

**MicroSave**  
*Market-led solutions for financial services*



**clje**

# Fintech Study to Model a Financial Inclusion Lab

Supporting Fintechs to Cater to the Low- and Middle- Income Segments

August, 2018

Supported by

**J.P.Morgan**

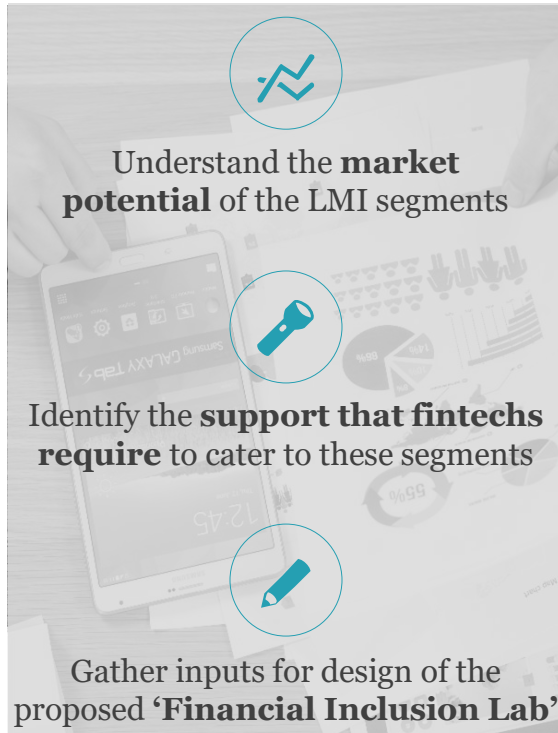




- *MicroSave* and CIIE conducted a research on the fintech landscape in India. The aim of the study was to identify support areas for fintechs to offer convenient and affordable financial solutions to the low- and middle-income (LMI) segments.
- For the research, we consulted more than 60 stakeholders working across different industry segments, institutions, and leadership levels.
- The current landscape suggests a growing influence of fintechs in India. However, growth and investments are skewed towards payments and credit, and in a few metro cities.
- Most fintechs serve the affluent, tech-literate customers in Tier-1 geographies, leaving over 80% (320M) of the addressable LMI market untapped.
- While the LMI segments offer a blue ocean for different stakeholders like fintechs, investors, donors and incumbents; there exists significant disconnect between fintechs and investors, and fintechs and incumbents.
- The LMI segments prefer convenience over affordability, and struggles to adopt and use digital platforms to avail financial services. These financial services include payments and transfers, credit (consumer and business), insurance, and savings and investments.
- Most incubator and accelerator programmes in India are sector-agnostic, and offer standardised, light-touch support with no focus on the LMI segment.
- *MicroSave* and CIIE propose to set-up a '[Financial Inclusion Lab](#)' to provide high-touch consulting, catalytic support, and customised services to early-stage fintech start-ups in India.

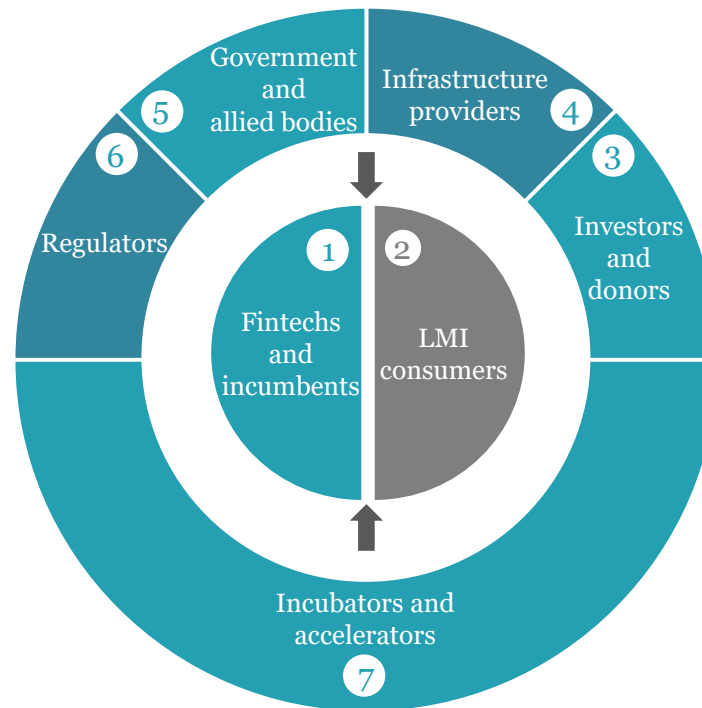
# MicroSave and CIIE researched the fintech landscape in India with a focus on the LMI segments

## A. Key research objectives



- Understand the **market potential** of the LMI segments
- Identify the **support that fintechs require** to cater to these segments
- Gather inputs for design of the proposed **'Financial Inclusion Lab'**

## B. Analytical framework for the research



## C. Key findings summarised in five chapters

- Chapter 1 [Fintechs in India](#)
- Chapter 2 [LMI segments in India](#)
- Chapter 3 [Navigating the LMI market](#)
- Chapter 4 [Understanding the existing incubation landscape](#)
- Chapter 5 [The financial inclusion lab](#)



# Chapter 1

## Fintechs in India – The reality and the hype



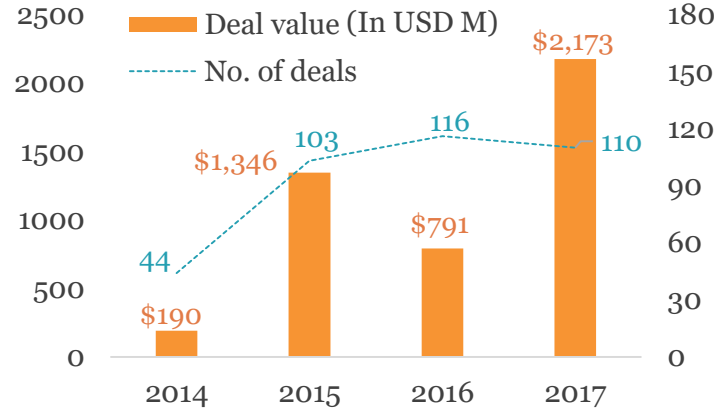
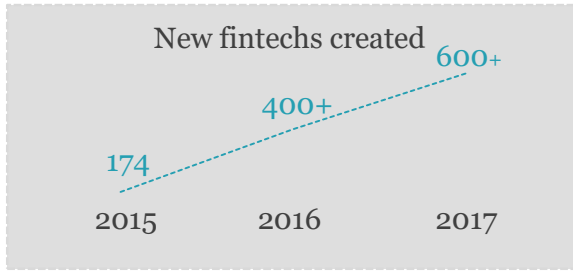
# The current fintech landscape and investment trends suggest a growing influence of fintechs in India

The fintech market in India is growing rapidly in terms of numbers, transactions, and reach

Investment in the fintech sector has also seen growth

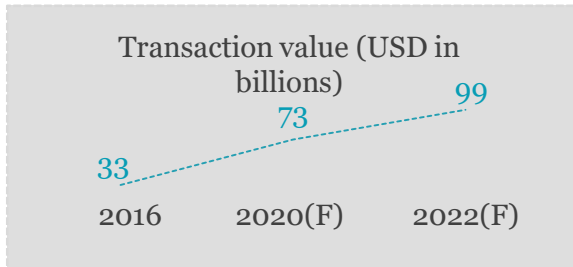
There has been an increasing trend towards collaboration with incumbents

1,500+ Fintechs in India



Incumbents seek to partner with fintechs<sup>1</sup>

\$73B Transaction value for fintechs by 2020



350+ Active angel investors

USD 500K Average angel investment in fintechs

Gender disparity exists in start-ups

180+ Active venture capitalists

USD 700K Average seed capital to fintechs

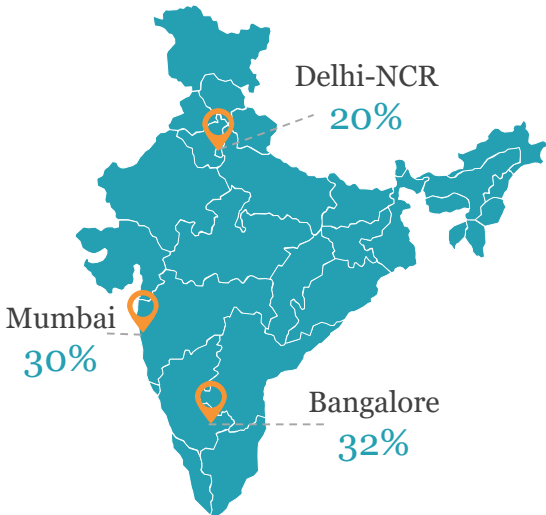


13% Start-ups have women as a co-founder<sup>2</sup>

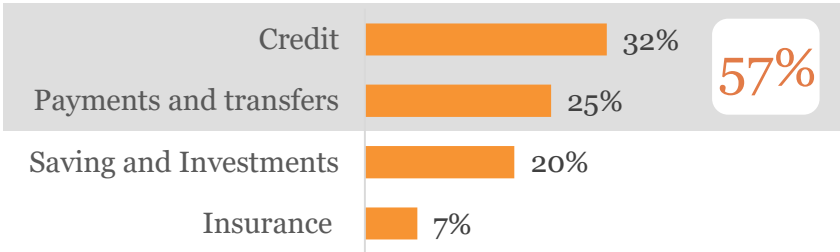
# Growth, however, is concentrated in metros; fintechs in payments and credit continue to attract the maximum investment

Three metro cities have the highest concentration of fintechs

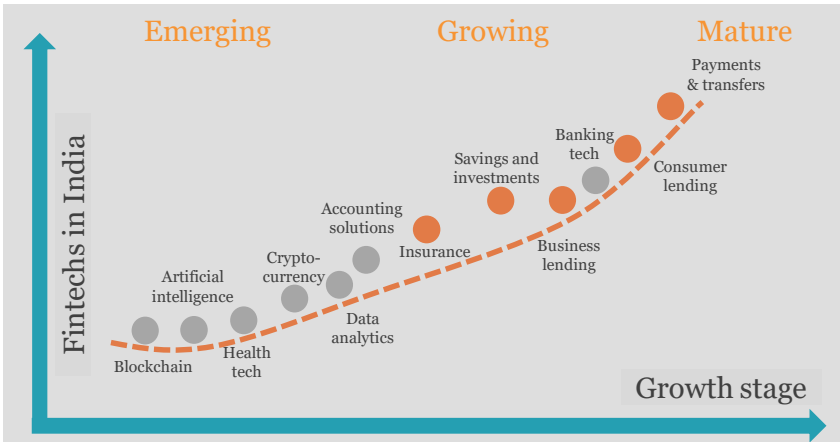
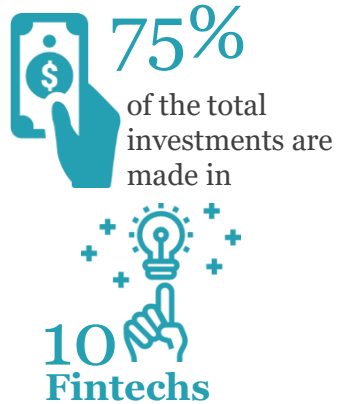
~82% fintechs located in 3 metro cities



Payments and credit have attracted the most attention; savings and insurance remain far behind<sup>1</sup>



Investment are highly skewed towards select fintechs and products



<sup>1</sup> Remaining 16% includes fintechs working on AI and blockchain, among others.  
<sup>2</sup> Excludes top-10 investments made in fintechs till January, 2018

# Most fintechs, however, serve the affluent, tech-literate customers in tier-1 geographies, leaving over 80% of the addressable LMI market untapped

Fintechs typically serve two types of personas



## Persona 1: Customer

### Key characteristics

- Millennials who seek financial independence
- Active users of smartphone
- Consume mobile Internet for multiple purposes
- Value technology and prefer convenience
- Largely from the salaried class



## Persona 2: Micro-entrepreneur

### Key characteristics

- Accepts digital payments; requires affordable credit
- Uses smartphone for communication and entertainment
- Explores the value proposition of fintechs

|   | Parameters                      | Non-LMI (in M)   | LMI (in M) <sup>1</sup> |
|---|---------------------------------|------------------|-------------------------|
| <div style="background-color: #00838f; color: white; border-radius: 50%; width: 100px; height: 100px; display: flex; align-items: center; justify-content: center; margin: 0 auto;"> <div style="text-align: center;"> <p>Total addressable market:</p> <p><b>570 M</b></p> </div> </div> | Total population                | <b>300</b>       | <b>600</b>              |
|   | Addressable market <sup>2</sup> | ~190 (32%)       | ~380 (68%)              |
|   | Addressed market <sup>3</sup>   | <b>140 (78%)</b> | <b>60 (16%)</b>         |
|   | Unserved market                 | <b>50 (22%)</b>  | <b>320 (84%)</b>        |



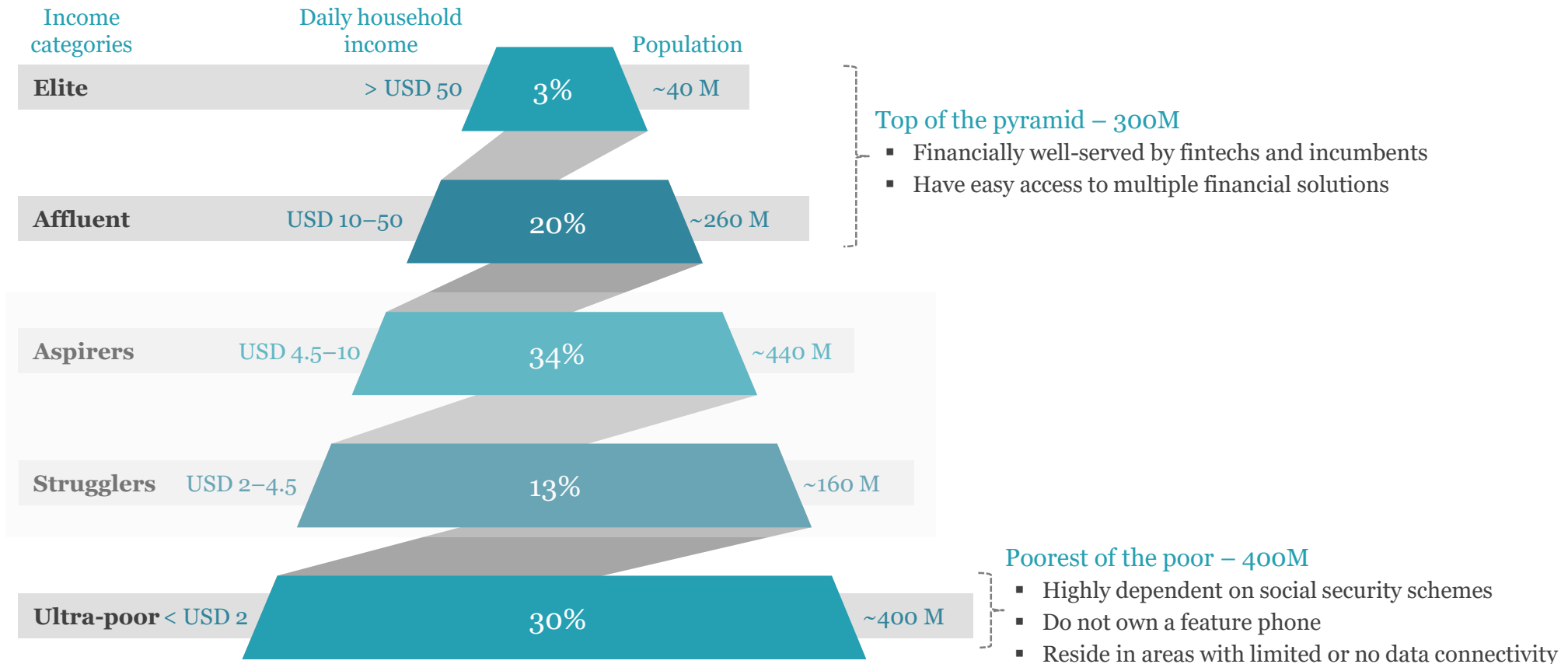


## Chapter 2

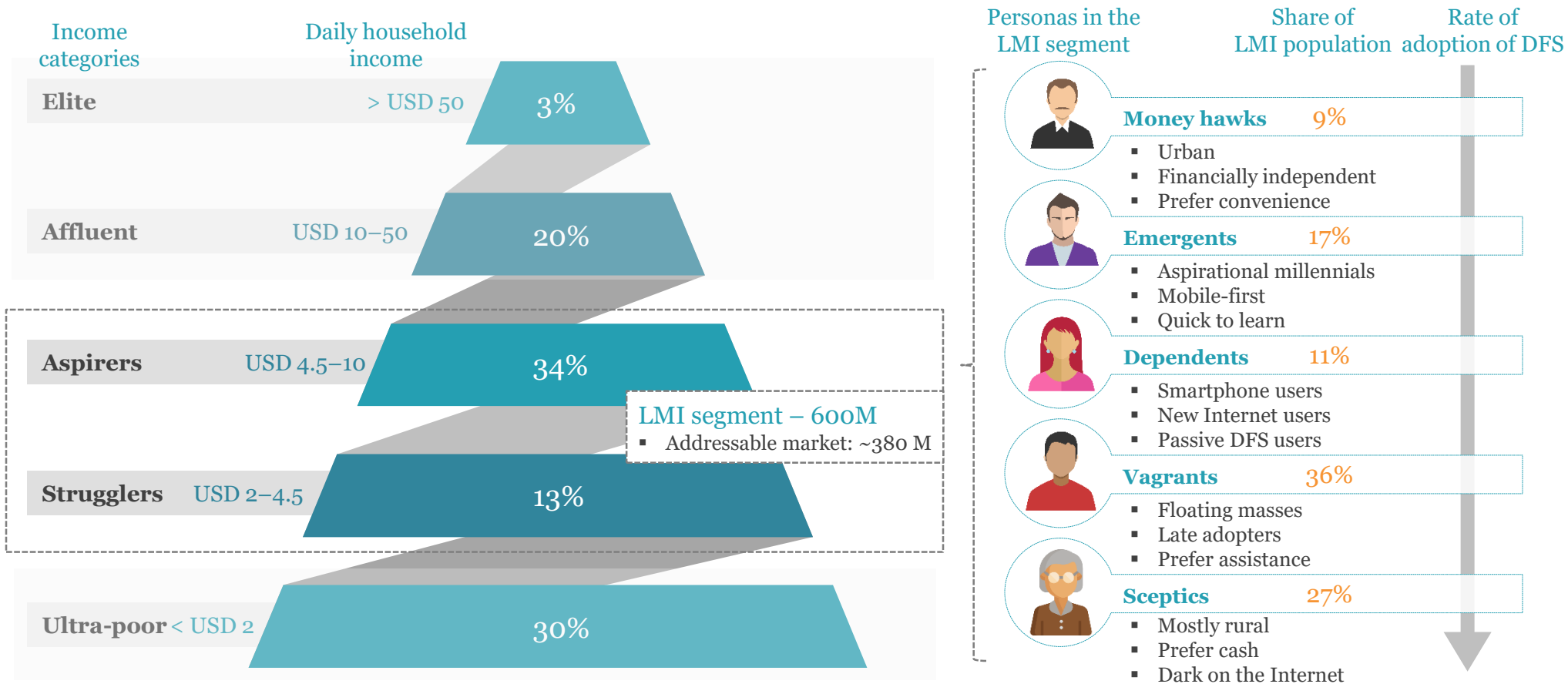
# LMI segments in India – An emerging opportunity



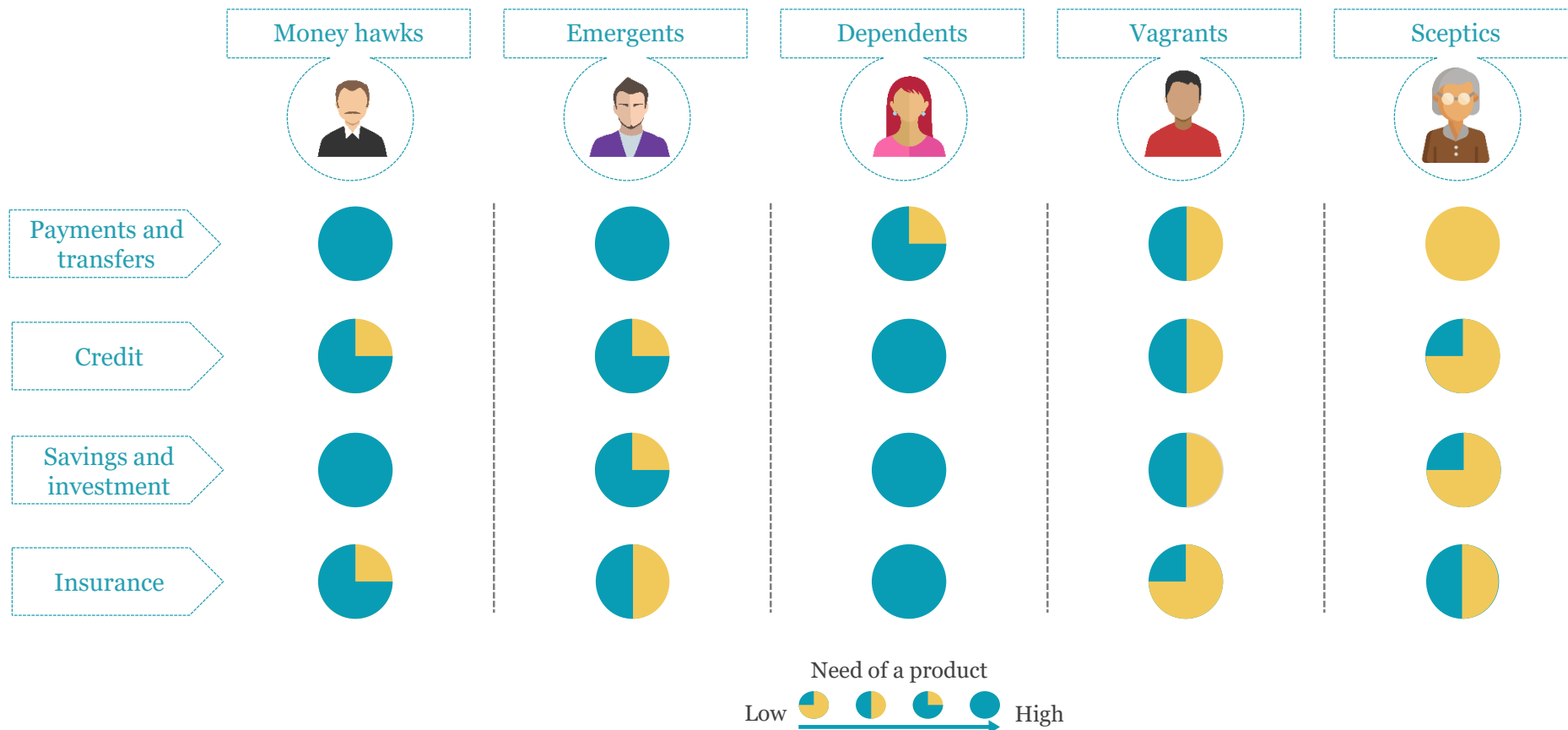
# The top of the pyramid is financially well-served; the bottom-most segment is currently not ready for fintech solutions



# Fintechs have the opportunity to cater to the LMI segments, characterised by five distinct personas



# These five personas have various unmet financial needs that fintechs and incumbent financial institutions can cater to



# The LMI segments offer a blue ocean for fintechs, investors, and incumbent financial institutions



## 1 Huge untapped potential

- High **savings** potential:
  - USD 11 B mobilised in PMJDY accounts<sup>1</sup>, USD 2.5 B by Self Help Groups (SHGs) in 2017<sup>2</sup> (~18% growth w.r.t 2016)
- Huge unmet market in **credit**:
  - Micro-enterprise debt gap ~USD 46B<sup>3</sup>



## 2 Less competition

- Intense competition in the non-LMI segment
- Huge cash-burn makes it an expensive game
  - USD 400 M in the e-tailing industry (Festive sales like Diwali)<sup>4</sup>



## 3 Positive experience of existing players

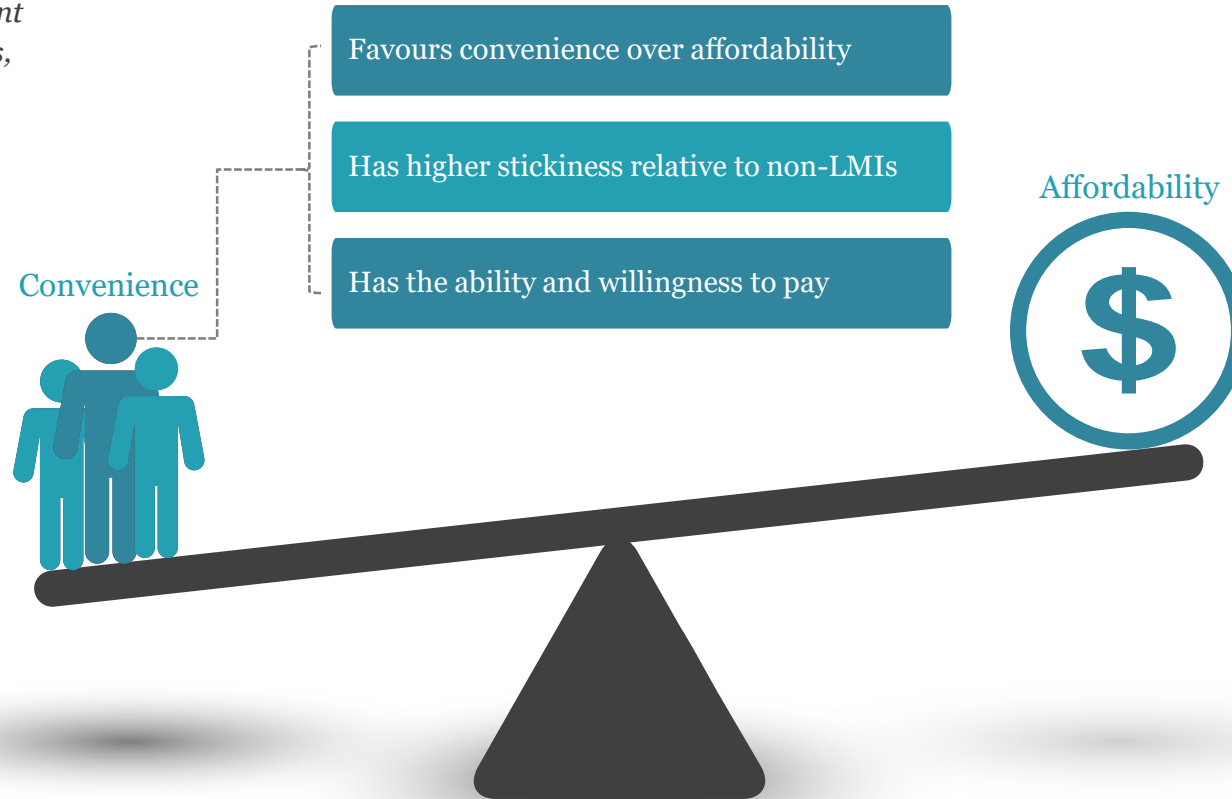
- Increasing uptake of digital solutions by MFIs
- 8.5 M SHGs with ~USD 6 B annual loan offtake and NPA of 6.5%<sup>3</sup>
- Better portfolio performance: PAR 30 of MFIs at 5.4%

“Ultimately, all fintechs will have to enter the LMI segment, given its size. It is a matter of when and how that would happen.” – An investor

# Moreover, the LMI segments are willing and able to pay for convenience

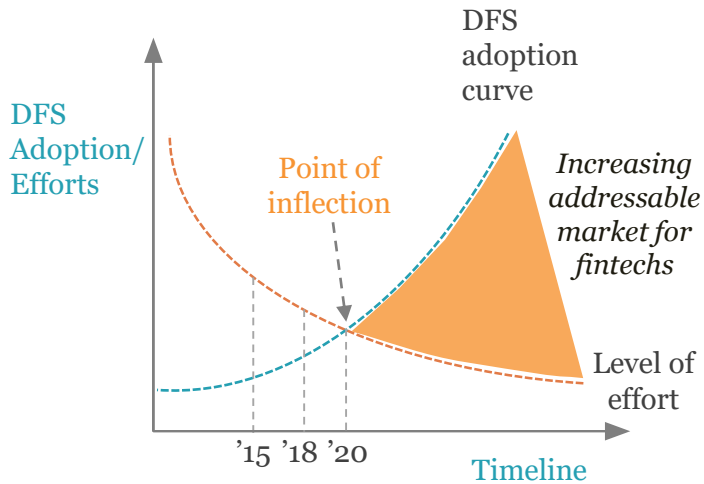
“It is a myth that the LMI segment does not pay. On a per-unit basis, they pay more than us.”

- An investor



# The ecosystem for DFS adoption is approaching an inflection point; however, challenges need to be addressed to harness the potential of LMI segments

The LMI market will be ripe for fintech solutions by 2020...



...driven largely by an enabling external ecosystem

Favourable macro-environment

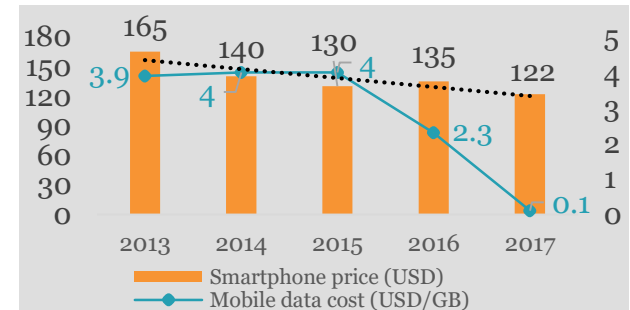
- Demographic shift towards the millennial population
- Rise in income with steady economic growth (6-7%)
- Enabling policy and regulatory environment

Improvement in infrastructure

- IndiaStack
- 42% villages connected to broadband
- 79% of the population has access to electricity

Increasing internet access

- 500 M unique smartphone users by 2020 (~300 M<sup>1</sup>)
- 750 M Internet users by 2020 (~450 M<sup>1</sup>)
- >50% of Internet users will be from rural areas in 2020 (37%<sup>1</sup>)



Favourable business environment

- Ease of doing business: 100/190
- Affordability of financial services: 34/137
- VC availability: 13/137

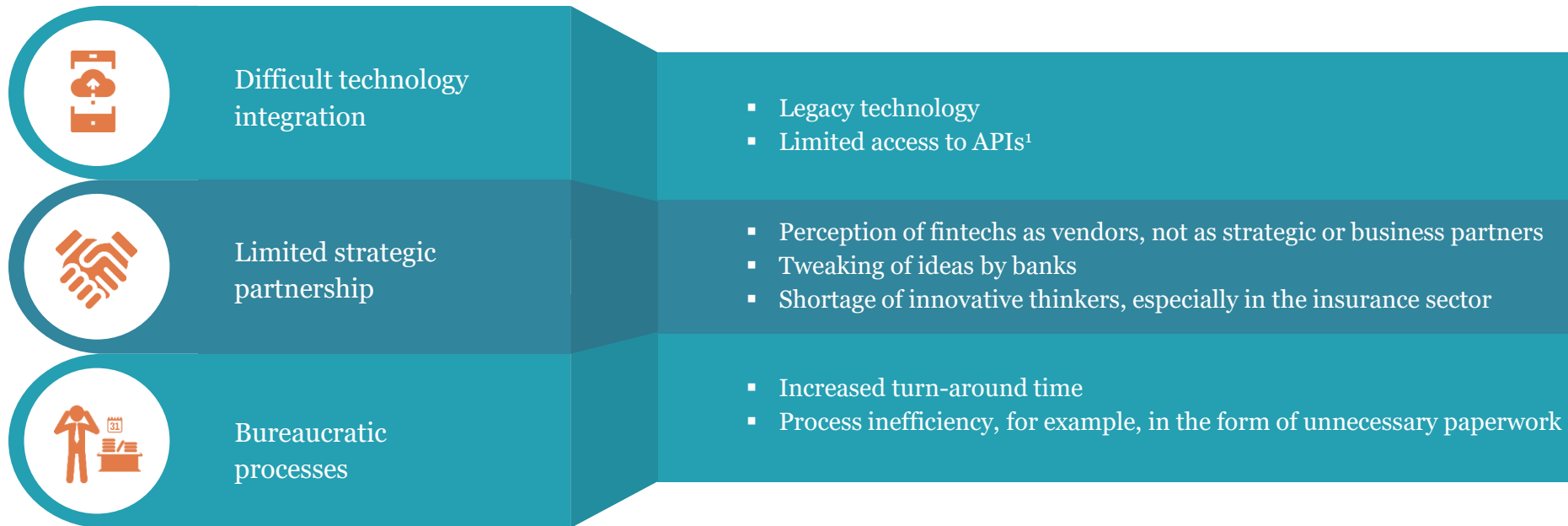
By 2020

The share of non-cash transactions would increase to 40% (from 22% in 2016) - [Google-BCG](#)

# However, fintechs face certain challenges with incumbents and investors, which limit their focus and growth

(1/2)

When collaborating with incumbents, fintechs face challenges due to differences in approach to business



“Banks need to institutionalise innovations in their processes.” - A fintech player



# However, fintechs face certain challenges with incumbents and investors, which limit their focus and growth

(2/2)

## Early-stage fintechs find it difficult to raise investment



Difficult early-stage investment

- Preference for post-MVP<sup>1</sup>-stage fintechs
- Risk of change in business idea by fintechs
- Fear of interference in strategy by equity investors



Shift in investment trends

- Preference for unit economics over market size



Difficult access to capital

- Strict selection criteria
  - Age or experience
  - Pedigree and team construct
- Too many 'me-too' models

*“Access to capital should never be easy. It distorts the market, since capital may be used in unsustainable ways.” - An Investor*

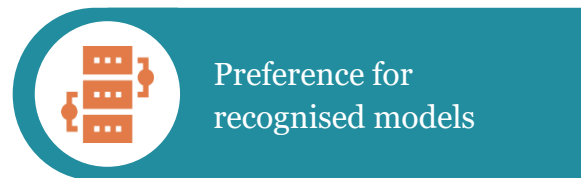
# Specific to the LMI segments, fintechs and investors have distinct mindsets and vision

(1/2)

Investors look at per-unit economics for investment and think that it may not work in the LMI market



- Three of the top 12 fintech investors have some LMI focus (largely in MFIs)
- Only two of the top 20 investments have been made in fintechs that indirectly cater to the LMI segment



- Struggle with Fear of Missing Out (FOMO)
- Uncertain about market readiness



- Long gestation period in serving the LMI segment
- Unit economics is a consideration

*“Always remain sceptical about whether the customer needs it today, or if it is a future requirement.” - An Investor*

Fintechs come up against barriers because of limited understanding of the LMI market and its potential



Limited understanding of LMI

- Limited familiarity with LMI segment
- Limited access to mentors
- Limited support from incubators



Few entrepreneurs from the LMI segment

- Limited awareness of investment options
- Lack of access to investors
- Limited ability to pitch to investors



Challenging business model

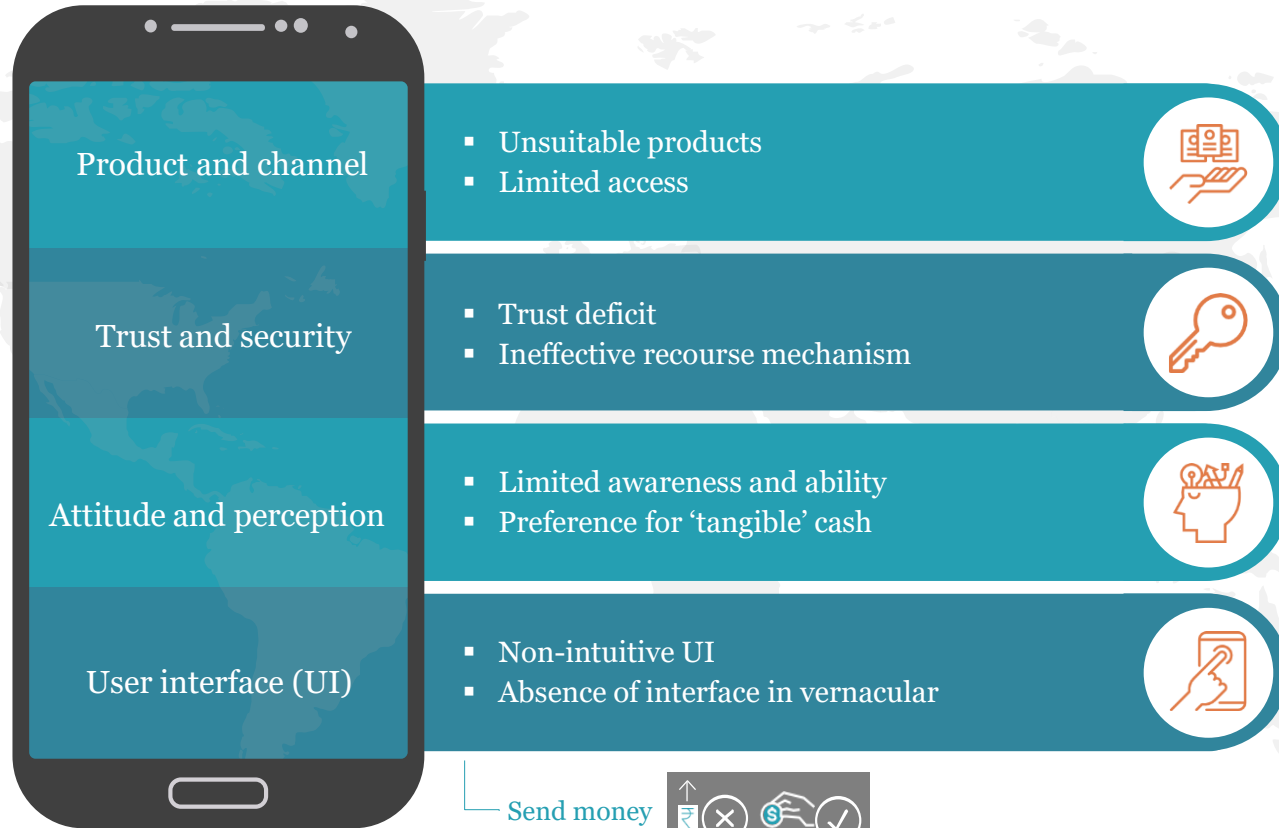
- High cost of acquisition and service
- Uncertain long-term value
- Limited digital footprint



Enough white space<sup>1</sup> in metros

- Easier access to investment
- Greater media coverage

# The LMI segments also struggle to on-board digital platforms





## Chapter 3

# Navigating the LMI market – Ways to unleash the potential





## 1 Redesign products and services from the ground-up

- Develop customised solutions for the diverse LMI market
  - Focus on entry and hook products
  - Geo-cloned<sup>2</sup> products may not work
- Offer bundled services to make unit economics work
- Target early adopters in the identified segments
- Rapid prototyping is key



## 2 Develop a *phygital*<sup>1</sup> distribution channel

- Build a hybrid model to reach and serve the LMI segment
  - Human touch at the front-end to assist in conducting transactions and establish trust
  - Build robust technology for targeting, customisation, and scale
- Explore aggregator model in the beginning; Transition to direct customer servicing in the long-run
  - Partner with players with wide reach, such as fast-moving consumer goods (FMCG) companies, common service centres (CSCs), business correspondents (BCs), and self-help groups (SHGs), etc.

“No point building a Taj Mahal that nobody wants to visit. It is better to make a small palace and let people come first. Then gradually keep adding to the palace.” - A fintech player

<sup>1</sup> *Phygital* refers to a combination of physical and digital channel

<sup>2</sup> Geo-cloning is an act of replicating successful business models from other geographies in a new geography

# Investor focus, *phygital* channel, and effective partnerships are key to serve the LMI segments; focused labs are a solution to the LMI puzzle

(2/2)



3

## Build awareness and trust through effective communication

- Use audio-visual (AV) in communication
- Integrate nuances in communication, for example, give a credit score out of 100
- Government playing an active role in spreading awareness

“This segment takes to video very quickly.”  
– A fintech player

5

## Pilot test with philanthropic capital

- Use grants to showcase business models
- Absorb some early-stage risks through grants
- Patient capital to follow grant money to capitalise on market

4

## Utilise the core strengths of individual partners

- Consider fintechs as strategic partners
- Identify key point of contact in incumbents to manage coordination between departments; draw incumbents into the Lab





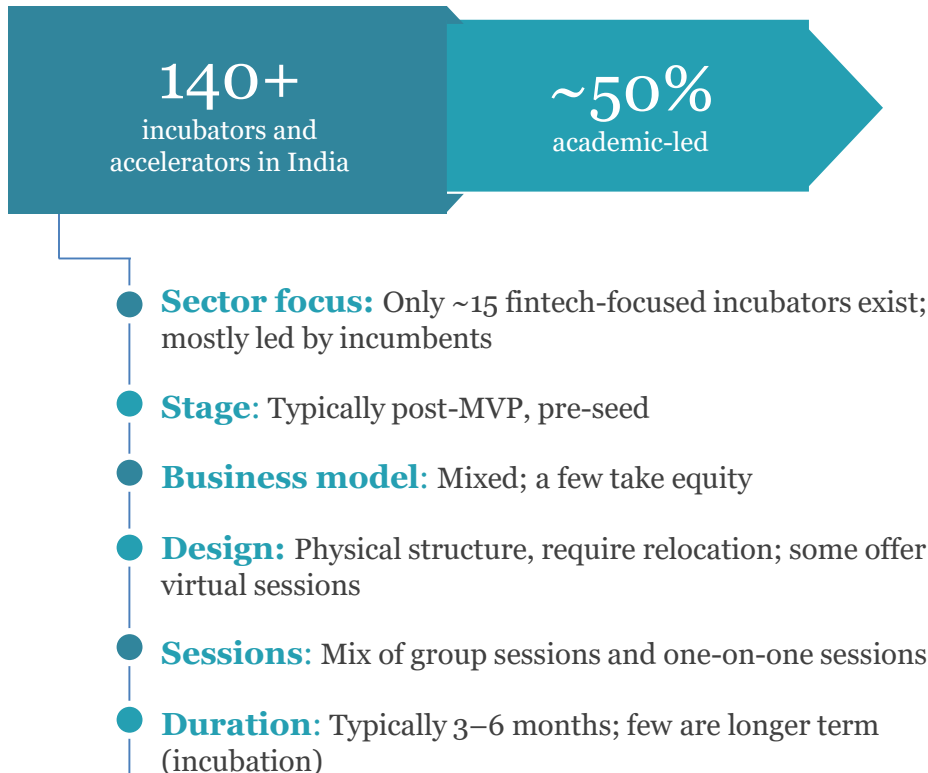
## Chapter 4

Understanding the existing incubation landscape –  
What's missing?



# Most incubator and accelerators programmes are generic and offer similar light-touch support to incubatees

Most incubators and accelerators are sector-agnostic...



... and offer standardised services with little or no catalytic support



# Moreover, these programmes are not designed to build capacity to serve the LMI segments

## Fintechs value the positive support received during incubator programmes



Connection with **investors**



Connection with **experts and mentors** (on-demand)



Pilot to test **product-market fit** in live environment



Support with **business orientation**



**Means of validation or acknowledgement**

## However, a few critical elements are missing in the current models



**Sector or segment-agnostic** programme



Little **understanding** of the LMI market segment



**Limited partnerships** (for instance, banks, MFIs, etc.)



**Interference** with original business idea or model



**Mixed experience** with pilots



## Chapter 5

The financial inclusion lab –  
Building the fintechns for the  
underserved and the unserved



# The lab<sup>1</sup> will provide customised services to fintechs focussed on the LMI segments

The lab will continue to offer foundational support ...

Legal, HR,  
accounting,

Interpersonal  
skills

Marketing and  
PR

Inclusion  
Lab

... and will customise offering to support LMI fintechs

Effective incumbent  
partnerships

- MFI, small finance bank (SFB), payment banks, and commercial banks as partners

Funding, access to  
investors

- Impact investors
- Donors

Mentors

- Distinguished mentor network
  - LMI-focused practitioners
  - Sector experts and policymakers
- Higher consulting time (30 /50 hours)

Business  
orientation

- Thought-partnership to support original idea

Catalytic support

- Quick proof of concepts (PoCs); rapid prototyping
- Pilot implementation support

“We are not in the business of schooling people.”  
– An accelerator manager

# The inclusion lab will provide differentiated services, create resources for the entire incubation universe, and focus on ecosystem development

Design a practical, customised curriculum and enable cross-learning from global programmes such as [CFSI](#)<sup>1</sup> and [FIBR](#)<sup>2</sup>

Provide focused support, knowledge and insights about the LMI segment

Strategic mentoring and research support for start-ups working in the LMI segment

Evolve a system for mainstream incumbents to repurpose and adapt business models for un(der)served sector

Catalytic support to amplify and accelerate the trickle down impact to 4–5 years from 10–12 years



“The idea of an incubator should be to solve the top three problems of start-up”  
– An investor

Offer significant hand-holding support – in product and business development

Create a pool of entrepreneurs to trigger change

Create a knowledge repository for public good

Develop an online portal (multilingual) for discussions and networking

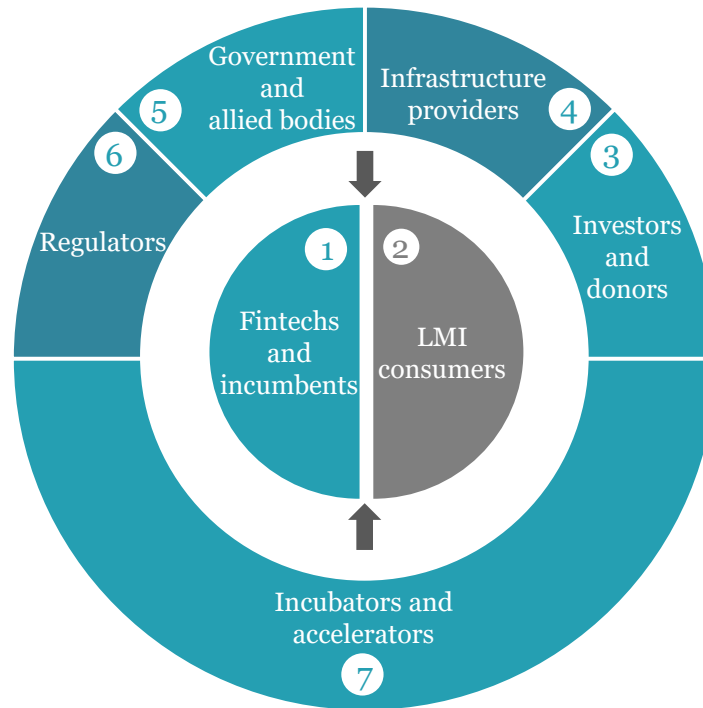


# Annexure

- Annexe A: Details of the project framework
- Annexe B: Definition of key stakeholders
- Annexe C: Snapshot of research sample
- Annexe D: Illustration of stages of a fintech start-up
- Annexe E: Partnership models between fintechs and incumbents
- Annexe F: Socio-economic classification (SEC) matrix
- Annexe G: Personas in the LMI segments
- Annexe H: *MicroSave's* research on orality
- Annexe I: Initiatives taken by central government
- Annexe J: Initiatives taken by state governments

# Annexe A: The seven-pillared framework used to conduct the research

- 1 Fintechs**
  - Current fintech landscape in India
  - Access to capital
  - Outlook on the LMI segments
  - Support required from incubators and other players to focus on the LMI segment
  - Future expansion plans
- 2 LMI consumers**
  - Profiling of fintech users
  - Financial and payments needs of users
  - Access to fintech solutions
  - Behavioural characteristics of users
- 3 Investors and donors**
  - Existing investment portfolio
  - Investment decision approach
  - Perspective on fintechs for the LMI segments
  - Building blocks to develop an enabling ecosystem for fintechs
- 4 Infrastructure providers**
  - Current market landscape
  - Categories of providers
  - Outlook on fintechs for the LMI segments
  - Building blocks to develop an enabling ecosystem for fintechs



- 5 Government and allied bodies**
  - Policy environment for fintechs
  - Outlook on digital infrastructure
  - Delivery channels for disbursing social benefits to the LMI segments
  - Initiatives to build digital awareness and promote financial literacy
  - Building blocks to develop an enabling ecosystem for fintechs
- 6 Regulators**
  - Overview of existing regulations
  - Perspective on fintechs for the LMI segments
  - Vision to promote fintechs for the LMI segments
  - Building blocks to develop an enabling ecosystem for fintechs
- 7 Incubators and accelerators\***
  - Current incubator landscape
  - Process of building a group of incubatees
  - Experience of running incubators
  - Perspective on fintechs for the LMI segments
  - Building blocks to develop an enabling ecosystem for fintechs

# Annexe B: Definition of different stakeholders for the research



**Fintechs** refer to technology-focused or technology-led start-ups that use or provide modern, innovative technologies. Fintechs use technology as a key tool to support or disrupt incumbent financial systems. They offer existing and new banking and financial services to consumers efficiently.



**Incumbents** include established financial services providers that have existed for more than five years and have a significant market base.



**Low- and middle-income segment** refers to households with a daily income of USD 2–10. The LMI segment constitutes approximately 47% of the population in India. This segment tends to have a volatile and variable income. They have limited, if any, access to formal financial services.



**Investors and donors** refer to institutions and individuals who provide financial support to fintech start-ups that operate at different stages. Investors and donors have varying investment models such as private equity, venture capital, impact investors, and angel investors.



**Infrastructure providers** denote market players that develop the digital infrastructure to support fintech solutions. This includes:

- Payment highway providers like NPCI, MasterCard, and VISA;
- Internet service providers;
- Mobile phone manufacturers.



**Government and allied bodies** include government ministries, departments and their initiatives like Start-up India and Digital India, and allied institutions like NITI Aayog and UIDAI.



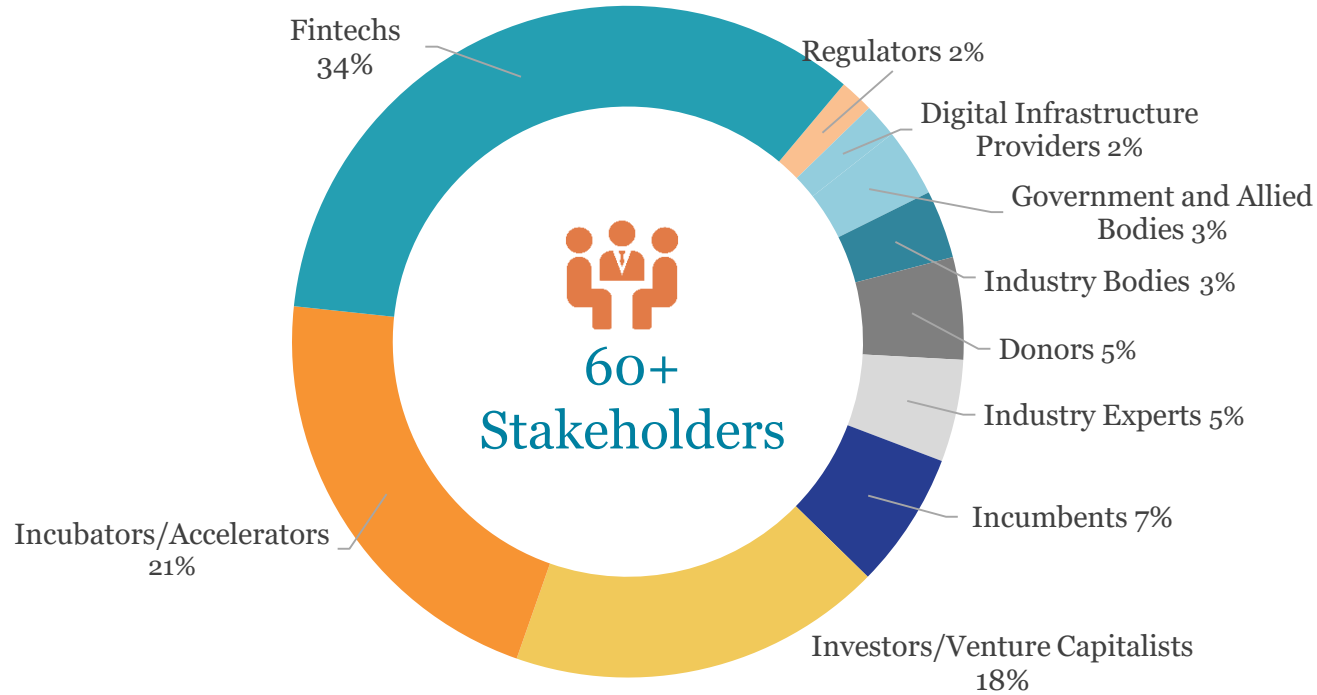
**Regulators** refer to several governing or regulatory bodies that oversee the fintech industry. This includes RBI – the central bank, SEBI – the capital markets regulator, TRAI – the telecom regulator, IRDA – the insurance regulator and PFRDA – the pension regulator.



**Incubators and accelerators** include catalysts that help start-ups grow through knowledge-building, advisory services, mentorship, or financing, or both. This also includes industry bodies such as NASSCOM, FICCI, and mentors or industry experts.







## Fintechs

### Credit



### Insurance



### Payments and transfers



### e-KYC platform provider      Savings and investment



## Incubators and accelerators

### Incubators



### Accelerators



# Annexe C: Snapshot of incumbents, investors, and government and industry bodies

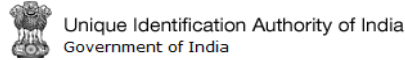
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## Incumbents

### Financial institutions



### Government and allied bodies



### Industry bodies



### Regulators



## Investors

### Seed-stage



### Series A and Series B



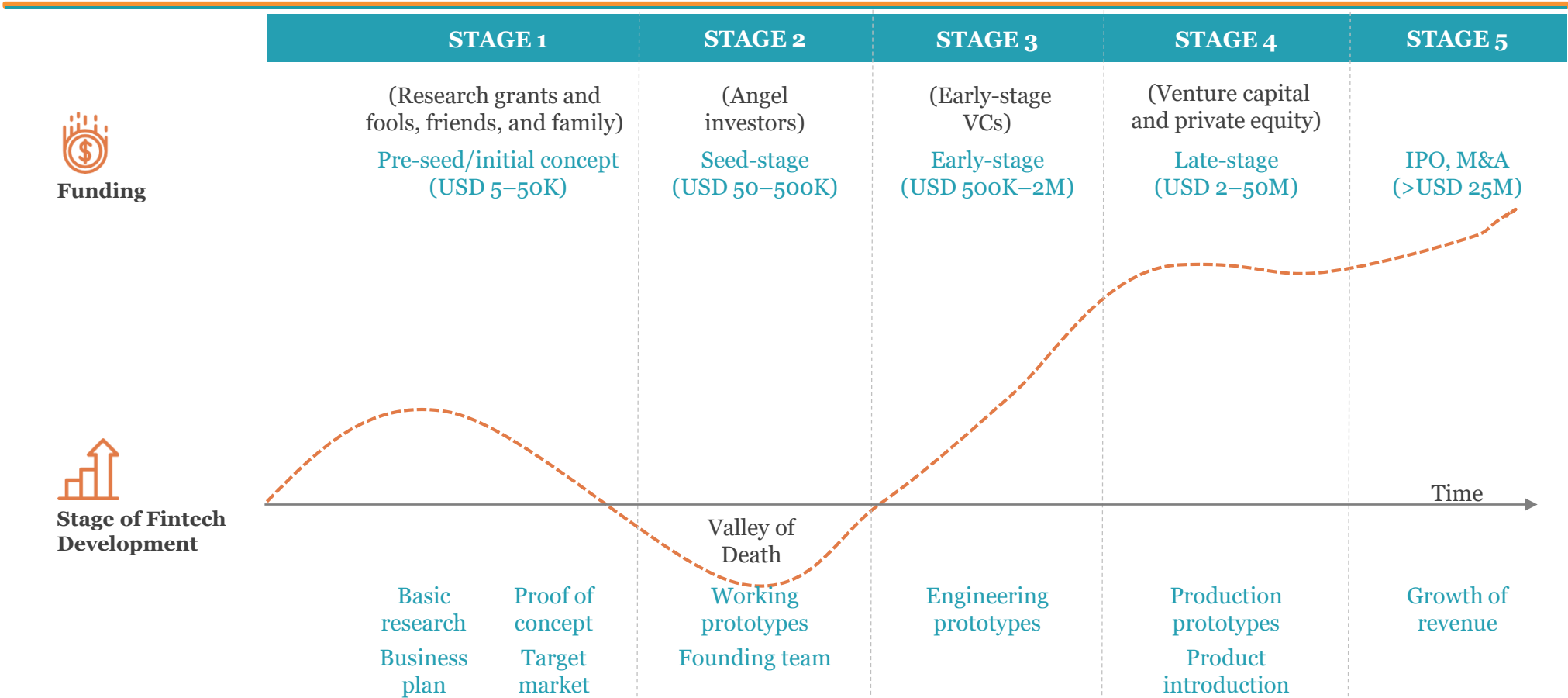
### Donors



### Investment bankers



# Annexe D: Fintech start-ups can be classified under five stages

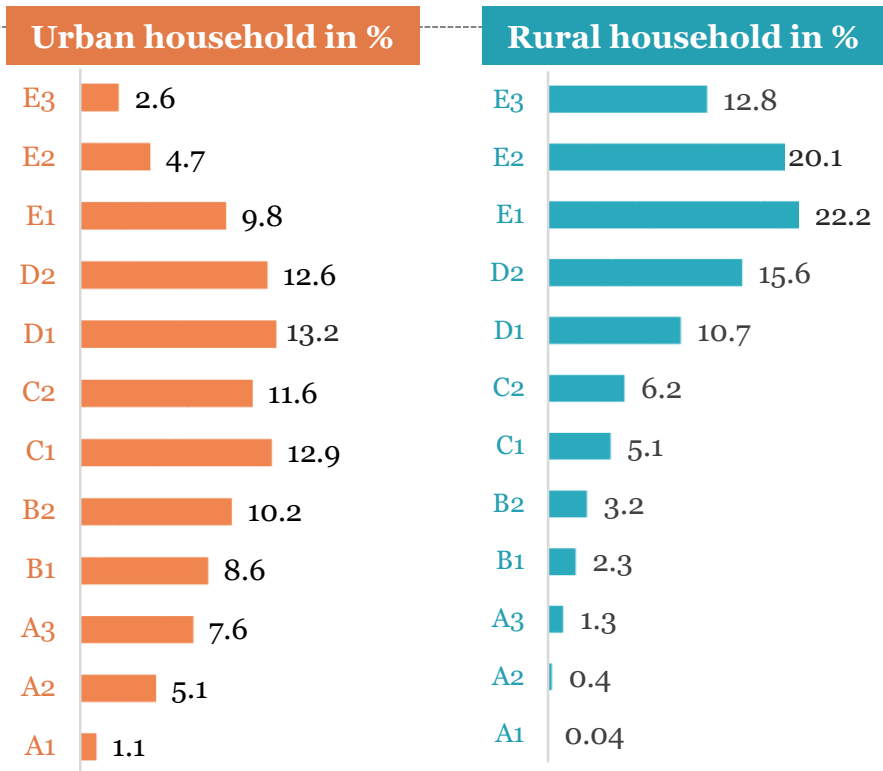


# Annexe E: There is an increasing trend of collaboration between fintechs and incumbent financial institutions

| Both fintechs and incumbents see value in collaboration   | Partnership model     | Banks                           | Fintechs  | Value added  |
|---|-----------------------|---------------------------------|---|--|
| <p><b>While banks can:</b></p> <ul style="list-style-type: none"> <li>Access low-cost, specialised tech solutions</li> <li>Expand products and services</li> <li>Reduce cost of customer acquisition</li> <li>Improve reach and service delivery</li> <li>Improve customer experience</li> <li>Respond to competition faster</li> <li>Deliver innovation</li> </ul> <p><b>Fintechs can:</b></p> <ul style="list-style-type: none"> <li>Access customers and markets</li> <li>Access large data-sets</li> <li>Access capital</li> <li>Access to a huge pool of networks and mentors</li> <li>Gain brand value of the bank</li> <li>Gain customer trust</li> <li>Tackle regulatory challenges</li> <li>Develop risk management expertise</li> </ul> | Supplementary         | RBL<br>HDFC                     | MoneyTap<br>Chillr                              | <ul style="list-style-type: none"> <li>Reduces RBL's operational cost by launching paperless loan processes</li> <li>HDFC launched its own UPI on Chillr's app</li> </ul>  |
|   | Funding-led           | IDFC<br>Kotak Mahindra<br>ICICI | Indifi Technologies<br>CoinTribe<br>CustomerXPs | <ul style="list-style-type: none"> <li>Offers unsecured loans through banks such as IDFC and other NBFCs</li> <li>Offers personal and business loans through banks</li> <li>Helps ICICI Bank to improve customer experience by using intelligent software solutions</li> </ul> |
|   | Accelerator-supported | Axis Bank<br>Yes Bank           | Gieom<br>RedCarpet                              | <ul style="list-style-type: none"> <li>Improves operational efficiency of the bank by using AI technology</li> <li>Helps Yes Bank in reaching out to the student customer base through its platform</li> </ul>   |



# Annexe F: SEC matrix used to estimate the percentage of personas in the LMI segments



| S.No | Items owned                 | Circle |
|------|-----------------------------|--------|
| 1A   | Electricity connection      | 01     |
|      | Ceiling fan                 | 02     |
|      | LPG stove                   | 03     |
|      | Two-wheeler                 | 04     |
|      | Colour TV                   | 05     |
|      | Refrigerator                | 06     |
|      | Washing machine             | 07     |
|      | Personal computer or laptop | 08     |
|      | Car, jeep, and van          | 09     |
|      | Air conditioner             | 10     |
| 1B   | Agricultural land           | 11     |
|      | Number of items owned       |        |



# Annexe F: SEC grid used to estimate the percentage-wise division of various personas in the LMI segments

| No. of durables | Illiterate | Literate but no formal schooling or school up to 4 years | School- 5 to 9 years | SSC/HSC | Some college (including a diploma) but not graduate | Graduate or post graduate: general | Graduate or post graduate: professional |
|-----------------|------------|--|----------------------|---------|---|------------------------------------|---|
|                 | 1          | 2  | 3                    | 4       | 5   | 6                                  | 7                                       |
| None            | E3         | E2   | E2                   | E2      | E2  | E1                                 | D2                                      |
| 1               | E2         | E1   | E1                   | E1      | D2  | D2                                 | D2                                      |
| 2               | E1         | E1   | D2                   | D2      | D1  | D1                                 | D1                                      |
| 3               | D2         | D2   | D1                   | D1      | C2  | C2                                 | C2                                      |
| 4               | D1         | C2   | C2                   | C1      | C1  | B2                                 | B2                                      |
| 5               | C2         | C1   | C1                   | B2      | B1  | B1                                 | B1                                      |
| 6               | C1         | B2   | B2                   | B1      | A3  | A3                                 | A3                                      |
| 7               | C1         | B1   | B1                   | A3      | A3  | A2                                 | A2                                      |
| 8               | B1         | A3   | A3                   | A3      | A2  | A2                                 | A2                                      |
| 9+              | B1         | A3   | A3                   | A2      | A2  | A1                                 | A1                                      |





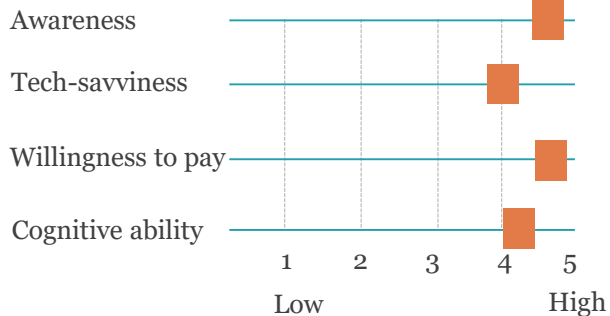
**Rakesh**  
(Money hawk)

Age 38 years  
 Location Urban  
 Education Graduate  
 Profession Salaried, Businessman  
 Traits Mature user, Risk-taker, Ambitious

## How do we identify him?

- Financially independent
- Active user of smartphone and Internet
- Prefers digital modes over physical methods
- Value convenience over fees or charges
- Can influential his social group





## What is his DFS profile?



## What should fintechs know about him?

- Frequent user of digital payment methods
- Expects new fintech solution to simplify life and offer convenience
- Open to experimenting with new digital products
- Recommends digital products and services to a close group

## What can fintechs do for him?

| Product Type | Payments & Transfers  | Credit  | Insurance   | Savings and Investment  |
|--------------|---|---|---|---|
| Need         |  |  |  |  |

- Offer a one-stop-solution in one app
- Offer a great user experience
- Provide financial products digitally
- Develop value-added products and services, which brings more convenience







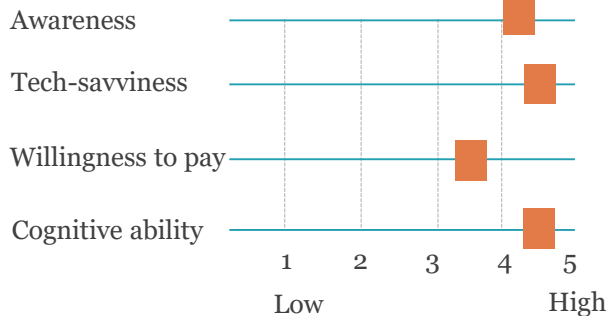
**Aarif**  
(Emergent)

Age 24 years  
 Location Sub-urban  
 Education Graduate  
 Profession Student  
 Traits Exploratory,  
 Tech savvy,  
 Enthusiastic

## How do we identify him?

- Moves with the trends and adopts the latest technology quickly
- Financially dependent on family members
- Active consumer of Internet content
- Highly influenced by social circle
- Aspire to move to or work in the metro cities





## What is his DFS profile?



## What should fintechs know about him?

- Limited understanding of savings and investments instruments
- Believes in mobile-first
- Progressive user of social media
- Online shopper

## What can fintechs do for him?

| Product Type | Payments & Transfers  | Credit  | Insurance   | Savings and Investment  |
|--------------|---|---|---|---|
| Need         |  |  |  |  |

- Offer incentives to drive sustained use
- Create simple user experience while navigating through the app
- Increase use by promoting a variety of use-cases





**Sangeeta**  
(Dependent)

Age 35 years  
 Location Urban and town  
 Education High school  
 Profession Homemaker, Small merchant  
 Traits Cautious, Passive user, Knowledgeable

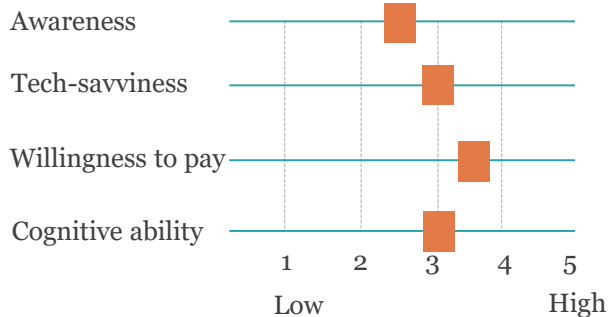
## How do we identify her?

- Conservative with expenses and prefers value-for-money solutions
- Secondary role in decision making
- Relatively new to smartphone and Internet use
- Use digital and social media for entertainment and communications

## What should fintechs know about her?

- Saves up for future goals
- Believes in the potential of technology
- Needs understanding and push to adopt technology and DFS
- Limited experience with DFS

## What is her DFS profile?



## What can fintechs do for her?

| Product Type | Payments & Transfers | Credit | Insurance | Savings and Investment |
|--------------|----------------------|--------|-----------|------------------------|
| Need         |                      |        |           |                        |

- Create intuitive UI with simple user experience
- Credit product with flexible (non-monthly) EMI options
- Offer money-saving schemes and products
- Build awareness about various use-cases
- Build trust around transaction security





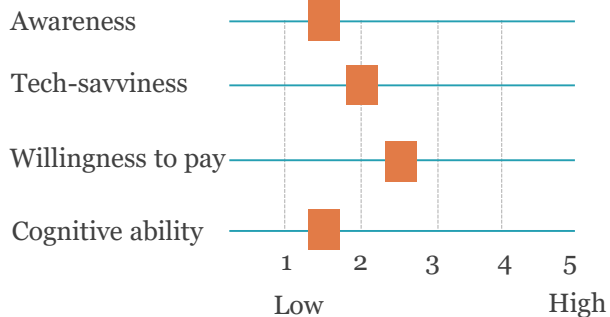
**Shambhu**  
(Vagrant)

Age 45 years  
 Location Town & rural  
 Education 5<sup>th</sup> Standard  
 Profession Auto Driver, Migrant  
 Traits Late adopter, Variable income

## How do we identify him?

- Self-employed with variable income
- Faces financial and cognitive challenges
- Owns a basic phone, but aims to upgrade to a smartphone
- Prefers to avoid any visit to the branches

## What is his DFS profile?



## What should fintechs know about him?

- Limited digital experience
- Conducts assisted transactions
- Needs significant training and push to try DFS
- Believes banks are not for him
- Keeps migrating, so access is an issue

## What can fintechs do for him?

| Product Type | Payments & Transfers | Credit | Insurance | Savings and Investment |
|--------------|----------------------|--------|-----------|------------------------|
| Need         |                      |        |           |                        |

- Design UI using 'relevant', intuitive images
- UI and communication in the vernacular language
- Provide agent-assistance for the first few transactions
- Provide icon or option for quick recourse
- Provide proof of transaction in near real-time
- Raise awareness using agent outreach





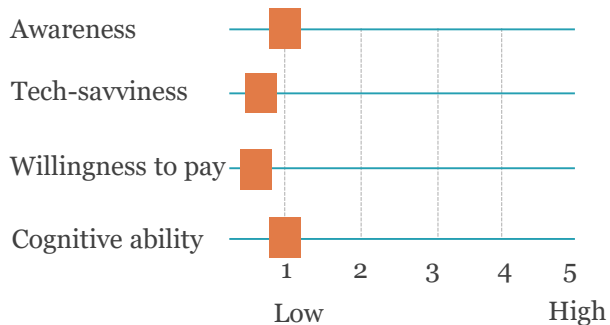
**Kunti**  
(Sceptic)

Age 56 years  
 Location Rural  
 Education Numerate  
 Profession Unemployed, dependent  
 Traits Traditional, Risk-averse

## How do we identify her?

- Unemployed
- Dependents on family members for basic amenities
- Limited education
- Limited role in family decision making
- Highly resistant to change or to DFS uptake





## What is her DFS profile?



## What should fintechs know about her?

- Strong preference for cash
- Dark on Internet
- No trust in technology
- See no value-add from DFS

## What can fintechs do for her?

| Product Type | Payments & Transfers  | Credit  | Insurance   | Savings and Investment  |
|--------------|---|---|---|---|
| Need         |  |  |  |  |

- Offer financial solutions over USSD channel to basic phone users
- Use IVR in vernacular language for communication
- Provide agent-assistance for transactions



# Annexe H: The government of India launched the 'Start-up India' initiative to empower start-ups to grow through innovation and design

The action plan for the start-up ecosystem is based on three pillars:

## Simplification and hand-holding

- The Startup India hub will act as single point of contact for the entire startup ecosystem to enable knowledge exchange
- Compliance regime based on self certification to reduce the regulatory burden on startups and faster exits for startups by making it easier to wind up operations.

## Funding support and incentives

- Funding support through a 'Fund of Funds' with a corpus of USD 1.5B for development and growth of innovation driven enterprises.
- Tax exemption to startups for three years to stimulate the development of start-ups in India.

## Industry-academia partnership and incubation

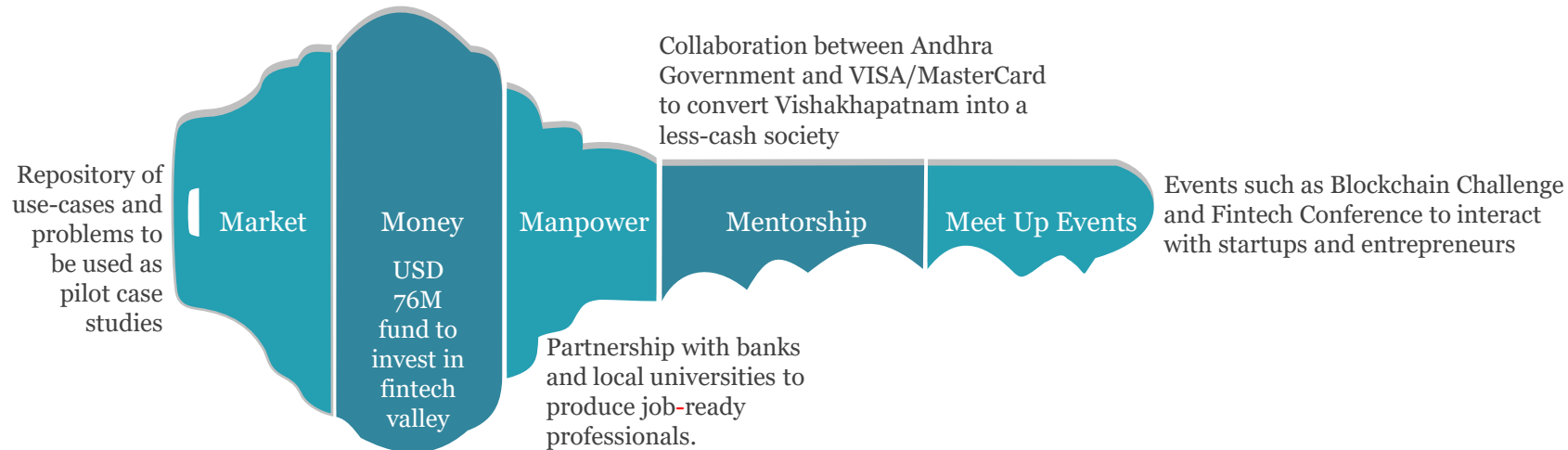
- Organisation of start-up fests to showcase innovation and to provide a collaborative platform.
- Policy and framework for setting up of incubators across the country in public-private partnership to augment incubation, and research & development (R&D) efforts.



# Annexe I: Some state governments have also undertaken initiatives to promote start-ups and fintechs

## A. The Andhra Pradesh government has launched 'Fintech Valley Vizag' in partnership with KPMG

The key ingredients to accelerate ecosystem development in Vizag depends on the '5M' strategy



## B. The Uttar Pradesh Government sets up 'start-up fund' to encourage start-ups in the state

- A fund of USD 156M has been set up to encourage start-up schemes.
- In addition, the state government also plans to sign a Memorandum of Understanding (MOU) with SIDBI.

## C. The Chhattisgarh Government will distribute free smartphones across the state

- Under the Sanchar Kranti Yojana (SKY), 2017, the state government will distribute 5.5 M smartphones across the state to reduce the digital divide.
- The smartphone will be issued in the name of the female member and will be pre-linked with Aadhaar and bank accounts of the beneficiaries.



# Annexe J: MicroSave developed user-friendly interfaces of mobile wallets for providing a superior customer experience to the oral segment<sup>1</sup>

## Key characteristics and findings relating to the oral segment

### Demographic profile

- Age-group (26–35 years)
- As men have more exposure to the cash economy, they have stronger mental calculation skills than women.



Relative Size

### Numeracy capabilities

- Confuse placing digits together (for example, zeros)
- Not familiar with the new Rupee symbol (₹)
- Numeric cognitive disability inhibits the use of mobile wallets
- Counting cash is based on colour and relative size of the note

### Understanding of the mobile application interfaces

- Common use-cases are bill payments, merchant payments, and sending or receiving money
- Understand clearly depicted icons (for instance, arrows showing the movement of money)
- Understand vernacular language but not English
- Takes cues from colours (for instance, green to proceed and red to cancel).

## Providers can engage in innovation to cater to the oral segment

- Treat the oral segment as separate and distinct. (for instance, by adopting a different onboarding and training approach)
- Identify relevant strengths and weaknesses of users
- Build an open-source library of icons of the oral segment that address the full range of DFS (for example, an image of a pin or lock and key may be used for PIN password)
- Use icons for clear representation (for example, showing a hand with currency pointing downwards clearly depicts that money is being given)
- Maximise usability, guess-ability, learnability and re-usability



## About J.P.Morgan

J.P. Morgan is a leading global financial services player, with a presence in India since 1922. J.P. Morgan provides a comprehensive range of Corporate & Investment Banking, Commercial Banking, Asset & Wealth Management, and corporate functions services and solutions to our clients. India is a key market for J.P. Morgan and the firm has consistently invested in the India business, which has been growing steadily. J.P. Morgan is among the country's leading players in almost all of its businesses and primarily caters to the firm's global clients with business interests in India and local multinationals growing their footprint internationally. India is also home to the Global Service Centre, which services J.P. Morgan's businesses around the world in the areas of operations, technology and research.

## About *MicroSave*

*MicroSave* is a leading international consulting firm that offers practical, market-led solutions focused on enhancing access to financial services to the low and middle-income segments. *MicroSave* has worked in more than 50 countries across Asia, Africa & Latin America, with more than 450 clients. *MicroSave* has been working with various national and international clients for nearly two decades as a locally based international consulting firm on guiding policies & facilitating partnerships to develop enabling eco-systems, providing comprehensive, customised strategic advice and delivering actionable, on-site operational assistance for financial inclusion. For more details about *MicroSave*, visit <http://www.microsave.net/>

## About CIIE

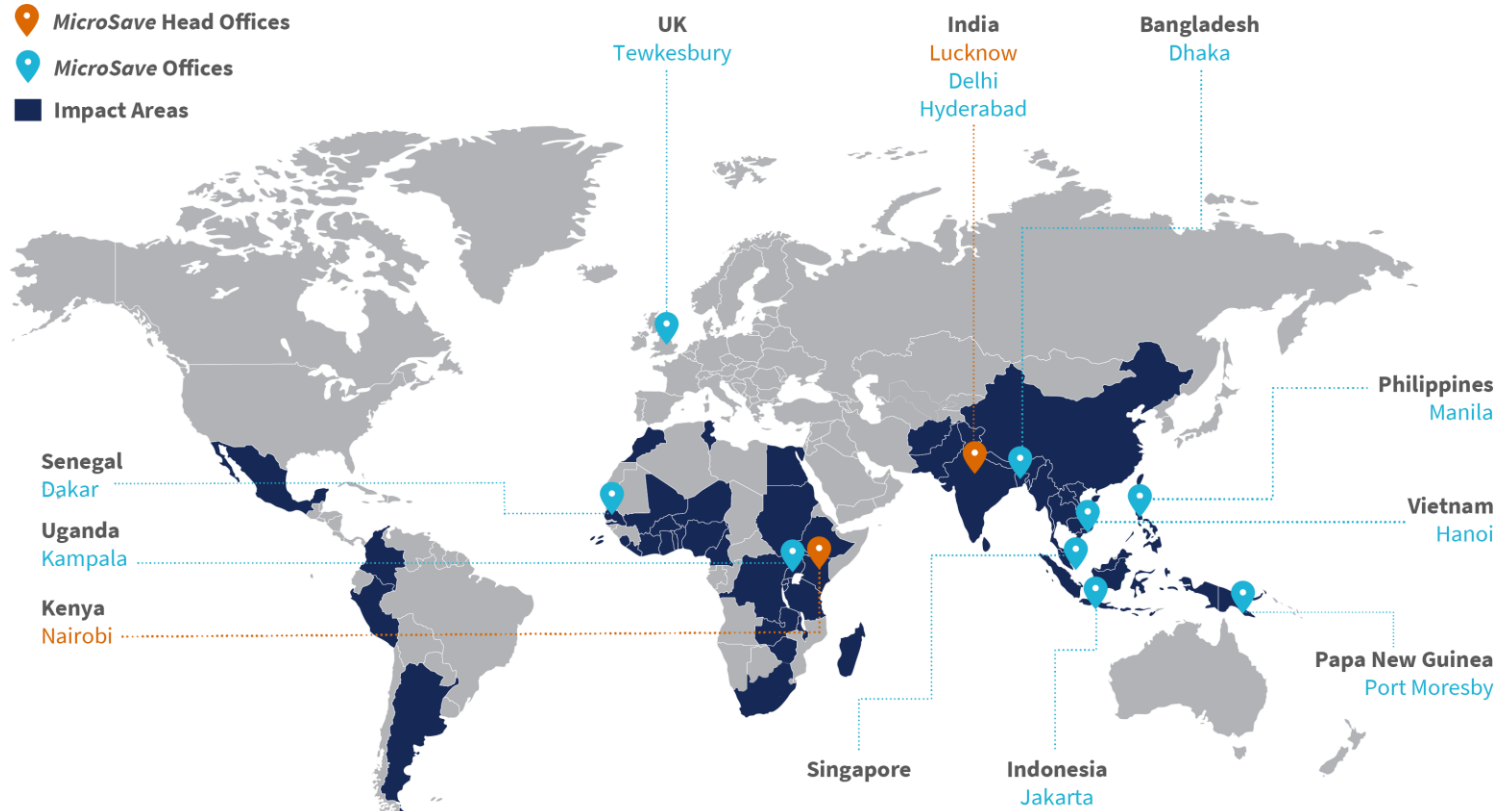
Centre for Innovation Incubation and Entrepreneurship (CIIE) at IIM Ahmedabad helps entrepreneurs turn ideas into viable businesses. In partnership with their mentors, corporates, development agencies, IIMA community and investors, CIIE cultivates a rare breed of entrepreneurs by incubating, accelerating, mentoring and funding innovative start-ups. CIIE has, over the years, played a multi-dimensional role in the entrepreneurial landscape of India through its incubators, accelerators, seed-investments, and publications. Its deep understanding of the evolving gaps, needs, and opportunities in the markets and the entrepreneurial ecosystem has enabled it to design initiatives that have attracted and supported the best entrepreneurs in various sectors. For more details about CIIE, visit [www.ciie.co](http://www.ciie.co)



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