

Research report by:

TransUnion^{tu} CIBIL

With insights from:

NPCI
NATIONAL PAYMENTS CORPORATION OF INDIA

AFC
Fintech Convergence Council



The Rise and Evolution of India's Digital Finance

Prologue

This research report, developed by **TransUnion CIBIL with data insights from NPCI and FCC**, explores the profound impact of digitalization on India's financial services industry. It focuses on the **transformative effects of digitalization of credit and payments on the evolving consumer behaviors**. Within this research, we do not delve into any other segments of digital finance, outside of lending and payments.

This research touches upon the pace of internet adoption and smartphone penetration in India, coupled with the modernization of country's digital infrastructure, which has fueled the uptake of digital finance. Further, the **advent of UPI has ignited a digital revolution** and transformed India's digital payments landscape positioning India as a global leader in this domain.

We uncover key themes that address the **rising scale** of digital financial services, the **permeating** of digital credit and payments in **everyday needs**, the **shifts in consumer behaviors** due to **digital convenience** driving **repeat consumption** along with **inclusion and expansion opportunities** for India. We also touch upon how FinTech lenders have managed risk and the need for sharper portfolio and collections management for prudent growth. Through these comprehensive topics, we paint a vivid picture of India's digitalization journey and its **undeniable impact on consumers' interaction with financial services**.



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1. India's rapid digitalization story
2. State of the Indian FinTech ecosystem

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1. Rising scale of digital finance
2. Digital finance permeating everyday use-cases
3. Consumer behavioral shifts in digital finance
4. Accelerated inclusion and future runway for growth



Preamble – Topic 1

Rapid digitalization in India

A Game Changer

India has emerged as the global leader in the creation and adoption of digital infrastructure



1.3 billion
people enrolled in
Aadhaar - world's
largest unique
digital identity
program¹



74 billion
UPI transactions in
2022 – highest
volumes of digital
payments²



28 billion app
downloads in
2022 - 5% of
total global
app
downloads³



1.2 billion
wireless
phone
subscribers –
45% in rural
India⁴



759 million
Active Internet
users in 2022
– 53% in rural
India⁵



667 million+
smartphones
in 2022. Over
1/3rd of
Indians own a
smartphone⁶



531 million
net-commerce
users in 2022
– 258 million
shopped
online⁷



India No.1 globally



India No.2 globally

Net Commerce are internet users who have done any online transactions (bill payment, food ordering, online shopping, cab booking, travel ticket booking, etc.) in the last 1 year Online Shopping is a subset of Net Commerce users and are the group of people who have shopped online in the last 1 year

Source: 1. Economic Survey 2023 | 2. NPCI | 3. State of Mobile 2023 by Data.ai | 4. Telecom Regulatory Authority of India
5. Kantar IAMAI 2023 | 6. Nielsen's India Internet Report 2023 | 7. Kantar IAMAI 2023

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Confluence of **mega trends** has accelerated **shift to digital**

- 1 Rise in digital penetration
- 2 Large young population
- 3 Increasing per capita income



Digital adoption fuelling the economy - Social networking driving e-commerce

₹13/-

\$0.16

Lowest cost per GB
of mobile internet
data in the world

531 M

Social media users

77 M

Shopping through
Online Social
Platforms

36%

Increase vs last year
in Indians shopping
through social
platforms

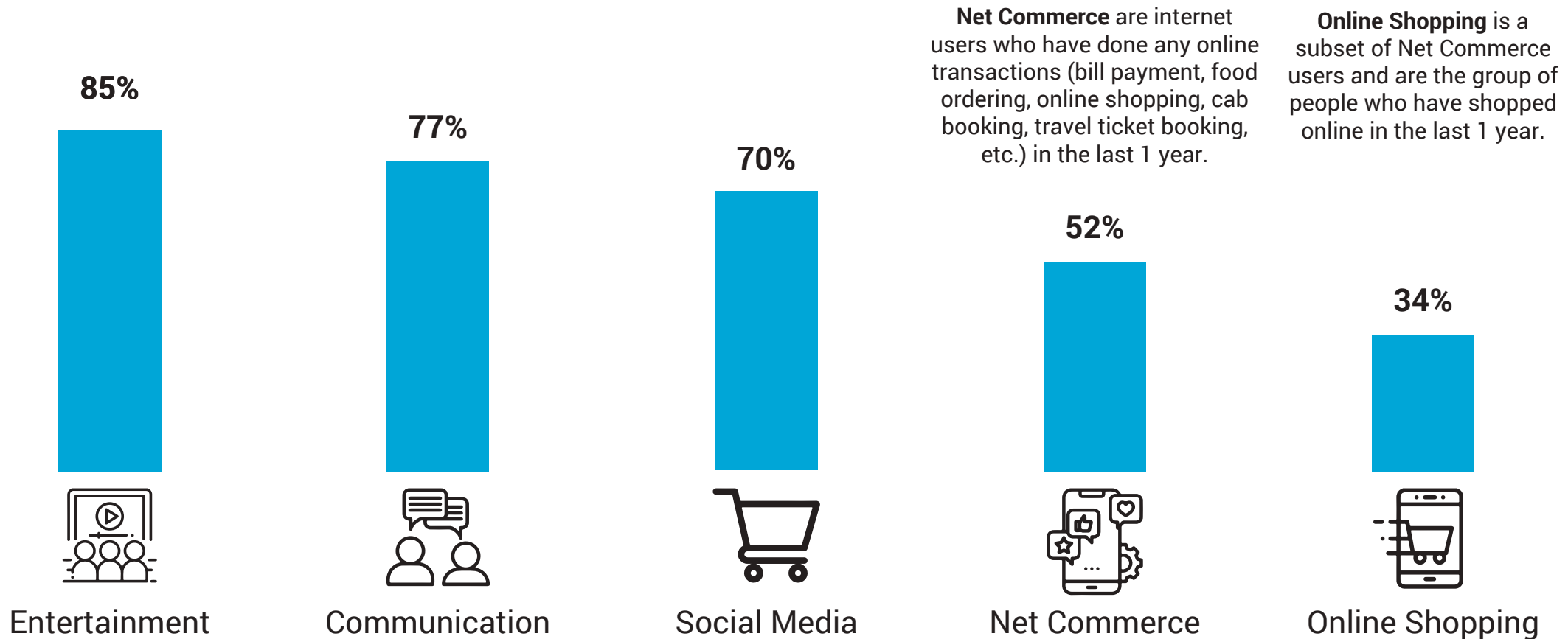
Source: IMAI Kantar 2023

\$1 = ₹83

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Active internet users largely spend time on a few activities

Entertainment, Communication and Social Media are the top most activities done online.



Exponential Rise in Digital Payments

9.3 B

Number of transactions
in June 2023

36%

Digital Payments users
from Rural India

₹14.75 T

\$177.7 B
Value of transactions
in June 2023

Rural India is rising in digital payments and social media usage

36%

of Digital Payments
users hail from
Rural India

56%

of total new internet
users in India will be
from **Rural India**
by 2025



Source: National Payments Corporation of India; IAMAI Kantar 2023

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Confluence of **mega trends** has accelerated **shift to digital**

1

Rise in digital penetration

2

Large young population

3

Increasing per capita income



Large young workforce becoming financially influential

52%

of India's population is under 40 years of age, higher than global average of 46%

2x

Growth in individual EPFO accounts in 10 years

20+ M

out of total 67 M ITRs in FY 22-23 filed by Gen Z

Confluence of **mega trends** has accelerated **shift to digital**

1

Rise in digital penetration

2

Large young population

3

Increasing per capita income



Rebound in domestic consumption set to drive India's economic growth forward

58%

of GDP is Private
Consumption in Q2
FY 2022-23.
Highest in Q2,
across 10 years

100%+

growth in Per
Capita Net
National Income in
10 years

6.9%

GDP growth in
FY 2023-24

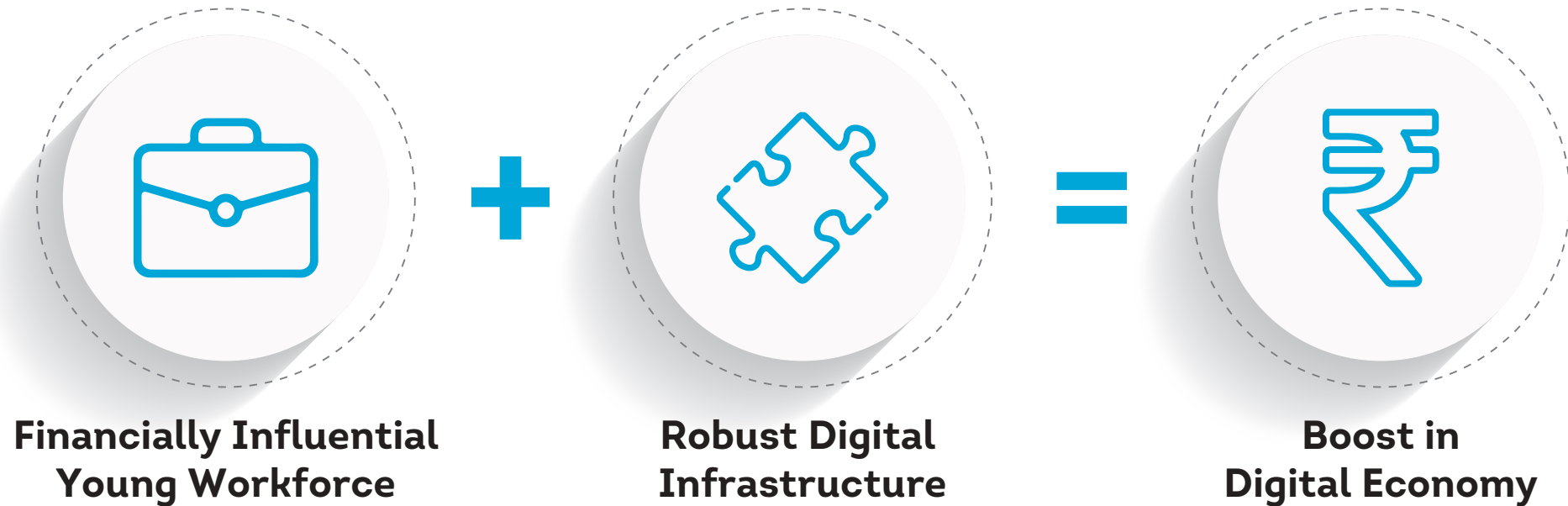
1.6x

Rise in Per Capita
Income in 10 years

Source: Ministry of Finance, Reserve Bank of India, EPFO

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The India Story - Set for further acceleration



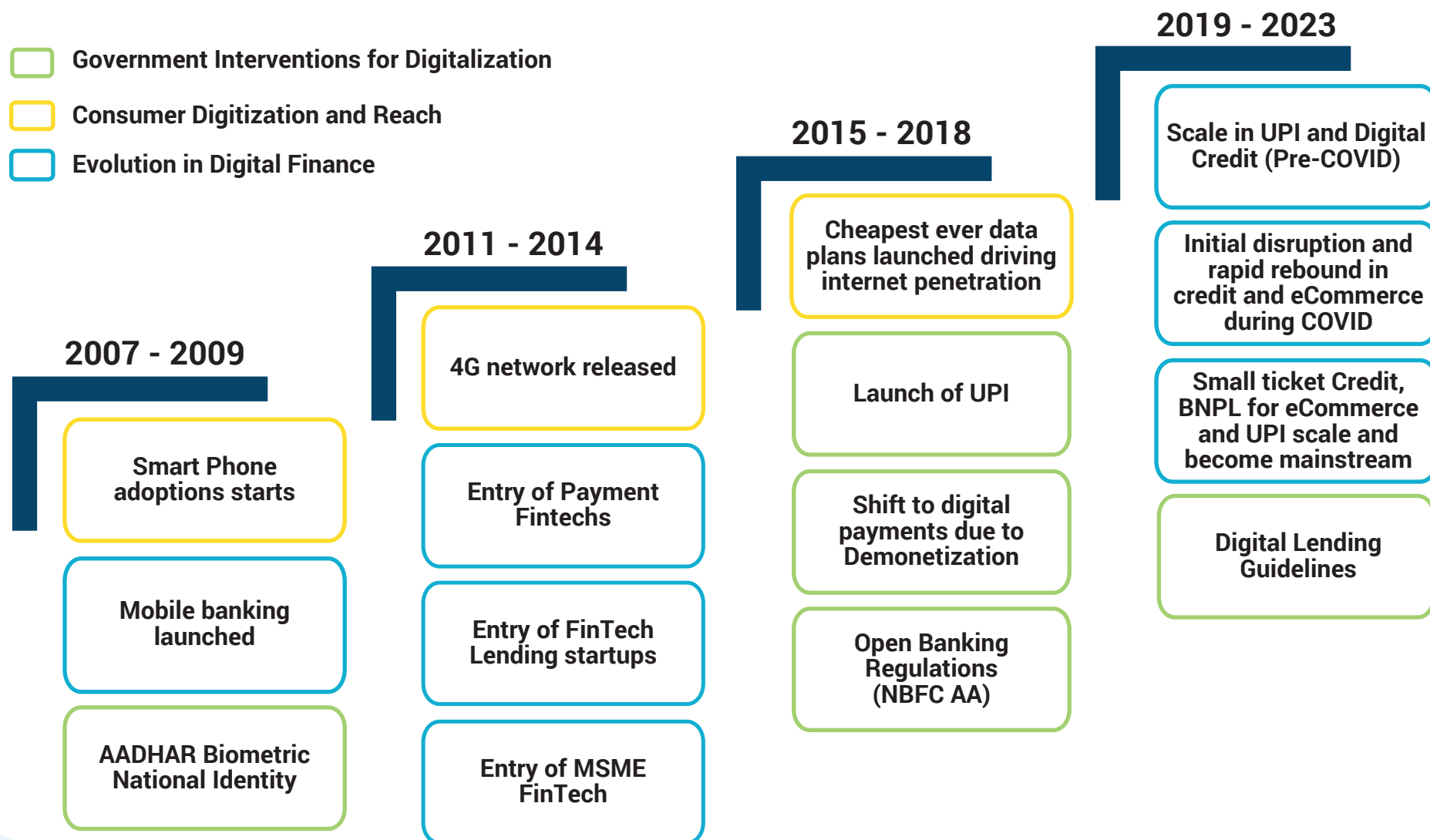


Preamble - Topic 2

State of the Indian FinTech Ecosystem

India's FinTech Ecosystem - Three key growth driver have helped build a robust digital foundation

- Government Interventions for Digitalization
- Consumer Digitization and Reach
- Evolution in Digital Finance



Source: TransUnion CIBIL

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India 3rd largest ecosystem globally

Top 20 countries home to over 50%
active FinTechs globally



USA - 5730



UK - 2439



INDIA - 1512



CANADA - 1376



GERMANY - 978



SPAIN - 977



FRANCE - 903



BRAZIL - 869



MEXICO - 844



SINGAPORE - 696



AUSTRALIA - 693



COLOMBIA - 642



SWITZERLAND - 599



NETHERLANDS - 572



ISRAEL - 496



ARGENTINA - 452



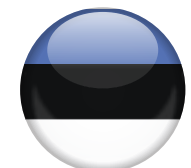
ITALY - 378



SWEDEN - 365



CHILE - 361



ESTONIA - 310

*Home grown active FinTechs
Source: Finnovating, Pitchbook

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Indian FinTech Ecosystem Evolution Stages

2012 – 2015

Launch and Test

- Primarily **digital payments and marketplace aggregation** players
- Largely **lift and shift models** from mature markets; lower innovation
- Seed stage VC FinTech funding deals take-off

2016 – 2019

Innovation-led Differentiation and Diversification

- Launch of **digital lending & UPI based payments**; low scale
- Focus on penetrating the **unserved and underserved** population
- **Innovative products** made for Bharat & rapid business model pivots
- Accelerated growth-stage VC funding with lower diligence

2020 – Present

Covid Impact, Rebound and Maturity

- Covid led **steep degrowth of credit**; **high collections and profitability** focus
- Strong **rebound in volumes** post unlocking, due to **increased digitization**
- Rise of consumption-led demand and embedded financial products
- Higher regulatory scrutiny and release of Digital Lending regulations
- Funding crunch and focus on strong basics (profitability and book quality)

Source: TransUnion CIBIL

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FinTech Lender (Digital Lending) Defined

This research analyzes the on-book lending over the last 5 years, for a cohort of over 130 credit institutions (NBFCs) hereinafter collectively referred to as 'FinTechs'

Have a **'digital first' approach** to its **business and operations**

Abundantly use of cutting edge technology to offer financial services through a **differentiated experience** across:

- Consumer application journeys and acquisition
- KYC, identity and eligibility checks
- Underwriting and issuances
- Cross-Sell, Upsell and Collections

Rapidly **experiment and innovate** to evolve and scale faster

- Spurt globally in the last 2 decades, post global financial crisis 2008
- FinTech regulations evolving globally with increased recent focus





Digital Credit and Payments

Key Trends



**Rising scale of
digital finance**



**Digital finance permeating
everyday use-cases**



**Consumer behavioral
shifts in digital finance**



**Accelerated inclusion
and future runway for growth**

Source: TransUnion CIBIL

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Key themes - Topic 1

Rising scale of digital finance



**Indian retail
credit industry
and UPI payments
have seen
unprecedented
growth in the
last 5 years**

Indian retail credit industry growth trajectory

The industry has **almost doubled** in the last 5 years

Unsecured Loans have been growing the fastest

FY 2018-19

₹51.33 T

\$0.618 T
Live Portfolio
Balance

+14%
CAGR

1.7X

Rise in Live Retail Portfolio

FY 2022-23

₹88.01 T

\$1.06 T
Live Portfolio
Balance

+16%
CAGR

1.8X

Rise in Live Retail Loans

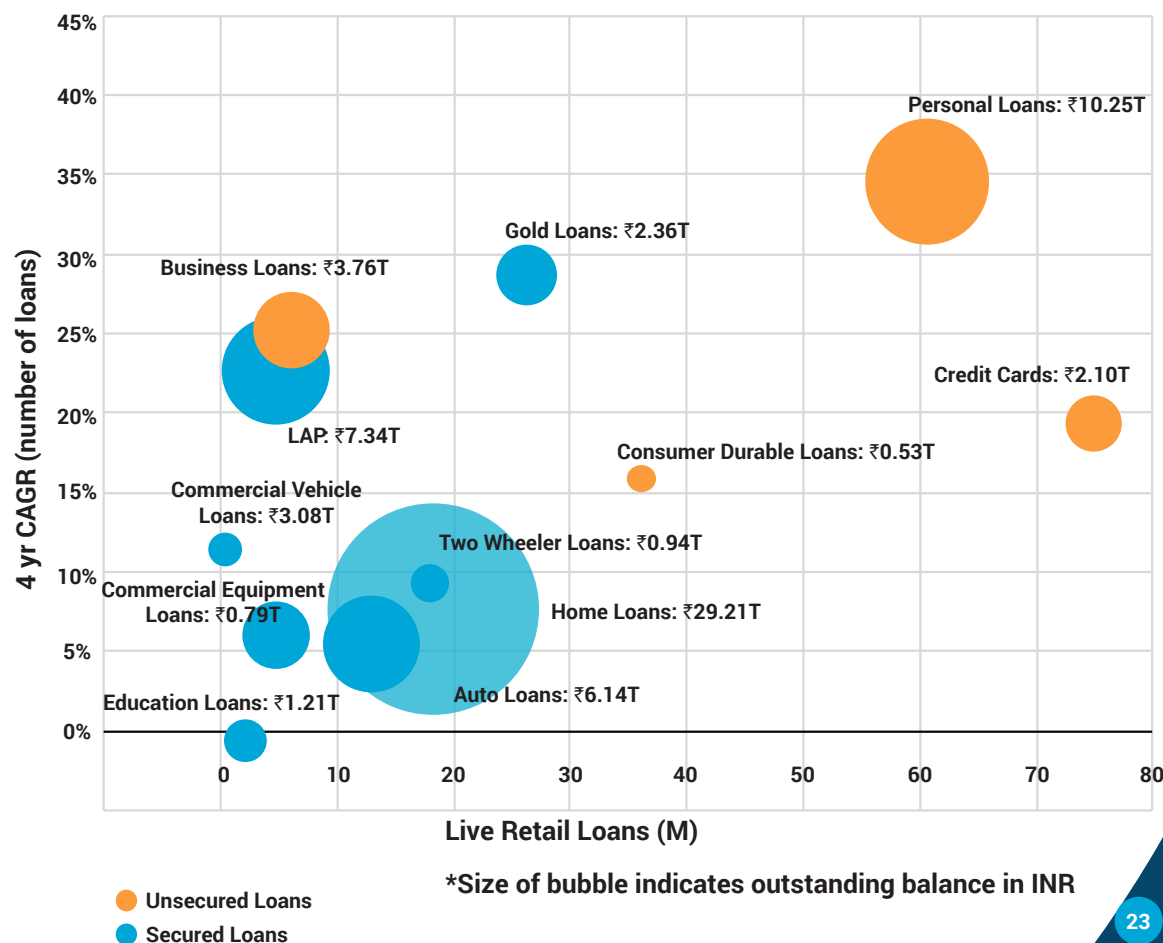
207 M

Live Loans

370 M

Live Loans

Live Retail Portfolio View (31st Mar '23)

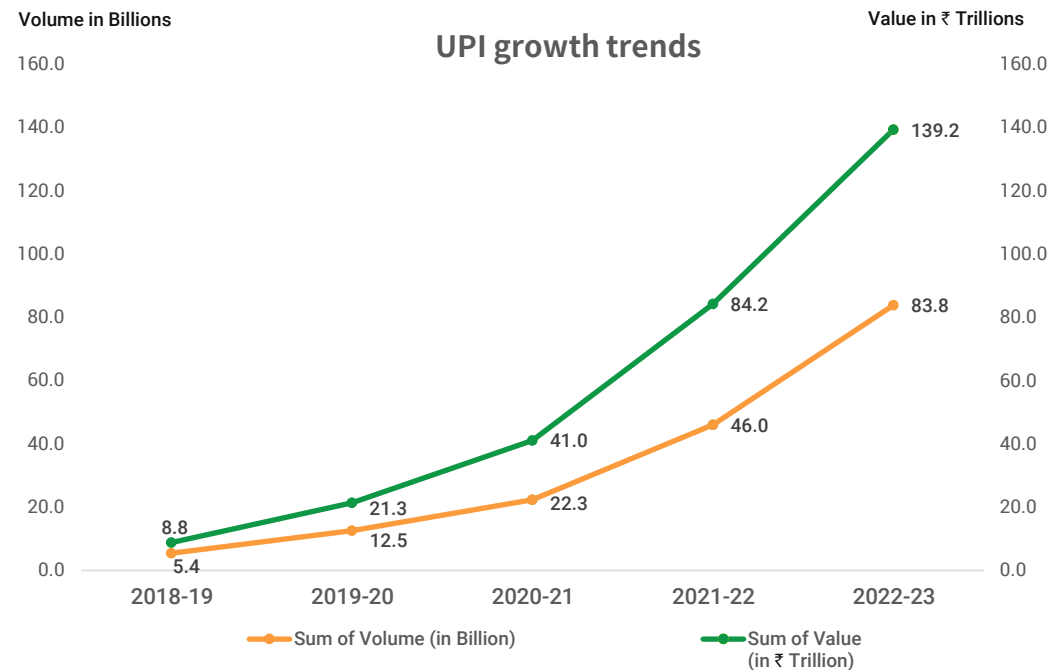
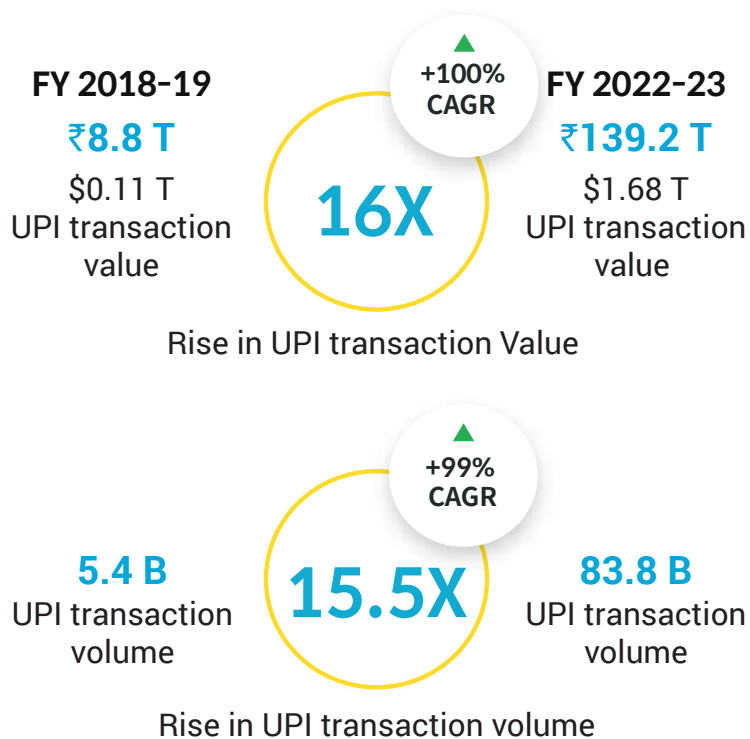


Source: TransUnion CIBIL

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Indian UPI growth story over the last 5 years

UPI payments has grown 15x+ in the last 5 years



UPI = Unified Payments Interface



Source: National Payments Corporation of India

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FinTechs have catered to consumption needs and have driven overall retail credit volumes

Indian **FinTech Lending Industry** Snapshot

Originated Amount
in FY 2022-23

₹1,107 B
(\$13.3 B)

Originated Loans
in FY 2022-23

79 M

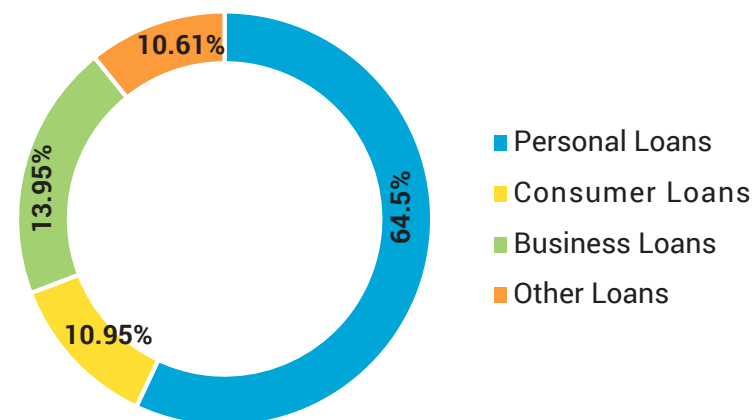
Current Portfolio
as on March-23

₹645 B
(\$7.9 B)

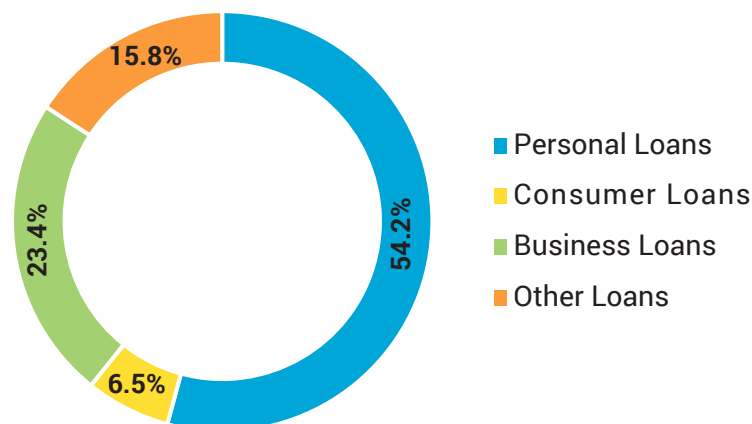
Live Loans
as on March-23

24 M

FinTech Originations by Value
in FY 2022-23

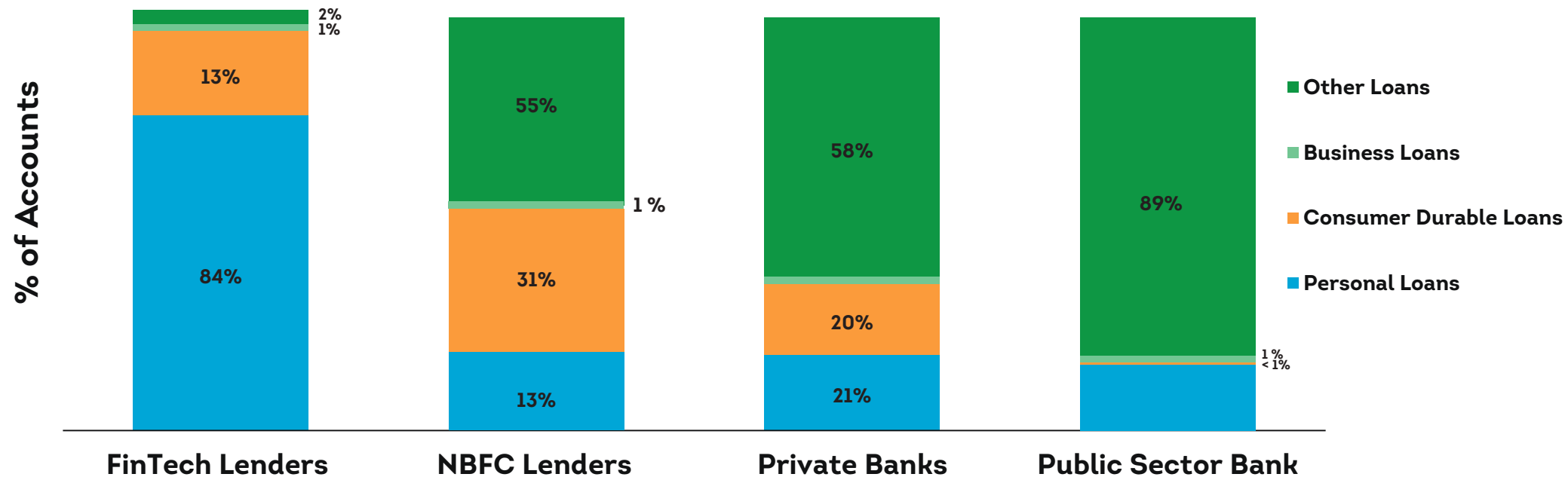


FinTech Portfolio Value
as on Mar'23

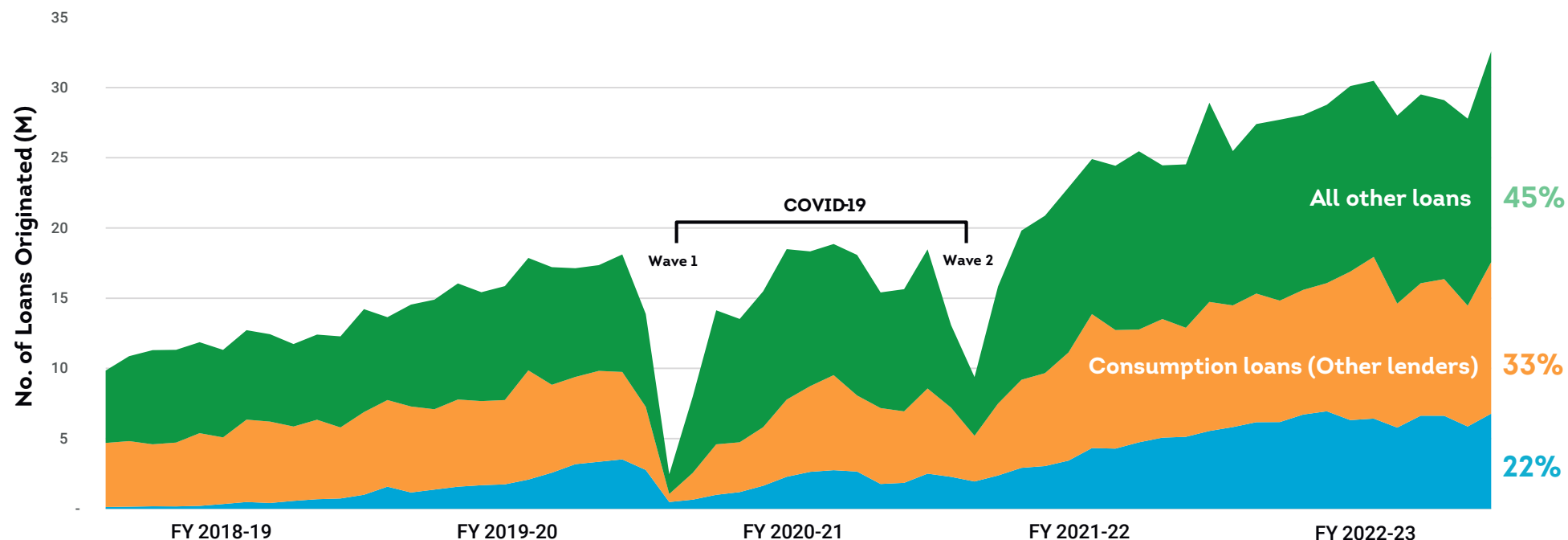
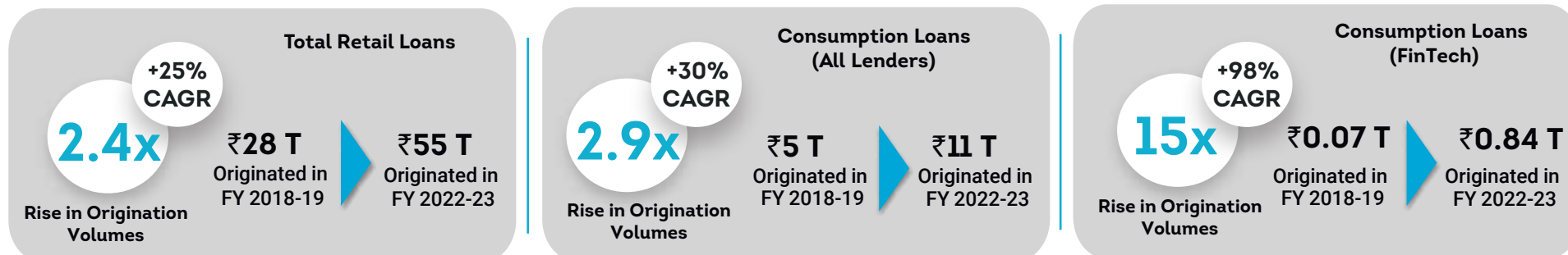


FinTechs cater to consumption needs through Personal and Consumer Loans

Origination Distribution by Lender Type (FY 2022-23)



FinTech Lenders have emerged as the volume driver in the overall consumption lending market



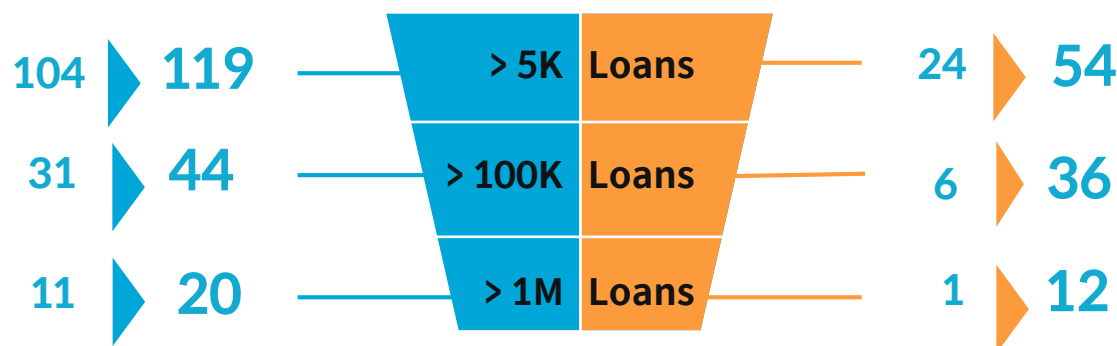
Consumption Loans = Personal Loans, Consumer Durable Loans and Credit Cards
Loan Originated = Loan Disbursed

High focus on consumption lending has empowered **FinTechs to scale faster** than any other lender in this segment

Number of Other Lenders
FY 2018-19 vs FY 2022-23

Number of FinTech Lenders
FY 2018-19 vs FY 2022-23

Consumption Loans



New lenders have catapulted to the list of Top 10 FinTech originators of consumption loans in FY 2022-23 vs. FY 2018-19

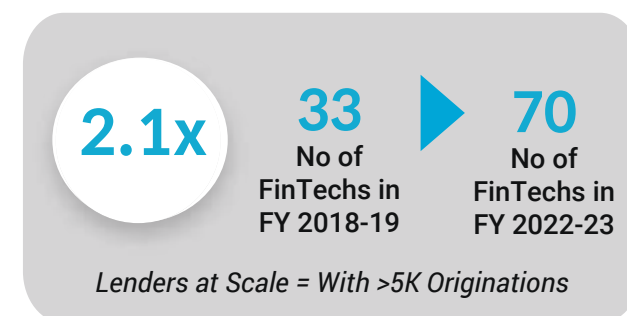


FinTechs disbursed 10 times higher consumption loans in FY 2022-23 vs. FY 2018-19



Lenders are consistently in the Top 10 consumption loans originating FinTechs

Growth of FinTechs operating at scale



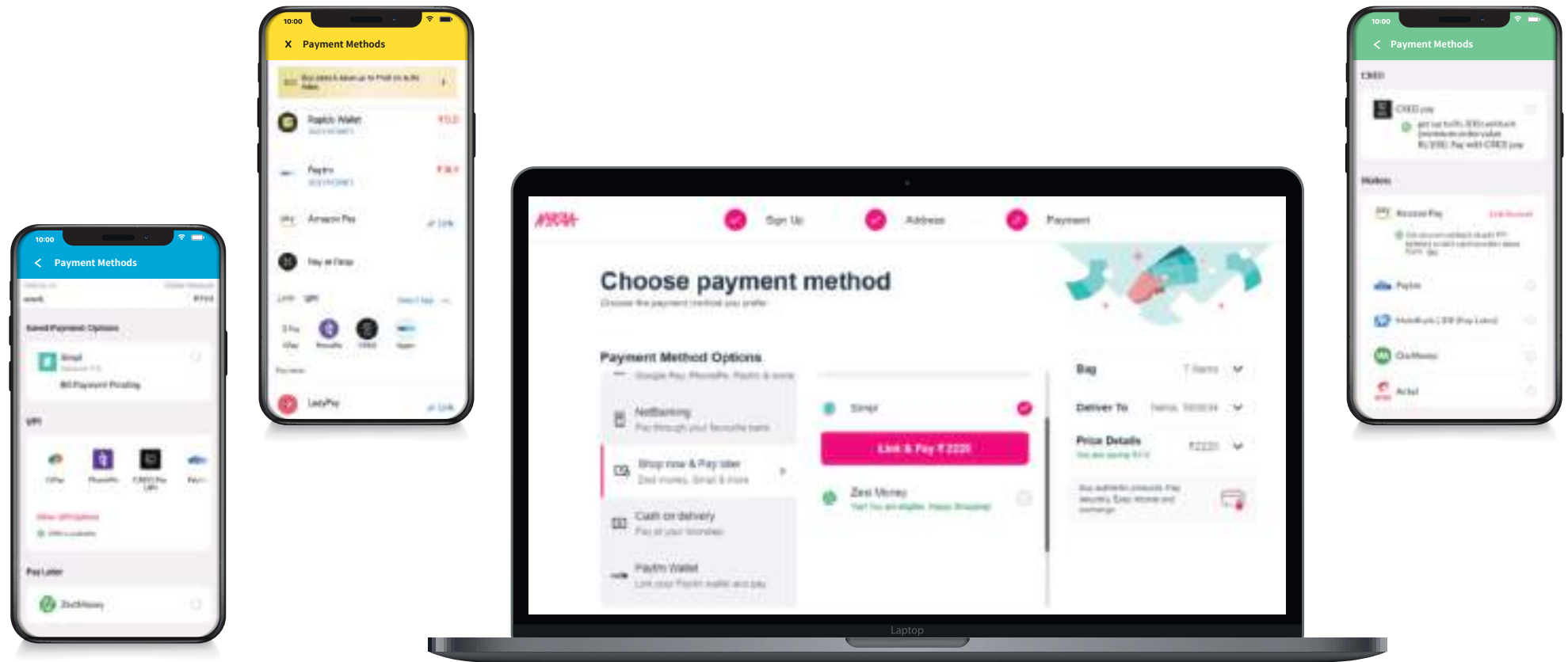
Consumption Loans = Personal Loans, Consumer Durable Loans and Credit Cards
Source: TransUnion CIBIL



Key themes - Topic 2

**Led by rising
consumption,
digital finance
is permeating
everyday
use-cases**

Digital credit and payments are embedded across online shopping and purchase journeys

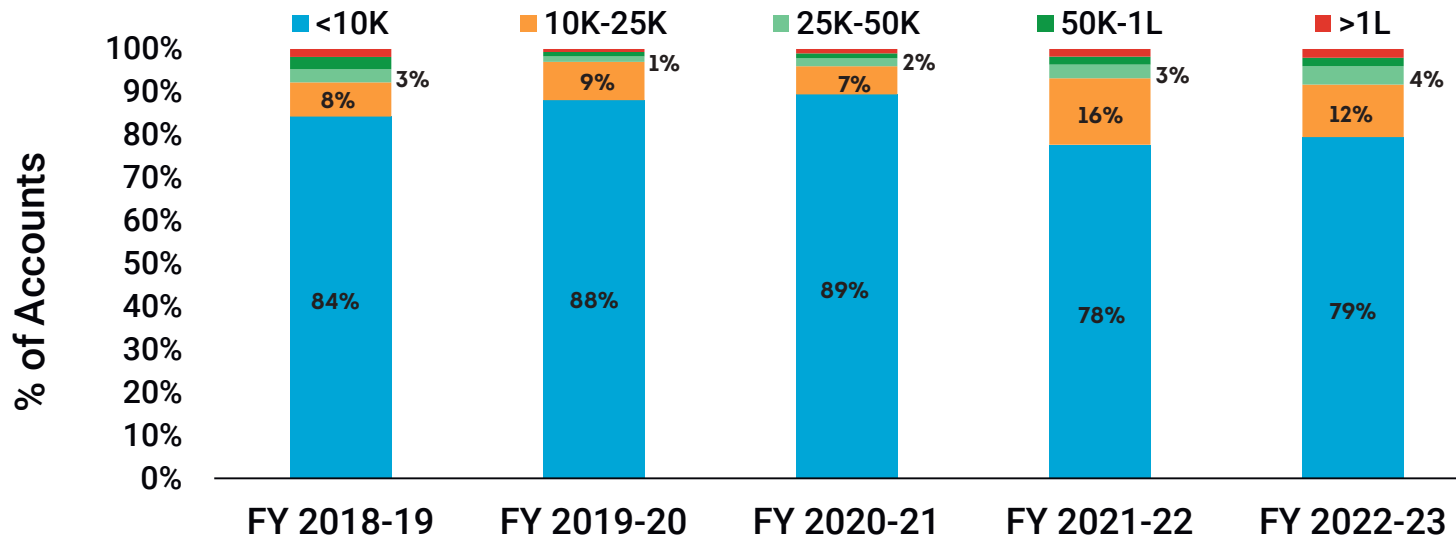


Source: TransUnion CIBIL

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FinTech NBFCs continue to have higher lending to smaller tickets; however, there is a clear upward shift

Personal Loan: FinTech Origination by Trade Size



16%
FY 2018-19

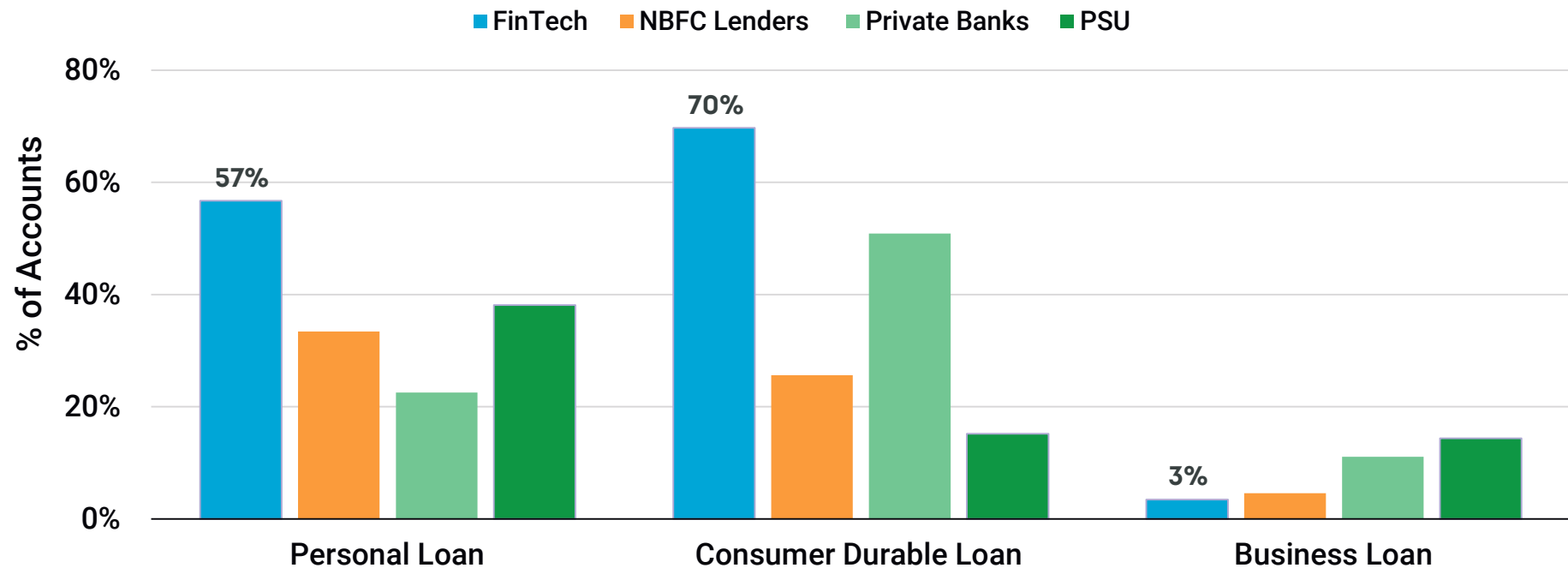
21%
FY 2022-23

Increase in Share of
loans with Average
Ticket Size above 10K

Higher profitability focus and launch of adjacent higher ticket loans for up-sell by FinTechs, has improved the product mix and average ticket-sizes in the last 24 months

FinTech NBFCs provide superior speed and convenience in consumer loans

% Applications Processed Same Day (FY 2022 - 23)

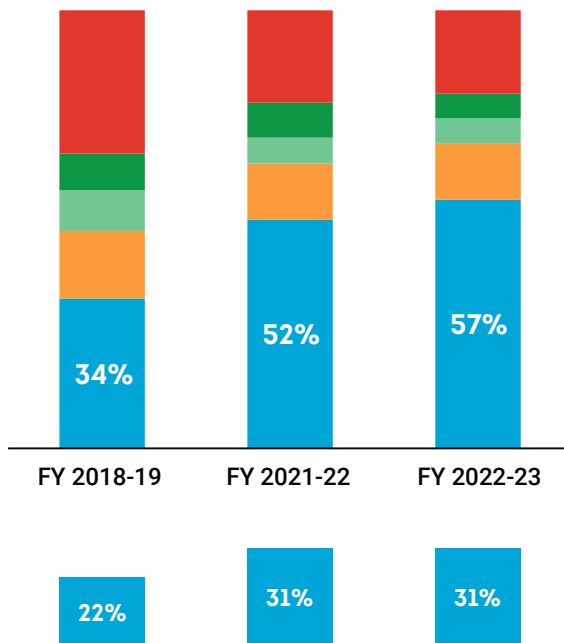


High digitization in application journeys, KYC check, identity and risk checks with automated scorecards have enabled this speed.

Same day onboarding has increased at FinTechs due to Digitalization

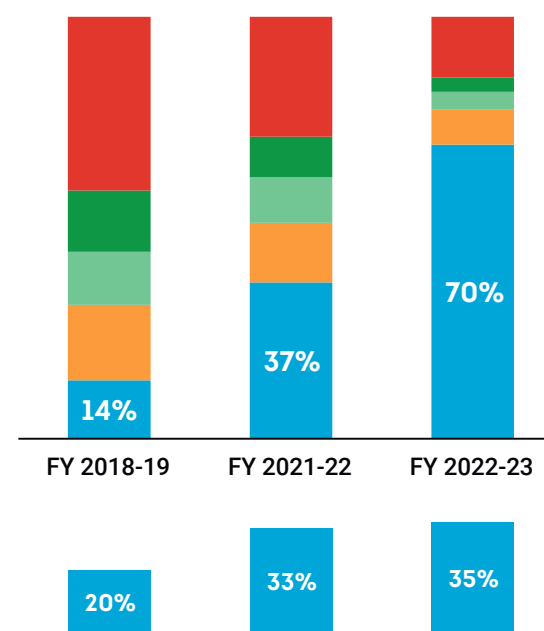
Personal Loan Applications

■ Same day ■ 1-2 days ■ 3-5 days ■ 6-10 days ■ >10 days



Consumer Durable Loan Applications

■ Same day ■ 1-2 days ■ 3-5 days ■ 6-10 days ■ >10 days



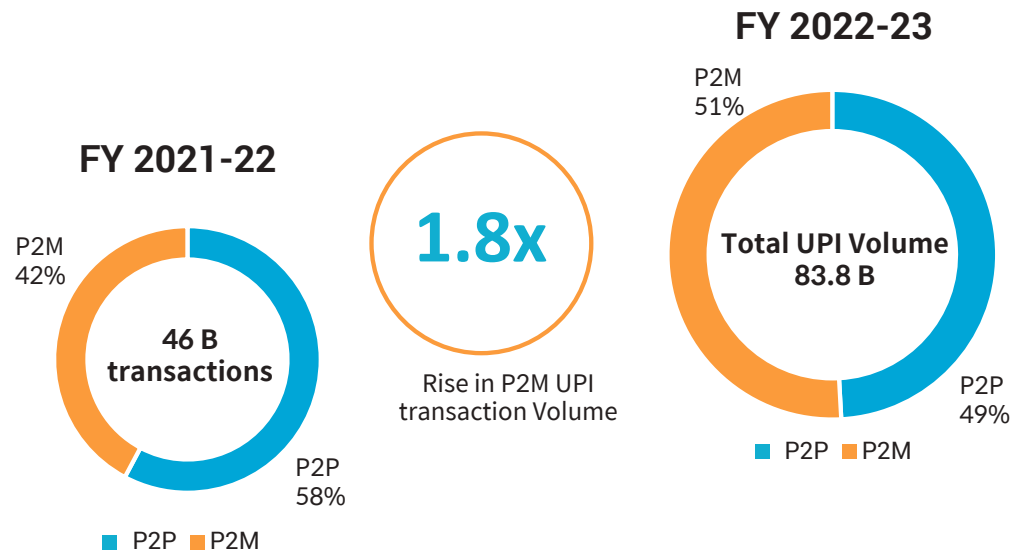
FinTech Lenders

Other Lenders

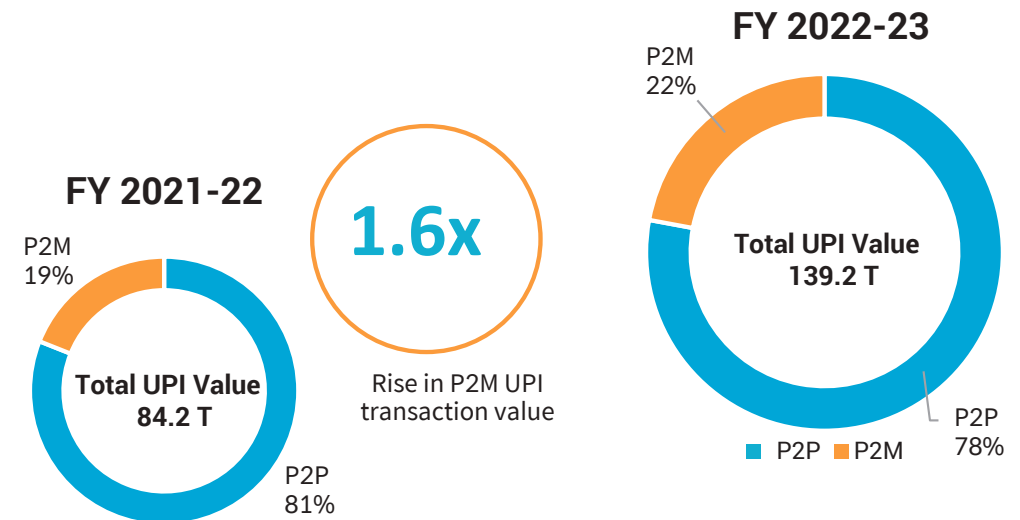
Consistent investment in technology and use of data and analytics by FinTechs has enabled improvements in speed and consumer experience levels over the years

UPI transaction volume for **P2M** surpassed **P2P** in FY 2022-23 for the first time ever, indicating rise in usage for everyday consumption

Share of UPI transaction volume
FY 2021-22 vs. FY 2022-23 (in Billion)



Share of UPI transaction value
FY 21-22 vs. FY 22-23 (in ₹ Trillion)



P2M = Payment to Merchants
P2P = Payment to another individual

Source: National Payments Corporation of India

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UPI adoption is across popular everyday payment use-cases, which has laid the foundation for extending embedded credit via Credit on UPI



High UPI Volume Categories (Mar' 23)

- Groceries and supermarkets
- Eating places and restaurants
- Telecommunication services
- Fast food restaurants
- Digital Goods: Games
- Department stores
- Service stations
- Drug stores and pharmacies
- Bakeries
- Debit card to wallet credit



Medium UPI Volume Categories (Mar '23)

- Dairies
- Utilities electric, gas, water and sanitary
- Miscellaneous personal services
- Drinking places - alcoholic beverages
- Debt collection agencies
- Miscellaneous general merchandise
- Variety stores
- Financial institutions merchandise
- Men, women and children's uniforms
- Freezer and locker meat provisioners



Other UPI Volume Categories (Mar '23)

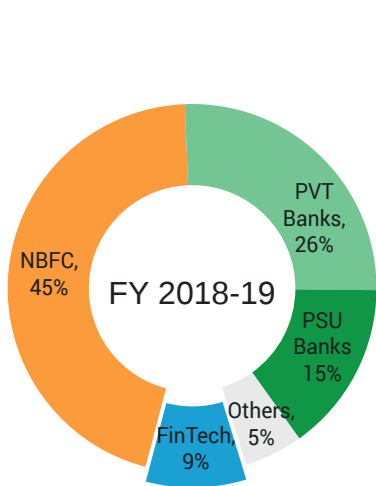
- Professional services
- Electronics shops
- Online Marketplaces
- Securities brokers and dealers
- Cable and other pay television
- Candy, nut and confectionery
- Beauty and barber shops
- Government services
- Motor freight carriers and trucking



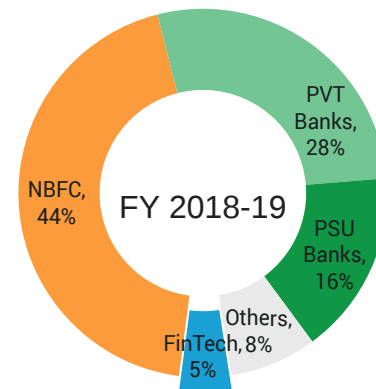
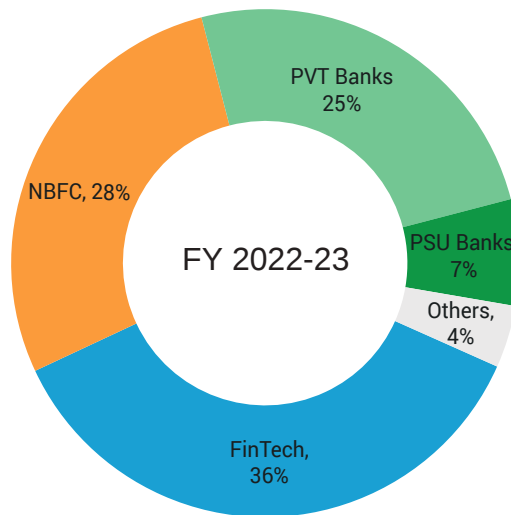
Key themes - Topic 3

**Behavioral shifts
accelerated
by digital
convenience**

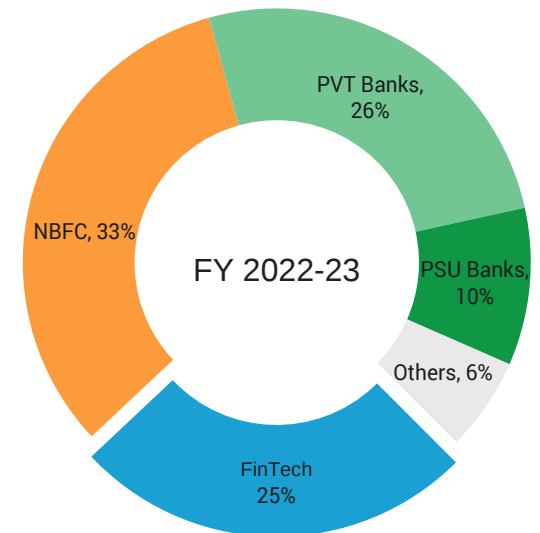
Fintech Lenders attract younger borrowers, more than any other lender type – **Gen Z and Young Millennials** are digital natives



Consumers of age less than 25 years



Consumers of age between 26 and 30 years



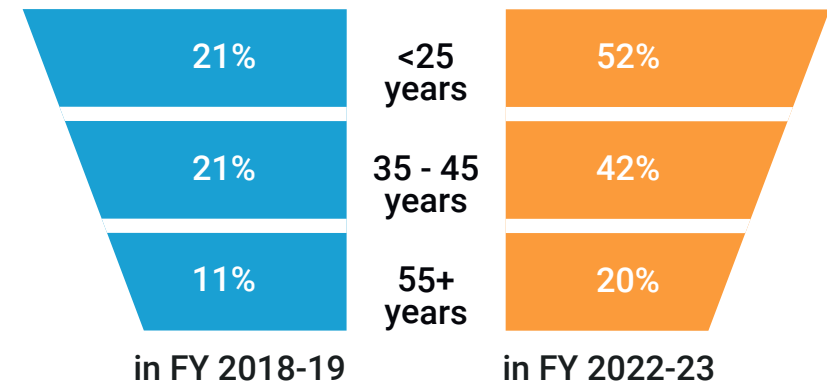
Younger borrowers are taking more loans from FinTech lenders

Average loans per borrower - Overall



Frequency of Credit

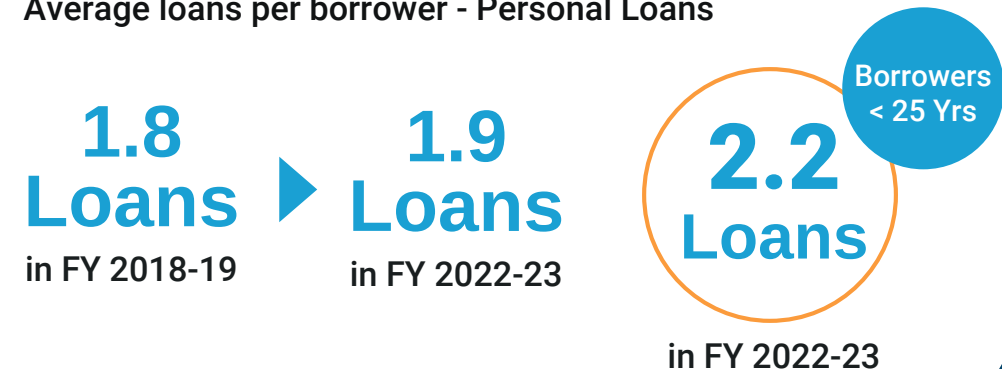
Consumers originating trade with FinTech and has 3+ Trades Opened in last 6 months



Average loans per borrower - Consumption Loans

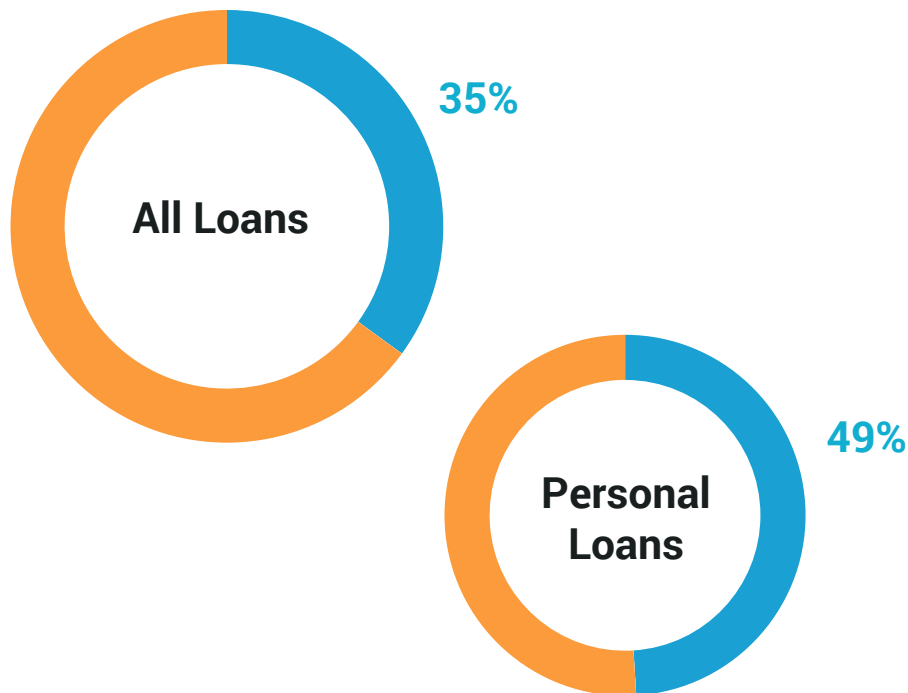


Average loans per borrower - Personal Loans

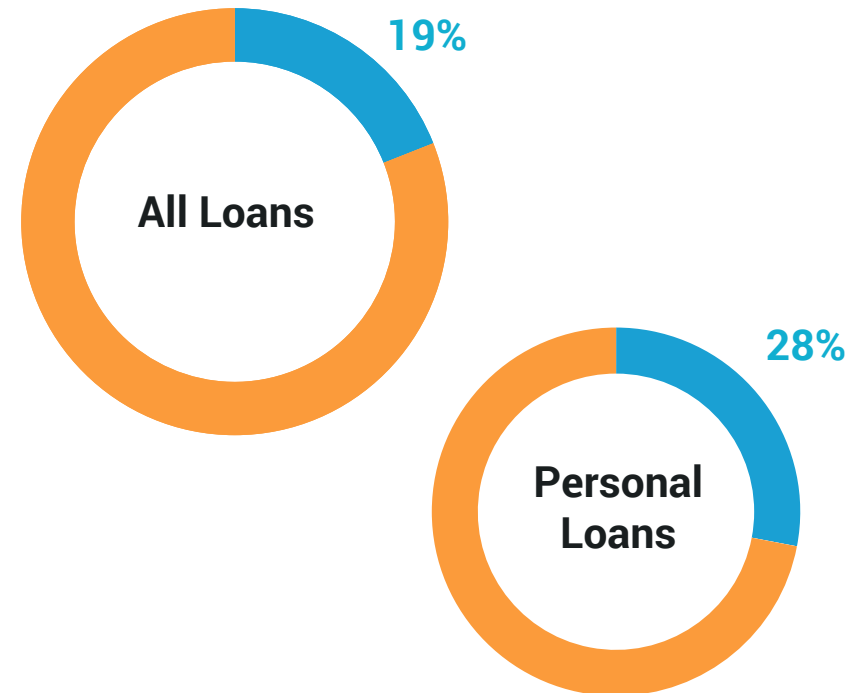


FinTechs provide **super consumer experience** and convenience, which leads to high levels of loyalty

Cohort loyalty - Next Loan from any FinTech



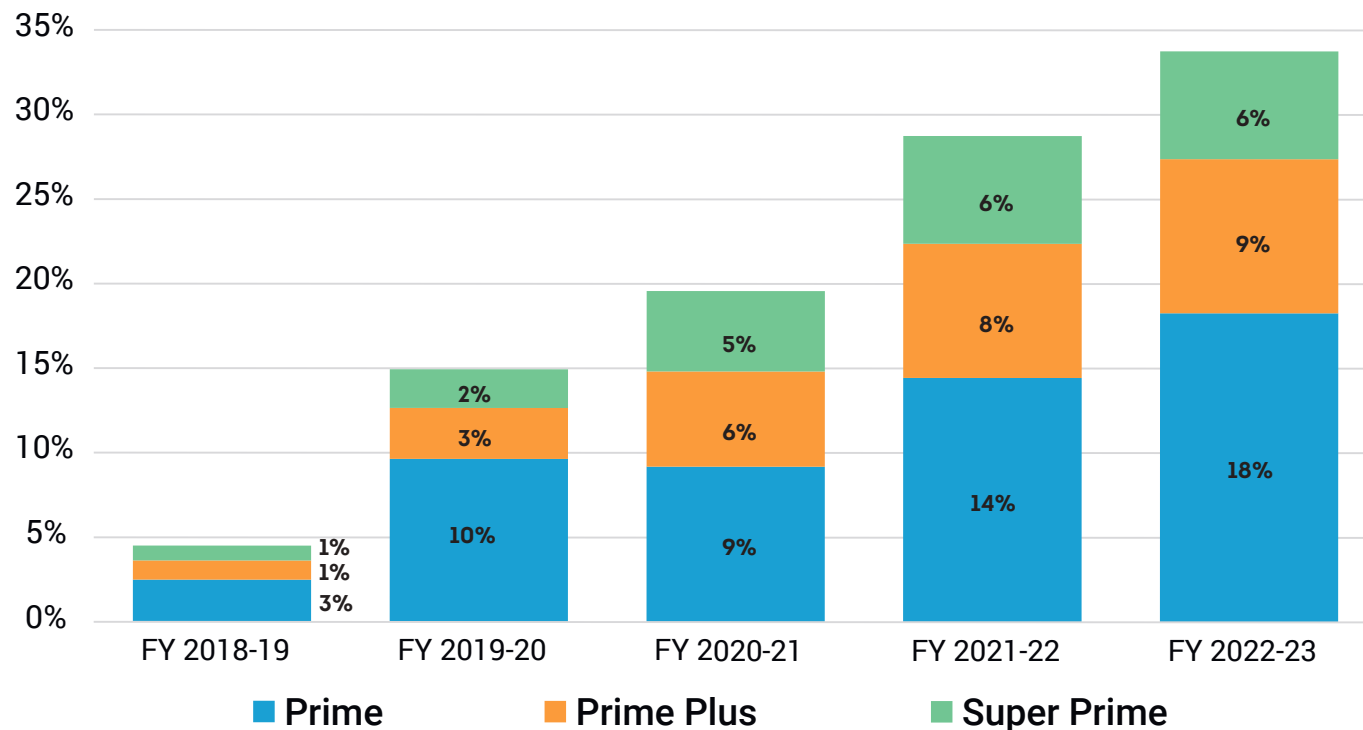
Lender loyalty - Next Loan from same FinTech



Loyalty measured for subsequent loan in next 12 months for loans originated by Fintech from July'21 to Dec'21

FinTechs have gradually started focusing and attracting business from more Prime and Super Prime Consumers over the years

Rising Share of Prime Consumers choosing FinTech



2.3x

Rise in number of originations of Prime Consumers in FinTech

50%

of all FinTech consumers have a credit footprint of 2 years or more

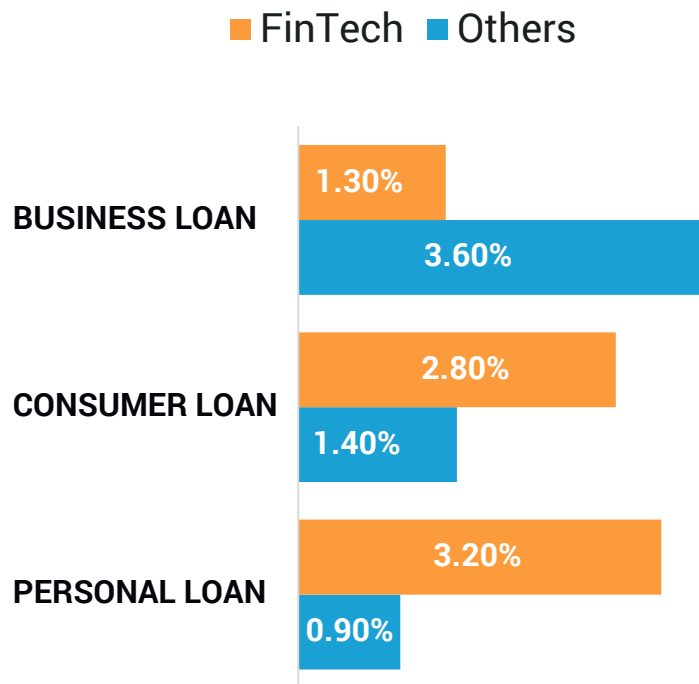
CreditVision (CV) score ranges are: Prime = 731-770; Prime Plus = 771-790; Super Prime = 791-900

Source: TransUnion CIBIL

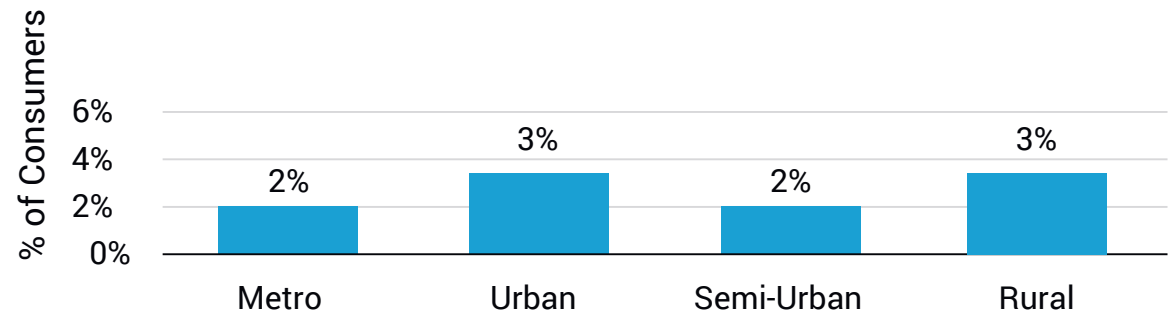
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As growth continues, there is need for close Portfolio and risk monitoring to ensure sustained long-term growth

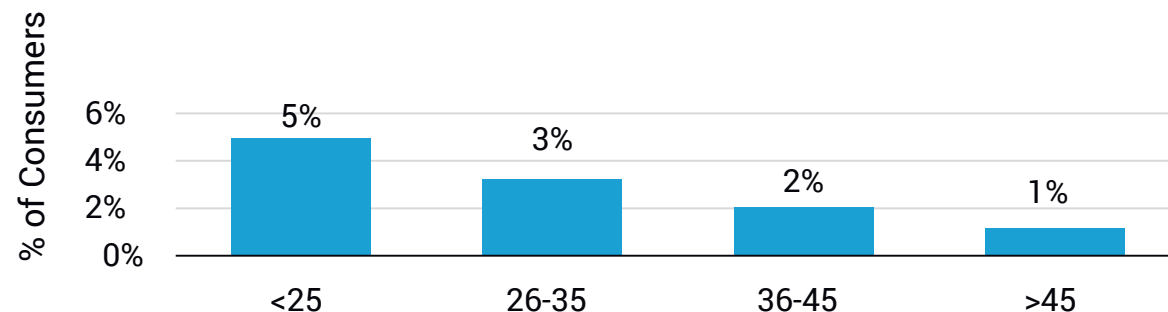
Balance Level – 90+ Delinquency



FinTech Tier wise Balance level 90+ delinquency



FinTech Age wise Balance level 90+ delinquency



Source: TransUnion CIBIL

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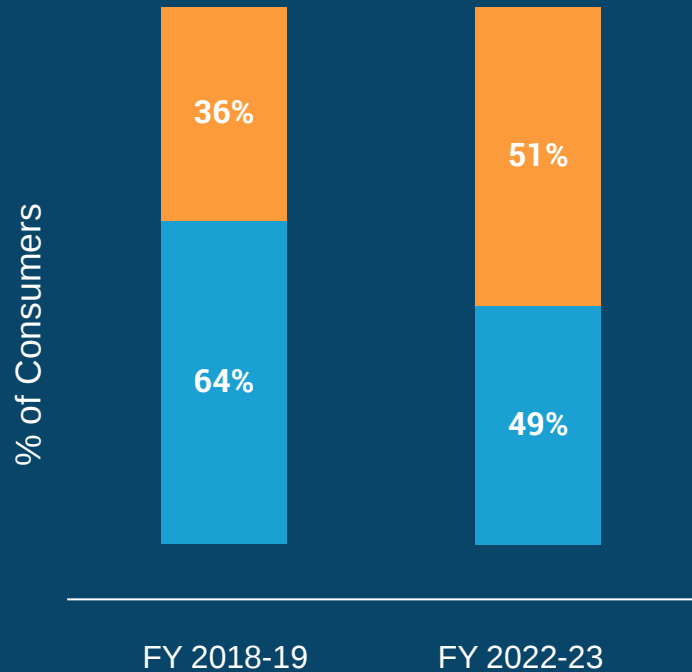
Key themes - Topic 4

**Accelerated
inclusion and
future runway
for growth**

FinTech Lenders have diversified from a largely urban to a **geographically well diversified play** in just 5 Years

FinTech Originations

■ Metro & Urban ■ Semi Urban & Rural



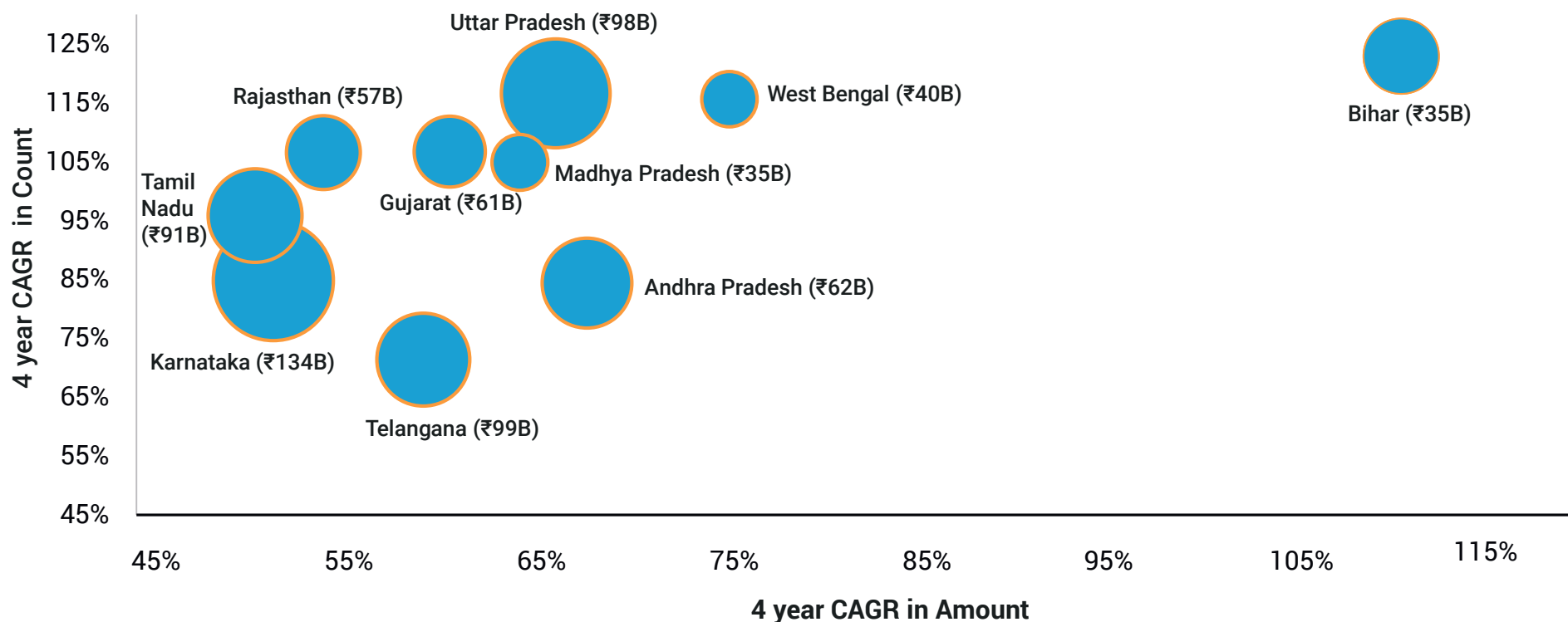
107%_{CAGR}

Semi Urban and Rural
FY 2022-23 vs. FY 2018-19



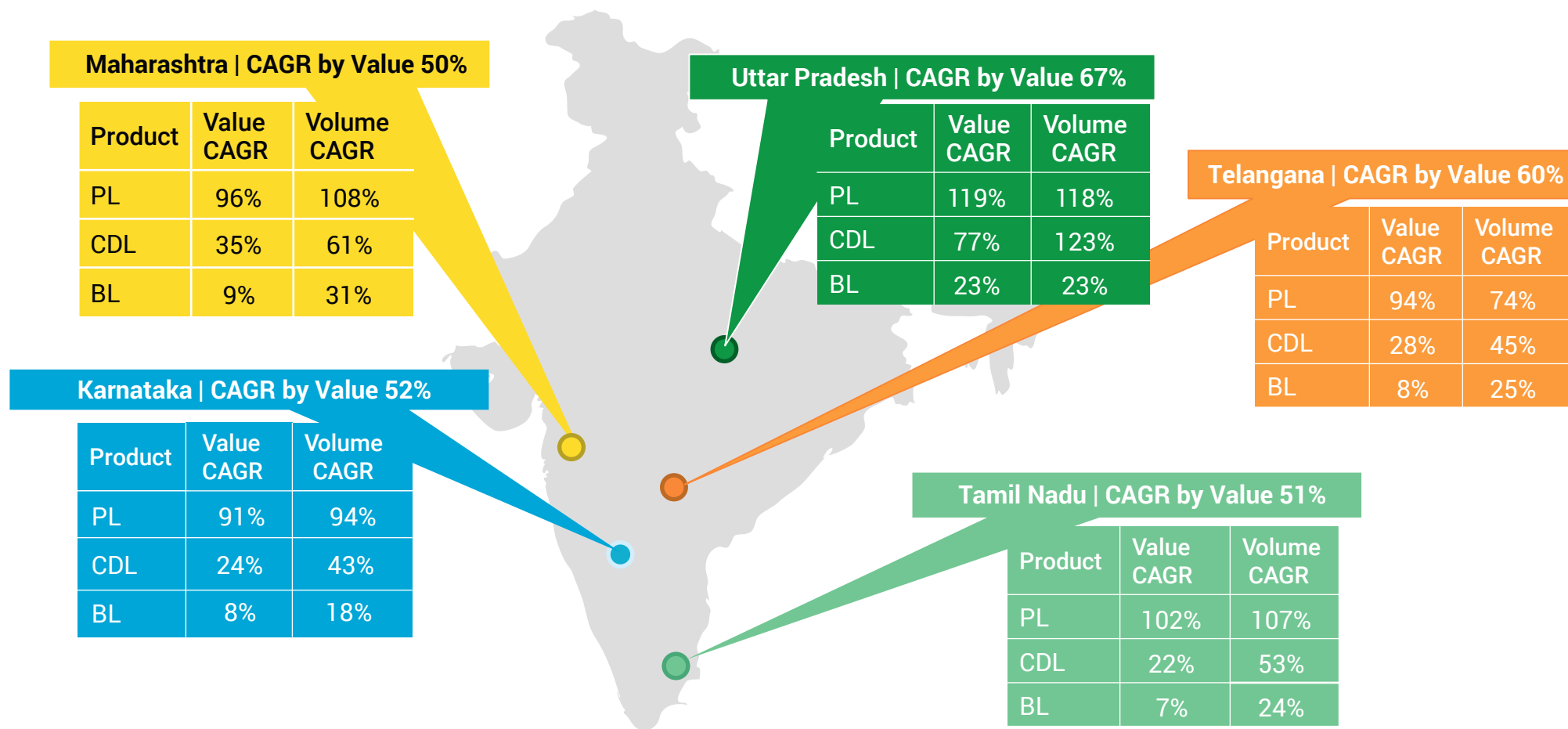
Digital and information-oriented lending is fueling strong growth across States

6 Indian states witness **100%+ 4 year CAGR** in FinTech Loan Count **Bihar, UP, AP, WB** lead the Loan Amount growth story



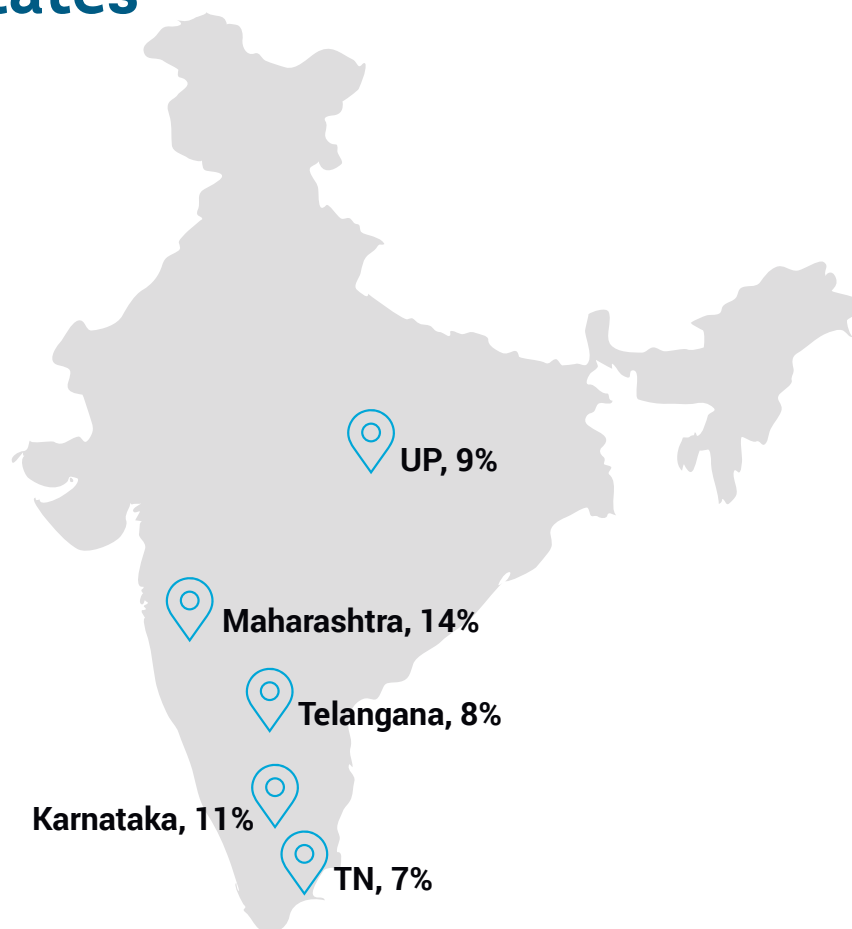
Size of the bubble represents the Origination Value FY 2022-23
CAGR is FY 2022-23 vs. FY 2018-19

Growth and risk differ across States significantly hence it is important to consider granular strategies



CAGR is FY 2022-23 vs. FY 2018-19

49% of overall FinTech originations are coming from 5 States



Share of originations

Source: TransUnion CIBIL
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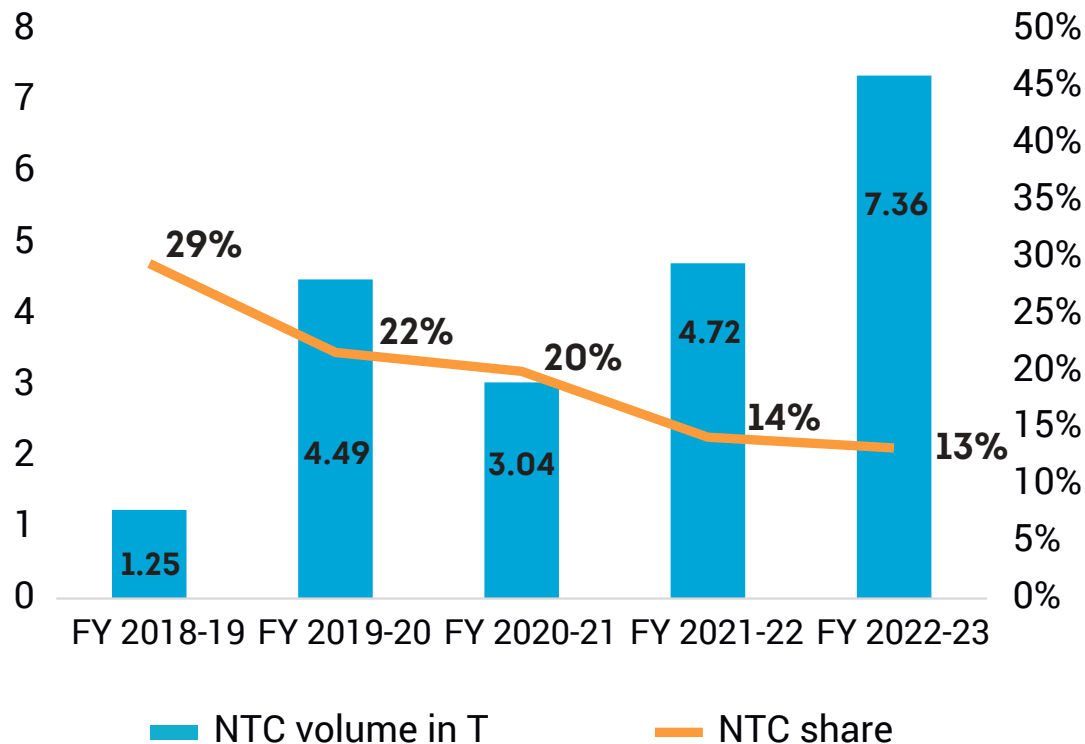
NTC originations help drive growth in these states

	Fintech lenders	Other Lenders
Uttar Pradesh	17%	15%
Maharashtra	12%	12%
Karnataka	8%	8%
Bihar	8%	7%
Rajasthan	6%	6%
Tamil Nadu	5%	6%
West Bengal	4%	6%

Share of NTC originations

FinTech Lenders continue to originate large population of first time borrowers, however the proportion of this segment has reduced

NTC Origination by FinTech Lenders



56%
CAGR

1.24M
NTC Loan amount
in FY 2018-19

7.3M
NTC Loan amount
in FY 2022-23

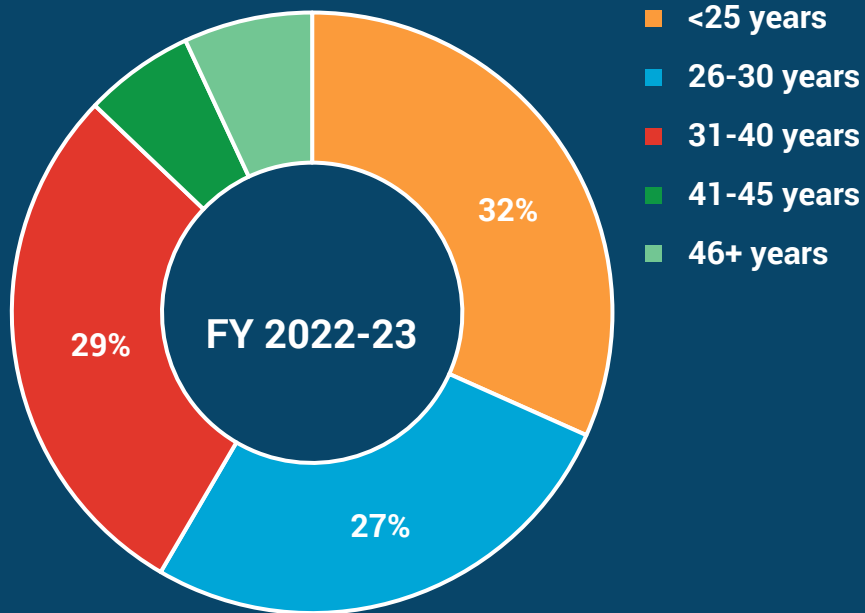
29%
NTC Origination
share in FY 2018-19

13%
NTC Origination
share in FY 2022-23

Consumption led demand for credit for younger consumers is serviced largely by FinTechs

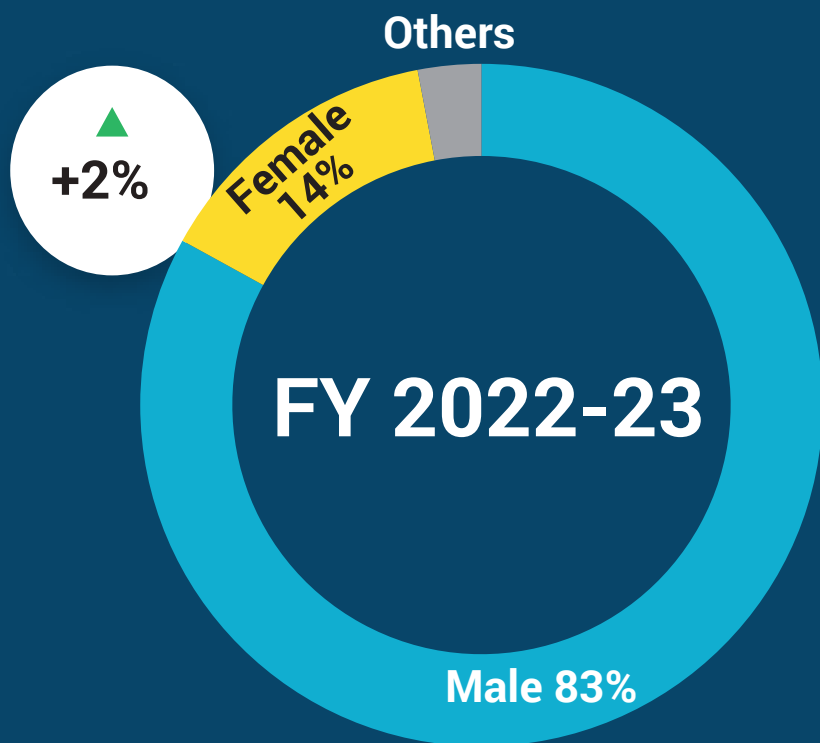
Gen Z Young Millennials are digital natives

Share of originations



Increase of Female borrowers

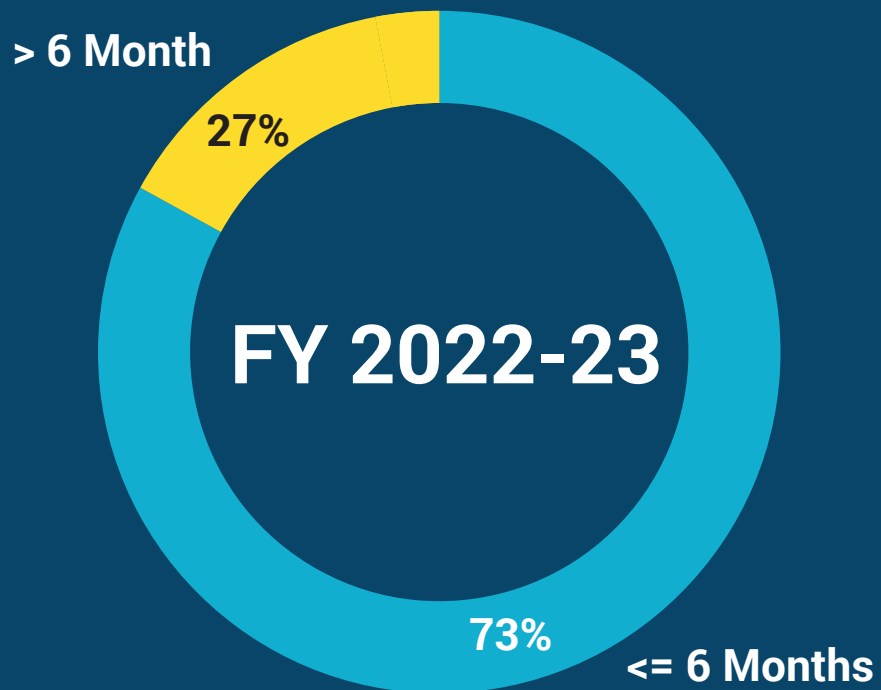
Majority continues to be Male



▲ Share shift in percentage points in women borrowers compared to FY 2018-19



FinTech borrowers have shorter loan terms



The share of loans close in <=6 months has dropped from 87% in FY 2018-19 to 73% in FY 2022-23 attributed to changes in consumer behaviour



Suggestions for FinTech Growth

Innovation centered around emerging consumer needs is a force multiplier

- New credit product constructs across use-cases, tenures and ticket-sizes
- Tailored products and journeys for niche demographics & geographies
- Embedding at the point-of-sale (online & offline) brings scale to consumer uptake
- Enables businesses to occupy consumer mind-share, causing rapid share-shift
- Diversity in the product mix and unlock margins & loyalty through cross-sell

Ecosystem collaboration is essential

- Banks and other Credit Institutions for cross-sell, off-book lending & compliance
- eCommerce platforms and offline merchants for reach & scale

Regulatory compliance by design

- Disclosures and compliance at the core of every business model pivot or product launch
- Creates high trust with Consumers, Regulators & the Ecosystem

Robust risk management to unlock positive unit economics & profitability

- Sharp underwriting using new-age information assets/scores & fraud prevention solutions
- Analytics-led portfolio management as well as digitalization in Collections processes

Data contribution essential for prudent growth of the ecosystem

- Need for industry contribution on data assets on sourcing Loan Service Providers (LSPs)
- Higher frequency and quality of data reporting - Prevent info asymmetry and loan stacking



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