

GOOD TIMES FOR

FINTECH

STARTUPS

A number of new fintech companies in India are drawing significant interest from investors and crowding of the sector with copycat businesses means consolidation will soon become the norm.

customers alike, but the
writes **Shailesh Menon**

As torrential rains lashed Chennai and nearby districts in mid-November 2015, the top bosses of Federal Bank went into a huddle at the headquarters in Kerala's Aluva. They saw an opportunity to showcase the bank's technological prowess. The IT team was asked to 'perfect and roll out' the under-trial 'missed-call mobile recharge' option in Chennai. This service enabled customers to recharge their mobile phones by simply giving a missed call to an assigned number.

"We rolled this out in Chennai in 48 hours," recalls Shyam Srinivasan, MD and CEO, Federal Bank. "Our team developed the technology internally... this service was much appreciated as people were stranded in their homes and could not recharge their cellphones."

Srinivasan, who cut his teeth in Standard Chartered Bank, is one of those bank bosses who understands the power of technology and how it can revolutionise banking. That said, he does not believe doomsayers who predict the demise of traditional banks two-three decades from now at the hands of snazzy technology companies that provide banking solutions.

Even the spectacular growth of fintech, the term assigned to denote all ventures blending finance and technology, investments—from \$247 million in 2014 to more than \$1.5 billion in 2015, according to KPMG's Fintech in India report—in India does not worry Srinivasan. He says fintech and digitalisation of banking would empower customers, but control would always remain with banks. "Banks would evolve to become super fintech companies in the coming years."

No doubt, Federal Bank, like other nimble-footed private banks, has significant interests in specialised services such as remittances and payments, cards business, short-term loans, SME financing and third-party distribution. But the most serious action in this space is coming from bootstrapped tech-savvy startups.

Flush with Money

A raft of new-age fintech companies have sprouted in India in recent years, attracting the interest of hordes of customers and investors, including angel venture capitalists, family offices and even private equity funds. (see *Top Investments...*). Indians have been drawn to the ease, convenience and potential savings (in the form of cash-backs and discounts) proffered by fintech companies, which perform a range of tasks such as comparison of insurance offerings, income tax filings and payment of taxes, among others. (In broader terms, fintech comprises payment companies, online marketplaces, software-makers and infrastructure support providers. A large number of these are customer-facing businesses, the rest being institutional solutions providers, or B-to-B service providers).

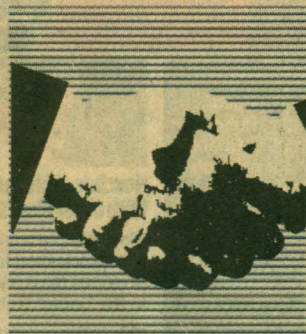
The relentless surge in ecommerce and smartphone penetration has fuelled the growth of these companies in India. Growth of the economy and government initiatives such as Jan Dhan Yojana, Direct Benefit Transfer programme and Unified Payment Interface have also helped, according to Mridul Arora, principal at SAIF Partners.

Neha Punater, partner – fintech, KPMG – India, says these are just early days for fintech companies. “The Indian fintech sector is estimated to be approximately \$33 billion in 2016 and is estimated to reach \$73 billion by 2020.”

In many ways, the rise of the fintech sector was inevitable in India. Bhavik Hathi, MD of consulting firm Alvarez & Marsal, says the traditional financial sector is facing a lot of challenges in terms of reaching out to newer customers through physical footprints. “This problem, in a way, is solved using technology. Once the use of technology (in financial services) gains popularity, even a paanwala could be your service provider.”

Alok Goel, MD of SAIF Partners, an early investor in companies like Paytm, Capital Float and Coverfox, says new-age financial companies will be able to serve the bottom of the pyramid, unlike other players who tried reaching the grassroots in the earlier years.

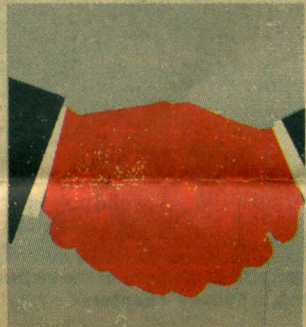
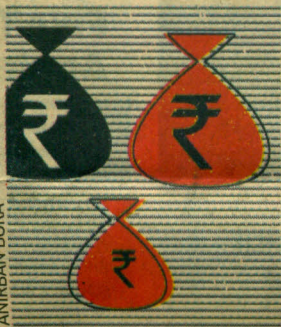
According to KPMG, 46% of Indian fintech companies are focused on payments and trade processing. Payment companies, which also include mobile wallets and prepaid card providers, are amongst the most



Payment companies, which also include mobile wallets and prepaid card providers, are among the most sought-after businesses in the fintech space



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sought-after businesses in the fintech space currently.

"Payments businesses have started off well, but they have not been able to hammer out sustainable solutions for many of the problems in that space till now as the landscape has been evolving rapidly," says Vinod Murali, MD at InnoVen Capital, a leading venture debt fund.

"Many payment companies/wallets have managed to get robust customer bases; now they'll have to get the market and merchant linkages right. They've to widen their offerings by analysing captive data and predicting customer preferences. Payments solution providers will have to get into 'high-level cross-selling' to increase their revenues."

Payment companies will have to work more on their physical infrastructure to expand business. They will have to increase velocity of transactions to stay profitable. Also, the practice of giving 'cash-backs' (discounts to customers using their gateways) will have to stop. Payments businesses (especially mob-wallets) will have to expand their revenue streams ahead of the full-fledged rollout of government's Unified Payments Interface (UPI), which envisages seamless digital money transfers across banks and their customers.

Apart from payments businesses, online marketplaces, which ferry credit and loans, investment and personal finance solutions to customers, are quite popular among early-stage investors. Consumer-facing fintech start-ups such as PolicyBazaar.com, Cleartax and BankBazaar have managed to raise several rounds of capital from investors.

"Bullish trends in online marketplaces were in sync with the euphoria around general ecommerce companies; that phase is over now," says Yashish Dahiya, co-founder and CEO of PolicyBazaar.com, which sold over 1 million policies last year.

According to Dahiya, there's limited scope for innovation in marketplace models. The way forward for these engines would be to increase product offerings and scale up 'convenience-factor' for customers. "Only service-level differentiation is possible now. Beyond that, there could be some innovation coming up in the personal finance side," says Dahiya.

Decisional algorithms and 'robo-advisory services' are the buzzwords in investment and personal finance space. The race to code the fastest, meanest and most intelligent stock market investment tool is always on

among start-ups focussing on the software solutions space. In the utility personal finance space, there are companies like Cleartax which helps customers with their tax returns respectively. Cleartax also services over 10,000 professional accountant firms with their client tax return filings.

"We're in the same business that the government is doing. The IT department's return filing site is good, but ordinary tax-payers may find it difficult to navigate. What we've done is to simplify the tax filing process a lot more," says Archit Gupta, founder-CEO of Cleartax, which has received funding from a clutch of foreign angel investors, including Sequoia Capital and Founders Fund. "In its basic form, tax-payers have to just upload their Form-16 in PDF format to auto-fill in the required information."

Ease of using the portals and mobile extensions (related apps) win customers for consumer-facing online marketplaces. But for online marketplaces to grow, the supportive infrastructure (mainly fintech in B-to-B space) has to keep innovating and growing. Without adequate supportive technological inputs, instant scalability seems difficult for online marketplaces.

Top Investments Over the Years

Company	Sector	Amount (\$M)	Investors
BillDesk	Online Services (Bill Payments)	150	General Atlantic, Temasek
BankBazaar	Online Services (Consumer Loans)	60	Eight Roads Ventures, Sequoia Capital India, Walden International, Mousse Partners, Amazon
Financial Software & Systems	IT Services (Banking)	57	PremjiInvest
PolicyBazaar	Online Services (Marketplace - Personal Finance - Insurance)	40	Tiger Global, PremjiInvest, Steadview, Ribbit Capital
Eka Software Solutions	Enterprise Software (Financial Commodity Trading)	40	Nexus Venture Partners, Silver Lake, Others
BillDesk	Online Services (Bill Payments)	29	TA Associates
Electronic Payment and Services	IT Services (Banking - ATM Outsourcing, Payments Technology)	25	Apis Partners
Citrus Payment Solutions	Online Services (Payment Gateway)	25	Sequoia Capital India, Ascent Capital, Beenos Partners, Others
Mswipe Technologies	Mobile VAS (Payments)	25	Matrix Partners India, Falcon Edge Capital, Others
Mobikwik	Mobile VAS (Payments - Mobile Wallet)	25	Cisco, Sequoia Capital India, Tree Line Asia Master Fund, Others

Source: Venture Intelligence

FACTFILE

Payments & mobile wallets are the most sought-after verticals within fintech space currently



Peer-to-peer lenders, online SME finance marketplaces are also in great demand

12,000 startups have come up and investments worth \$19 bn have gone into fintech globally

India ranked third in terms of smartphone penetration

Low penetration of banking (53%) & dormancy (43%) provide good opportunity for fintech companies

Private banks like Barclays, ICICI, Axis and Kotak have accelerator programmes for fintech startups

20 new peer-to-peer lenders have set shop in India in 2015

Technology around biometrics and voice-recognition, a hit among banks and other financial services institutions

Source: KPMG, Industry sources

BIG Fintech Investments

Year	No of investments	Amount (\$M)
2013	14	100
2014	17	136
2015	39	328
2016YTD	12	201

*Only large-ticket institutional investments considered.
Source: Venture Intelligence

This is where businesses like CreditVidya come to the fore with their expertise. This Mumbai-based startup analyses “alternate customer data” (mostly drawn from social media and messenger sources) and submits reports to banks, NBFs and even insurance companies. These institutions pull in the services of CreditVidya at the risk assessment stage while processing a loan or providing cover to customers.

“Even now there are millions of prospective borrowers who have not been captured by credit rating agencies; at the same time, these people have massive digital footprints, thanks to deeper influx of social media and messenger services,” says Rajiv Raj, co-founder of CreditVidya, which has recently received funding from Kalaari Capital and Paragon Partners. “We’ll use this data to analyse the behaviour of prospective customers on behalf of financial institutions.”

The buzz in fintech space has also shot core B-to-B businesses into the limelight. Core B-to-B businesses have relatively higher gestation period (when compared with consumer-facing ventures), but enjoy sticky customers and increased profitability in the longer run. These businesses, however, have to innovate on a daily basis to stay abreast of competition.

“B-to-B businesses are always dicey and are susceptible to frequent changes. But if you ride the wave properly, you become an important partner for larger financial services institutions,” says Thyagarajan Seshadri, president - Banking, Electronic Payment and Services, which services over 6000 ATMs across the country.

The Way Forward

At present, the fintech space is cluttered with “copy-cat” business ideas all wanting to grab the attention of prospective investors. This trend, however, may

change in the years to come. Segment-level consolidation is imminent and may start happening in a few months. The investment buzz around fintech companies may also pipe down in the coming 12–16 months, according to industry sources.

Investors, on their part, are casting random bets on several companies on hopes that a few would rake in the moolah in 4–5 years. And in all probability, a few successful companies would emerge out of this space in the coming years.

“Technological innovation and mass customer bases will help us recover our money and also pocket some good returns,” says Amit Patni, whose family offices have invested in fintech businesses.

Even though investors count IPOs as one of their exit options, it might take long for fintech companies start hitting the public bourses. Opportunistic investors will have to look at ‘secondaries’ (a stake deal between two investors) and strategic options for exits. It may not be long before a few of these ventures be acquired by banks and financial services institutions purely looking at their technological competencies.