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INVEST INDIA

A REVIEW OF INDIA'S CREDIT ECOSYSTEM

Foreword by Invest India

Consumption has always been the driving force and the pillar of India's growth story. India is making giant strides in financial inclusion. The rise in 'affluent middle class' and growth in the rural economy is changing consumer spending patterns and driving the bulk of India's consumption growth. All this presents a compelling opportunity for companies in the credit sector.

Rapid advancements in technology are affecting our daily lives. It is fascinating to see how the financial industry is responding to the challenges and opportunities offered by these ongoing developments. Fintechs are undoubtedly the 'innovation of the decade'. Technology-enabled growth and continuous improvement in credit ratings have further rendered support to growth in the credit industry. In collaboration with Experian, Invest India examines how the credit ecosystem has evolved over the recent years on the back of consumption growth and these technological advancements.

The report highlights not only the consumer trends but also the regulatory environment that has supported India's credit ecosystem. It is a testament to the government's commitment to making India a world leader in the financial sector. Whether it is the creation of a platform for testing new products, services with customers in a live environment or efficient functioning of a robust Aadhar system for identification or the various stimulus measures taken to bring the economy back to pre-Covid-19 levels, the government has left no stone unturned to make India one of the most preferred investment destinations in the world.

Invest India is transforming India's investment climate by simplifying the business environment for investors. The report attempts to bring forward credible and practical information about the credit industry in these unprecedented times. I commend the members from Experian and Invest India who lent time and efforts to make this report. I am pleased to introduce this report which illustrates Experian and Invest India's shared commitment to advancing excellence in India's credit system.

Mr. Deepak Bagla
Managing Director & CEO

Foreword by Experian India

Ever since the renowned economist, Joseph Schumpeter re-defined the foundations of monetary theory, replacing the patrimonial view of money as a "veil" with the concept of it being capital, the growth of a country's credit system has been integrally inter-linked to the expansion in its national GDP. Economists have long considered a greater access to credit to be beneficial and essential to the economic growth through an efficient financial system that puts savings to the best use, facilitates investment by pooling the risk, and allocates capital to productive growth.

Fueled by a booming economy, the demand for credit in India has been exponential. From the supply point of view, besides the public and private banks, a new breed of NBFCs have injected enthusiasm into the market, not to mention the emergence of Fintech players who have facilitated market expansion, armed with technological advancements. The scenario is entirely in line with venerable economic notion that systemic development and access to credit expedite innovation and the all-important creative destruction.

Experian India has collaborated with Invest India to come up with a report that not only analyses the credit ecosystem in the country with its key drivers of growth, but also predicts what the future holds for this ever-growing sector and how the different sub-sections are likely to be impacted. Overleaf, you will see the diversity and the propitious nature of the compiled data along with an ad rem directional commentary. We have relied on our vast repertoire of data resources and analytical skills as well as the in-depth expertise of a public organisation that has successfully attracted global attention when it comes to investing in India.

The pandemic, especially the deadly second wave, has indeed posed hurdles in front of all economic spheres, including the credit sector. The report examines in detail the various schemes unveiled by the Centre to boost income in urban, semi-urban as well as rural areas. It records the rise in unsecured loans, stresses the need to identify innovative ways to assess the borrower's creditworthiness and disburse the loans in hassle-free, non-traditional ways.

At Experian, we strive to build world-class products powered by data and technology. We are a leading global information services company functioning in 44 countries providing data and analytical tools to our clients around the world. In India, Experian was the first credit bureau to be licensed under the Credit Information Companies (Regulation) Act, 2005. Since then, we have been partnering with our clients for bureau, software and analytics offerings thus helping them to make informed decisions at every stage of the customer lifecycle. Experian has also been one of the leaders in the Identity & Fraud space. We risk over 100 million a year on our fraud platforms to ascertain their identity and intent. One of our flagship softwares, Hunter, helps users go beyond conventional scoring and underwriting techniques to identify fraudulent applications early in the origination process using proven risk engine to highlight potentially fraudulent applications. We introduced this solution in India in 2011 to help our clients identify frauds and today, we have about 141 regulated entities successfully using the platform for fraud detection.

Mr. Neeraj Dhawan
Managing Director

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1. Executive summary

A modern, growing and robust economy rests and grows on the pillars of financial inclusion, which entails providing access to financial services and products to all individuals and businesses across the social spectrum, tailored to their needs at affordable costs. India is set to achieve this with the growing demand for credit being met for all sections of the society.

With India's financial industry evolving at an unprecedented rate, demand for credit in the country has also seen consistent growth over the years. India's domestic credit growth has averaged at 15.1% from March 2000 to March 2021[1]. The growth is primarily driven by retail loans and increasing penetration of credit cards in the economy. The Indian consumer credit market continues to expand at a rate higher than most other major economies with 22 million Indian consumers applying for new credit opportunities each month[2].

This brisk pace of credit expansion is owing to a paradigm psychological shift in consumer behavior resulting in a significant rise in demand for credit-fueled consumption. Today, Indian consumers are willing to take loans for instant gratifications such as lifestyle changes, travel, education etc., moving away from the ideology of savings paving the way to consumerism. This behavioral shift has been the result of a booming economy and government initiatives that have led to growth of employment and positive influence on consumer confidence. In addition, rapidly growing penetration of smartphones and internet has led to the emergence of multiple technologies for replacing cash, providing credit information for screening, enabling online lending and purchasing of financial products through digital means. The number of telephone subscribers in India increased from 1,173.83 million at the end of December 2020 to 1,183.49 million at the end of January 2021, thereby showing a monthly growth rate of 0.82%[3].

As the Indian customer evolves, banks are leveraging new technologies to improve the banking experience for customers since more and more financial transactions are now conducted through online banking. India's credit growth is further fueled by innovation in the credit evaluation and underwriting methods deployed by the credit institutions. The growing digital footprint in the country has allowed for large scale use of data and analytics for credit evaluation and enabled digital dissemination of loans. This digitization of credit has allowed a large new customer segment to be included within the fold of formal credit and expanded the geographical boundaries for lending hence expanding the Indian credit market. The Covid-19 crisis has further fueled digital lending in the country with more people choosing to avail services, including banking, online.

This report entails some of the key trends in the lending sector on the back of changing customer profile and increased private consumption. It also explores how NBFCs and Fintechs have transformed the lending landscape by meeting the financial needs of population un- and underserved by banks.

[1]*https://www.ceicdata.com/en/indicator/india/domestic-credit-growth*
[2]*https://www.financialexpress.com/money/unlocking-potential-of-indias-credit-market-is-key-to-credit-evolution-over-2020-and-beyond/1832879/*
[3]*https://www.trai.gov.in/sites/default/files/PR_No.16of2021_0.pdf*

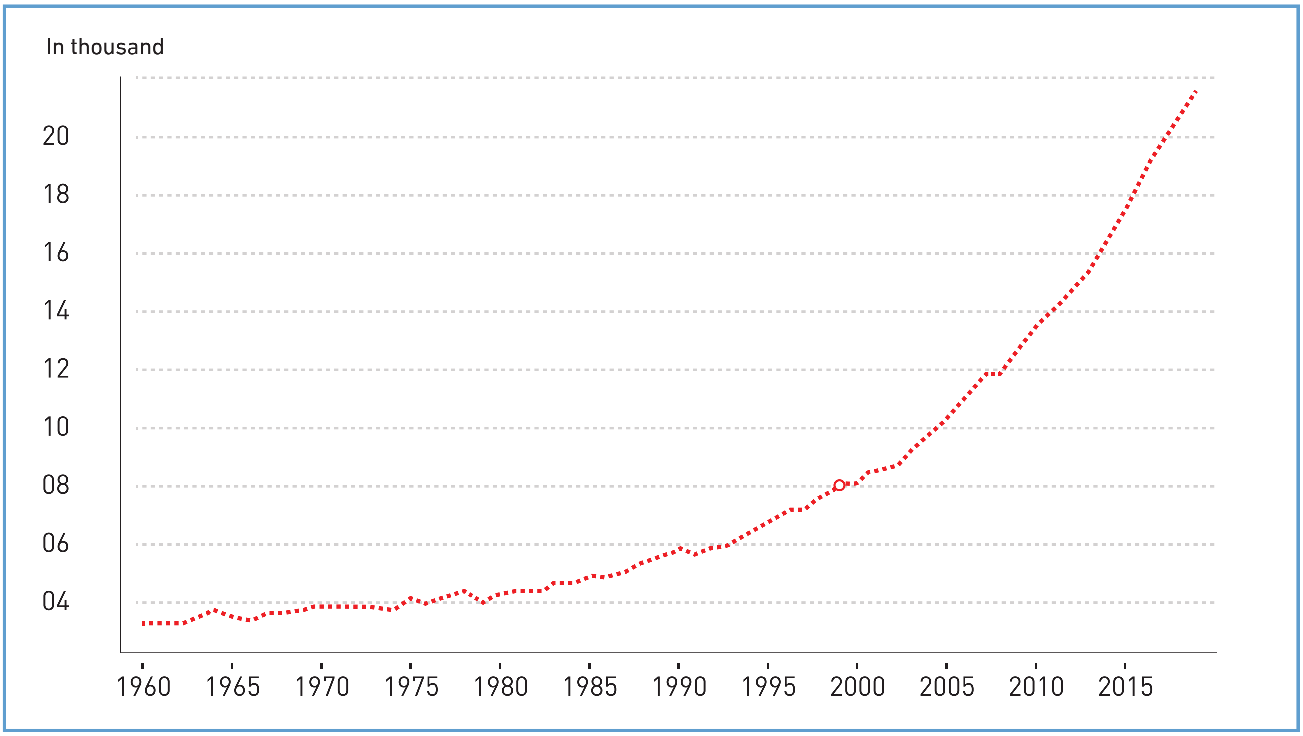
2. India economic snapshot

A. Macroeconomic overview

India's journey on the path of its economic reforms has transformed it to be one of the largest growing economies. The recent policy initiative 'Atmanirbhar Bharat Abhiyan' launched by Prime Minister Modi based on five pillars: economy, infrastructure, system, vibrant demography, and demand is an attempt to push for high-value manufacturing activities in India.

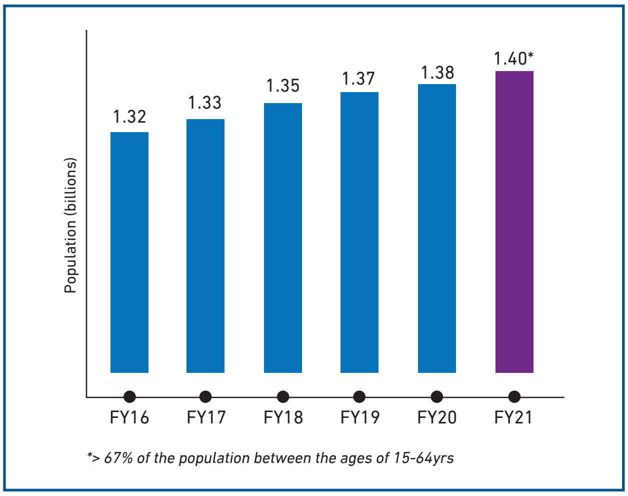
With the recent FDI liberalization, India has been able to leverage FDI across a wide range of sectors to generate jobs and absorb technology. With the flagship digitisation programs of the government being a huge success, the economy has become globally competitive. This has given rise to new industries like digital lending in the country and boosted the existing digital payments and e-commerce sectors.

The Indian startup ecosystem, the 3rd largest in the world has come a long way in providing a level playing field to promising entrepreneurs by fostering and strengthening their capabilities. India jumped 67 positions in a span of four years in the Ease of Doing Business Ranking, which can be credited to improved infrastructure, both physical and digital, along with the radically improved startup eco-system and targeted government policies.



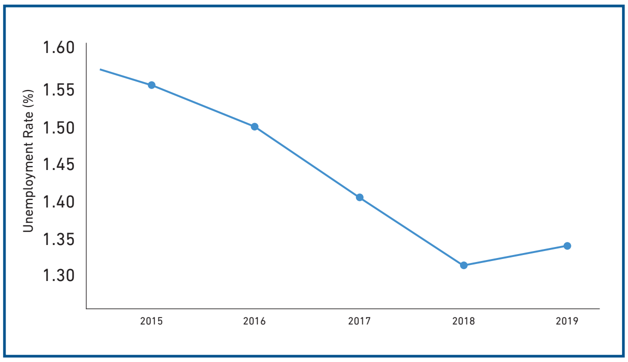
Sec. 2. A (I) Growth in GDP per capita

https://data.worldbank.org/indicator/NY.GDP.PCAP.KD?end=2019&locations=IN&start=1960&view=chart



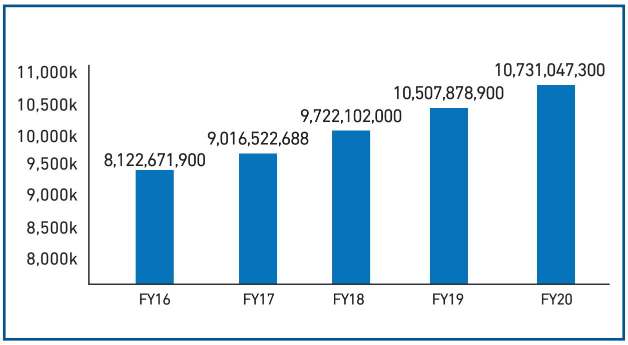
Sec. 2. A (II) Population Trajectory

A high percentage of India's population falls under the working age group, dramatically reducing the amount of dependent population in the economy. The working population's spending capacity is fuelled by rising incomes and low dependent ratio. Increasing population is thus expanding consumption in the country.



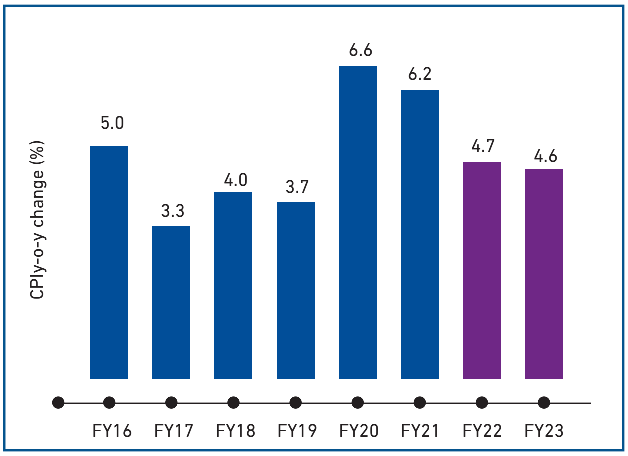
Sec. 2. A (III) Unemployment Rate

Targeted government schemes like Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), Pradhan Mantri Kaushal Vikas Yojna and Make in India have helped address the critical gaps in employment.



Sec. 2. A (IV) Manufacturing Industries (Net Profits)

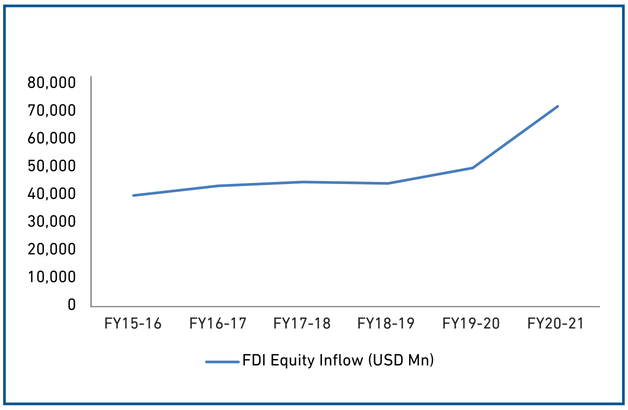
Manufacturing Industry has benefitted from government policies like the National Manufacturing Policy, Credit Linked Capital Subsidy, Production Linked Incentives and the Make in India initiative. The sustained increase in profits of manufacturing firms can be traced back to availability of better skilled labour and a favourable investment climate.



Sec. 2. A (V) Consumer Price Inflation

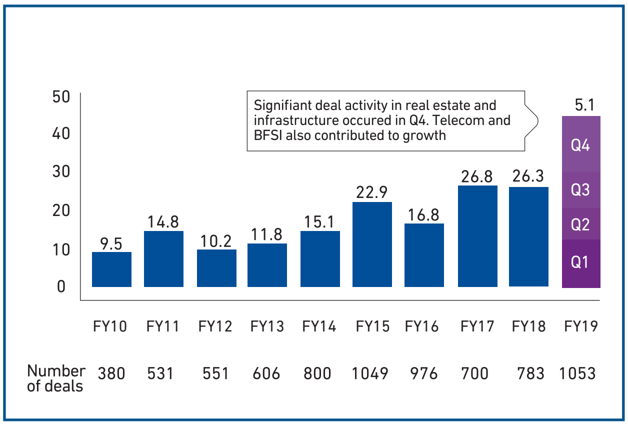
Inflation has remained within the target range and has decreased significantly since 2016, showing improvement in the general standard of living and encouraging more production in the economy. The pandemic years i.e. 2020 and 2021 are an exception to this general trend and the projections for the coming years, 2022 and 2023, show the inflation converging back to pre-pandemic level. Controlled inflation has reduced uncertainty in the economy, thus encouraging investments.

https://www.macrotrends.net/countries/IND/india/unemployment-rate
https://www.ceicdata.com/en/india/manufacturing-industry-nic-2008-all-industries/manufacturing-industries-net-income



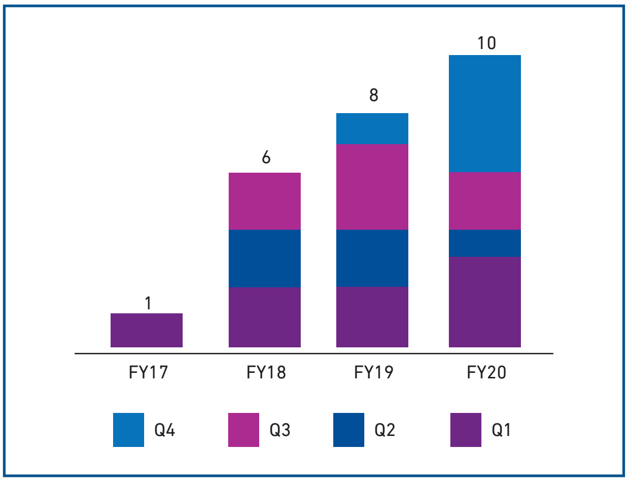
Sec. 2. A (VI) FDI Equity Inflow

India has emerged as a favourable FDI destination in the world. The growth in FDI equity inflows to India since 2015 is a reflection of positive investor sentiment and a resultant of robust reforms and investor facilitation. India has attracted total FDI inflow of INR 5403.23 Bn (USD 72.12 Bn) during April to January, 2021. The trends show that the FDI equity inflow grew by 28% in the first ten months of FY 2020-21 at INR 4059.16 Bn (USD 54.18 Bn) compared to the year ago period at INR 3172.11 Bn (USD 42.34 Bn)[4]. Despite the pandemic, FDI inflows to India continued while countries, globally witnessed a substantial decline.



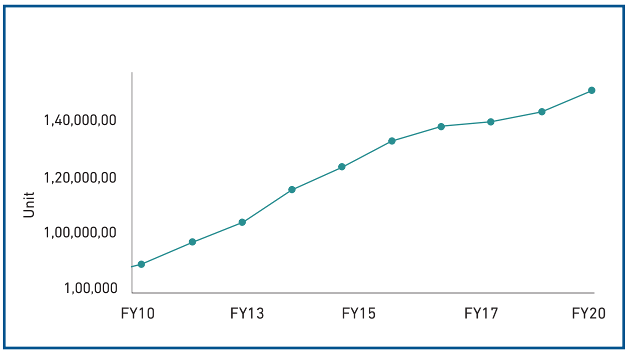
Sec. 2. A (VII) Private Equity Investments

Investment momentum in India accelerated in 2019 with INR 3,378.8 Bn (USD 45.1 Bn) in Private Equity, highest in the last decade. BFSI, telecom and real estate contributed significantly to the growth.



Sec. 2. A (VIII) Number of new Unicorns

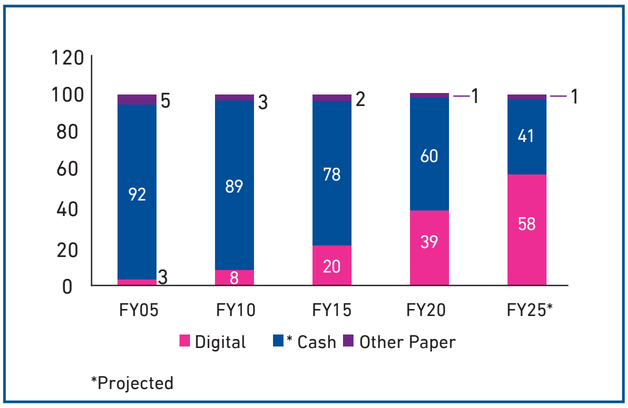
India is set to become one of the largest and vigorous startup eco-system in the world powered by Prime Minister Narendra Modi's flagship Startup India Initiative. Increasing number of Indian startups are entering the unicorn club with a record 10 new unicorns achieved in the pandemic year.



Sec. 2. A (IX) Number of Commercial Banks

Large numbers of unbanked population have come into the banking domain, increasingly formalizing the savings and lending system of the country. This brings new business for private lending institutions and creates opportunity for financial technology firms to disrupt the new-to-banking segment of consumers.

https://dipp.gov.in/sites/default/files/FDI%20Factsheet%20December%2020.pdf
http://ivca.in/wp-content/uploads/2020/05/bain_report_india_private_equity_report_2020.pdf
https://tracxn.com/d/unicorn-corner/india
[4]https://pib.gov.in/PressReleasePage.aspx?PRID=1709654



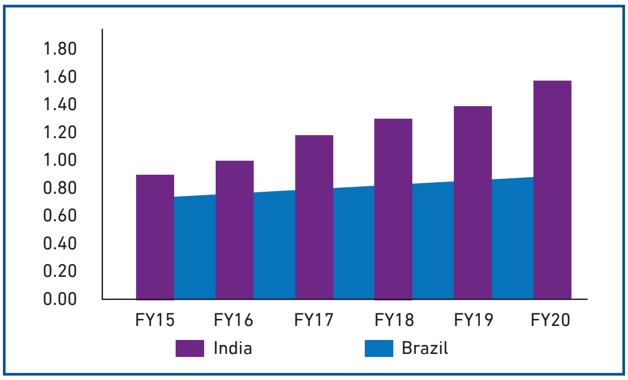
Sec. 2. A (X) Digital Payments Growth %

Digital Payment infrastructure in the country has improved tremendously in the last decade owing to lower risk of digital fraud and increase in digital payment channels. Digital Lending platforms have been able to create a niche for themselves with continued increase in internet penetration and growing trust on digital means of transactions.

B. Consumption expenditure and borrowing trends

India's private final consumption expenditure has been consistently rising over the past repetition five years and has reached INR 123.1 Mn (USD 1.70 Mn)* in 2020. Shifts in income, family structures and increased urbanization prompt Indian households to expand their budget on education, health, clothing and transport.

The consumption expenditure is more than double of that in countries like Brazil, which stands at INR 59.3 Mn (USD 0.82 Mn) in 2020. With large populations and a wealth of natural resources, India and Brazil are both important developing economies and thus comparable on several economic parameters.



Sec 2. B (I) Private Final Consumption Expenditure (USD Mn) India vs. Brazil

Due to rise in focus on retail lending, India's household debt has grown at an annualized rate of over 13% in the last five years[5]. Household debt funds and drives the consumption in the economy and boosts the aggregate demand for all products including further credit.

USD to INR conversion rate: USD 1 = INR 74.92
https://community.nasscom.in/communities/digital-transformation/fintech/india-digital-payments-2020-launching-the-first-adoption-index-time-is-now.html
https://www.ceicdata.com/en/indicator/brazil/private-consumption-expenditure
[5]*https://economictimes.indiatimes.com/wealth/borrow/indian-households-debt-doubles-in-fy17-18-what-are-we-borrowing-for-and-how-much/articleshow/67700374.cms?from=mdr*

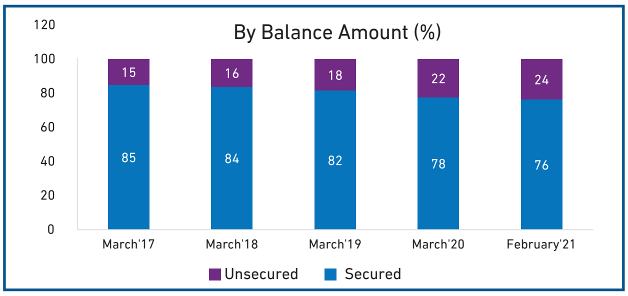
3. Credit growth trends

In a financial system such as that of India where banks play a key role as financial intermediaries, the increase in supply of credit plays a critical role in transmitting monetary policy impulses to the credit market and from thereon to the real economy. The RBI has maintained an accommodative monetary policy since 2019 to encourage private lenders in particular to further credit growth in the economy.

Considering major products* from the consumer lending market, the market's size (balance outstanding) has increased by 77% in 2020 compared to March 2017. The outstanding balance and number of active loan accounts have been growing steadily at an overall market level. The loan accounts portfolio has grown over 2017-20 period at a CAGR of 26% while the outstanding balance has increased at CAGR of 21% during the same period.

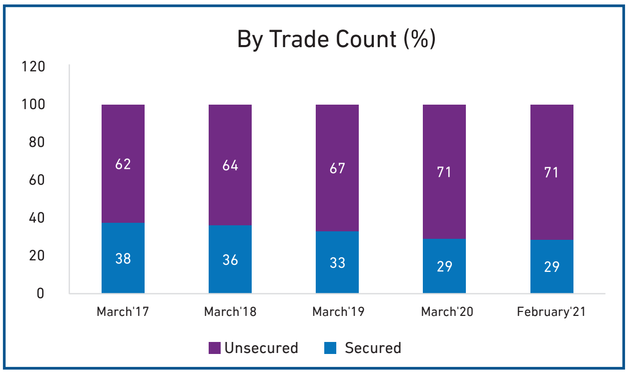
A. Growth in secured and unsecured products

Unsecured Products have seen an increase in Loan book at a CAGR of 38% viz-a-viz Secured Products that grew at a CAGR of 17% over 2017-2020. An unsecured loan is supported only by the borrower's creditworthiness, rather than by any collateral, such as property or other assets.



Sec. 3 (A) I --- Loan distribution b/w Secured & Unsecured

Sec. 3 (A) I shows a consistent increase in secured loans over the years with total balance amount accounting to 76% of all credit in February 2021.



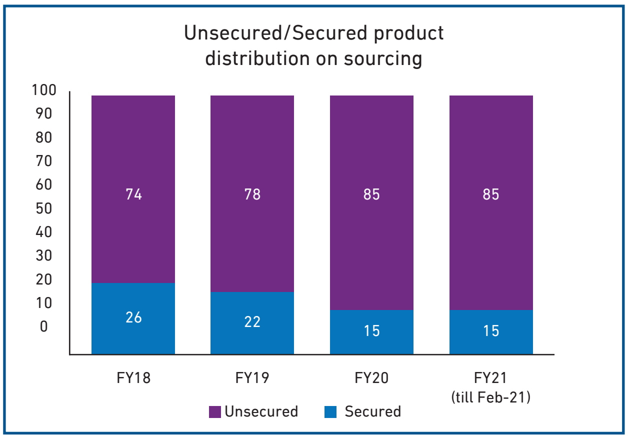
Sec. 3 (A) II ----- Loan distribution b/w Secured & Unsecured

While there is a steady increase in the volume of lending in secured category, the number of loans in the un-secured category has increased its share to 71% indicating that consumers are looking to fund small purchases including consumer durables and holidays through credit and the lending institutions have increased confidence in borrowers' ability to repay and are thus willing to take more risk.

**Home Loans, Personal Loans, Consumer Durable Loans, Auto Loans, Two-Wheeler Loans and Credit Card Balances.*

B. New sourcing of loans (sanctions)

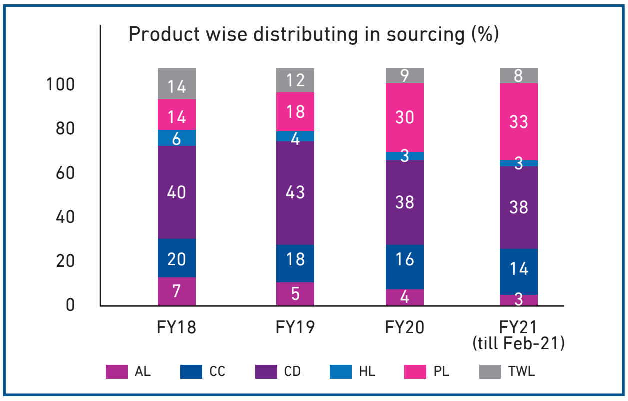
Numbers of new sanctioned loan accounts have surged between FY18 and FY20 at a cumulative growth rate of 39%, with unsecured loans being the major contributors. These products grew at an impressive CAGR of 49%. This loan growth in unsecured products is largely driven by two factors, firstly, the increasing consumerism. Secondly, from the supply side, an extended portfolio of Non-Banking Finance Companies (NBFCs) entering this segment.



Sec. 3 (B) I --- Loan Product Distribution on Sourcing (Category-Unsecured/Secured; Disbursements in that year)

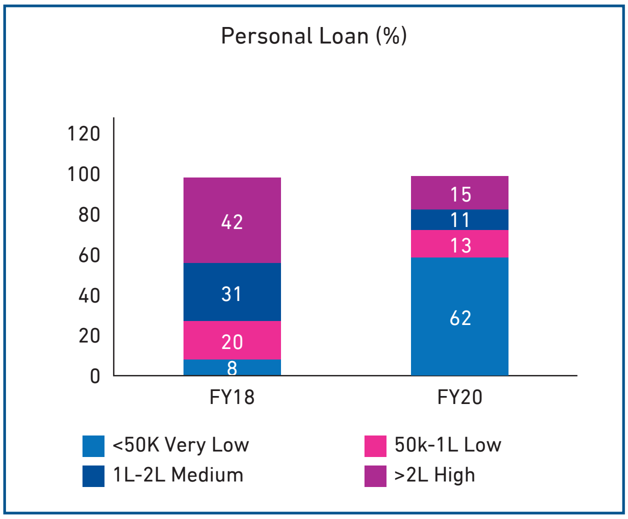
Growth in lending accounts has been faster than growth in balances, clearly indicating a shift towards lower ticket size sourcing. This change has resulted from a combination of factors – first and foremost improvement in the income profile of individuals due to geographically dispersed economic growth and rising employment across socio-economic segments. Urban areas have benefitted from large scale migration of services to India, whereas semi-urban and rural areas have seen significant income growth owing to dedicated government schemes like MNREGA. Widely dispersed economic activity has led to the rise of new consumer segments with their unique credit requirements. It has also enabled a new set of consumers who could not afford credit or were ineligible due to meagre income into the fold of formal credit, resulting in the demand for entry-level products and low-ticket size loans.

C. Product wise distribution in new sourcing (sanctions) by count

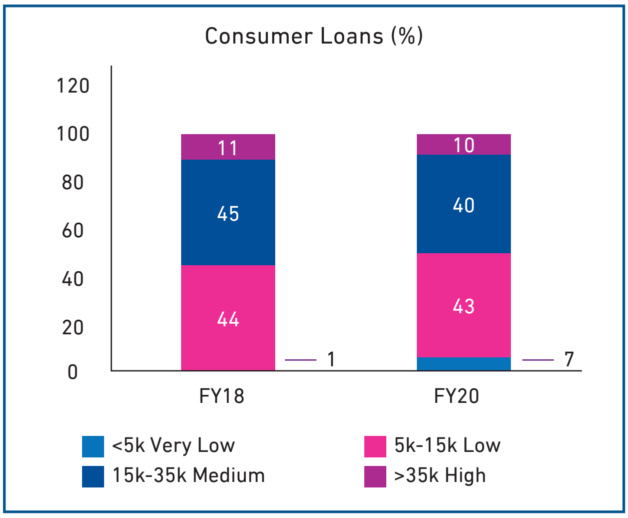


Sec. 3 (C) I ----- Loan Product Distribution on Sourcing (Category – AL, CD, PL, CC, HL, TWL; Disbursements in that year) TWL – Two Wheeler Loan, CD – Consumer Durables, CC – Credit Cards, HL – House Loan, PL – Personal Loan, AL – Auto Loans

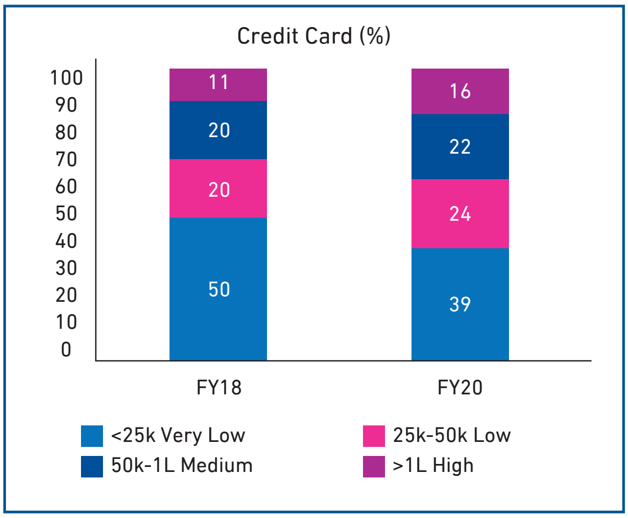
The above graph shows highest share of consumer durables in sourcing. Durables, also known as durable goods or consumer durables, are a category of consumer goods that do not wear out quickly, and therefore do not have to be purchased frequently. An individual's wealth is preserved by spending a high proportion of their income on durable, capital, or investment goods, which are goods that retain their economic value for longer periods of time. Investors, business owners, and economists keep a close eye on expenditures and new orders for durables as a sign of sustainable economic growth.



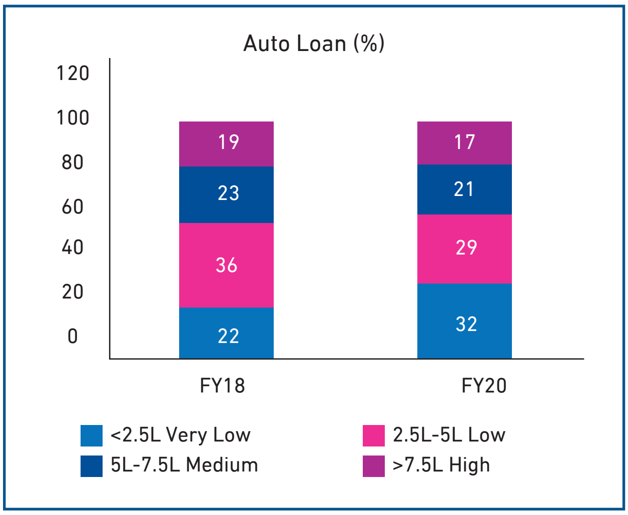
Sec. 3 (C) II------- Average Ticket size of loan disbursements (Personal Loan) in FY18 & FY20



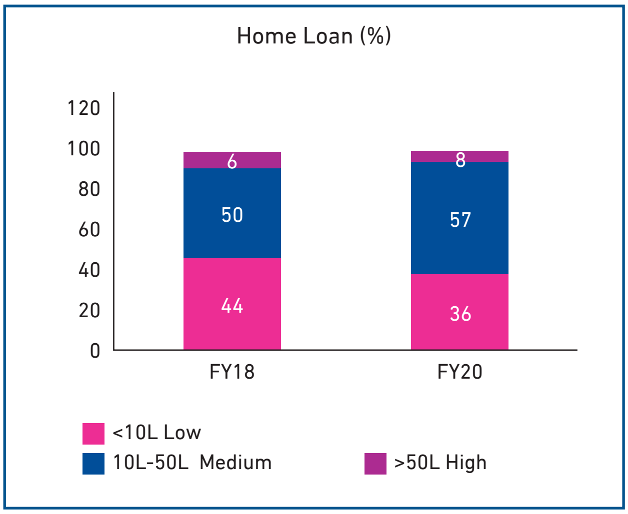
Sec. 3 (C) III ------- Average Ticket size of loan disbursements (Consumer Loan) in FY18 & FY20



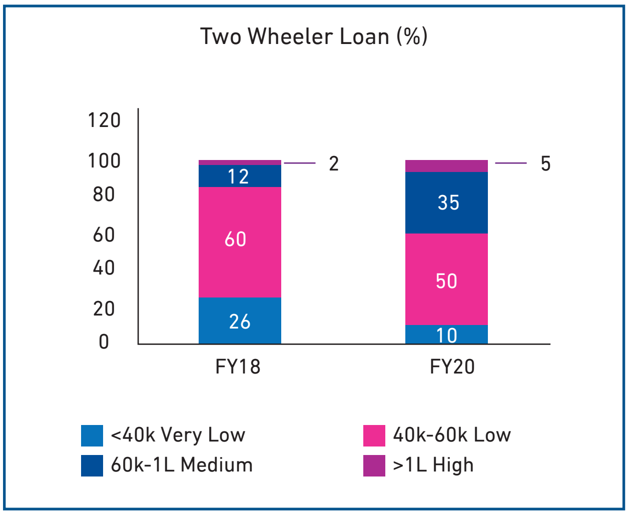
Sec. 3 (C) IV ------- Average Ticket size of loan disbursements (Credit Card) in FY18 & FY20



Sec. 3 (C) V ------- Average Ticket size of loan disbursements (Auto Loan) in FY18 & FY20



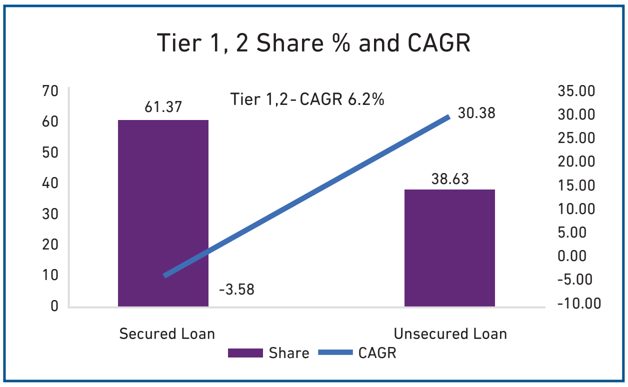
Sec. 3 (C) VI------- Average Ticket size of loan disbursements (Home Loan) in FY18 & FY20

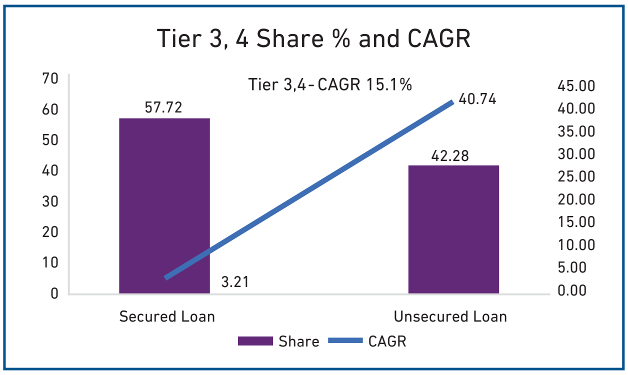


Sec. 3 (C) VII ------- Average Ticket size of loan disbursements (Two-Wheeler Loan) in FY18 & FY20

D. Tier-wise distribution in new sourcing of loans - semi-urban and rural geographies to drive the next phase of growth

Another important shift has been the increasing expansion of credit to tier 3 and 4 markets for lending. While metros remain the biggest lending markets given the skew of working population towards metros, it is the tier 3 and 4 markets that have seen the highest growth in lending.





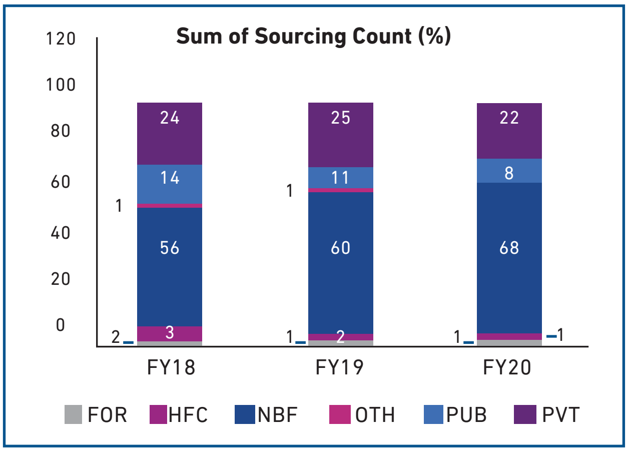
** cagr of FY18-FY20 and share as of FY20*
** share and CAGR by sourcing amount*
Sec. 3(D) I Tier wise growth

Tier 1 and 2 continue to be the largest credit markets and we observe a shift in the borrowing preferences of the customers. These markets saw a sharp rise in low-ticket high-volume lending products. On the other hand, the growth for tier 3 and 4 markets was driven by affordable products like two-wheeler, entry level cars and affordable housing.

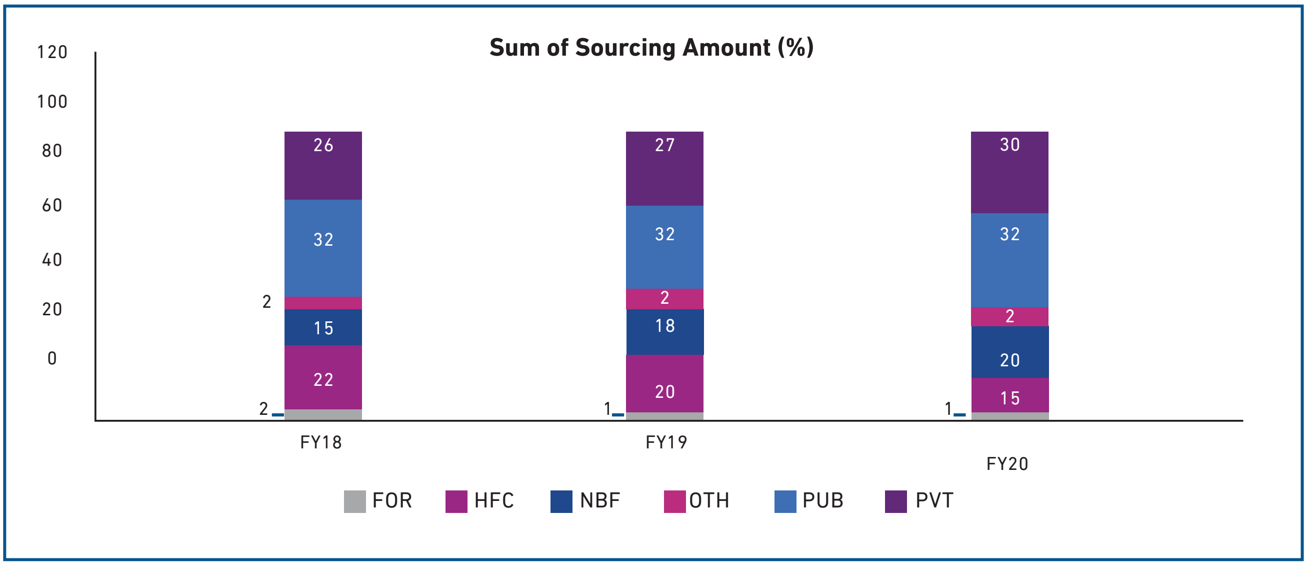
E. Distribution of sourcing through various lending institutions

The expansion of credit to newer markets and newer product categories has been facilitated by expansion of credit institutions lending in the market. India has always had a robust set of public and private banks that led the credit expansion and financial inclusion objectives for the country; this effort has been boosted due to the growth of NBFCs that have driven growth of targeted products, geographies and customer segments.

As far as share in new sourcing of loans (by count) is concerned, NBFCs hold a lion's share of 68% when compared to public banks at 8% and private banks at 22%. Differentiated business models that leverage a deep understanding of consumer preferences have helped NBFCs grow as a preferred choice in unorganized markets.

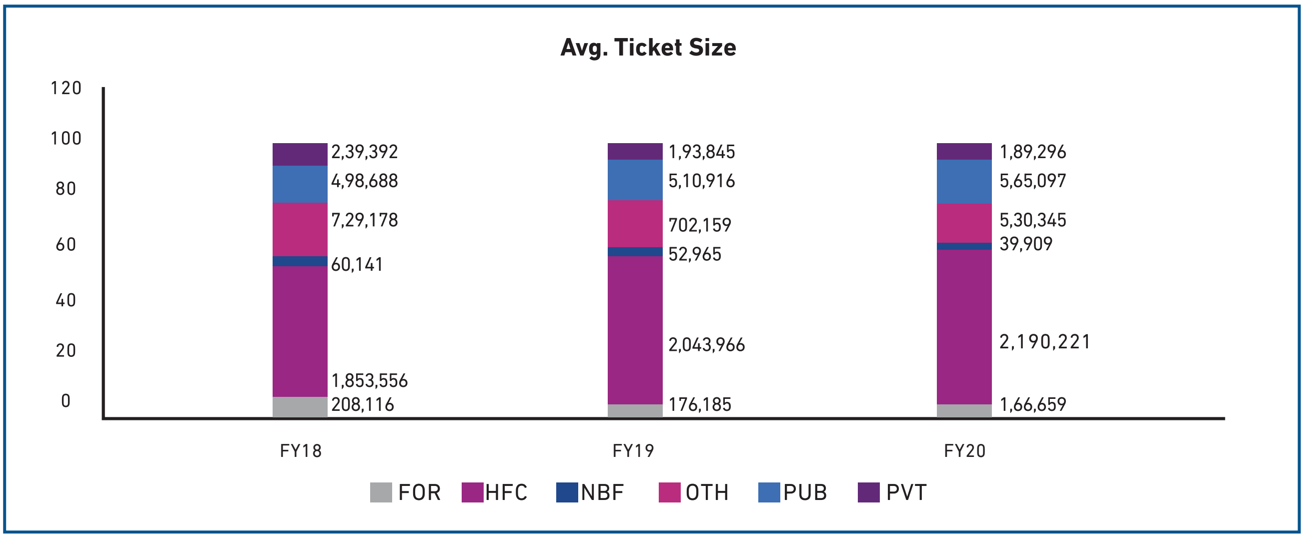


Sec. 3 (E) I ------- Share percentage in Loans Disbursed by Lender type (Cat – For, HFC, NBF, OTH, PUB, PVT, Loans disbursed in that year)



Sec. 3 (E) II - Sum of Sourcing Amount

The amount of sourcing remains low for NBFCs despite their high share in count of sourcing owing to the low ticket size of most loans sourced. This can also be due to the fact that NBFCs are still a relatively new institution for general public. Despite serving a higher number people, the value of sourced loans for NBFCs is much lower than public and private sector banks as of FY20. However, as compared to FY18, the share has grown by five percentage points in a matter of two years displaying the increasing popularity of NBFCs.



Sec. 3(E) III - Average ticket size lending by various lending institutions

Average ticket size for NBFCs has been the lowest in all years as shown on above graph and has continued to decrease further over the years. Targeting consumers with low ticket requirement has been the factor responsible for success of NBFCs in unorganised markets. Low ticket size model of NBFCs and their large share in the market also highlights the enormous market size and potential of low ticket lending in India.

4. Future trends and drivers of credit growth

Shift in demographic profile of the consumer

a. Lower Median Age

At a median age of 31, India is one of the world's youngest nations adding more working-age citizens every day[6]. The new generation comprising of millennial and Generation Z have better access to education, employment and better income, leading them to break away from frugal habits of spending. The increased global integration and upward social mobility have also remarkably transformed consumer spending in India and have opened up new sources of demand for credit in the country.

b. Rise in income

India's affluent and aspiring households have seen a sharp jump in absolute numbers in the last decade. Affluent households (income of INR 10 lakh[7] [USD 0.014 Mn] - 20 lakh [USD 0.028 Mn]) have more than doubled since 2008, from 10 million to 24 million. Aspirers (income INR 5 lakh [USD 0.007 Mn] - 10 lakh [USD 0.014 Mn]) have jumped from 31 million households to 57 million. Elite households (income upwards INR 20 lakhs [USD 0.028 Mn]) have grown from 30 lakhs to 90 lakhs. With India's rising affluence, the domestic consumption in the last decade has also increased 3.5 times from INR 31 Tn (USD 0.42 Tn) to INR 110 Tn (USD 1.50 Tn)[8]. Along with the rise in income levels, consumers are growing their discretionary spend on aspirational categories like lifestyle products, consumer durables and jewelry.

c. Digitally Savvy Customer

India has over 500 million smartphone users as of 2019, which means over 77% of the population has internet access[9]. Research by Verint Digital Tipping conducted on 2000 Indian customers across the country categorically proclaims the customers' preference for digital and self-service channels of engagement[10]. This clearly hints at consumer preference for online lending platforms as well, as opposed to traditional banking channels.

Empowering rural communities

a. Mahatama Gandhi National Rural Employment Generation Act (MNREGA)

The average income per person per month under the MGNREGA has doubled in 2020 with the government's focus on providing employment via the scheme and because of an increase in working days. Meanwhile, the government has increased the allocation for this scheme by INR 40,000 crore (USD 5.526 Bn) from the previous figures of INR 61,500 crore (USD 8.496 Bn) under Union budget 2020-21. The same was done to support the rural economy amid the coronavirus pandemic.

[6] http://www3.weforum.org/docs/WEF_Future_of_Consumption_Fast-Growth Consumers_markets_India_report_2019.pdf
[7] Mint - Aspiring, affluent households driving India consumption growth
[8] Weforum.org – Future of Consumption Report 2019
[9] News18.com - Smartphone Users in India Crossed 500 Million in 2019
[10] ETCIO.com – 83 Indian customers want digital customer service via mobile devices to be faster intuitive

b. Pradhan Mantri Gramin Digital Saksharta Abhiyaan (PMGDISHA)

The scheme aims to empower the citizens in rural areas by training them to operate computer or digital access devices, send and receive e-mails, browse Internet, access government services, search for information, etc. and hence enabling them to be digitally literate.

Government initiatives to promote lending to the new age customer

a. Pradhan Mantri Jan Dhan Yojana (PMJDY)

Pradhan Mantri Jan Dhan Yojana is the National Mission to ensure comprehensive financial inclusion of all the households in the country by providing universal access to banking facilities with at least one basic bank account to every household, increase financial literacy, provide access to credit, insurance and pension facility. The scheme eases out the restrictions on opening savings account by removing the minimum balance clause.

b. Pradhan Mantri Jan Dhan Awas Yojana (PMAY)

The Pradhan Mantri Awas Yojana (PMAY) is a Central Government scheme with the aim to provide Housing for All in urban areas by 2022. The PMAY mission provides central assistance across different states and UTs for providing houses to all eligible families and beneficiaries. This is done through interest subsidies, the amount of which is based on the income category to which the family belongs.

Government initiatives to promote access to data & innovation

a. Regulatory Sandbox

RBI launched the regulatory sandbox to foster responsible innovation in financial services and promote efficiency. It is a programme for market participants to test new products, services or business models with customers in a live environment, subject to safeguards and oversight. Through this initiative RBI hopes to usher in important innovations in the fintech sector.

b. Launch of IndiaStack

The government launched a vendor-agnostic infrastructure with open APIs, UPI, Aadhaar payment bridge, etc. for players, including Fintech lenders, to gain consumer insights across segments and offer them innovative lending solutions. IndiaStack is a set of APIs that allows governments, businesses, start-ups and developers to utilise a unique digital Infrastructure to solve India's hard problems towards presence-less, paperless, and cashless service delivery.

c. Recognizing P2P lenders

RBI recognized P2P lenders by categorizing them as NBFCs, which helped in driving the segment. In the notification, the central government recognised P2P lending startups as vital players working to promote financial inclusion in the country. Additionally, the announcement is aimed at helping these startups raise organised funding efficiently.

5. Market response to changing customer landscape - Role of Fintechs

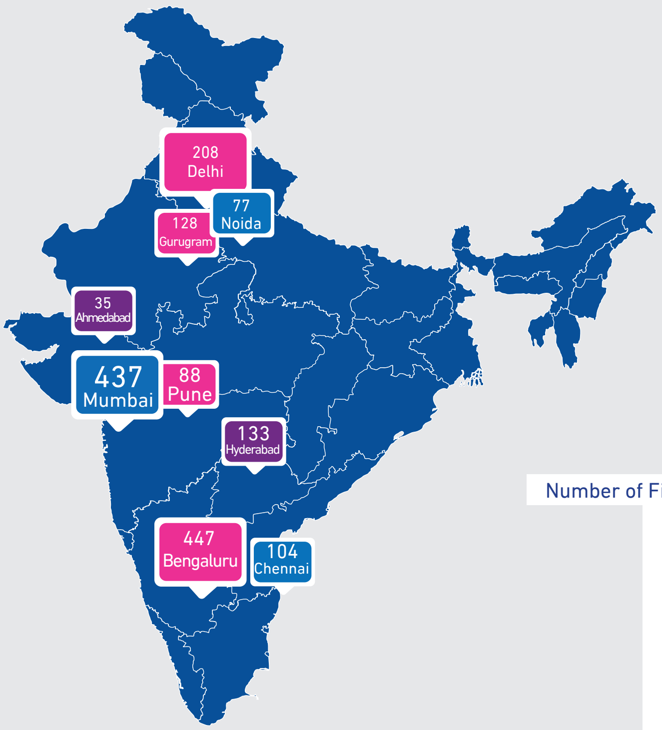
India's financial sector has been quick to adopt new technologies to meet the demand of the evolving Indian Consumer. Existing market players responded to the change by increasing their digital lending footprint and there has been a rapid increase the new age financial technology (Fintech) companies seeking to transform the financial industry with the use of data and technology platforms.

2020 Data

Number of Fintech startups by segments

405	365	313	173	111	58	747
Payments	Lending	Wealth tech (less Pfm)	Personal Finance Management	Insurtech	Regtech+ Cybersecurity	Other Segments*

Note: *Other segments includes Blockchain, Cryptocurrency, Artificial Intelligence/Machine Learning, Loyalty/Rewards/ Coupons. B2B FinTech. Banking Tech. Big Data Analytics. Crowdfunding, Digital Cards, Neobanks, Remittances, Capital Mark Tech and Trade Finance



Fintech adoption in the country has been on the rise, from 52% in 2017 to 87% in 2019. This growth can be attributed to the fact that there is an increased awareness of fintech services among consumers.

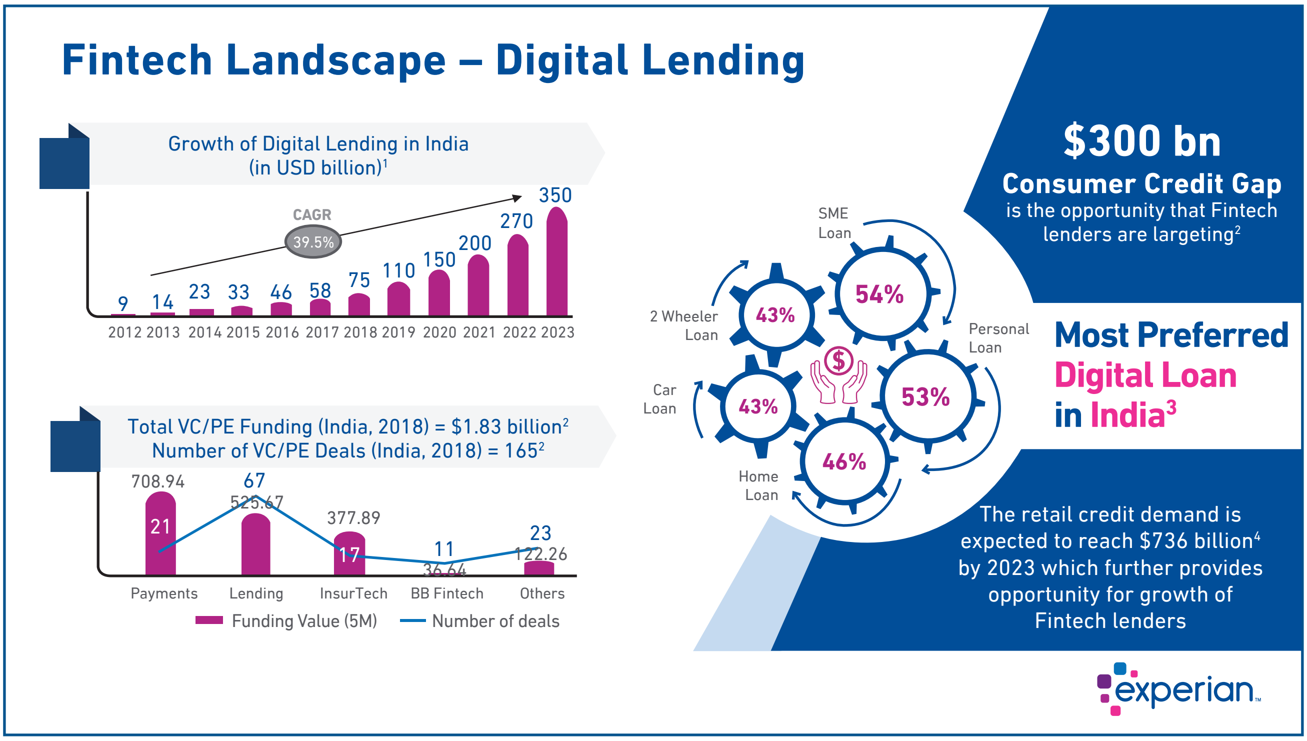
There have been a total of 2035 new Fintech startups in the country between 2013-18 and a 2X increase in the number of Fintech transactions between 2016-20, reaching 73 million in 2020

The Indian Fintech market was valued at INR 1.9Tn in 2019. It is selected to reach INR 6.2 Tn by 2025, growing at a CAGR a 23% during the 2020-2025 period.

Number of Fintech Companies Founded in India (2010 - 2020)*

Sec. 5(I) Number of fintech startups by segments

Medici India Fintech report (2019);
EY Global fintech adoption index;
PwC report (Emerging technologies disrupting the financial sector).
*Notes: *till October 2018*

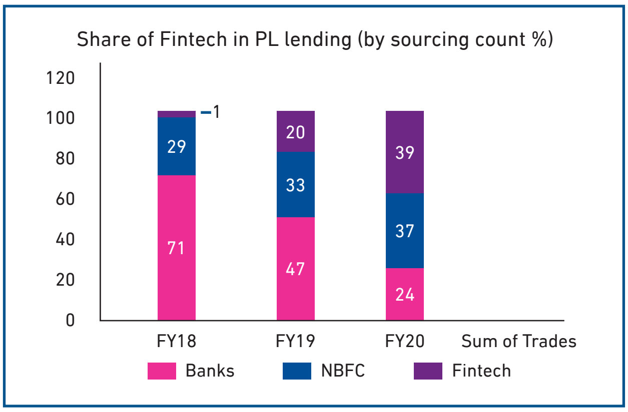


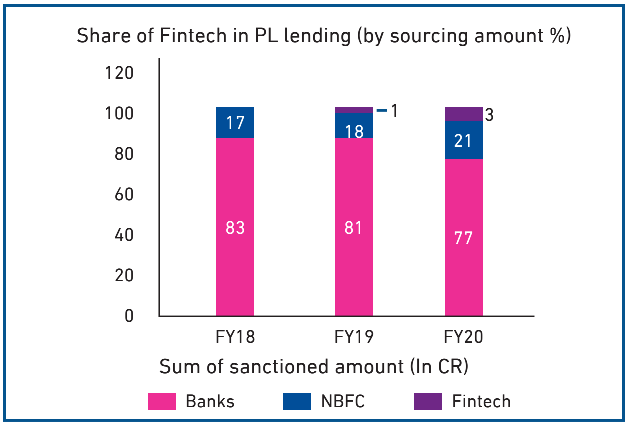
Sec. 5 (II) Fintech landscape - digital lending

The emergence of Fintech players has led to market expansion in three different ways:

New Customer Segment: Enabling credit to customers that were so far excluded from the system.

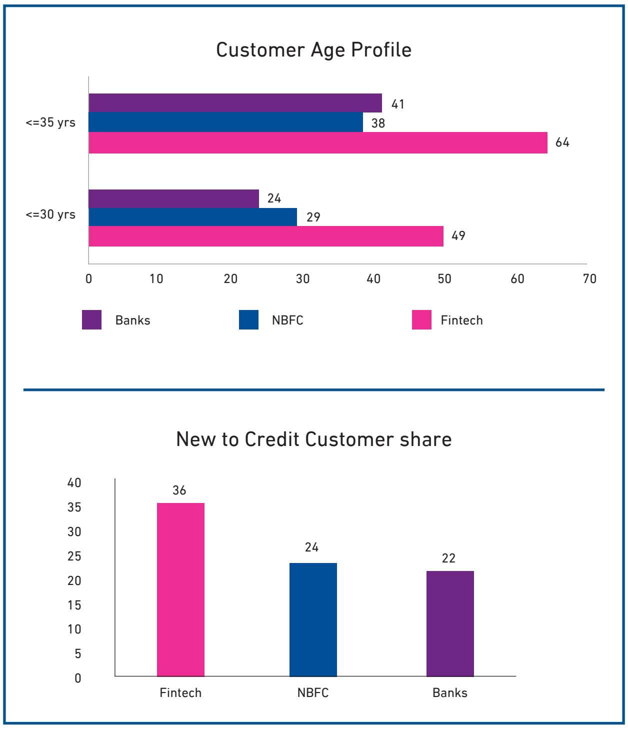
In a credit sector such as that of India, banks dominated major lending activity. Fintechs, therefore, carved out their own market share by targeting customers who were earlier not eligible to borrow due to lack of credit history and lack of collateral. Improved credit evaluation processes and digitization has allowed new-age players to lend to this segment cost-effectively. This brought a whole new section of customers into the lending industry and this customer segment is far from being saturated as of now. Many financial technology companies and NBFCs have emerged solely to enable lending to the previously unbanked population, creating a niche in the industry.





Avg ticket size for PL product	FY18	FY19	FY20
Banks	349,565	363,532 ↑	387,765 ↑
NBF	175,491	120,441 ↓	68,149 ↓
FIN	18,636	9,723 ↓	8,566 ↓

Sec. 5(III) - Average Ticket Size by Lender Type



Sec. 5 (IV) Customer Profile

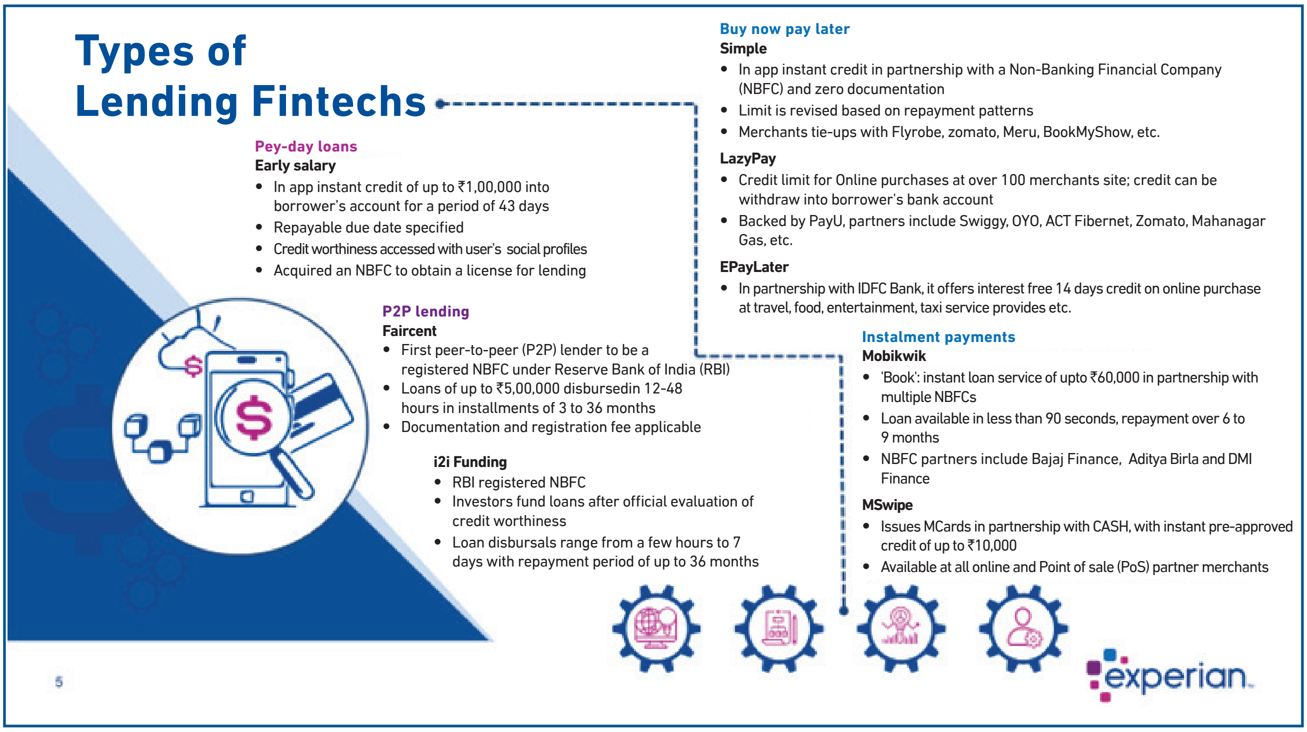
Fintechs embarked on their journey by focusing on on-boarding 'credit invisibles' and the 'sub-prime' population, mostly younger generation (<30 years) by leveraging alternative data and advanced analytics. Customizing product portfolio as per customer's needs and focus on small ticket size loans across the board (PL, CD and BL) has proven to be game changers in driving their top line growth.

As access to credit becomes easier, consumers make efforts to maintain credit-worthiness to be eligible for it. More millennials are now checking their credit scores (10X increase in the last one year) prior to applying for a loan. Fintechs show highest CAGR at 36% by count primarily due to their focus on low ticket size loans to the previously unbanked population.

Clearly, fintechs are more willing to take risk on newly employed section of population and are also more attractive for the this younger strata with their technology driven approach. Fintechs also target a significant number of New to Credit consumers at 36%. By keeping the ticket size low, as can be seen in the graph above, fintechs reduce risk associated with large ticket size while focusing on younger customers who lack good collateral or lengthy credit history.

New product categories

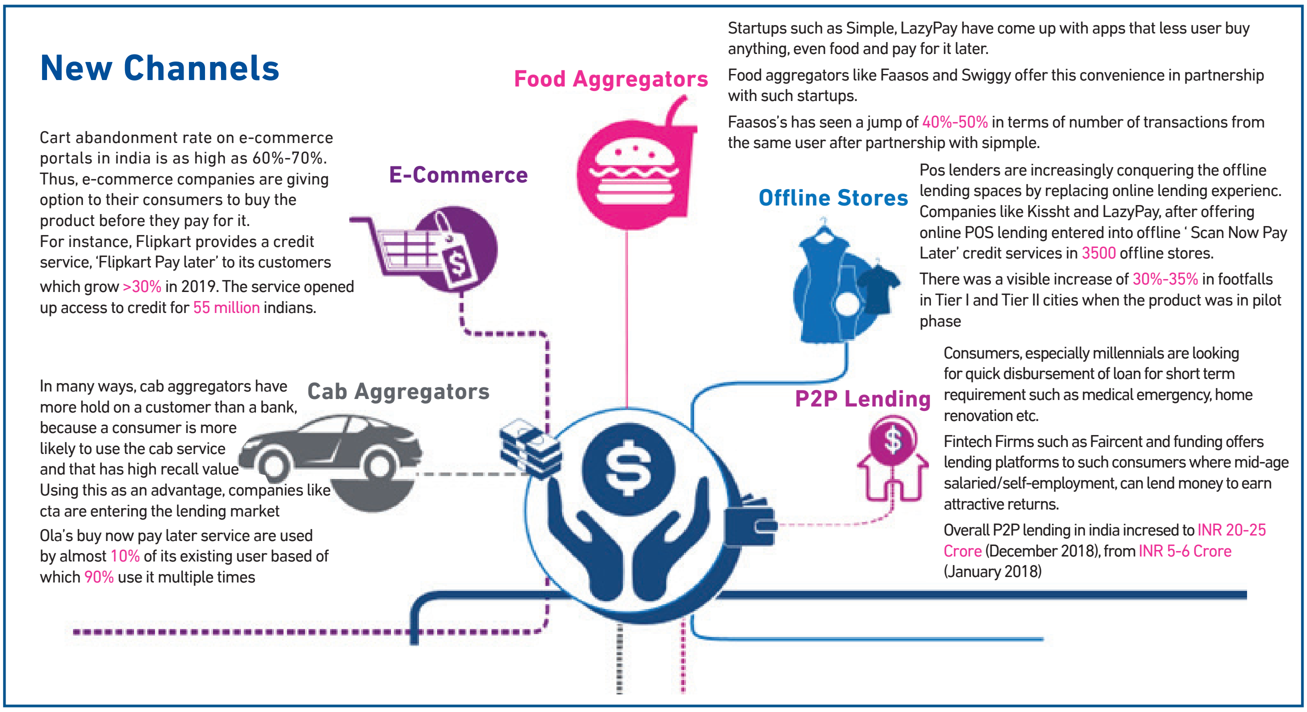
Fintechs have brought the concept of "sachet packaging" to the lending business and have created new innovative product categories. One of the key reasons for this innovation is that increasing use of data, analytics and technology has reduced the cost of lending hence making these small ticket loans viable for business. On the demand side, the "sachet" loans have boosted consumption borrowing for lifestyle expenses.



Sec. 5. (V) Types of lending fintechs

New channels of lending

Fintechs have made credit dissemination so fast and plugged it to various customer points of interactions. Channel expansion has two key roles to play, one it encourages impulse buying among consumers by offering pre-approved credit at the point of consumption hence boosting consumption borrowing. On the other hand, it enables credit expansion to new remote markets which were so far un/underserved due to the high cost of managing physical branches in these smaller markets.

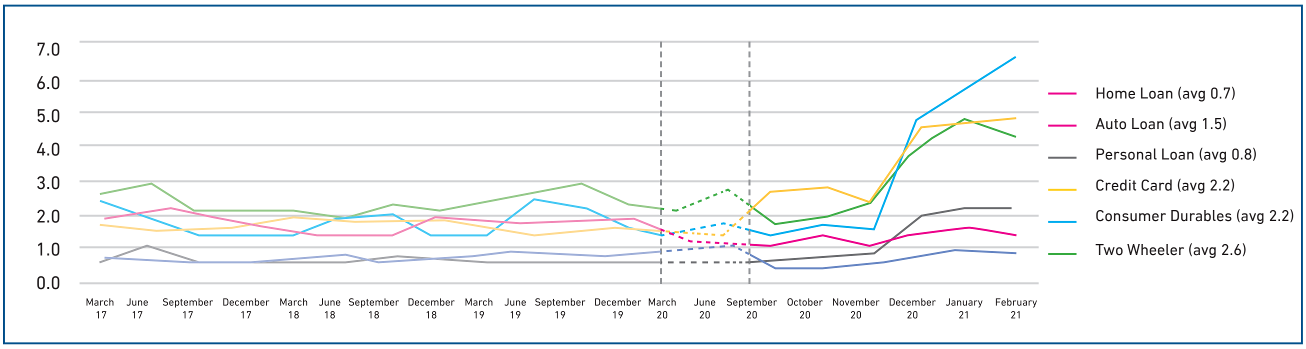


Sec. 5. (VI) New channels of lending

6. Resources deployed for credit evaluation

Sustainable Growth for credit business is strongly dependent on good credit evaluation practices.

A review of the product wise 90+ delinquency rates, percent of portfolio balance that is overdue by 90 days or more, indicates a stable risk profile over the last 3 years, with a spike seen in latest months due to change in macro-economic environment in COVID scenario.



Sec. 6. (I) – Delinquency trends from March FY17 to February FY21 for Category – AL, CD, PL, CC, HL, TWL

Experian, one of the largest credit bureaus in the country, has been at the forefront working with credit institutions and consumers to promote good credit dissemination in the country. Experian is considered to be the largest Analytics Bureau in the country with its focus on building value added products using Credit Bureau Data and efforts towards setting up an Alternate Data Bureau. Experian has been instrumental in launching innovative solutions which are suited for the credit decisioning of future:

Experian Power Score: Growth of consumer credit in India has been a more recent phenomena and there is a large section of population that has been out of the formal financial ecosystem; hence credit evaluation must go beyond traditional data assets like credit history. In such an environment, it is imperative that we are able to include multiple varied data-sources for credit assessment. Experian Power Score is our scoring platform built on Bureau and Alternate data to bring the power of fused datasets to predictive modelling. Our alternate data asstes include consented and non-consented consumer data like payments, telecom etc. and lend greater accuracy to our scores.

Experian Ascend Market Insights: Ascend Market Insights is a Business Intelligence platform that runs advanced analytics on multiple data sets to make smarter lending decisions. It provides the flexibility to visualise sub segments and geo-analytic trends based on user objectives like product-based market sizing, geographic expansion strategy and conducting consumer (borrower) profile trend analysis.

Experian Consumer Solutions: Fintechs have primarily contributed to this spike in credit-consciousness. As access to credit becomes easier, consumers make efforts to maintain creditworthiness to be eligible for it. More millennials are now checking their credit scores (10X increase in the last one year) prior to applying for a loan.

7. Implications of COVID-19 & reforms initiated to mitigate impact

Like most countries, in India too, investment and credit growth took a hit because of the pandemic. Since January 2020 there has been a considerable fall in sourcing for loans across all segments. However, timely interventions from the government and the financial regulators have ensured a quick bounce back in credit growth.

Short-term and long-term measures by government and RBI

Several measures were taken to ease stress on the economy. The RBI announced an extension of the moratorium on term loan EMIs by additional three months, i.e. till August 31, 2020. The earlier three-month moratorium on the loan EMIs was ending on May 31, 2020. This made it a total of six months of moratorium on loan equated monthly installments (EMIs) starting from March 1, 2020 to August 31, 2020. This measure was taken by the central bank to provide relief against the COVID-induced financial crisis[11]. The RBI also directed the banks, financial and non-banking financial institutions to take necessary actions to credit interest on interest collected on loans of up to INR 2 crore (USD 0.27 Mn) during the moratorium scheme by November 5, 2020.

For mitigating distress, especially caused in the MSME sector, the Guaranteed Emergency Credit Line (GECL) scheme was launched as part of the Aatmanirbhar Bharat Abhiyan package announced by finance minister Nirmala Sitharaman in May 2020 to provide credit to different sectors of the economy[12]. The GECL is a loan for which 100% guarantee is provided by National Credit Guarantee Trustee Company (NCGTC) to the bank and the GECL was extended in the form of additional working capital term loan facility to eligible MSMEs/Business Enterprises and interested Pradhan Mantri Mudra Yojana (PMMY) borrowers.

The government has set up INR 1.1 lakh crore (USD 15 Bn) platform for infra debt financing through an equity infusion of INR 6,000 crore (USD 0.82 Bn) in the National Investment and Infrastructure Fund (NIIF) which will ease infra financing and trigger infrastructure development. The government had extended the Emergency Credit Line Guarantee Scheme (ECLGS) till March 31, 2021, to provide liquidity support to the 26 stressed sectors of the economy, including healthcare, identified by the Kamath Committee providing collateral-free and 100% guaranteed loans[13].

[11] https://economictimes.indiatimes.com/wealth/borrow/rbi-extends-emi-moratorium-for-another-three-months-on-term-loans-heres-what-it-means-for-borrowers/articleshow/75883777.cms
[12] https://timesofindia.indiatimes.com/business/india-business/government-extends-emergency-credit-line-guarantee-scheme-for-msme-by-1-month/articleshow/79006522.cms
[13] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1675599

The RBI further prescribed several reforms, including easing of digital filing of tax, GST returns and removal of minimum residency requirement of 182 days among others, to get the economy back on the rails. RBI reduced the Repo Rate by 75 basis points to 4.4% and Reverse Repo Rate by 90 basis points to 4%. Credit Reserve Ratio of all banks was reduced by 100 basis points to 3% with effect from 28th March 2020 for one year[14].

Additionally, the Indian government had declared a COVID-19 relief package of INR 20 lakh crore (USD 0.27 Tn) in May 2020 and an INR 2.65 lakh (USD 0.0036 Mn) comprehensive stimulus package was announced in November 2020.

The government rolled out the stimulus in a phased manner with constant feedback from the ground, and tweaks and alterations were made depending on the response. The focus has consistently been on targeted delivery of cash and benefits to the most vulnerable parts of society where the money was more likely to be immediately spent rather than merely saved for a rainy day, thus creating money flow in the economy.

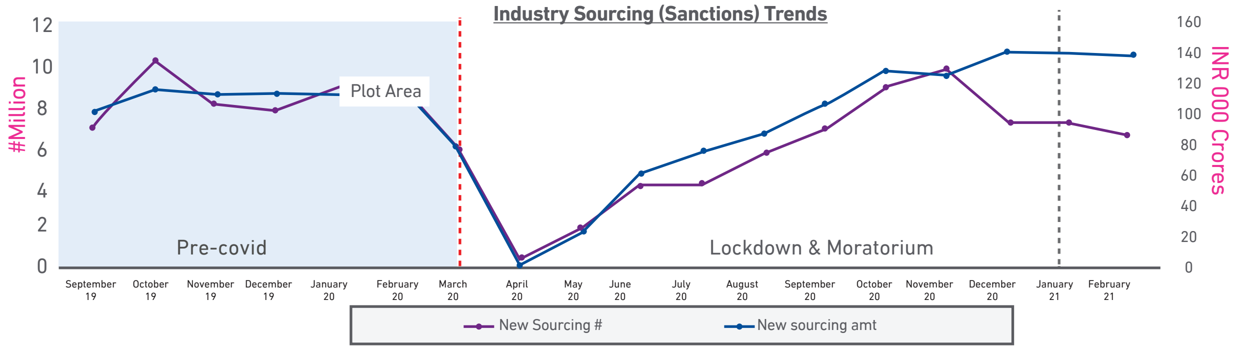
[14] *https://pib.gov.in/PressReleseDetailm.aspx?PRID=1608585*

8. Road to recovery

A. New sourcing has recovered across all products

New sourcing has recovered across all products after sharp fall seen in April 2020 due to the pandemic. New sourcing surpassed the pre-covid level in October 2020, showing the resilience of Indian markets with a gradual but steady improvement in sourcing trends.

New sourcing recovers to pre-covid levels across products and there is growth over last year



Sec. VIII (A) - New sourcing of loans across all products

B. Portfolio has been resilient

Portfolio Balances, total loan amount outstanding, have been stable post February 2020, the onset of COVID-19 restrictions and lockdowns. In February 2021 growth rate Y-o-Y stood at 8% for the portfolio of key products, lower than the 13% observed for March 2020. Pace of growth slowed down for all products however unsecured products saw a faster Y-o-Y growth rate compared to the secured loans.

Portfolio Snapshot

	INR Trillion									
	Mar' 18	Mar' 19	Mar' 20	YoY (Mar'18-Mar'20)	Oct' 19	Dec' 20	YoY (Oct'19-Dec'20)	Feb' 20	Feb' 21	YoY (Feb'20 Feb21)
Industry	24.59	29.38	33.18	13%	32.21	34.54	7%	33.04	35.52	8%
Home Loan	16.28	18.82	20.42	9%	19.93	21.24	7%	20.31	21.92	8%
Credit Cards	0.69	0.93	1.36	46%	1.27	1.52	20%	1.49	1.5	1%
Personal Loan	3.08	4.25	5.76	36%	5.32	6.34	19%	5.57	6.57	18%
Consumer Loan	0.21	0.25	0.33	32%	0.48	0.46	-4%	0.35	0.37	6%
Two Wheeler Loan	0.41	0.58	0.72	24%	0.72	0.79	10%	0.74	0.81	9%
Auto Loans	3.92	4.55	4.59	1%	4.49	4.19	-7%	4.58	4.35	-5%

Sec. VIII (B) - Portfolio Snapshot

9. Looking forward

The Indian economy has bounced back faster than expected in the second quarter of 2020-21 with the contraction at 7.5%[15]. Investment climate in India is improving and the economy will pick up faster in this financial year from the impact of the pandemic and soon recover the lost ground supported by the key sectors of infrastructure, manufacturing, healthcare, education and insurance driving growth. A V-shaped recovery began after April 2020 itself and the current financial year is expected to be one of very high growth in the economy.

Moody's forecasts India's GDP growth for FY22 at 9.3%[16] while IMF predicts a growth of 12.5%[17]. As businesses continue to revitalize, consumer confidence will pick up, and India's credit-fueled consumption will continue to grow pulling the GDP even higher. Additionally, the pandemic has also accelerated the need to utilize digital means for better reach. Legacy banking systems are paving way to new-age lending systems driven by technology that will offer customized financial products and services to the masses.

Despite the pandemic, there are several sectors within the financial industry that is showing a promising growth. The Indian Wealth Management Market is expected to grow at a CAGR of around 11% during the forecast period 2021-2025, according to a report by Research and Markets[18]. This can be majorly attributed to the growing adoption of innovative tools by the individuals to manage their finances. Moreover, rising high net worth individuals (HNWIs) population is further aiding the growth of the market. Additionally, increasing internet penetration coupled with growing number of social media users, the demand for wealth management has intensified in India.

There is a growing demand for the micro insurance sector owing to the rising incomes in rural India. With business activity restarting, the insurance industry has witnessed an improvement in annualised premium equivalent (APE) in September 2020. The industry reported APE growth of 6.1%. Private players recorded 13.1% year-on-year growth in APE, compared to an 8.3% decline in August 2020[19]. The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further improvements in the way the industry conducts its business and engages with its customers.

The Neo Banking sector too, offers wide room for investments from big industry players. With a growing aspirational middle-class and on the back of the government's push to expand the country's digital footprint, India is leading the digital financial transformation. Indian lending sector has seen robust growth on the back of good credit practices and early indicators from lending & other macro-economic sectors showcase a steady path to post-pandemic recovery for the credit sector.

The Indian consumer credit market will continue to grow at a higher rate than most major economies owing to the vast untapped consumer base. The prospects of India's credit largely lie in the capability to unlock the products from the lending side and Fintechs are a great example that is leading this revolution. Fueled by consumption, the following decade will show the potential of this ever-growing credit market in India.

[15] *https://www.livemint.com/companies/people/indian-economy-emerging-stronger-after-covid-19-softbank-india-head-manoj-kohli-11607785428970.html*
[16] *https://www.business-standard.com/article/economy-policy/moody-s-cuts-india-s-fy22-gdp-forecast-to-9-3-rating-upgrade-ruled-out-121051101012_1.html*
[17] *https://www.businesstoday.in/current/economy-politics/breaking-imf-revises-upwards-indias-growth-forecast-for-fy22-to-125/story/435890.html*
[18] *https://www.livemint.com/news/india/imf-projects-impressive-11-5-growth-rate-for-india-in-2021-11611666436325.html*
[19] *https://www.financialexpress.com/money/insurance/life-insurance-premium-collections-grow-6-1-in-september/2103129/*

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