to zoom past NAMR by 2030 in terms of revenue



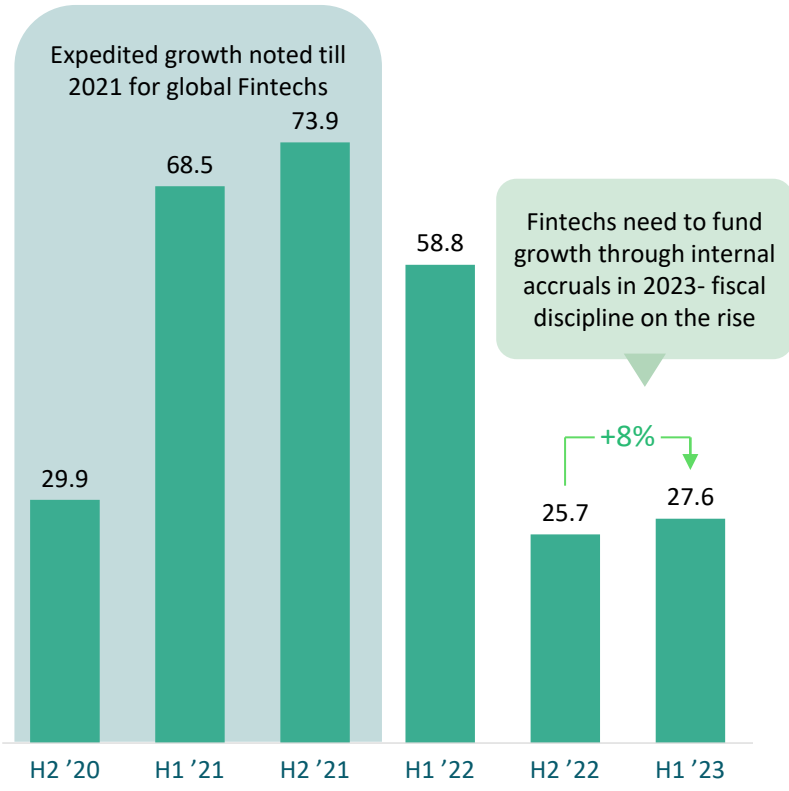
■ Lending and Payment Tech continue to be the revenue drivers



Source: Reimagining the Future of Finance BCG QED report 2023, BCG analysis

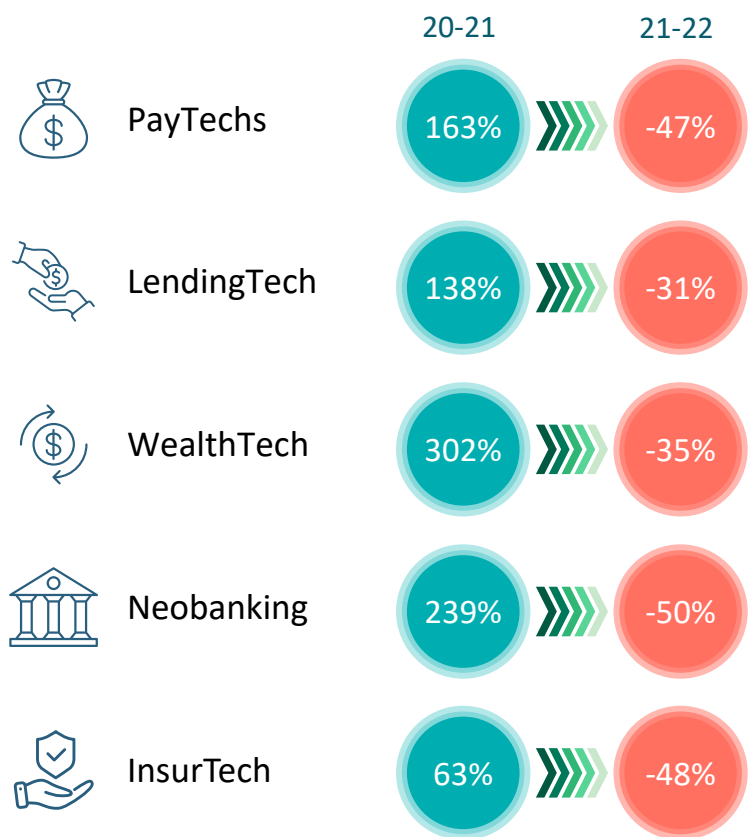
Funding winter continues globally, but some early signs of recovery seen

Global Fintech Equity Funding (\$B)



Funding surged by 8% from H2 2022 to H1 2023 signaling early signs of recovery

Global Fintech funding YoY growth fluctuations (%)

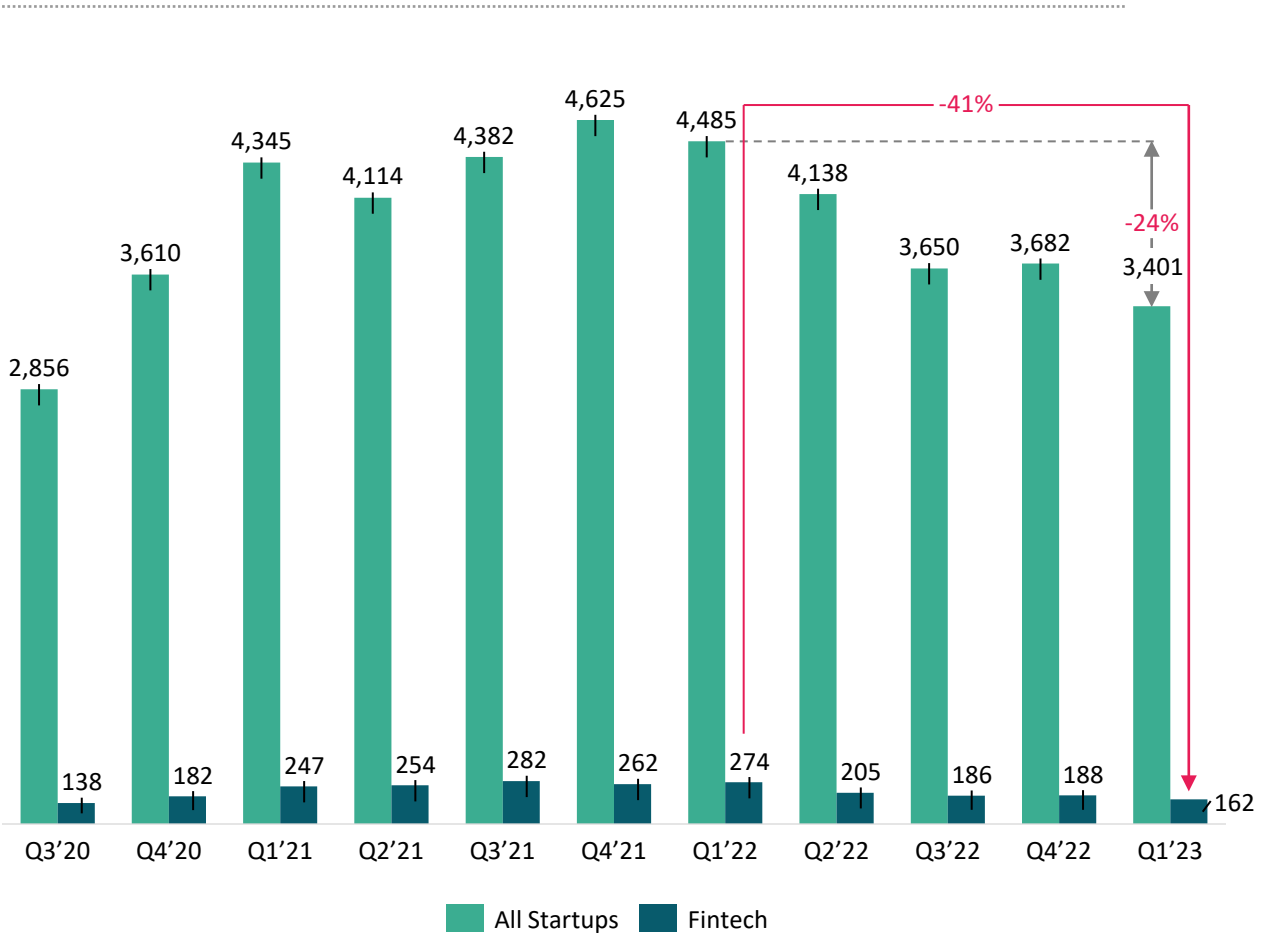


After tremendous growth in 2021, funding has slumped from 2021 to 2022 across all segments

1. Includes funding deals till June 2023 2. Personal Finance Management Source: BCG Fintech Control Tower; BCG analysis

Limited consolidations noted, with declining M&A deal volumes

■ Number of Global Quarterly M&A Deals





Global M&A market appears to be returning to pre-pandemic deal volumes, plummeting 41% for Fintech and 24% for startups overall against Q1'22

Global challenges like geopolitical instability, rising inflation, supply chains bottlenecks, regulatory changes, tech disruption are resulting in uncertainty, which is weighing on M&A decision making

Slower M&A activity presents an opportunity for Fintech companies to revisit their business models, target market, technology mix and refresh their product portfolio to sustain profitability

Source: BCG FinTech Control Tower, Pitchbook, BCG Analysis

India amongst top 3 globally on Fintech strength, funding and deal volume

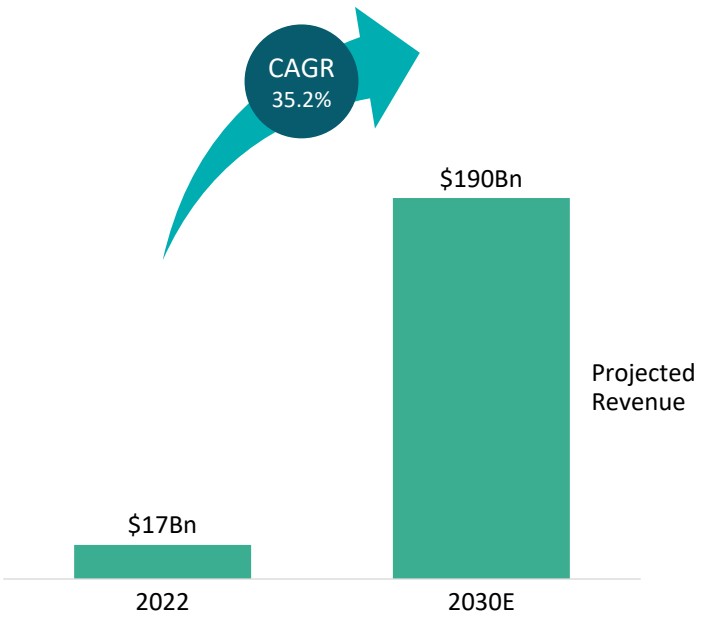
	 USA	 UK	 India	 Canada	 China	 Australia
# Fintechs as on Jul'23	34034	12775	10244	3965	3717	3639
CAGR (# Fintechs) (2020 -2023)	11%	10%	14%	10%	5%	6%
Funding (\$) (Jul'18 - Jul'23)	225 Bn	63Bn	25 Bn	10.5 Bn	20 Bn	8.6 Bn
# Deals (Jul'18- Jul'23)	6,562	2,184	2,236	572	589	346
#Unicorns as on Jul'23	170	37	25	7	38	3

Source: Tracxn data as on Jul'23, Cumulative data from Jul'18 to Jul'23

Indian Fintech market well placed to achieve \$190 Bn in revenues by 2030

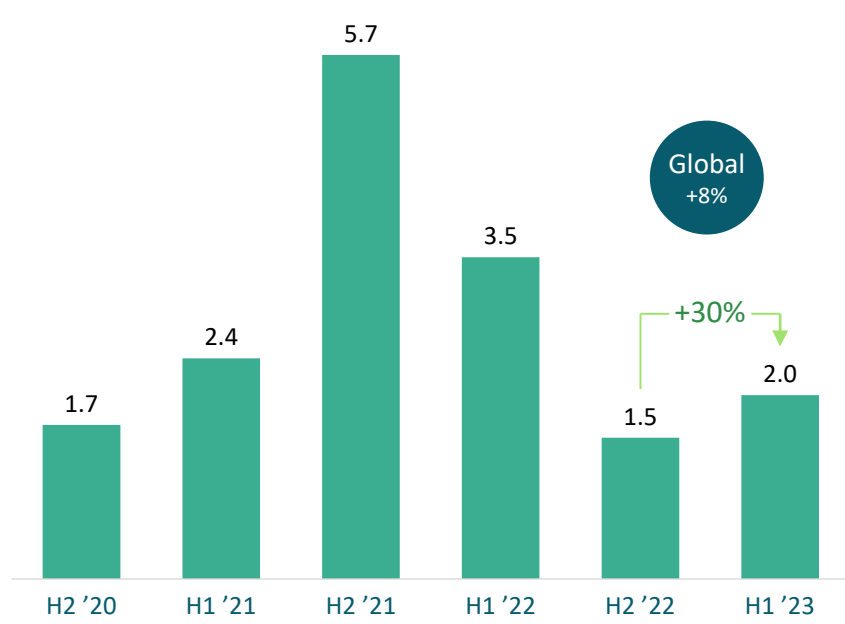
Indian Fintechs set to generate \$190 B annual revenues by 2030

India Fintech Revenue 2030 Projection



Indian Fintech funding recovering faster than Global after funding winter (30% growth in H1'23 vs H2'22)

Indian Fintech Equity Funding (\$B)

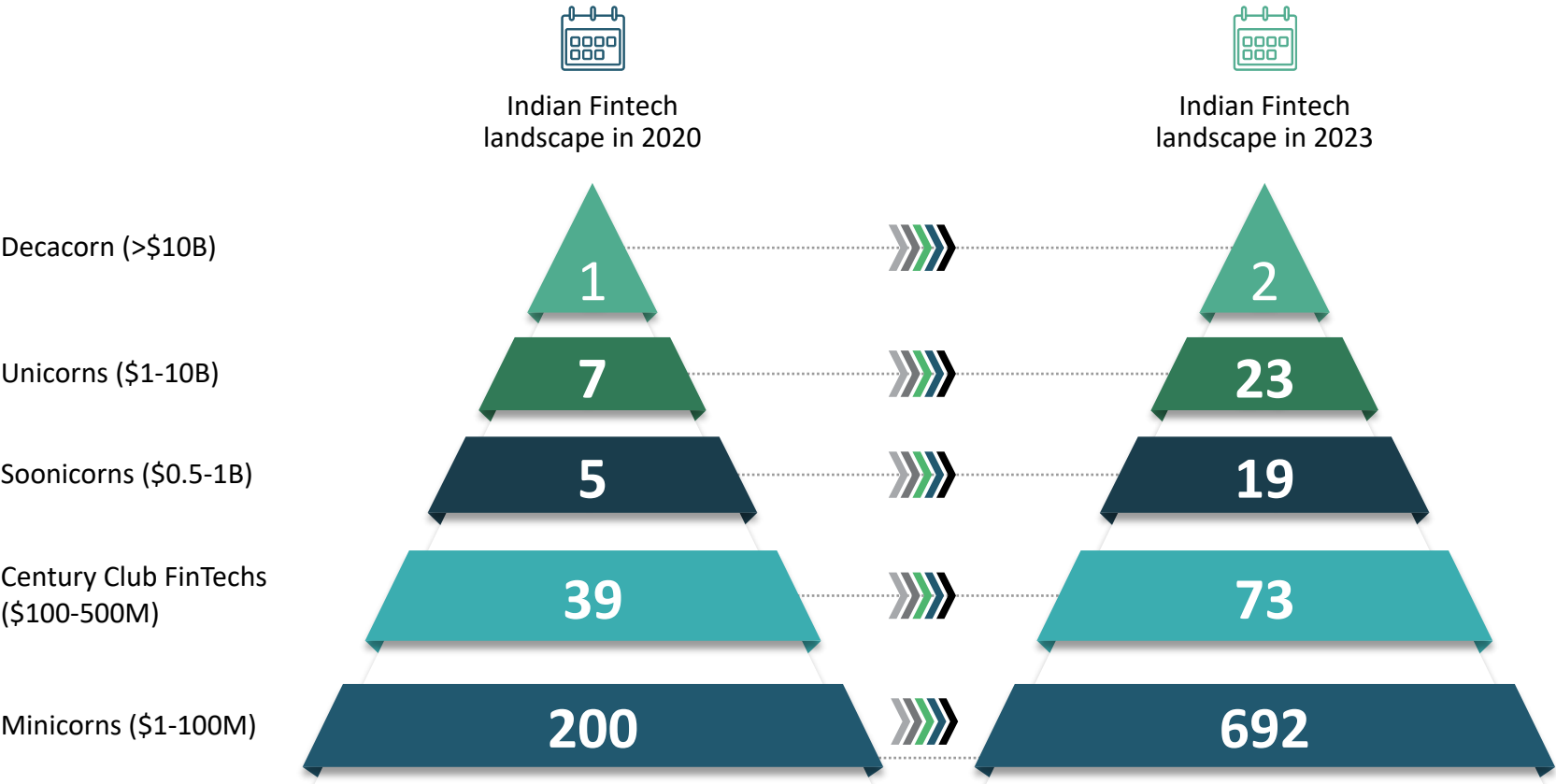


As we look ahead, it's evident that India is poised to spearhead the Fintech Success Story in the APAC region over the next decade. Our robust digital public infrastructure, a regulatory environment that fosters innovation and future-oriented thinking, and an expanding market demand driven by greater financial inclusion and access to untapped data in tier 2 and beyond, the potential for growth in the Indian Fintech landscape is truly unmatched.

1. Digital Public Infrastructure
 Note: Fintech Penetration is share of Indian Fintech revenue in overall Indian BFSI revenue pool
 Source: Traxcn; Reimagining the Future of Finance-BCG QED report 2023; Money Control; Trading View; BCG analysis

With many Fintechs moving up the valuation pyramid

■ Rising digital adoption, availability of strong talent pools along with an evolving regulatory landscape has catapulted the market to a high growth and valuation trajectory in the past few years

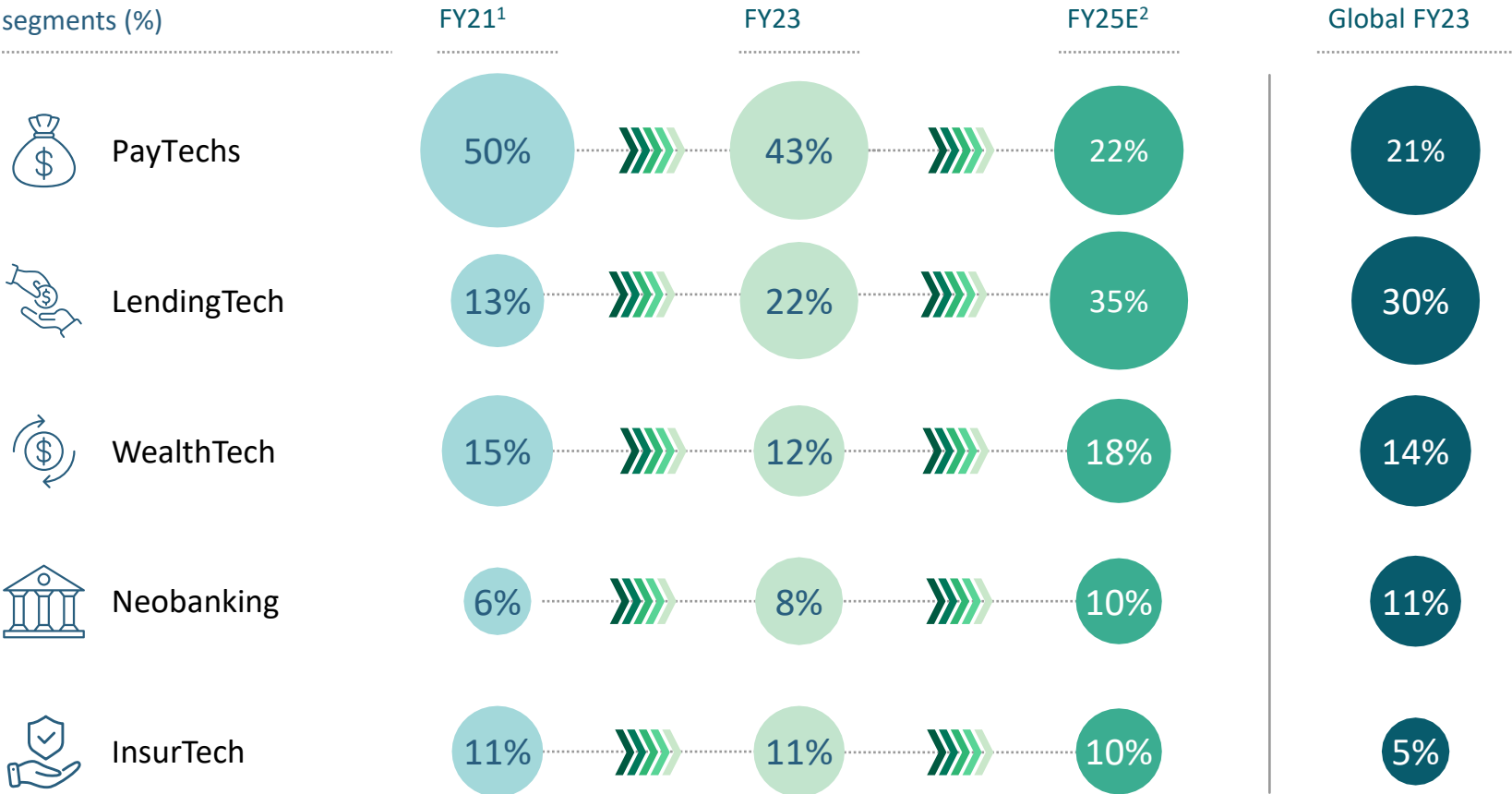


The numbers of minicorns (692 vs 380 in '22) and century club Fintechs (73 vs 41 in '22) have almost doubled since last year

Source: Tracxn data as on Jul'23,excludes early stage Fintechs which have valuation below \$1Mn

Indian Fintech valuation profiles continue to shift towards LendingTech from PayTech

India Fintech funding split by segments (%)

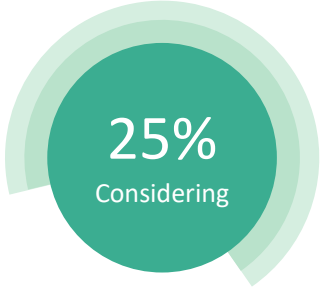
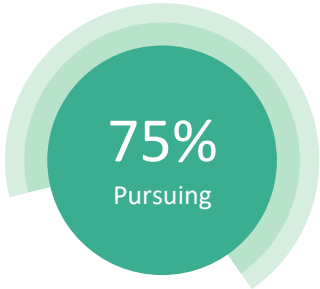


- Indian payments ecosystem through UPI developed faster than global average, while lagging in the lending and wealth tech sectors when compared to the rest of the world.
- Next era to be defined by B2B and B2B2X. B2B growth driven majorly through Lendingtech while B2B2X from Wealthtech.

Note: Funding profile does not add up to 100% as the remaining sits in SaaS
 Source: 1.Tracxn, 2021 onwards 2. Capital IQ, Tracxn, Press Search, projections done considering the growth rates by segments and further expected trends

Digital lenders are increasingly vying for NBFC licenses

■ Fintechs looking at lending as a key alternate commercial model to profitability



In 2022, Lending emerged to be the clear winner as an alternative revenue source

■ Fintechs looking for direct license application or acquisitions of other NBFCs to offer on-book credit along with partnership models

Players like



Etc. Offer a mix of both on and off-balance sheet loans

Players like



Etc. Already hold NBFC licenses and are tapping on book lending

Players like



Etc. Acquired other NBFCs to offer on book loans

MSME Leaders like



Etc. Received NBFC license in FY23

Source: SOFTU'22, BCG Analysis, Press Releases

Streamlining licensing process while maintaining appropriate risk safeguards further can unlock higher potential for Fintechs

Licensing expected to benefit larger financial ecosystem

- Increased presence of regulated NBFC Fintechs can solve for inclusion & innovation especially for the bottom of the pyramid credit hungry population
- Being a regulated entity will result in enhanced trust and compliant systems
- It is also seen as a pathway towards sustainable profitability by Fintechs.

Key concerns/risks which seem to deter the license approval

- Multi-layered and complex shareholding structures
- Source of funds especially related to UBO, FDI from non-FATF areas
- Appropriate board composition and governance
- Business Model Viability – borrowed funds vs owned, business plan and projections
- Holding company structure for corporate shareholders
- Credible and experienced promoter and management team



RBI continues to re-assess the UBO for funds as each of the portfolio companies apply for licenses – we need to think how we can have pre-assessed list of PE VC funds

- NBFC Consultant



Every Fintech out there is looking to buy out an NBFC. That is the current state of the ecosystem in a nutshell

- Mikhil Innani , CEO, Apollo Finvest @Mint



RBI generally is not in favor of a business house holding multiple non-bank licenses. It seems to have extended the same logic with venture capital and private equity investors

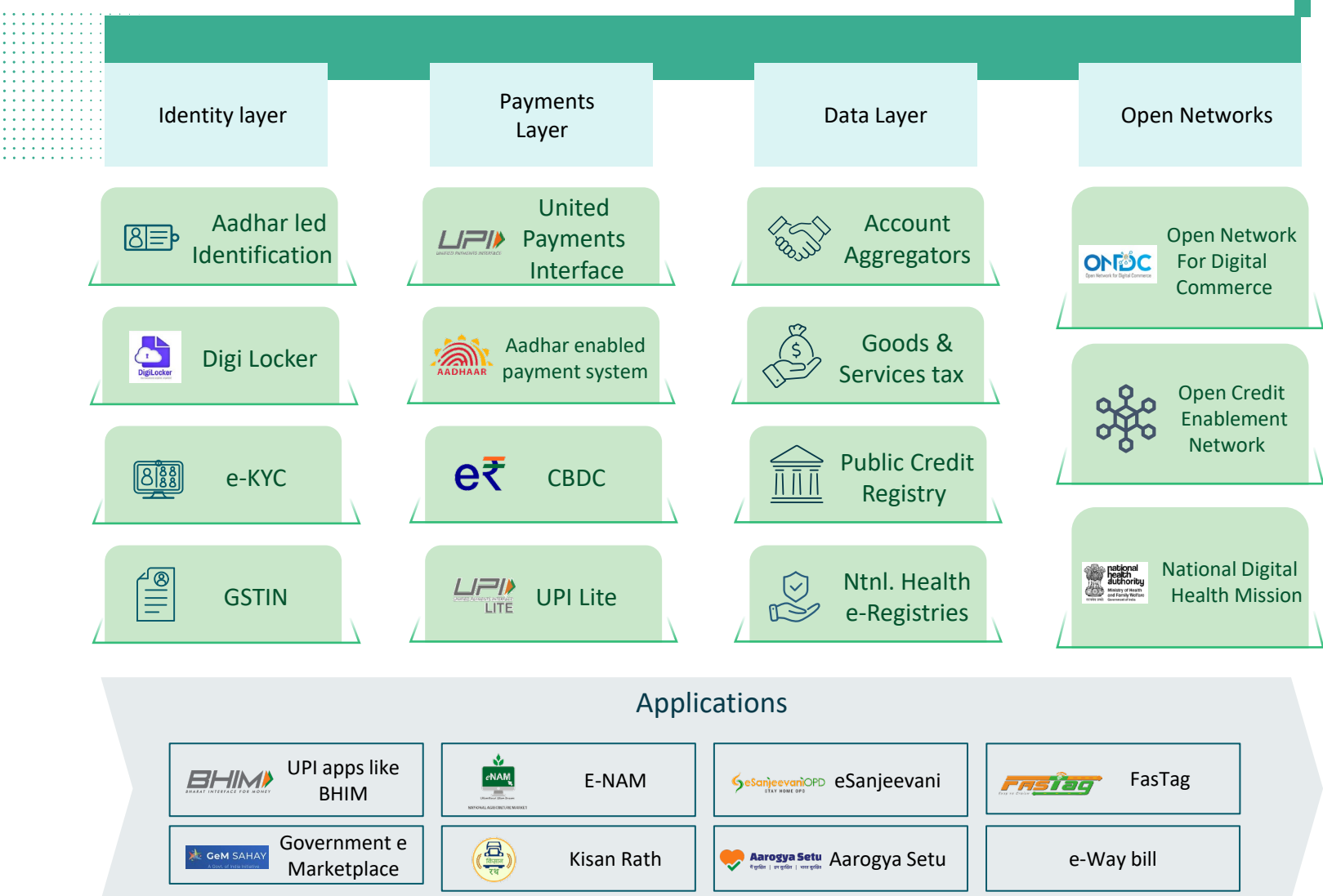
- Article, The Hindu "RBI reluctant to hand out NBFC licenses to fintechs with common PE investors"



Need to further streamline clarity in expectations from a regulatory standpoint as larger share of Fintechs apply for NBFC licenses

Source: Press Search, Expert Interviews

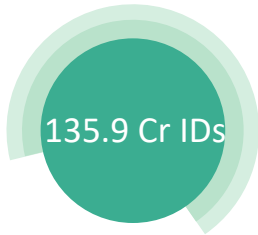
India's unique digital public infrastructure is the poster child for global disruption and has enabled rapid Fintech growth



Source: India Stack

Role of DPI 2.0 critical in next wave of Fintech ecosystem growth

■ While DPI 1.0 was immensely successful in building population scale digital products



■ Other sector-specific solutions such as ONDC, Gati, etc. are still being tested out

Key Considerations

The viability of success when it comes to public infrastructure solutions vs Govt. led platforms need to be evaluated

Fostering private innovation over public infrastructure is critical to solve for its scale and accessibility

Export revenue potential from India stack also needs to be explored further

“ India’s DPI is a marvel of our times, shaped in a unique partnership between governments regulators, the private sector, volunteers, startups, and academia
- The Hindu

“ India: Where Digital Payments, Even for a 10-Cent Chai, Are Colossal in Scale
- New York Times






“ Government overreach in digital economy could end up with no commensurate benefit and serious distortions
- Money Control

Immense growth potential from DPI 2.0 as we chart the GTM and policy framework going forward

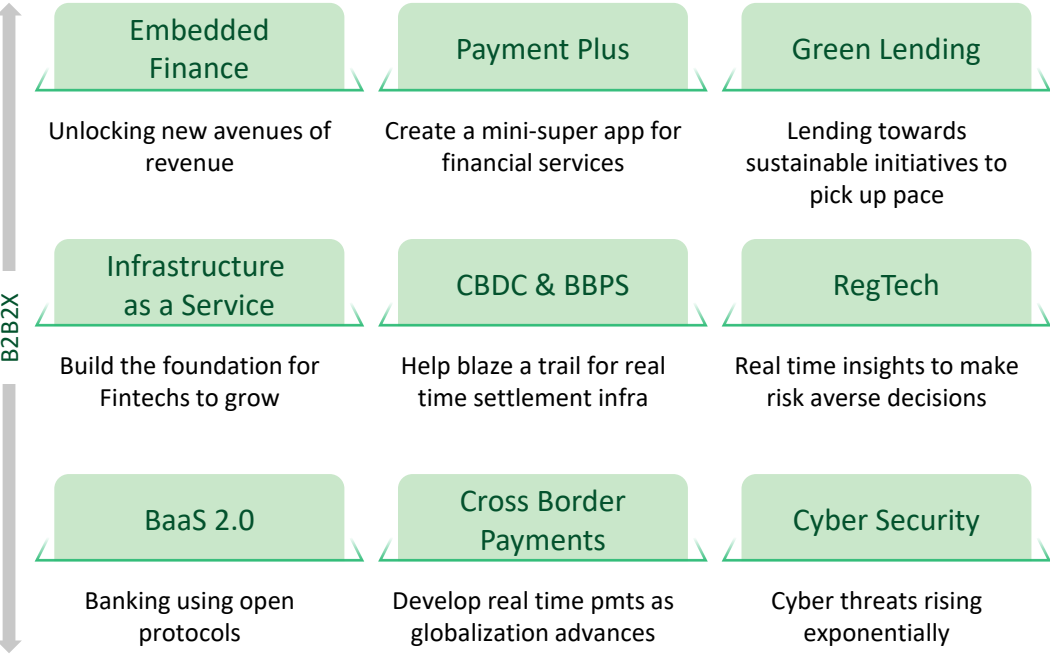
Source: India Stack website, Press Releases

Key themes which will shape the future of Fintechs in India

New technology frontiers

-  Gen AI
-  Quantum Computing
-  Internet of Things
-  Block Chain
-  API – open connectivity

Emerging use-cases/solutions

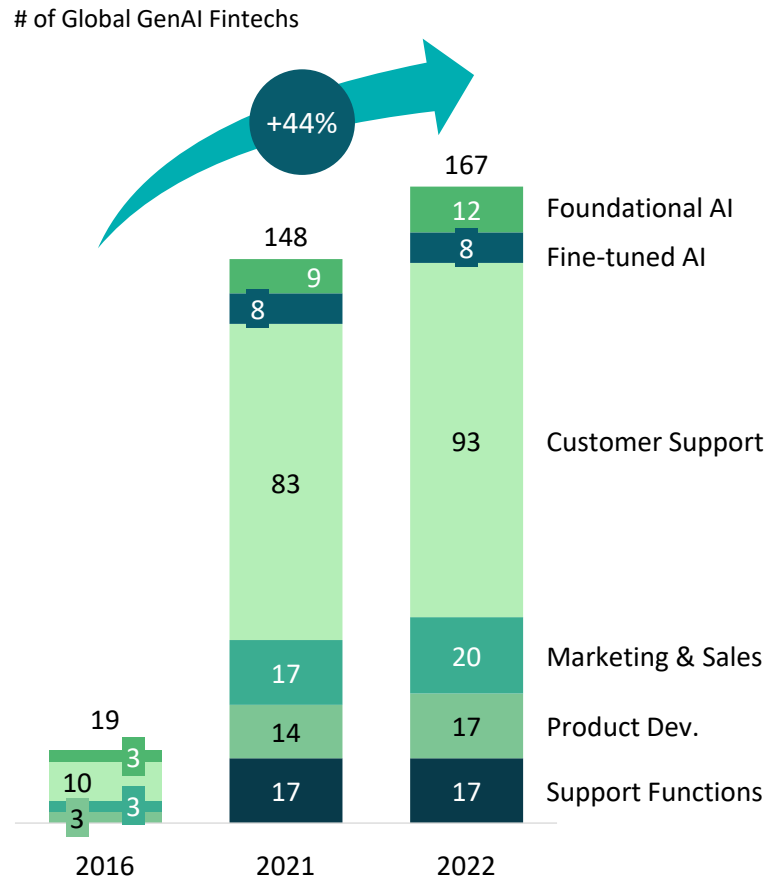


Core Enablers

- Robust digital public infrastructure 2.0 which enables population scale, access and avenues for private innovation
- Clear policy framework articulating the guardrails of Fintech, bank and regulator roles and responsibilities
- Well defined product market fit, commercial model viability and go to market strategy to win for the long term
- Sustainability at the core – governance and regulatory compliant solutions

GenAI Fintechs on the rise, expected to unlock unparalleled efficiencies in the long run

Cumulative # Global Gen AI Fintechs across use cases on the rise¹



Typical use cases picking up traction in the GenAI led Fintech space



Source: 1 - BCG Fintech Control Tower Report

Global banks and financial players have taken strides towards generating value from GenAI



Capital Investment



In-house Incubation



Big Tech Partnership



White Label



Infrastructure Partnership

Description	Incumbents participate in a funding round raised by Fintechs who focus on Gen AI	FIs and financial software players self-develop and launch GenAI products	Tech giants form partnerships with GenAI startups or FIs	Incumbents leverage GenAI FinTech business solutions for specific use cases	Incumbents rent Tech from AI Platform Fintechs and start using it for GenAI use cases
Outcome	Shape FinTech innovation journey, validate products cross-industry	Product Ideation, implementation & B2B Gen AI solution	Gen AI –first business entity that focus on new business model	Customized GenAI – powered product/solution	Stack Rent
Example	<p>J.P.Morgan</p> <p>CRESTA</p>	<p>Bloomberg</p>	<p>Microsoft with OpenAI</p>	<p>hazy</p> <p>WELLS FARGO</p>	<p>Morgan Stanley with OpenAI</p>

Source: BCG Fintech Control Tower Report

02/03

Voice of CXO : Roadmap to profitability

Opportunities & challenges to build sustainable, collaborative and high growth businesses



Market perspectives explored around 3 key themes



Sustainable Profitability

Building and scaling sustainable and profitable Fintech businesses

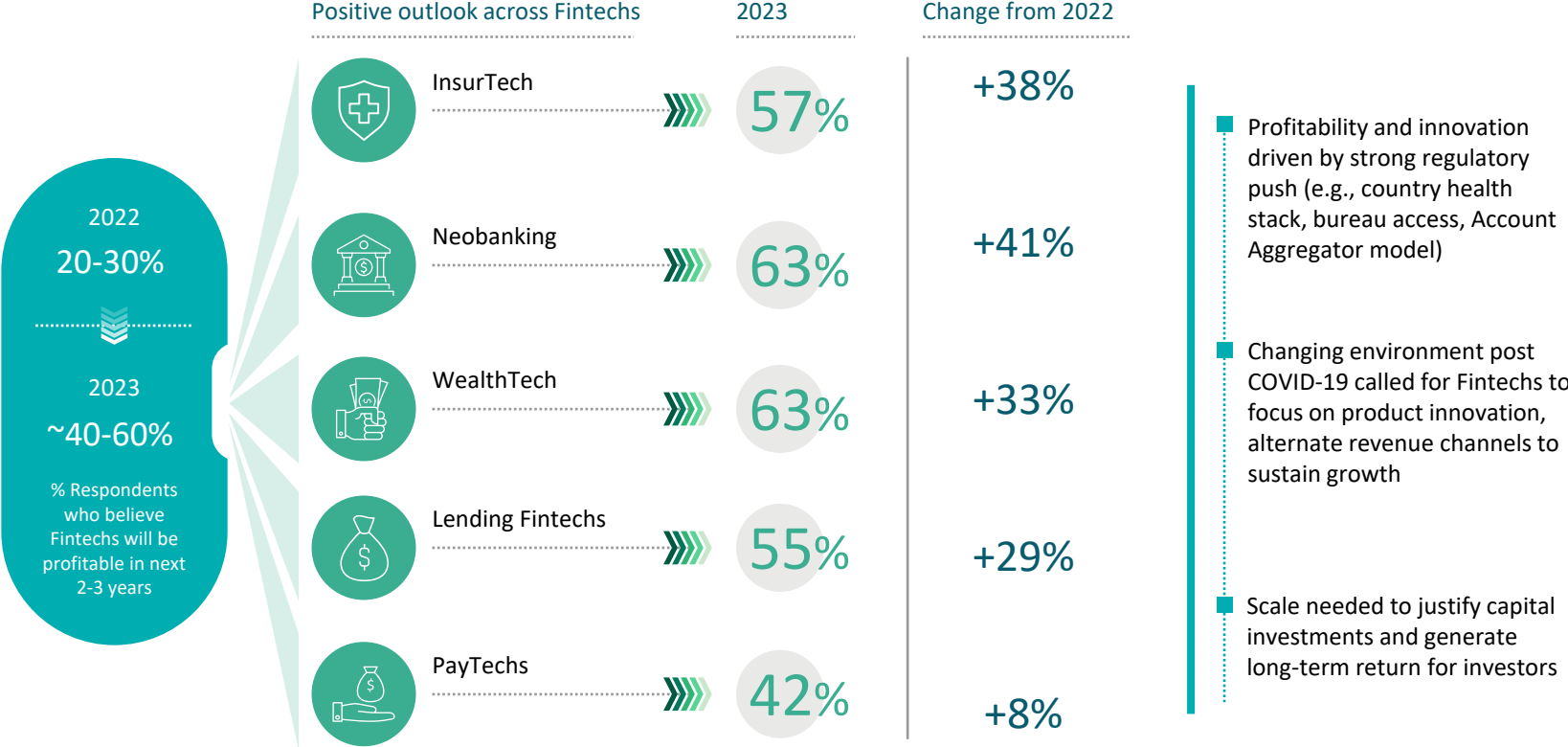
Governance

Fostering a culture of regulatory compliance and governance within Fintechs

Collaboration

Driving value unlocks and navigating existing challenges across Fintech and Incumbent collaboration

Profitability outlook has improved significantly by 20-30%, with Neobanking and InsurTech leading the way



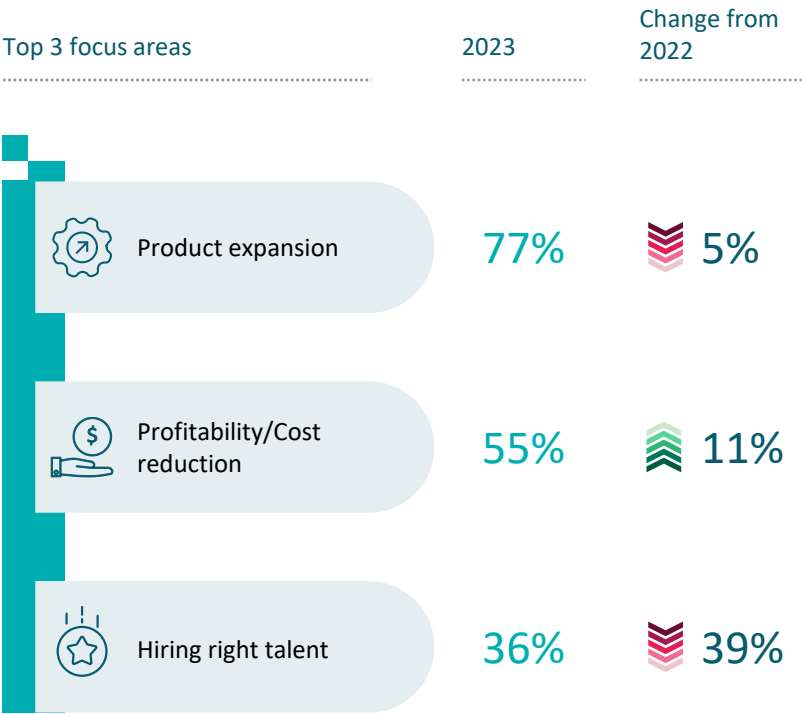
With rapid changes in the environment, Fintechs are increasingly focusing on getting to a meaningful scale for sustainability and growth. Favorable macro fundamentals coupled with positive regulatory push has improved the profitability outlook. Fintechs that have a proven value proposition and business model will need to place equal importance to compliance & governance issues to sustain and thrive.

Note: Q: Do you believe most Fintechs in your sector will operate profitably in the next 2-3 years? n=45 (2023), n=102 (2022)
Source: BCG Matrix SOFTU Survey

Product expansion continues to be top strategic focus, while focus on profitability and cost reduction has shown high increase YoY

■ Top strategic focus areas for business

% Respondents mentioning this as the most important strategic focus area



■ ... however, some challenges foreseen..

% Respondents mentioning this as the most pressing challenge over next 2-3 years














Note: Q: What are the most important strategic focus areas for you and your business in next 2-3 years? (Rank in order) n=71 (2023), n=102 (2022)
 Q. What are the top challenges you foresee for you and your business in the next 2-3 years? (Rank in order) n=71(2023)
 Source: BCG Matrix SOFTU Survey

Product expansion and profitability/cost reduction top focus areas across segments, increasing focus on compliance by design

■ Top strategic focus areas for business

% Respondents mentioning this as the most imp. strategic focus area

	 Product expansion	 Profit/cost reduction	 Hiring right talent	 Governance and compliance by design	 Investments in cutting edge-tech and infra
 Lending	70%	60%	30%	40%	32%
 Payment	77%	68%	23%	41%	27%
 Insurance	91%	55%	45%	36%	18%
 Wealth Management	86%	50%	43%	43%	21%
 Neobanking	86%	50%	14%	43%	36%
 Fintech SAAS/Infra	89%	50%	22%	28%	33%

Note: Q: What are the most important strategic focus areas for you and your business in next 2-3 years? (Rank in order) n=47(Lending), n=22(Payment), n=11(Insurance), n=14(Wealth Management, Neobanking), n=18(Fintech SAAS/Infra)
 Source: BCG Matrix SOFTU Survey '23

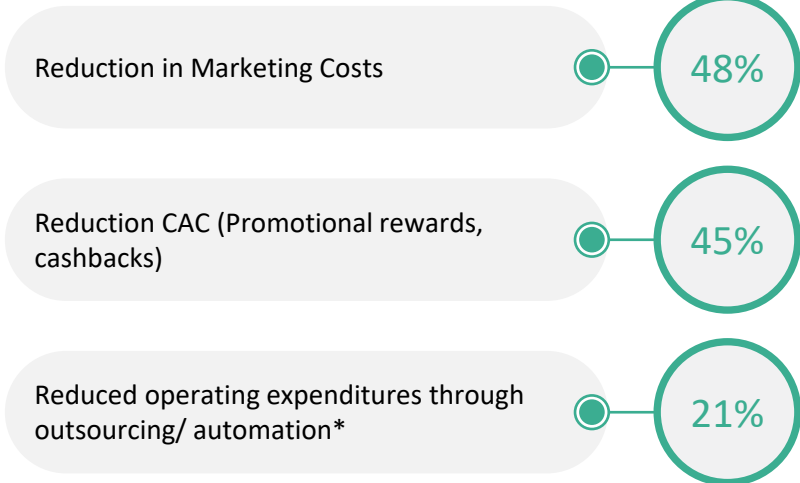
40+% Fintechs looking at reduction in CAC and marketing cost to conserve cash

■ Reduction in marketing & CAC costs prime lever to achieve profitability

■ Delaying expansion plans & lower innovation investment not being looked at as cost cutting options

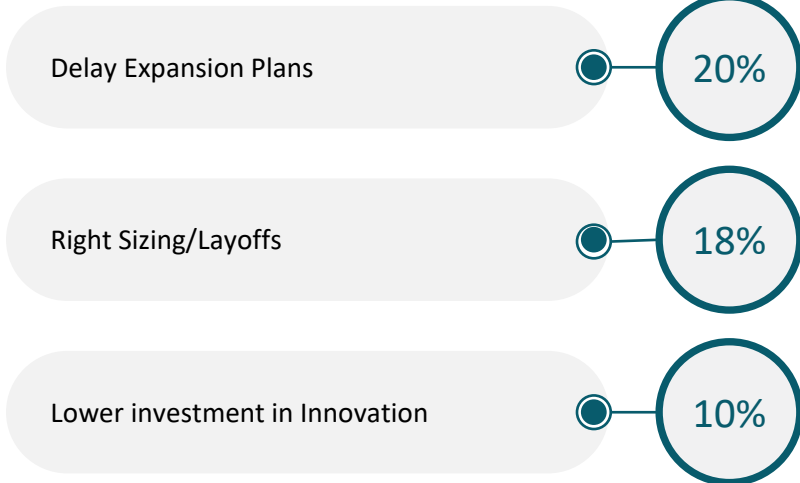
Top 3 Priorities

(selected by % Fintechs)



Bottom 3 Priorities

(selected by % Fintechs)



Founder, Indian Fintech

While we care committed to optimizing costs, we are not compromising on our growth plans. Founders are rather focusing on reducing marketing spends. You would have noticed lower Fintech advertising during IPL.

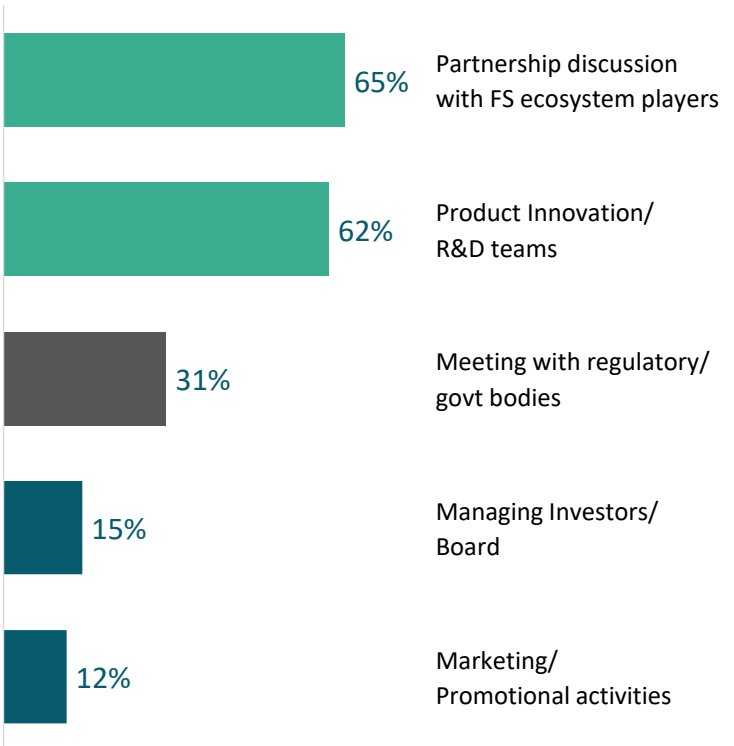
Q. Which are your top areas to conserve cash in this cycle of funding winter? (Rank in order) (n=48);
Note: *Options refreshed during the survey (n=25);
Source: Fintech Union Survey 2023

Compliance and Governance @ Day-0 critical for Fintechs

Partnerships top of mind for Fintech CEOs, Compliance history of Fintech critical for Incumbents

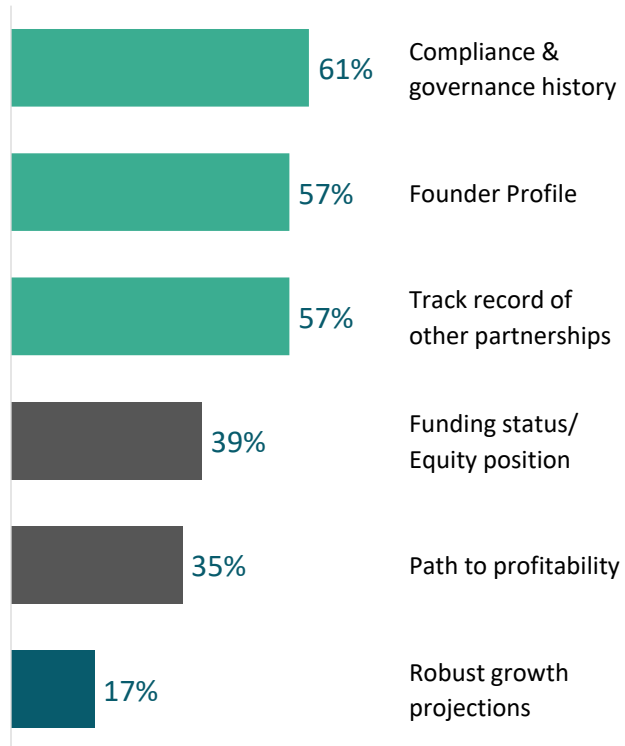
■ CEOs spending more time on partnership discussions and product innovations

Majority time spent (selected by % of Fintech CEOs)



■ Compliance history, founder profile & partnership record key focus areas for Incumbents

Key areas while partnering with Fintechs (selected by % Incumbents)



Q. As a CEO, which specific area occupies the majority of your time? (n=26) Q. What do you look for in Fintech's when you partner with them? (n=23)
Source: Fintech Union Survey 2023

More than 60% respondents have set up dedicated teams and defined guardrails for risk management, to enhance collaboration

Steps to improve Fintech and Incumbent collaboration

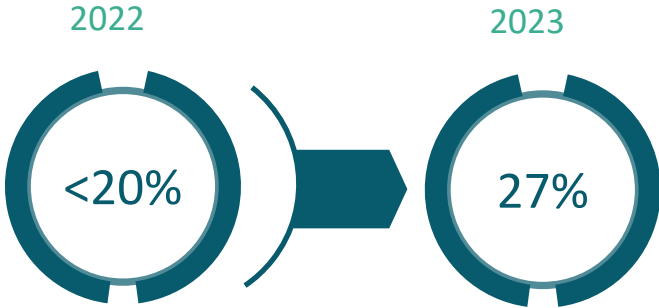
(selected by % Respondents)



Note: Q: What has your business done to improve Fintech and Incumbent collaboration over the last year? n=45 (2023)
Source: BCG Matrix SOFTU Survey '23

While outlook for Fintech governance has slightly improved, conscious effort still needed

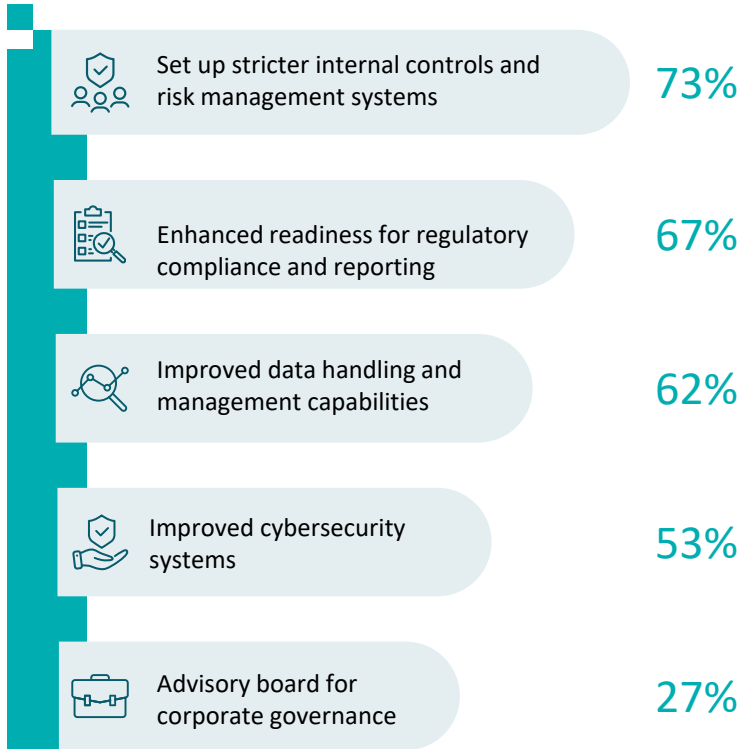
% respondents who believe Fintechs are at par with Incumbents in terms of governance



“Some form of compliance certification can be evolved for Fintechs. Scale based audit mechanism can also be thought about, based on revenue, customers etc.”

—CXO, Fintech

% respondents who mentioned this as a step to improve governance standards over last year

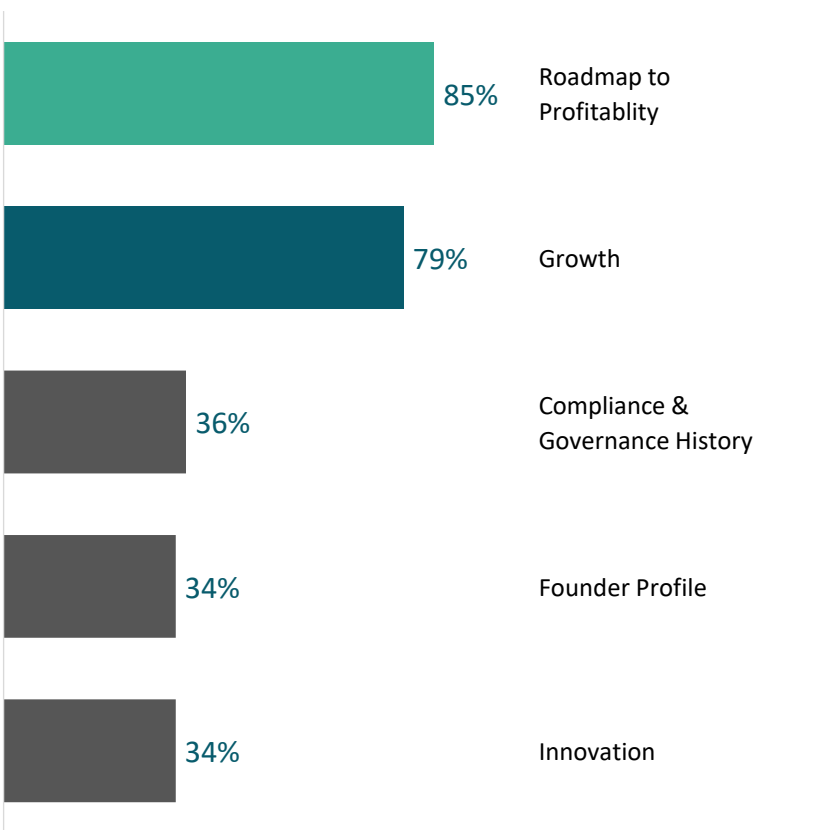


Note: Q: Fintechs are at par with Incumbents in terms of governance mechanism? n=102 (2022), n=45 (2023) Q: What has your business done to improve governance standards over last year? n=45 (2023)
Source: BCG Matrix SOFTU Survey' 22/23

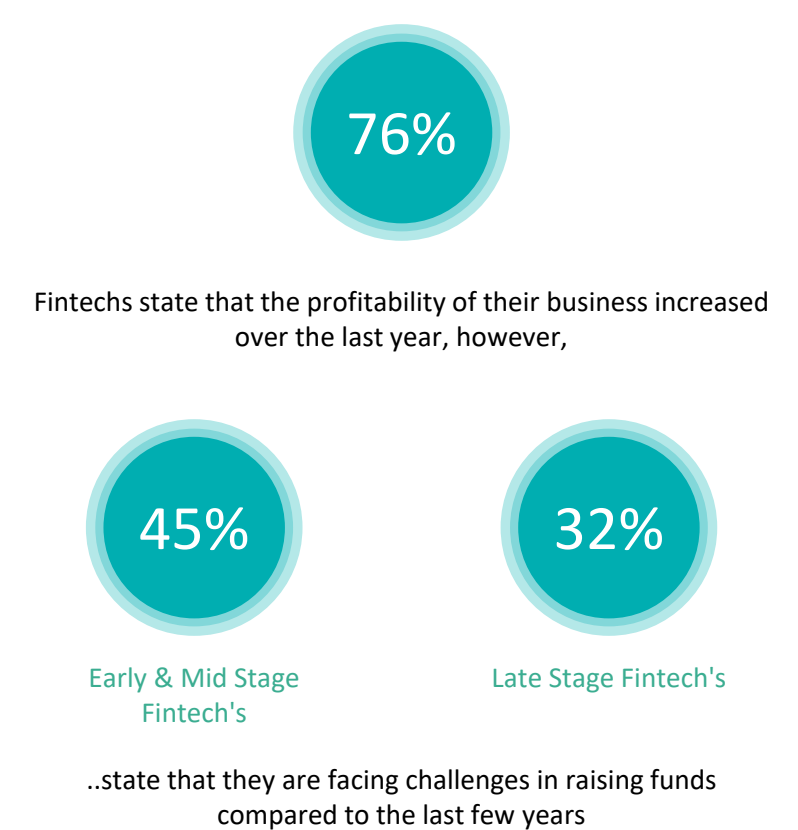
Road to profitability top criteria for 85% investors

75%+ of Fintechs witnessed profitability jump, but continue to face fund raising challenges

■ Road to profitability prime focus of investors
(Top 3 traits investors look for: % respondents ranking 1 and 2)



■ While profitability has increased for 76% Fintechs over the last year, fund raising challenges continue to exist

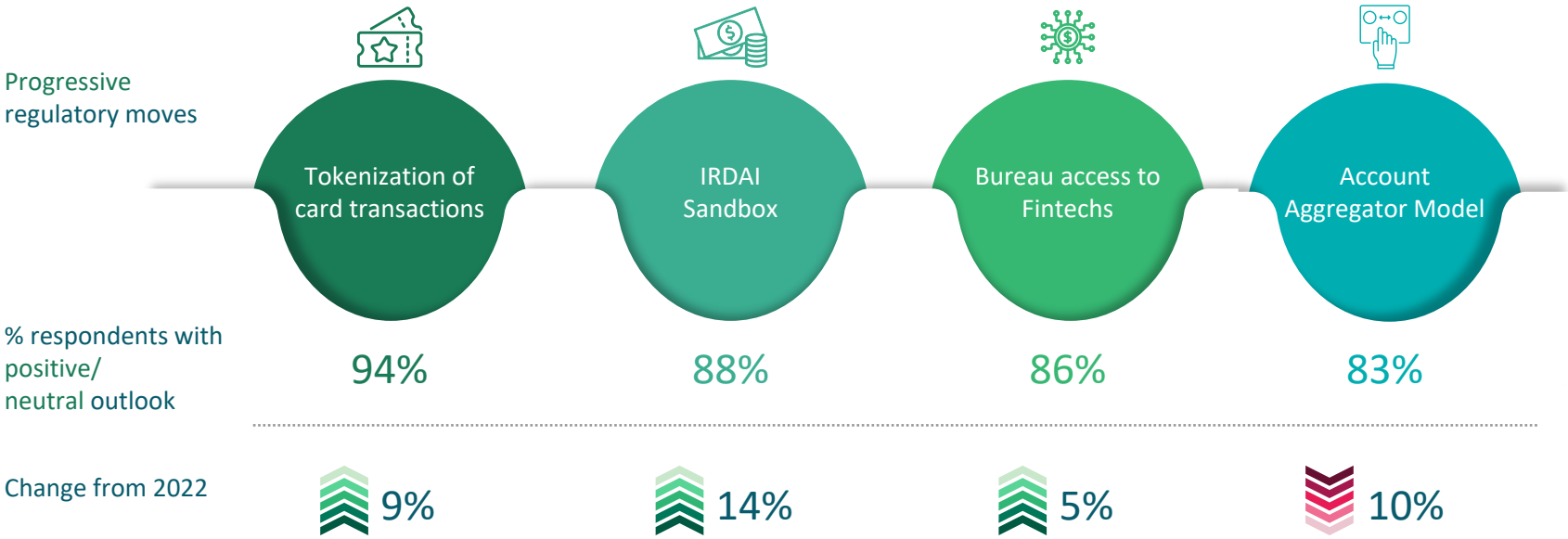


Note: Q: While deploying funds, which traits are investors looking for? (Rank in order) n=48 Q. Are you facing challenges in raising funds compared to the last few years? n=48 Q. How has the profitability of your business changed over the last year? n=25 Source: Fintech Union Survey 2023

India's regulatory systems at the helm of innovation

Many progressive initiatives introduced with strong positive outlook vs. 2022

■ Top areas with greatest need for harmonization and clarity



Future Outlook:

- Bureau access can enable better risk assessment, reduce cost of procuring alternate data points and enhance overall customer onboarding experience
- Acceleration of Account Aggregator framework adoption will unlock industry ability to drive better access through open market and cross-sector lending
- Tokenization can help minimize data leaks & brings transparency; sandbox to enable growth and innovation but greater need for regulatory support

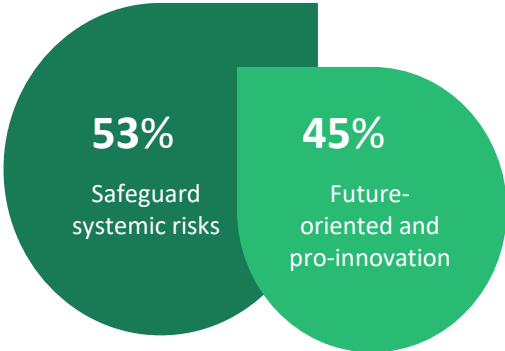
Note: Q: What is your outlook on the following regulations and their impact on the industry? n=45
Source: BCG Matrix SOFTU Survey '23

Regulatory environment highly effective in safeguarding risks and supporting innovation, however, industry can highly benefit from clarity, consistency

■ Strong positive sentiment on regulatory environment ...

Best features of regulatory environment

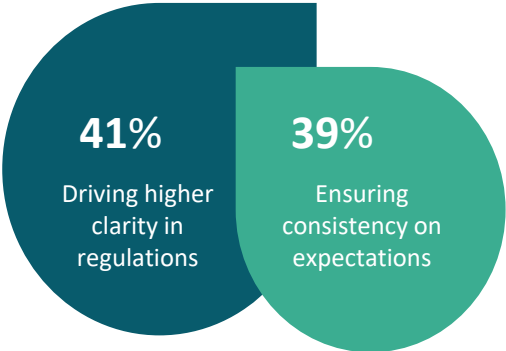
(selected by % respondent)



■ ... however, greater areas of enhancement felt

Biggest pain points of regulatory environment

(selected by % respondent)



“ Since the beginning, the regulator's approach has been to provide an architecture under which Fintech sector grows in a robust manner

— Regulator

“ Half the battles are won if KYC is sorted fully digitally. Country level regulators can come together and decide a common framework. Simplification and harmonization are needed

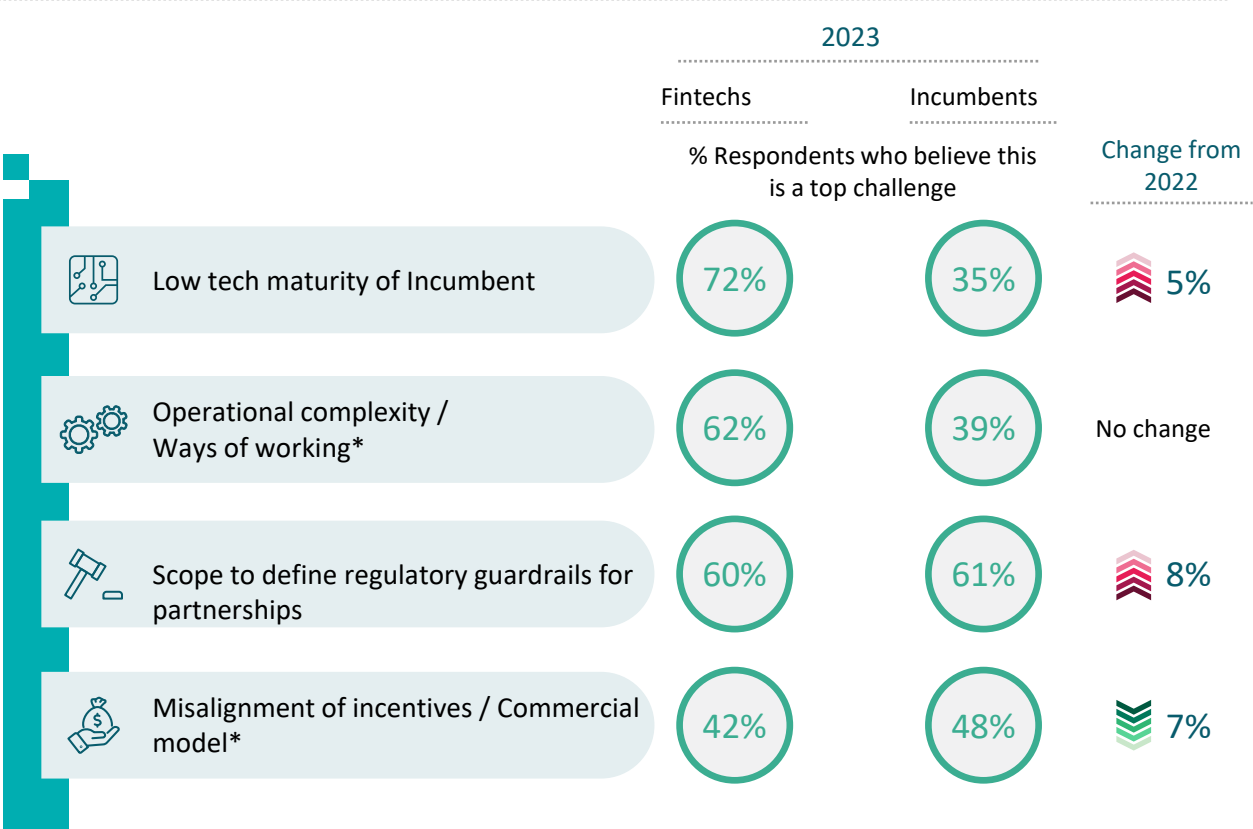
— CXO, SFB



Note: Q: What are the best features of the regulatory environment in your business area? Q. What are the biggest pain points of the regulatory environment in your business area? n=71
Source: BCG Matrix SOFTU Survey ' 23

Presence of well-defined regulatory guardrails and higher tech maturity can unlock collaboration synergies further

Challenges in Fintech and Incumbent collaboration



“The issue is to be able to extend our oversight into the partner. Regulation should extend to Fintechs in principle, not on paper”
 — CXO, Bank

“Lack of alignment on key measurable goals - Incumbents track profitability, Fintech focuses on valuation & scale”
 — Founder, Fintech

Fintechs perceive Incumbents as partners rather than competitors. Collaboration is viewed as a potent instrument for bringing together innovative products and a seamless consumer experience. Regulatory clarity regarding what Fintechs and Incumbents are permitted to do and alignment on objectives can act as a potent enabler of efficient collaborative models.

Note: Q: What will be the biggest challenge for you while partnering with Fintech's/? n= 48|23 (Fintechs|Incumbents) 2023; n= 102 (2022). *Options introduced in 2023
 Source: BCG Matrix SOFTU Survey



2a

Lending



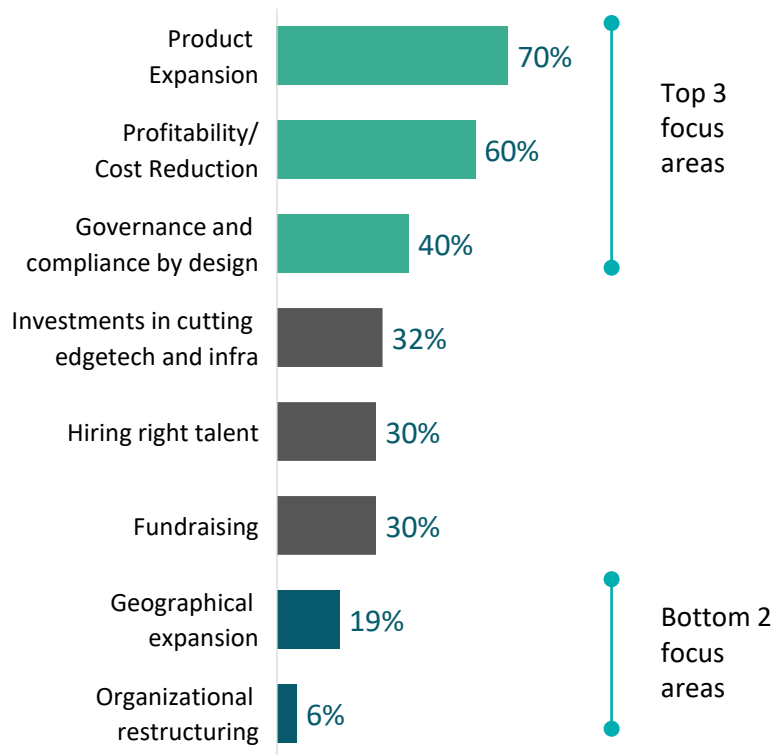


Product expansion & profitability/cost reduction emerge as top focus, while potential to driver higher regulatory clarity & lower CAC key

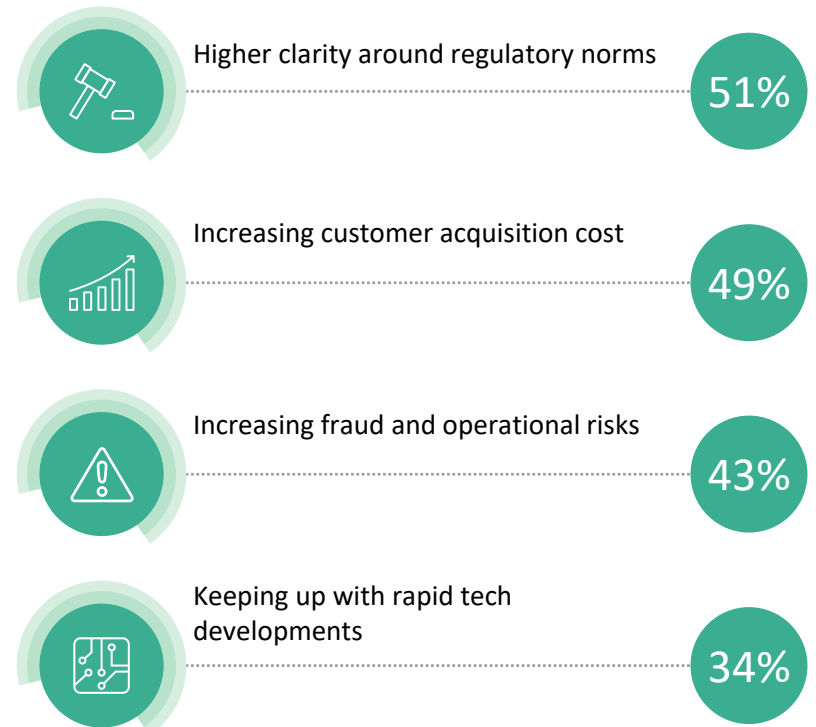
■ Product expansion & profit/cost reduction top strategic focus areas followed by “compliance by design”

■ Driving further clarity in regulatory environment, optimizing CAC key

Top strategic focus areas for business (selected by % respondents)



Top challenges foreseen (selected by % respondents)



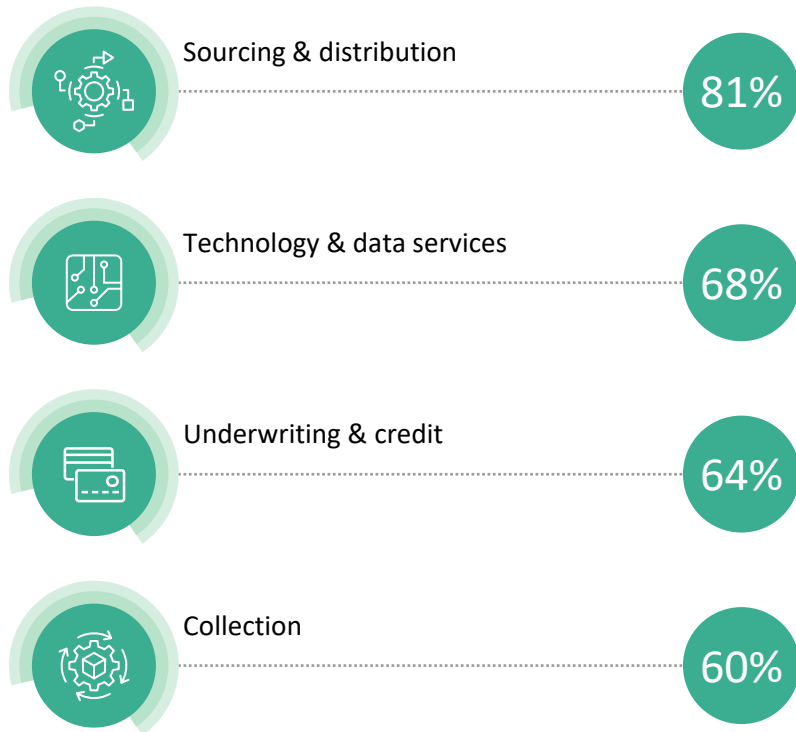
Note: Q: What are the most important strategic focus areas for you and your business in next 2-3 years? (Rank in order)
 Q. What are the top challenges you foresee for you and your business in the next 2-3 years? (Rank in order) n=47
 Source: BCG Matrix SOFTU Survey'23



More than 80% see opportunity for collaboration in sourcing & distribution, however tech maturity remains a concern

■ Top areas with potential for Incumbent-Fintech collaboration

(% Respondents who believe this area has high potential)



■ Challenges to Incumbent-Fintech collaboration

Top challenges while partnering with Incumbents

(selected by % Fintechs)



Top challenges while partnering with Fintechs

(selected by % Incumbents)



Note: Q: Which areas have maximum potential for Fintech's and Incumbents to collaborate? (n=47)

Q. What will be the biggest challenge for you while partnering with Incumbents? (n=32) Q. What will be the biggest challenge for you while partnering with Fintech's? (n=15)

Source: BCG Matrix SOFTU Survey '23



2b

Payments



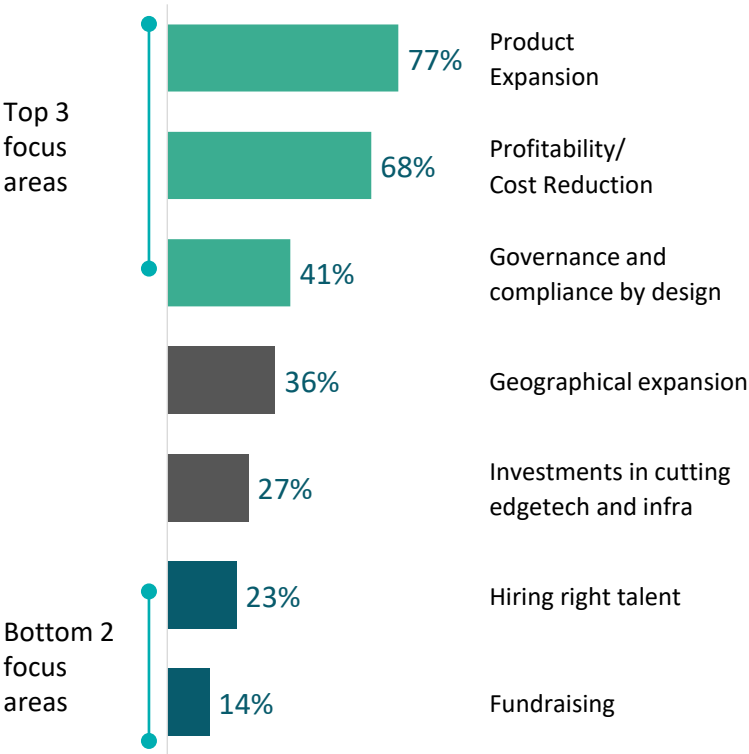


Product expansion & profitability/cost reduction are focus areas; Potential to streamline regulatory expectations & ops risk exists

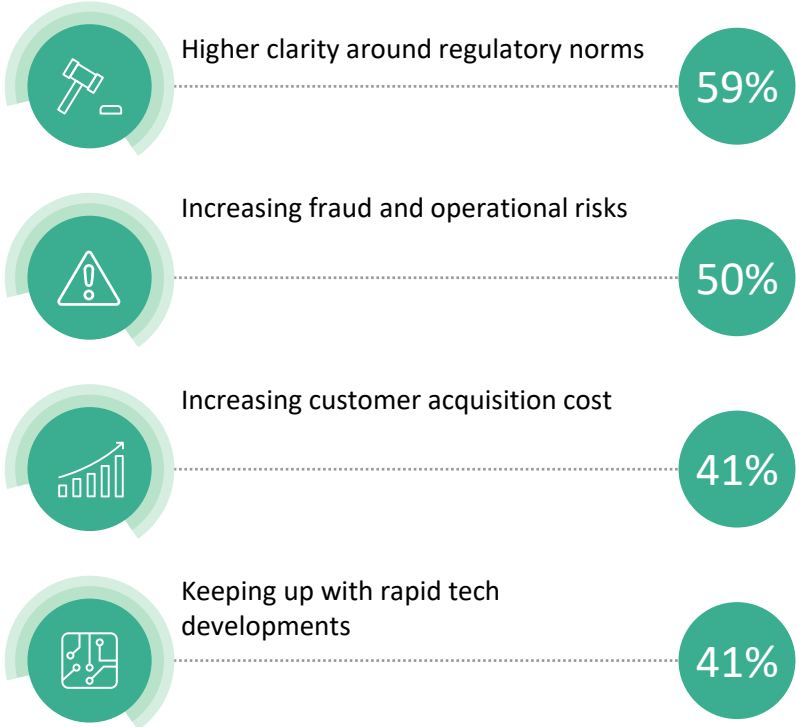
■ Product expansion & profit/cost reduction top strategic focus areas followed by “compliance by design”

■ Driving further clarity in regulatory environment, and lowering ops risks key

Top strategic focus areas for business (selected by % respondents)



Top challenges foreseen (selected by % respondents)



Note: Q: What are the most important strategic focus areas for you and your business in next 2-3 years? (Rank in order)
 Q. What are the top challenges you foresee for you and your business in the next 2-3 years? (Rank in order) n=47
 Source: BCG Matrix SOFTU Survey'23



More than 70% Fintechs and Incumbents face challenges around tech maturity and well-defined regulatory guardrails

Challenges to Incumbent-Fintech collaboration

Top challenges while partnering with Incumbents

(selected by % Fintechs)



Tech maturity



Well-defined regulatory guardrails

Top challenges while partnering with Fintechs

(selected by % Incumbents)



Well-defined regulatory guardrails



Commercial models, Ways of working

“ Challenge is more from BU perspective. UPI makes no money, but overall Bank makes more money in the longer run due to digital transactions. LTV of the customer increases

— CXO, Small Finance Bank

“ Partnering with both traditional and NBFC-P2Ps allows us the opportunity to test the waters and figure out what kind of suits us, and what license we should be applying for in the future

— Executive, FinTech

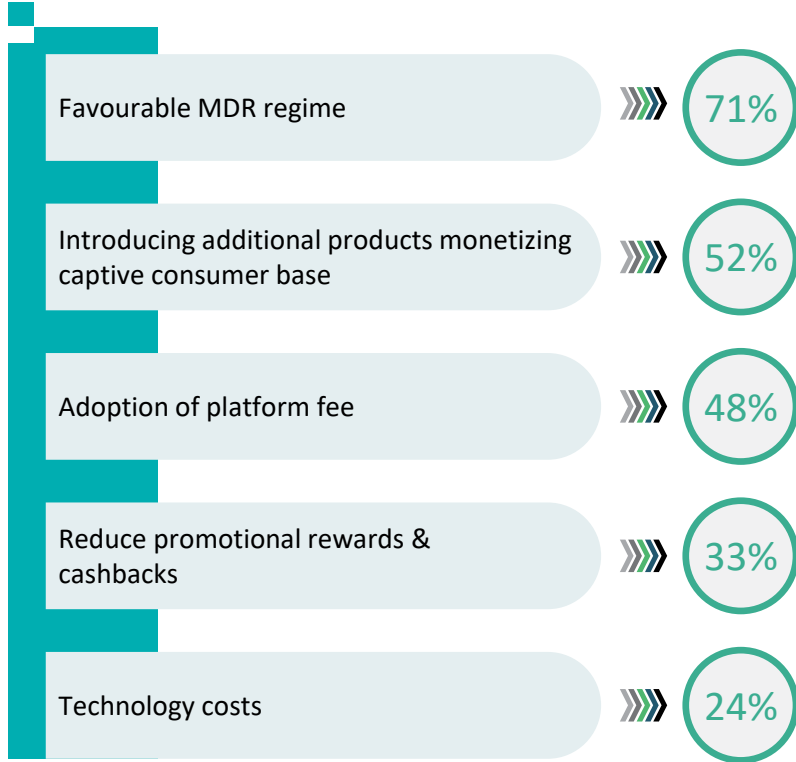
Q. What will be the biggest challenge for you while partnering with Incumbents? (n=14) Q. What will be the biggest challenge for you while partnering with Fintech's? (n=8) Source: BCG Matrix SOFTU Survey ' 23



Favorable MDR & monetization products key in driving profitability along with innovations in UPI Lite, CBDCs based retail payments

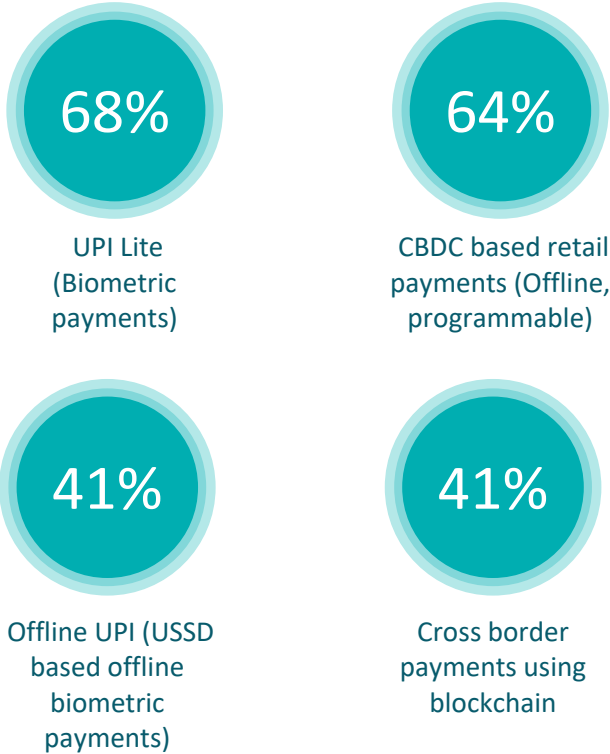
Key drivers in driving digital real-time payments towards profitability

(selected by % respondents)



More than 60% Fintechs believe innovations in UPI Lite, CBDC based payments may drive the sector

(selected by % respondents)



Note: Q: What are the key drivers in driving digital real-time payments towards profitability in your geography? (n=22)
Q. What are the top new innovations in payments that may drive the sector in your geography? (n=22)
Source: BCG Matrix SOFTU Survey ' 23



2c Insurance



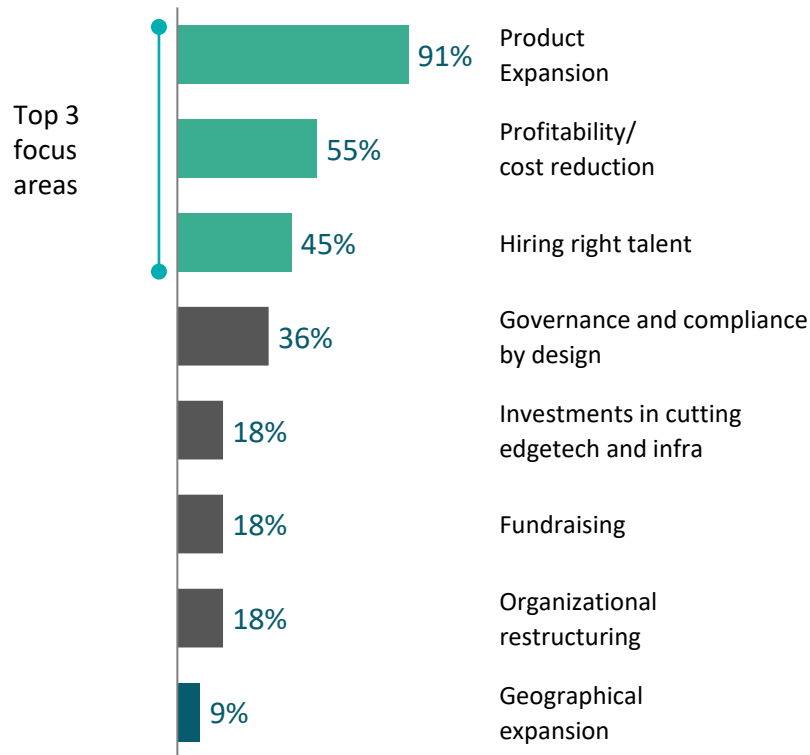


About 90% businesses focus on product expansion since scalability of business models and CAC pose challenge to profitability

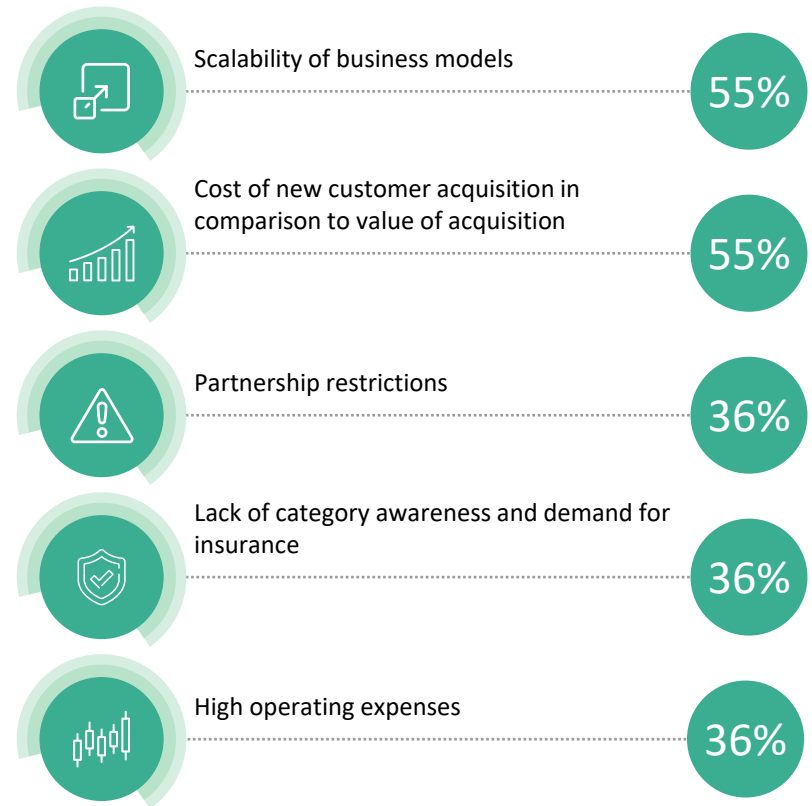
Product expansion & profit/cost reduction top strategic focus areas followed by hiring right talent

Scalability and CAC seen as top challenges to profitability

Top strategic focus areas for business (selected by % respondents)



Top challenges to profitability (selected by % respondents)



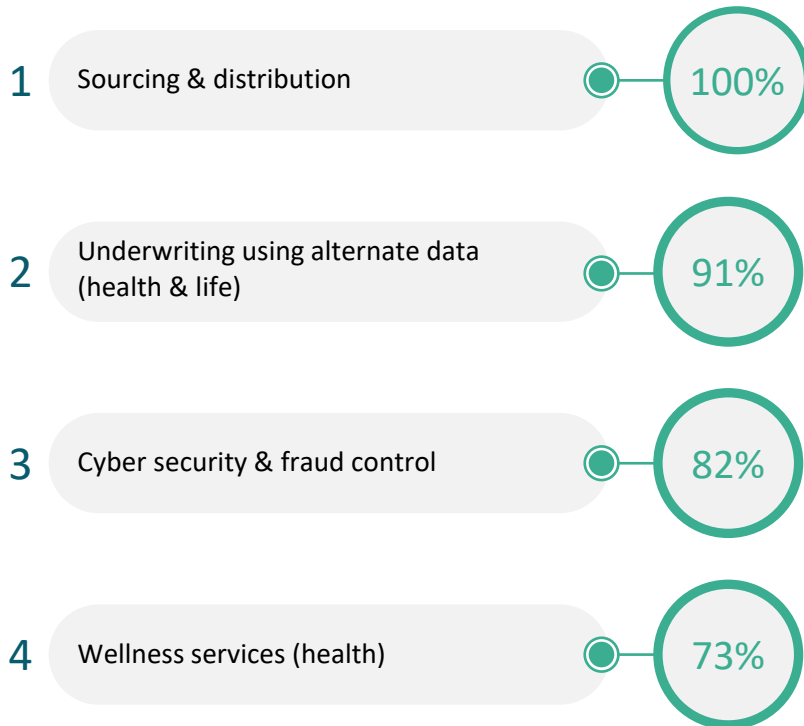
Note: Q: What are the most important strategic focus areas for you and your business in next 2-3 years? (Rank in order) n=11
 Q. Which of the following areas pose a challenge to profitability in Insurance/InsurTech sector in your geography? n=11
 Source: BCG Matrix SOFTU Survey'23



InsurTech-Insurer collaboration can unlock significant value however tech maturity poses a challenge

■ Top areas with potential for InsurTech-Insurer collaboration

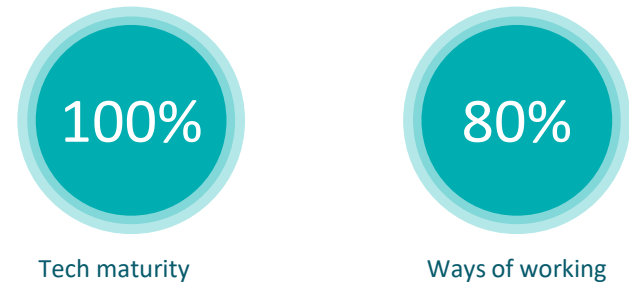
(% Respondents rating high/medium potential)



■ Challenges to Incumbent-Fintech collaboration

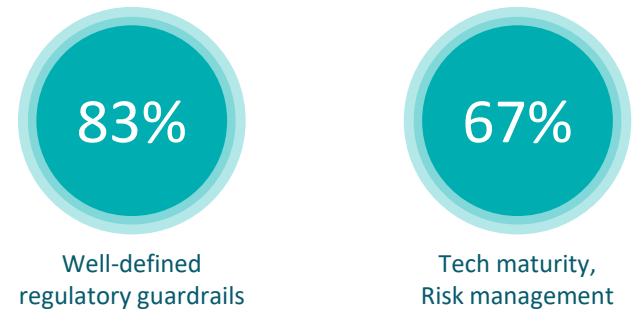
Top challenges while partnering with Incumbents

(selected by % Fintechs)



Top challenges while partnering with Fintechs

(selected by % Incumbents)



Note: Q: Which areas have maximum potential for InsurTechs and insurers to collaborate? (n=11)

Q. What will be the biggest challenge for you while partnering with Incumbents? (n=5) Q. What will be the biggest challenge for you while partnering with Fintech's? (n=6)

Source: BCG Matrix SOFTU Survey '23



2d Wealth Management





Product expansion emerges as top focus area for 85% respondents while CAC & operational risks foreseen as top challenges

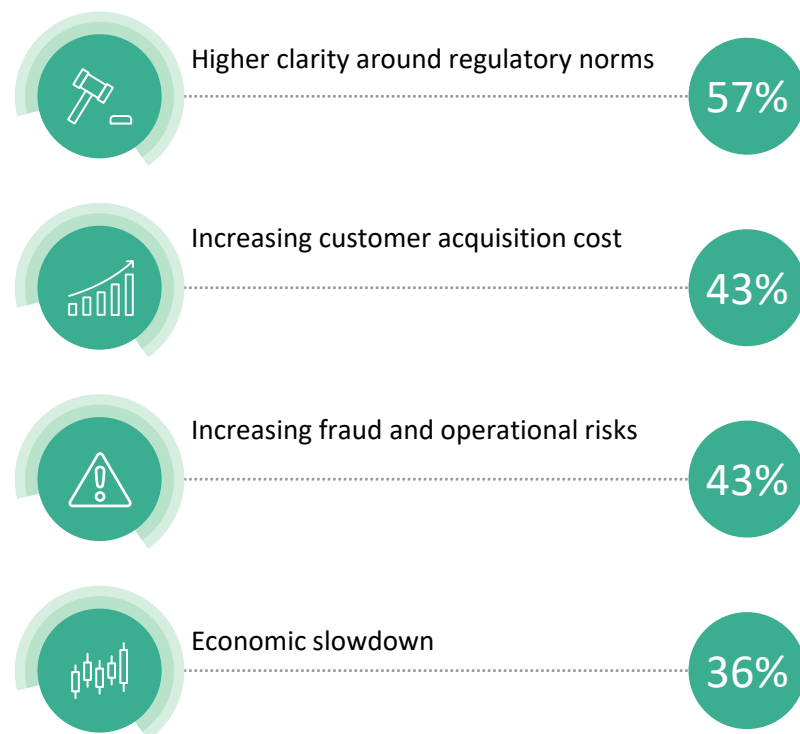
■ Product expansion & profit/cost reduction top strategic focus areas followed by **governance and hiring**

■ Higher clarity around regulatory norms, operational risks and CAC foreseen as top challenges

Top strategic focus areas for business (selected by % respondents)



Top challenges foreseen (selected by % respondents)



Note: Q: What are the most important strategic focus areas for you and your business in next 2-3 years? (Rank in order)
 Q. What are the top challenges you foresee for you and your business in the next 2-3 years? (Rank in order) n=14
 Source: BCG Matrix SOFTU Survey'23



Tech maturity pose challenges while collaboration; enablers will be critical in accelerating partnerships

Challenges to Incumbent-Fintech collaboration

Top challenges while partnering with Incumbents

(selected by % Fintechs)



Tech maturity



Ways of working

Top challenges while partnering with Fintechs

(selected by % Incumbents)



Well-defined regulatory guardrails



Commercial models



Enablers like seamless onboarding of clients, joining the account aggregator ecosystem for depositories is needed

— Co-Founder, Fintech



India still a penetration story, more so than anywhere else where it's been a displacement story of Fintechs displacing into financial services. It is still early days, so it will need investment

— Strategy Head, PayTech

Q. What will be the biggest challenge for you while partnering with Incumbents? (n=10) Q. What will be the biggest challenge for you while partnering with Fintech's? (n=4)
Source: BCG Matrix SOFTU Survey '23



2e

Neobanking



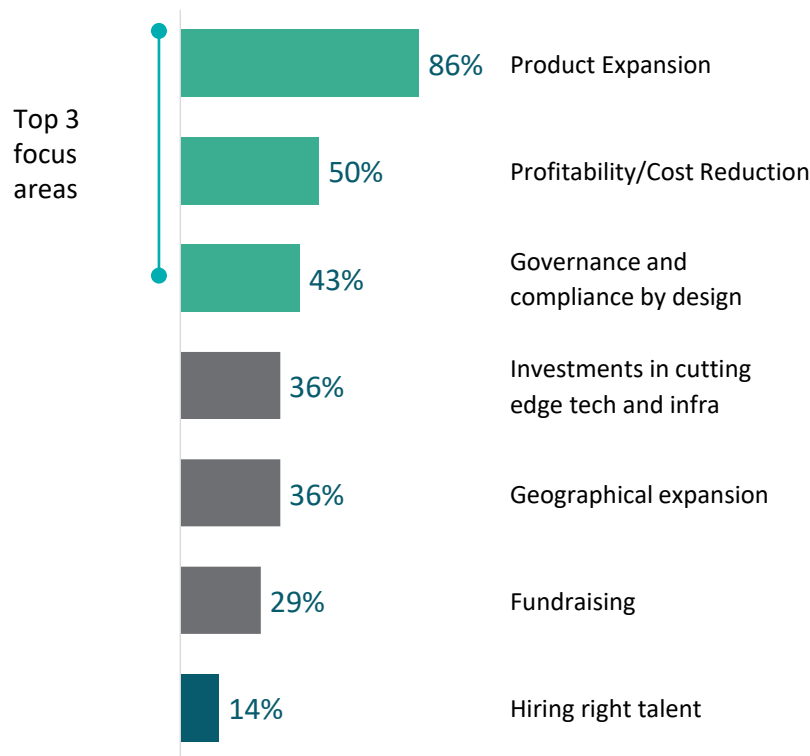


Digitization of traditional banks & potential to further improve regulatory support/clarity emerge as top challenges to sustainability

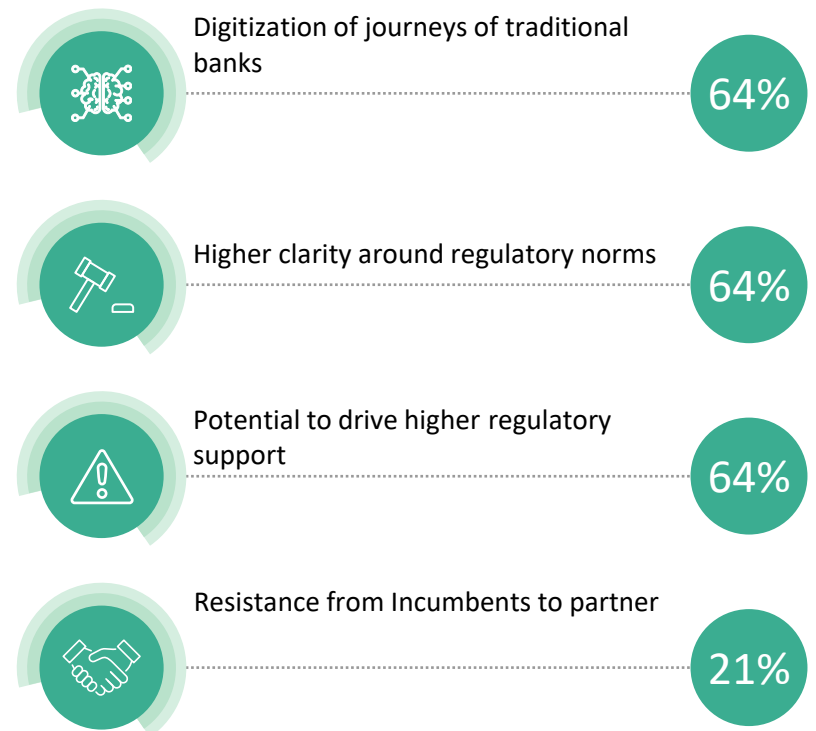
Product expansion & profit/cost reduction top strategic focus areas followed by “compliance by design”

Digitization of banks & potential to further improve regulatory support/clarity top challenges to sustainability

Top strategic focus areas for business (selected by % respondents)



Top challenges to sustainability (selected by % respondents)



Note: Q: What are the most important strategic focus areas for you and your business in next 2-3 years? (Rank in order) n=14
 Q. Which of the following areas pose a challenge to sustainability in neobanking sector in your geography? n=14
 Source: BCG Matrix SOFTU Survey'23



Nearly 90% Fintechs view banks as partners, however expect stiff competition in neo-banking from digital Incumbents

Fintech-Incumbent partners or competitors



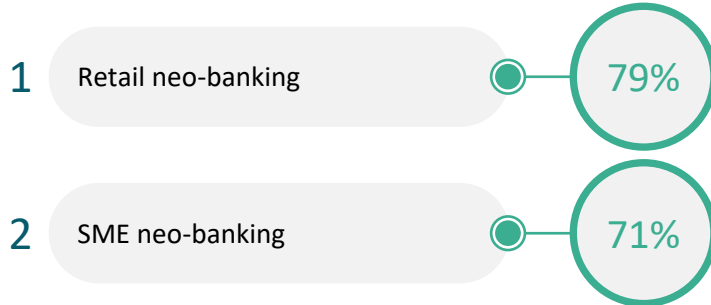
Fintechs see banks as "partners"



Incumbents see neobanks as "partners"

[Retail/SME] Neo-banking will face stiff competition from digital Incumbents & super apps

% Respondents saying "Yes" or "Maybe"



Challenges to Incumbent-Fintech collaboration

Top challenges while partnering with Incumbents

(selected by % Fintechs)



Tech maturity



Well-defined regulatory guardrails

Top challenges while partnering with Fintechs

(selected by % Incumbents)



Well-defined regulatory guardrails



Ways of working

Note: Q. Do you see banks as partners or competitors? (n=9) Q. Do you see neobanks as partners or competitors? (n=5)
 Q. Do you believe retail/SME neobanking will face stiff competition from digital Incumbents & super apps? (n=14)
 Q. What will be the biggest challenge for you while partnering with Incumbents? (n=9) Q. What will be the biggest challenge for you while partnering with Fintech's? (n=5)
 Source: BCG Matrix SOFTU Survey '23



2f

Fintech SAAS/ Infra

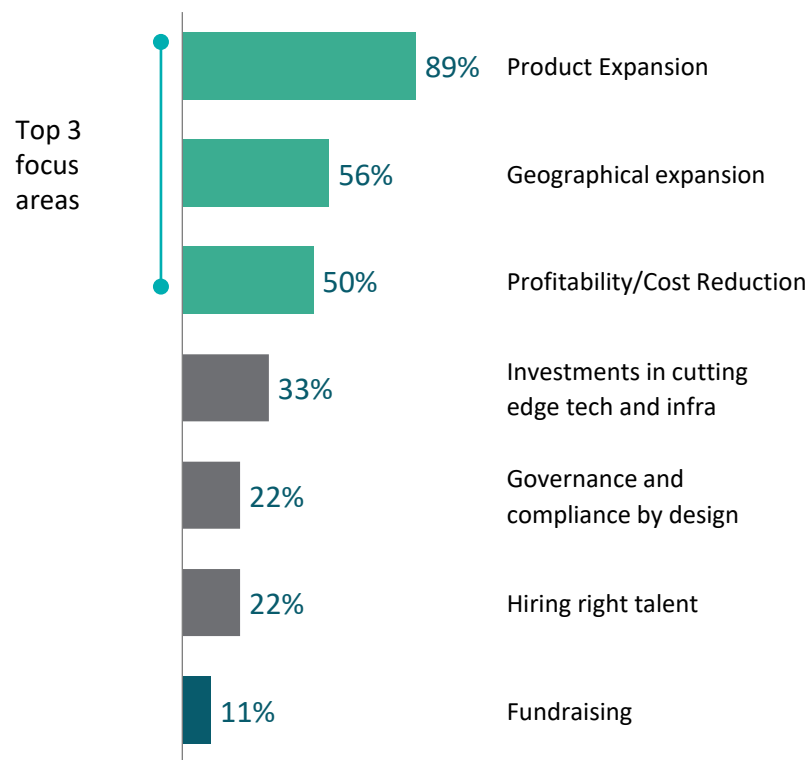




Focus on product and geography expansion while optimizing opex and driving greater clarity in regulations key to profitability

■ Product expansion top strategic focus area followed by "geographical expansion & cost reduction"

Top strategic focus areas for business (selected by % respondents)



■ High opex along with potential to driver higher clarity around regulations top challenges to profitability

Top challenges to profitability (selected by % respondents)



Note: Q: What are the most important strategic focus areas for you and your business in next 2-3 years? (Rank in order) n=18
 Q. Which of the following areas pose a challenge to profitability in your FinInfra sector? n=18
 Source: BCG Matrix SOFTU Survey'23



03/03

Key priorities for future growth

Short and medium term priorities to unlock full potential

Fintech Action-agenda | Key priorities to navigate funding winter and drive future growth



Sharp focus on sustainable profits key

- Chasing hyper-growth at all costs no longer viewed favorably
- Focus on well defined unit economics from the get go
- Charting a clear path to profitability primary focus area for all CXOs



Building fiscally prudent and innovative solutions

- Fiscal prudence is key as environment shifts
- Limiting reliance on external capital
- Innovating over India stack to unlock Bharat opp. across access (Lite apps, vernacular) and usage (Bite-sized)



Regulatory compliance by design from day-0

- Well-defined governance across the organization – right level of disclosure, transparency with key stakeholders (analysts, media, regulators, influencers)
- Strong independent BOD, audit practices, proactive and transparent reporting



Drive partnerships with win-win business models

- Strong partnerships DNA critical as intricate products and customer journeys evolve further
- Expected to unlock operating efficiency, customer convenience and employee experience

Incumbent Action-agenda | Key priorities for future growth through partnerships



Build partnership DNA in ways of working

- Approach Fintechs as collaborators and clearly lay down ways of working, governance and compliance expectations from day-0
- Enhance and simplify ops, tech and processes to launch agile, rapid iterative business models in partnership with Fintechs



Unlock growth potential through joint innovation

- Build org-wide focus or specialized COEs to tap the opportunity across new areas such as
 - Embedded finance
 - ONDC use cases
 - GenAI application, etc.
- Jointly define innovation agenda for the untapped Bharat opportunity with the Fintechs and regulators



Actively engage with regulator to shape the policy narrative

- Actively engage with regulators to shape the agenda for:
 - Guardrails for Fintech & Incumbent partnerships
 - Adoption of new/alternate commercial models to shorten existing sales cycle
 - Clearly articulate regulatory/tech compliance expectations
 - Building private innovation over public DPI stack, etc.

Policy makers Action-agenda | Action-agenda for policy makers



Drive higher clarity & consistency in regulatory policy

- Regulatory framework well-placed to encourage innovation and driving sufficient risk controls, however potential to improve clarity and consistency across regulatory expectations (e.g. NBFC licensing norms) identified



Clearly defined DPI 2.0 roadmap across stakeholders

- Building digital public infrastructure whilst encouraging private innovation critical for scaling up DPI 2.0
- Evaluate opportunity to drive export of India stack to emerging nations

Meet the authors

If you would like to discuss the themes and content of this report, please contact:



Yashraj Erande
Managing Director & Partner, BCG
Erande.Yashraj@bcg.com



Neetu Chitkara
Managing Director & Partner, BCG
Chitkara.Neetu@bcg.com



Vikram Vaidyanathan
Managing Director,
Matrix Partners
Vikram@matrixpartners.in



Vivek Mandhata
Managing Director & Partner, BCG
Mandhata.Vivek@bcg.com



Nisha Bachani
Partner, BCG
Bachani.Nisha@bcg.com



Anish Patil
Associate Vice President,
Matrix Partners
Anish@matrixpartners.in



Jinia Rao
Project Leader, BCG
Rao.Jinia@bcg.com



Mithun Nair
Senior Associate, BCG
Nair.Mithun@bcg.com



Anand Khetan
Associate Vice President,
Matrix Partners
Anand@matrixpartners.in



Soham Daruwala
Senior Associate, BCG
Rao.Jinia@bcg.com



Havisha Gupta
Senior Associate, BCG
Nair.Mithun@bcg.com



Taha Tinwala
Senior Analyst, Matrix Partners
Anand@matrixpartners.in

Acknowledgements

This report is a joint initiative of Boston Consulting Group (BCG) and Matrix Partners India.

We thank all the participants of the SOFTU survey and 1-on-1 discussions for their valuable contributions towards the enrichment of the report.

We are thankful to Jasmin Pithawala and Sucheta Desai for marketing and communications support; and to Jamshed Daruwalla, Saroj Singh, and Dillibabu Muthu for their extensive design and report production support.

About the authors

Yashraj Erande is a Managing Director and Partner in BCG's Mumbai office and Head of Fintech practice in APAC Region, with expertise in Financial Institutions, Business strategy and Data & Digital platform

Neetu Chitkara is a Managing Director and Partner in BCG's Mumbai with expertise in Wholesale Banking, Insurance, Cybersecurity and Digital Risk, Artificial Intelligence and Digital Products

Vivek Mandhata is a Managing Director and Partner in BCG's Chennai office and has deep expertise in Payments, strategy and operations of Banks, Securities & Insurance companies

Nisha Bachani is a Partner in BCG's Mumbai office and has deep expertise in Bank, NBFC and Fintechs strategy design, Digital transformation and new business builds

Jinia Rao is a Project Leader in BCG's Bengaluru office and is a member of BCG's Financial Institutions practice with experience in fintech strategy design, customer journey transformation and new business builds

Mithun Nair is a Senior Associate in BCG's Bengaluru office and is a member of BCG's Financial Institutions practice

Soham Daruwala is a Senior Associate in BCG's Mumbai office and is a member of BCG's Financial Institutions practice

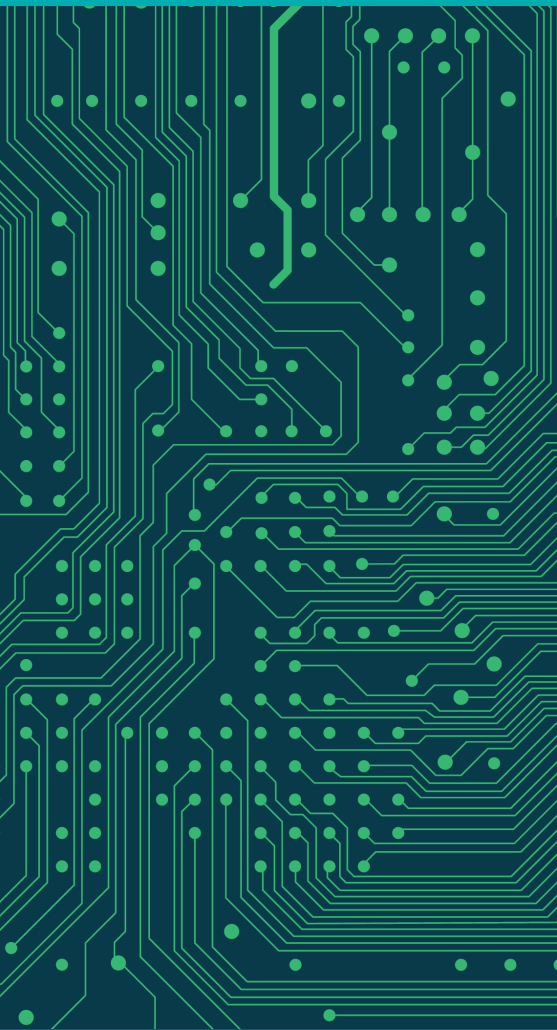
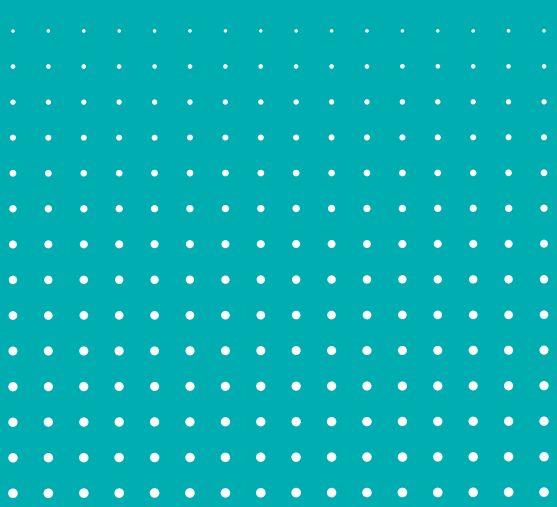
Mithun Nair is a Senior Associate in BCG's Mumbai office and is a member of BCG's Financial Institutions practice

Vikram Vaidyanathan is a Managing Director at Matrix Partners India, he leads the Fintech and Enterprise SaaS investing practices

Anish Patil is an Associate Vice President at Matrix Partners India and part of its Fintech investing practice

Anand Khetan is an Associate Vice President at Matrix Partners India and part of its Fintech investing practice

Taha Tinwala is a Senior Analyst at Matrix Partners India and part of its Fintech investing practice



BCG + **matrix**
PARTNERS INDIA