Impact of COVID-19 on FinTechs

Country: India

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BHARAT INCLUSION INITIATIVE
BY CIIE.CO
MSC
MicroSave Consulting

About this report

- The early part of 2020 has been a nightmare for India. The rising cases of COVID-19, countrywide lockdowns, and fear of contracting the virus have taken a toll on the physical, mental, and economic well-being of the people.
- In this report, we will assess the impact of the COVID-19 pandemic on the FinTech ecosystem of India. Until the COVID-19 struck, the Indian FinTech industry was growing rapidly. It was rolling out the products and services based on gaps in the existing financial services and attracted private capital at an unprecedented pace.
- How has the pandemic affected the FinTechs? What measures have the policymakers taken? Are these measures impactful for FinTechs? What are the investor sentiments for this sector? This report will attempt to answer some of the questions. This is the first in the series, as we expect some more changes as we go along. We will feature two more phases in the rest of 2020.
- We spoke to a mix of early-stage and established FinTechs, impact investors, PE and VC investors, and tech associations. We have combined this data with credible public sources of information and applied strong data and sentiment analytics to bring forth our analysis and insights through this report.

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MSC conducted a country-wide study to gauge the impact of COVID-19 on FinTechs

Key objectives of the study

01 Assess the impact of COVID-19 on early-stage and established FinTechs

02 Understand the coping strategy of FinTechs and their survival plans

03 Determine investor sentiments and their response to the ongoing crisis

04 Analyze policy implications of the government and regulators on FinTechs

05 Understand major policy and regulatory concerns of FinTech startups and bring them to the forefront

Structure of the report

Section 1: Executive summary

Executive summary

Phase I	Phase II	Phase III
Apr '20 - Jun '20	Jul '20 - Sep '20	Oct '20 - Dec '20

- MSC will conduct the study across **three phases** over nine months. The current report is based on a study of **phase I**.
- The next report will enhance this report based on discussions and development in the market.
- From 2014-2019, the investors favored FinTech sector heavily. They pumped **USD 8B across 1,031 deals**[1], which led **to an investment growth rate at a staggering CAGR of ~28%**[2].
- However, the lockdown imposed to mitigate the impact of COVID-19 has disrupted the ecosystem. Various economic activities came to a standstill, especially "non-essential" services. Many FinTechs also find themselves in a precarious position due to declining cash reserves and hardly any revenue. The highlights of this study are as follows:

Customer sentiment

- **Risk aversion:** New customer onboarding is almost nil across all categories except **InsurTechs.**
- **Policies:** While the pandemic has hurt FinTechs, the government has taken adequate steps to assist them, so far.
- **New trends:** Digital payments and sales for InsurTechs offering COVID-19 related policies are on the rise.

Business and raising capital

- **Survival risk:** 60% of early-stage FinTechs find themselves with as little as 3-4 months of runway.
- **Cost-cutting:** Burn rates have been slashed by as much as 57%, with 25-30% pay cuts being introduced.
- **Fund-raising:** With no new investments, investors are only supporting their portfolio companies.

Silver linings

- **Product innovations:** FinTechs are using this period to innovate products and processes to make them more customer-centric and disruption-proof.
- **Bullish segments:** Rise in offline merchant payments and Kirana-tech due to the shift to mom-and-pop stores to source essential goods.

Section 2: Recommendations

Based on the current pandemic situation and the anticipated new normal, we recommend the following interventions by relevant actors in the rebuilding process for the FinTech industry

Challenges	Who should intervene ?	What should be done ?
FinTechs face prohibitively high cost of compliance, such as KYC rules, data localization, etc.		• **Paper-less acquisition**: Allow paper-less processes such as eKYC for FinTechs and expand their scope to other use-cases • **API-based compliance**: Enable API-based workflows for handshakes between FinTech and regulators such as SEBI and IRDAI
FinTechs with physical onboarding touchpoints have recorded zero customer growth		• **Remote assistance***: Utilize video verification and messaging platforms to onboard customers through link-share • **End-to-end digitalization***: Digitalize and automate customer onboarding and engagement as well as back-end processes
More than 60% of early-stage FinTechs have less than four months of runway		• **OPEX reduction**: Preserve cash by deferring bonuses and variable payouts. Move from license-based tools to subscription-based SaaS tools • **Innovation**: Reallocate budget to CAC-reducing innovations to enhance the chances of increase in capital after the pandemic
With up to 94% reduction in monthly revenues, FinTechs need fresh capital to rebuild		• **Survival planning**: Help founders plan with multiple **scenario analysis** accounting for uncertainty at all levels • **Catastrophe capital**: Investors should ear-mark funds as **catastrophe capital** focused on quick disbursal and portfolio survival

Policymaker Investors Accelerators such as the FI Lab Startup teams

* Within regulations

However, due to uncertainties of lockdowns and duration of the pandemic, the recommendations will change or strengthen based on the situation

Challenges	Who should intervene ?	What should be done ?
The pandemic has disrupted the business models of many FinTechs		• **Strategic consolidation:** Identify larger players with relevant use-cases for acquihires and M&A to avoid losing negotiating power in distress deals • **Pivot:** Be agile to adapt business models that decrease CACs and increase LTVs. Re-align larger variable components of salaries to revenues. Enter into revenue sharing agreements with partners.
FinTechs are likely to face a prolonged period of softened demand as consumption decreases across India		• **Tax boost:** The government should lower the rates of Goods and Services Tax (GST) levied on digital payments to increase adoption • **Nudge:** Create awareness campaigns in localities to promote health benefits of contact-less payments
Due to travel restrictions, startups are struggling with new business origination		• **Community engagement:** Create community engagement tech platforms as a first stop for portfolio companies • **Network:** Early-stage FinTechs should forge partnerships with established players to build identified use-cases
Pandemic-induced behavioral changes have adversely affected customer acquisition strategies and product-market fit		• **Technical assistance:** FinTechs should relearn user behaviors in the ensuing wave of adoption of digital payments • **Product prototyping:** As consumers move towards contact-less transactions, FinTechs need to modify existing and new products to map to the newly created consumer segments

Policymaker Investors Accelerators such as the FI Lab Startup teams

Section 3: Role and impact of ecosystem players on FinTechs

Investor sentiment: Focus on portfolio companies; risk-aversion for new investments

What investors are thinking about:

01 **Survival rate:** Investors have identified resilient entrepreneurs who can increase their runway through revision of sales forecasts and scenario analysis with tranches of cost-cuts.

02 **Allocation of capital:** Investors have largely prioritized the survivability of existing portfolios over new investments, with large global VCs earmarking additional capital as survival funds to help portfolio companies.

03 **Valuations in the near term:** : Investors expect valuations to drop by 15-20% across the board with smaller and investment rounds. Entrepreneurs can expect more questions around RoI, remote working capabilities, and frugal use of capital.

04 **Recovery:** It will not be a V-shaped curve with quick recovery. The process will be long drawn and stretch over 9-12 months after the pandemic. The peak of the crisis will see M&A activities, which could consolidate the segment and ensure that only the **fittest survive.**

Outlook on future FinTech investments

Savings FinTechs	The pandemic has caused savings to slip down the hierarchy of financial needs. This sector is hence likely to have a long spell of muted growth or even de-growth before investment levels and the wallet share of consumers bounces back to pre-pandemic levels.
Credit FinTechs	With the repayment moratorium in place and softened demand, credit FinTechs will likely suffer from reduced investor traction in the short to medium term. In the medium to long term, the demand for credit is expected to rebound, resulting in increased investor interest in digital credit.
InsurTechs	India has an insurance penetration of just 3.7%. Combined with increased awareness translating into demand in a post COVID-19 world, InsurTechs are likely to see increased inflow of funds in the near term and overall business buoyancy.
Enablers and payment	Enablers are likely to lead inflow of funds with a two pronged approach. Payments and similar businesses will benefit from digitization of customer engagement; automation services are likely to help businesses transform digitally and align with the post-COVID world.

Regulators, policymakers, associations, accelerators have introduced various measures to tackle the crisis

Measures introduced

01 RBI

RBI has asked lenders to offer moratoriums on loan EMIs to borrowers until 31st May, 2020. The date has now been extended to 31st Aug, 2020[1].

Impact: While retail borrowers have benefited from this move, lending FinTechs and smaller NBFCs face severe liquidity crunch as banks are unwilling to extend a moratorium to them.

02 SEBI

SEBI has allowed *Aadhaar*-based digital KYC for nine market intermediaries, such as BSE and NSE[2].

Impact: With increasing TATs due to the lockdown, this announcement will likely bring down KYC-TATs and lower the rates of errors by intermediaries and depository participants.

03 IRDAI

IRDAI has allowed an additional 30 days for the payment of renewal premium of life insurance policies.

Impact: In addition to the relief provided to affected customers, this move has helped InsurTechs improve their persistency ratios.

04 NASSCOM

In view of the suggestions from NASSCOM, GoI has extended the deadline for tax payments to November 30, 2020.

Impact: FinTechs can instead use this capital to tide over the period of economic inactivity.

05 Accelerators

Leading accelerators such as Sequoia Surge, Y-combinator have taken the program and demo-day online respectively

Impact: Early-stage startups are likely to benefit from the move. They will now receive mentorship, business continuity support, and pandemic-survival strategies through digital channels.

[1]livemint | [2]https://bit.ly/30a3Mxp

MSC

Policy measures introduced by the Government of India to mitigate the impact of COVID-19 and their impact on FinTechs

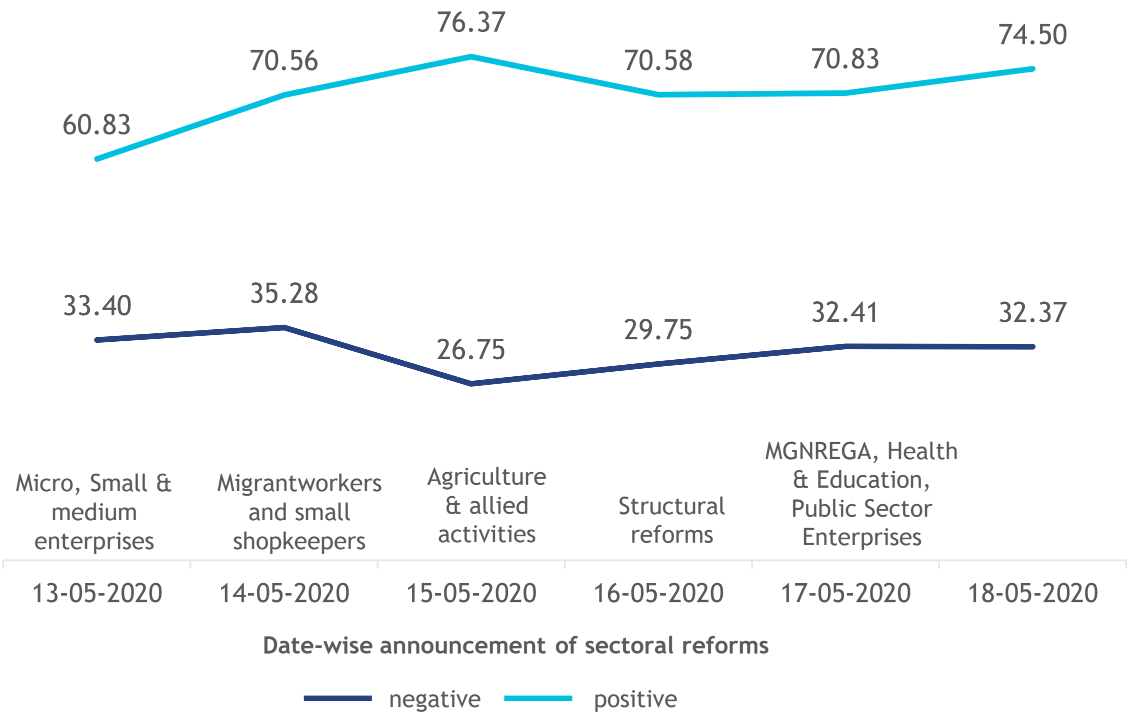
Policies	Impact	Insights
Liquidity infusion of USD 3.25 billion announced under TLRO 2.0 for smaller NBFCs	↔ D	With no credit guarantee, banks refrained from passing on the offered liquidity to smaller digital NBFCs. A few banks also found the fund deployment time limit of 45 days too small a window to effectively appraise riskier NBFCs before lending to them.
Extension of repayment moratorium until the end of August	↓ D	Unless liquidity is provided to all classes of NBFCs, the extension of repayment moratorium and moral hazard from borrowers can derail “at-risk” NBFCs and credit FinTechs.
Around USD 4.85 billion to be given to NBFCs under the credit guarantee program with 20% first loss borne by GoI	↑ D	A welcome move, this is likely to catalyze the injection of liquidity in smaller NBFCs by partial de-risking, as banks find the confidence to lend to riskier and smaller lenders.
200 million PMJDY account holders to get USD 6.5 per month	↑ I	FinTechs riding on DBT rails such as payment banks and BC FinTechs are likely to benefit as CICO transactions increase in the wake of large-scale G2P payments.
Early-payment of PM-Kisan installments to farmers	↑ I	InsurTech players focused on crop insurance are likely to benefit as farmers get liquidity for policy renewals. Farming activity is expected to get a boost as lockdown induced reverse migration results in increased workforce in rural India.
Global tenders up to USD 26 million to be disallowed	↑ I	As India Inc. benefits from domestic manufacturing and service, MSME-focused lending FinTechs can expect a greater demand for working capital.
Approximately SD 6.5 billion as a fund of funds for MSMEs who have potential but need hand-holding during the pandemic	↑ I	The fund of funds can act as risk capital to help MSMEs rebuild while subsequent credit from MSME-focused credit FinTechs can be used in economic value-generation projects.

D Direct impact   I Indirect impact

Overall, India responded positively to the USD 26 billion COVID-19 relief package

A sentiment analysis of Twitter data indicates that the public responded to the policy announcements with optimism

Negative vs positive sentiments (in %)

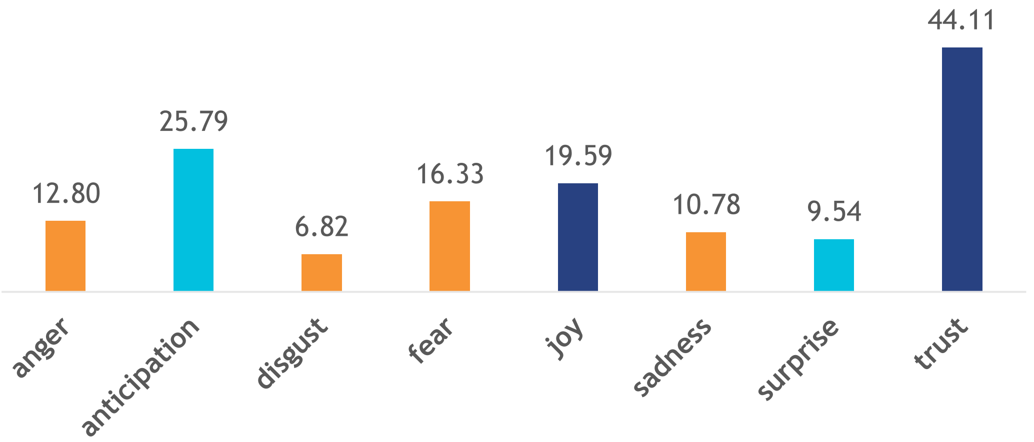


The positive sentiment indicates optimism in the steps taken by GoI

Data was collected using the hashtags: #aatmanirbharbharat", "pmcaresfund", "#nirmalasitharaman“ and "#aatmanirbharbharatpackage”

The analysis was conducted from 13th May to 19th May, 2020. The number of tweets for each day exceeds 5000 (including retweets).

Tweet emotions (in %)



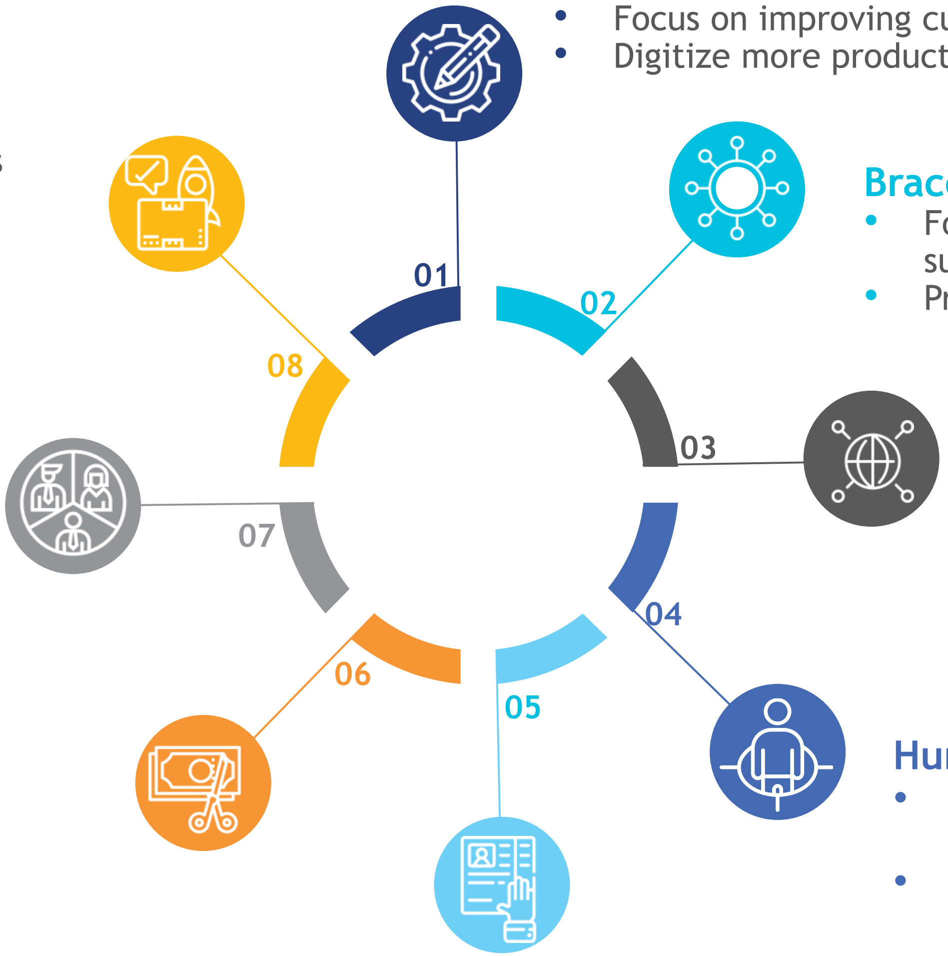
The most common emotion was **trust**, followed by **anticipation** and **joy.** This indicates the people’s trust in the government for reviving the economy.

A pictorial representation of the most common words occurring in tweets

The total percentage count of sentiment and emotions is greater than 100 because some individual tweets can have both positive and negative sentiment

Section 4: Coping strategies adopted by FinTechs

Most FinTechs are devising various coping mechanisms in response to the challenges faced during the pandemic



Optimize existing product features
- Focus on improving customer experience: UI/UX
- Digitize more product features

Brace for fundraising crunch
- Focus on positive unit economics to survive and sustain
- Prioritize collections through digital means

Realign internal processes
- Build better digital infrastructure to respond to social distancing norms

Humanize customer engagement
- Open up more digital customer engagement touch-points
- Gauge the focus and priorities of customers and empathize with them

Change work profiles of the staff
- Transition to remote work
- Multi-skill employees to handle diverse roles

Increase runway
- Introduce pay-cuts up to 50%
- Renegotiate fixed costs
- Cut down variable cost

Target new customer segments
- Identify customers, engaged in essential services for credit

Launch new products
- Introduce need-based COVID-19 insurance policies
- Cross-sell “essential” third-party products

Refer to Annex 4(a) & 4(b) for details

Section 5: Impact of COVID-19 on FinTechs

Savings and investment-based FinTechs face a sudden shock as investors shy away and customers prefer to retain cash in these times of uncertainty

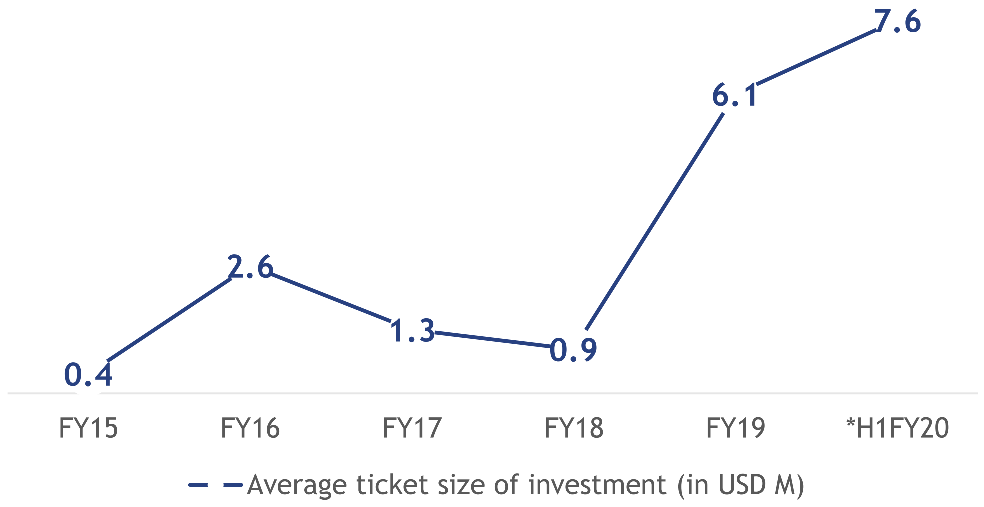
The savings category has grown rapidly in the past two years

- In the past five years, **579** new start-ups attracted investments worth **USD 466 million**, growing at a CAGR[1] of **120%** .
- The average ticket size spiked in the last **two years**, commensurate with the increase in disposable income.

The pandemic led to the withdrawal of funds as well as lack of inflow of new funds

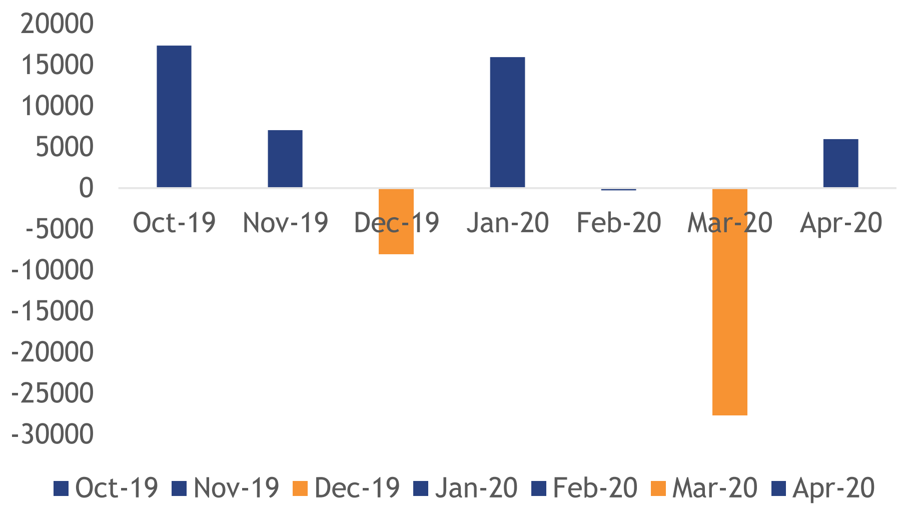
- The fall in global and domestic demand has led to **0% growth in customers,** which signifies softened demand.
- FinTechs reported **NO month-on-month (MoM) increase in new customers** as customers look to preserve cash.
- A few individual mutual fund-based FinTechs reported up to **20% increase in redemptions** over fears of market volatility, with the total industry experiencing a net negative flow of **USD 27.6 million.**

Investments received by savings FinTechs in India



[1]Tracxn | *H1FY20: Apr-Oct 2019

Total mutual fund net inflow (+ve) and outflow (-ve) (in USD M)



Change in market sentiments forced savings and investment-based FinTechs to take a hard look at their product, customer segments, and operations

Key target segments
- Upper-end LMI segment
- Millennials

Key enabling players
- WealthTechs
- Savings-based FinTechs
- Digital ROSCAs

Primary drivers before COVID-19
- Increasing disposable income
- Digital ecosystem
- Better marketing and positioning

Impact on product

- Existing products include debt and equity **mutual funds**
- **No major changes** or introduction of new products by the sub-category
- Startups are analyzing **demand behavior** to pivot or introduce new asset classes

Impact on organizational culture

- **Introduction of pay cuts**, with most founders leading by example
- **Working remotely did not affect** most saving startups. However, physical lag in approvals from chit-regulators to start new groups resulted in regulatory delays for ROSCA-based players

Impact on the business model

- Players experienced approximately **63% drop in revenues.** This renewed the focus on conservation of cash, especially with low unit economics in business models
- **Social distancing** norms have halted **physical customer onboarding** for **FinTechs.** They are hence pushing the envelope for digital play.
- FinTechs dealing with liquid mutual funds witnessed fewer investments but **safe havens such as bank deposits saw a rise**[2] (USD 128 billion) during the lockdown

The volatility in market and regulatory bottle-necks such as lack of e-KYCs adversely affected savings FinTechs.

Refer to Annex 5(a) for details | [1]Tracxn | [2] SBI research

Digital lenders may see some traction from investors but are likely to face disruptions around loan servicing due to pandemic and policy announcements

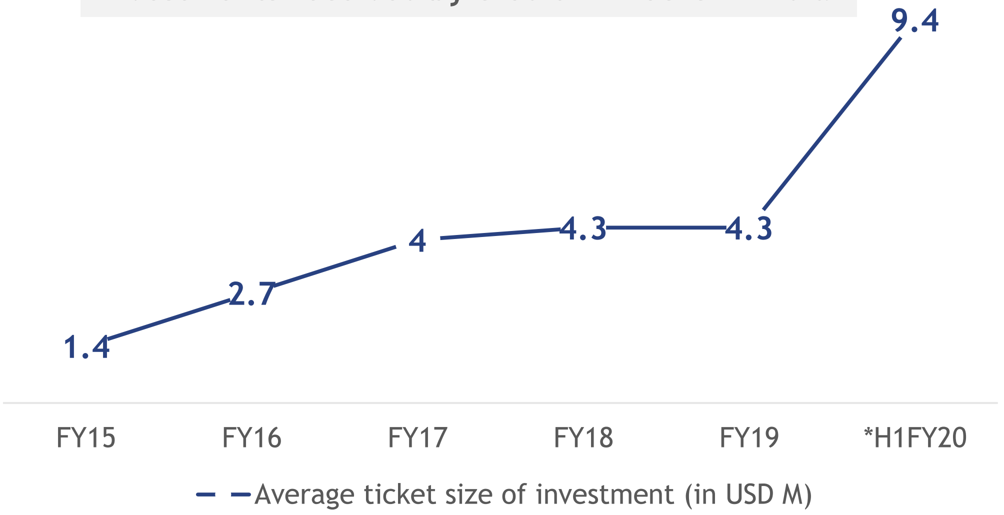
Credit FinTechs witnessed steady growth

- In the past five years, **457** new start-ups attracted investments worth **USD 1.7 billion**, growing at a CAGR[1] of **103%**.
- With a **CAGR of 19%**, the average ticket-size climbed steadily as innovations in underwriting make capital accessible to individuals and MSME

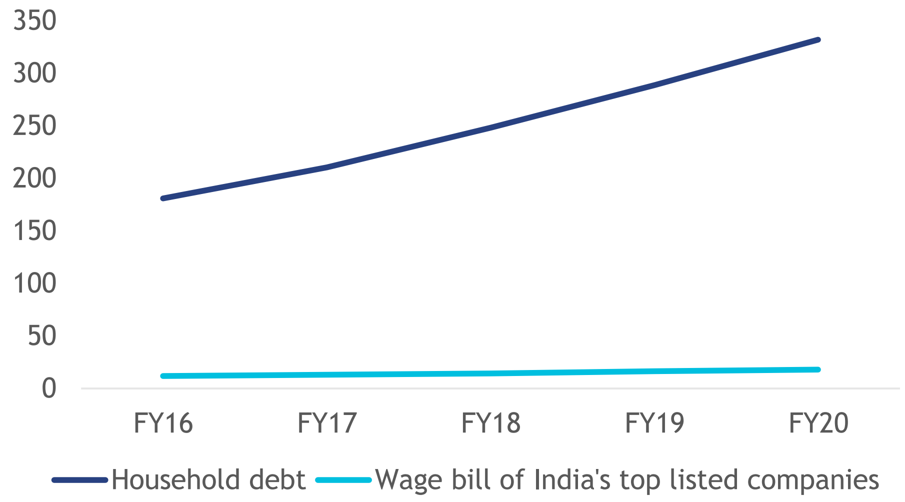
Increased likelihood of over-indebtedness for households

- With slump in demand, **credit need has been hampered** significantly. Credit growth in banks decelerated to **7.6%**[2] in March, 2020.
- **Repayments slowed drastically** and default rates shot up 10%-25% across invoice lending and P2P lending FinTechs.
- While the repayment moratorium provided some relief to the customers, it has added to the liquidity crunch of credit players.
- **Indebtedness is likely to rise** as household debt has grown faster than salaries and wages.

Investments received by credit FinTechs in India



Widening gap between the growth of salary and credit (in USD B)



[1]Tracxn | [2]MSC analysis, RBI | H1FY20: Apr-Oct 2019

Credit FinTechs are facing a liquidity crunch due to the introduction of a repayment moratorium until October 2020. Market sentiments are also not conducive

Key target segments
- LMI segment
- MSMEs

Key products
- Unsecured personal loans
- Working capital
- Consumer durables financing

Primary drivers before COVID-19
- Increasing consumption
- Absence of capital from traditional lenders
- Demand for urban micro-credit

Impact on product

- **Working capital**, unsecured retail credit, and online purchase finance remain relevant products
- **No significant changes** in product offerings across the board
- Increased focus on identification of customers employed in **essential services** bound to have lower risk profiles

Impact on organizational culture

- No large-scale lay-offs initiated in credit FinTechs
- **Pay-cuts** introduced to reduce costs and increase runway
- Social distancing and working remotely did not cause a severe impact

Impact on the business model

- **New ways of customer acquisition** are being tested. For instance, doorstep credit services introduced for cities such as Delhi NCR for retail loan requests up to USD 26
- More than 60% of MSME customers opted for a moratorium, which added to the liquidity crunch of credit FinTechs

The overall credit market risk and falling repayment rates have hit credit FinTechs with a liquidity crunch.

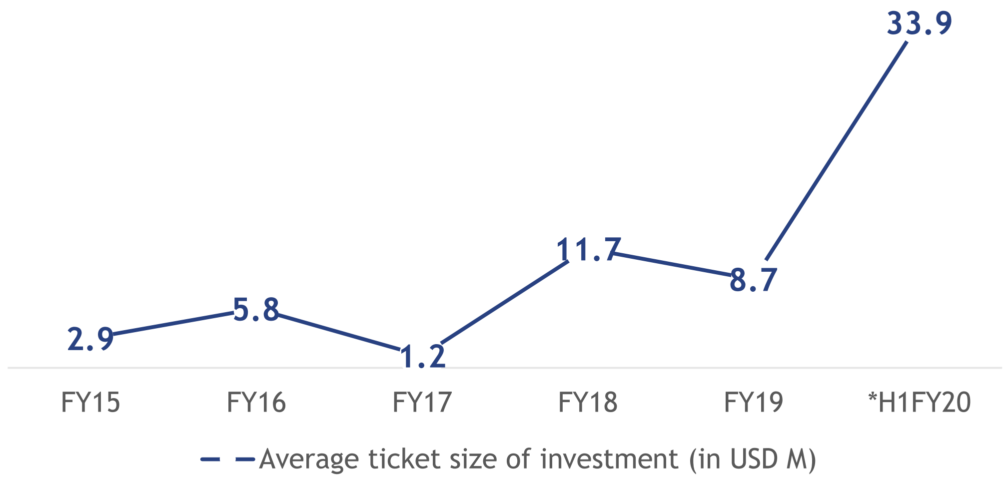
Refer to Annex 5(b) for details

Not surprisingly, InsurTechs stand apart with more traction than ever, both from investors and customers worried about their health

InsurTechs have started to gain traction

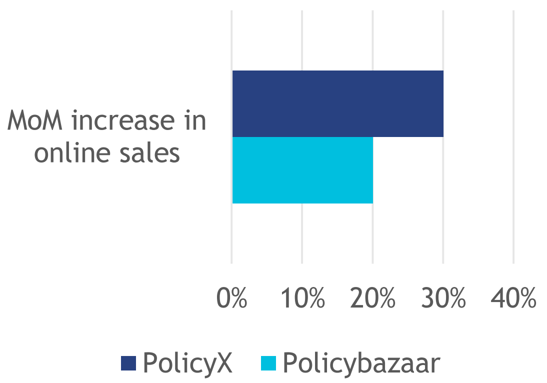
- In the past five years, **129** new startups have attracted investments worth **USD 750 million**, growing at a CAGR[1] of **58%**.
- InsurTechs have begun to gain traction as the average ticket-sizes of investments have picked up this year.

Investments received by InsurTechs in India

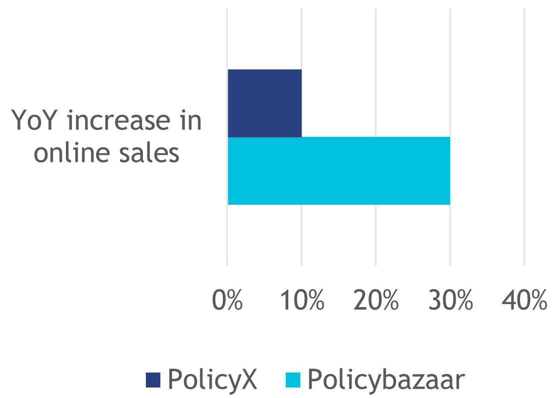


Empirical evidence of demand growth from two large digital aggregators

Month on month (Feb '20-Mar '20)



Year on year (Mar '19-Mar '20)



While physical distribution has suffered, online sales of InsurTechs and insurance manufacturers have soared

- Policybazaar, a major insurance aggregator, **reported an increase in demand** with an almost 20% jump in online sales within 25 days.
- **The LMI segment is unsure about the prioritization** of insurance over the purchase of essential goods amidst the lockdown.
- **Corporates were significantly more interested in** pandemic protection plans for their employees.

[1]Tracxn | *H1FY20: Apr-Oct 2019

Many InsurTechs are pivoting their product, business and staff to service COVID-19 induced demand

Key target segments
- Retail
- Agriculture

Key models
- Web aggregation model
- Tailored B2B2C and B2C products

Primary drivers before COVID-19
- Increased awareness
- Need for tailored products for consumers
- Better customer experience

Impact on product

- Existing products include life, health, crop, motor, as well as mobile and electronics insurance
- InsurTechs, through insurance companies, have developed **need-based COVID-19 products**
- They have started pro-actively informing existing customers on whether their policies cover COVID-19 related illness

Impact on organizational culture

- The InsurTechs we interviewed did not report any layoffs or furloughs
- Pay cuts have been introduced. In some cases, these go beyond **30%** of the salary
- **Regulatory tweaks** such as digital claim settlements have allowed seamless digital operations of InsurTechs

Impact on the business model

- InsurTechs that cater to the LMI segments have a physical leg in their model, typically for customer acquisitions. The pandemic has hit this model hard with **up to 100% drop in business**.
- Across the board, fintechs are **trying to conserve cash** and grow profitability by digitally meeting the rising demand

Despite the increase in leads and demand, the physical distribution of LMI-focused InsurTechs has been adversely affected.

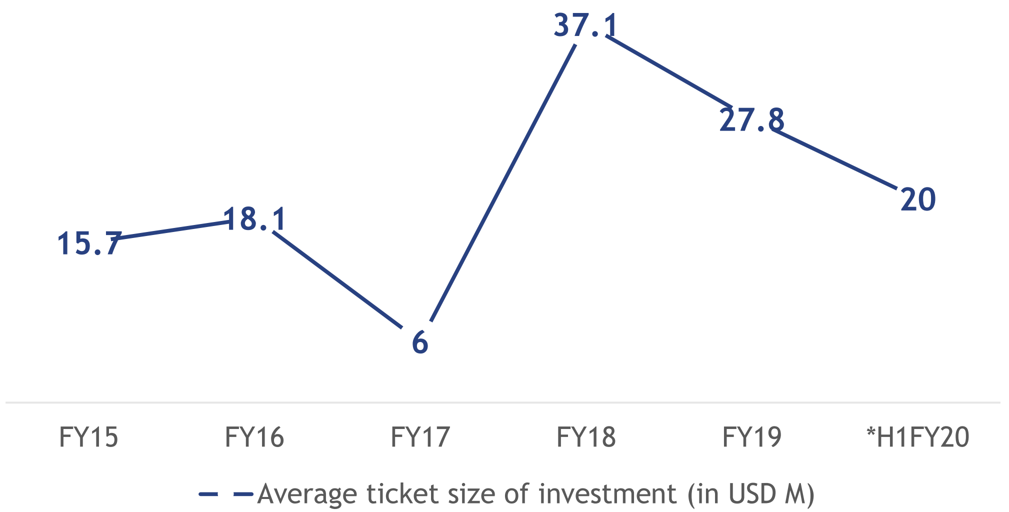
Refer to Annex 5(c) for details | [1]Tracxn

The demand for digital payments, mainly cashouts, has hit an all-time high. This has helped FinTechs active in those areas, such as corporate BCs.

Payment FinTechs, led by two unicorns, have started to reach maturity

- In the past five years, **532** new start-ups have attracted investments worth **USD 4.7 billion**, growing at a CAGR[1] of **17%**.
- Payment FinTechs have reached a matured stage reflected by fewer but large ticket sized investments. However, recent investments by Facebook, the owner of WhatsApp, worth **USD 5.7 billion** into Jio platforms is a big play in the payments space in India, which will come through WhatsApp.

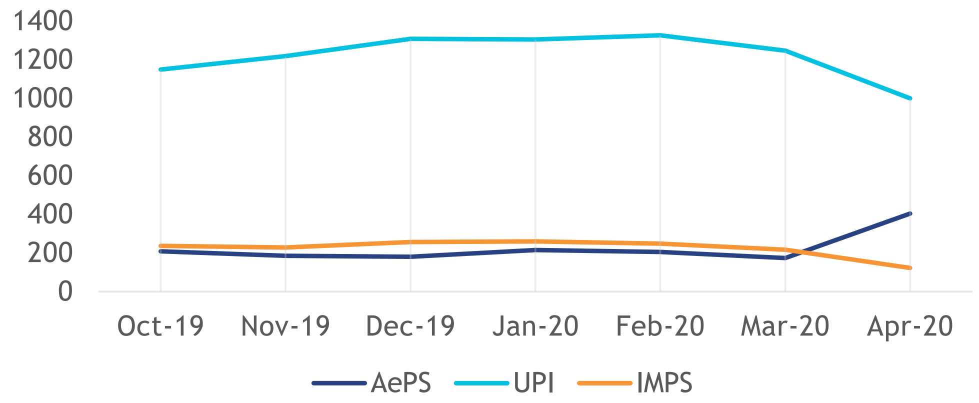
Investments received by payment FinTechs in India



While urban and semi-urban transaction volumes fell, rural CICO activities picked up in March and April, 2020

- With e-commerce at a halt, the LMI segment has largely resorted to cash to purchase essential goods from local mom-and-pop stores.
- The adoption of digital payments in urban and semi-urban areas has gone up.
- Transaction volumes of **IMPS and UPI**, mostly used in P2P and merchant transactions, have been hit. The **50% and 24% MoM drop[2]** is due to a lack of disposable income with migrant workers and limited availability of non-essential services, coupled with lowered consumption.
- AePS transactions increased largely due to G2P payments, mostly in rural areas. 76% of rural BCs reported an increase in CICO transactions[3]

Transaction volume of payment instruments (in M)



[1]Tracxn | [2]MSC analysis, RBI | [3]MSC report on covid impact on CICO agents | *H1FY20 : Apr-Oct 2019

Some digital payments and cashouts of G2P emergency support transfers have changed the behavior of payment FinTechs

Key target segments
- P2P
- Offline merchants
- E-commerce

Key models
- B2B payment gateways
- B2C payment apps
- MSME or Kirana-tech

Primary drivers before COVID-19
- Introduction of India Stack[3]
- Smartphone penetration
- Rising consumption

Impact on product
- IMPS-based products have seen a sharp decline in transactions, from **3.2 million in February to 1.6 million[2] in March, 2020.**
- Merchant payment has picked up with PayTM, a major FinTech, reporting **12% MoM increase** in QR-transactions.
- Bharat Bill Payment System, used to pay for essential utility bills, has seen a **20% increase[2]** in transactions.

Impact on organizational culture
- Payment FinTechs, owing to their more mature stage as compared to other subcategories of FinTechs, have not introduced layoffs or furloughs.
- A few firms have introduced pay cuts and deferred bonus as standard cost-cutting strategies.

Impact on the business model
- Increased **focus on fundamentals** as payment FinTechs look to capitalize on contact-less norms. This translates into a reduction in the cost of customer acquisition.
- Models primarily focused on large-value transactions. For example, hospitality and travel are looking to **pivot to essential services.**
- A few models have **started to charge** for low value person-to-merchant (P2M) transactions.

The lack of complete digitization of mom-and-pop stores have resulted in cash circulation hitting a 12-year high while e-commerce comes to a halt.

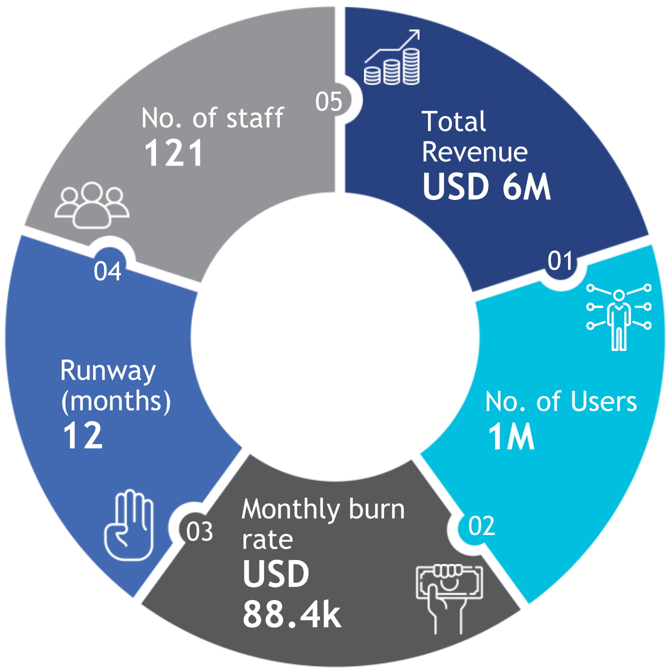
[1]Tracxn | [2] NPCI data and MSC analysis | [3] indiastack.org

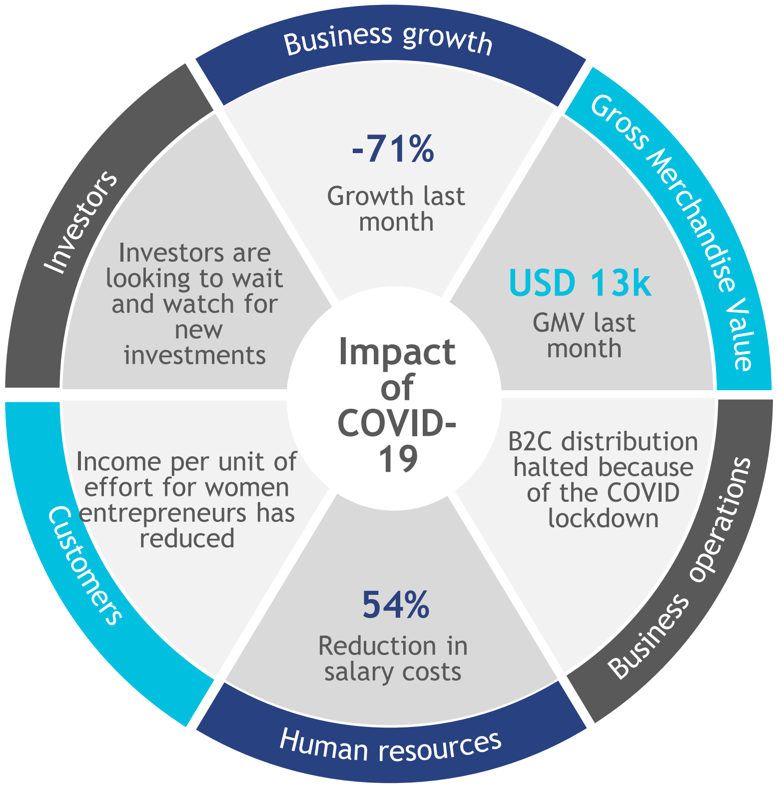
Section 6: Case studies

Case study 1: Frontier Markets (FM)

Last-mile distribution platform of consumer durables and financial products in rural India

Status





Coping strategy

01 **Burn rate**
Cutting down OPEX on salaries and branch expansion

02 **Business model**
Development of a B2C chat-bot for digitalized customer support

03 **Investors**
Series A on track for October, 2020

How is FM rebuilding and recovering from the pandemic ?

Rebuilding focus: Technology and recruitment and training of rural women
Expected recovery time: 3-6 months
Technical support for recovery: Data and analytics
FI Lab’s contribution: We provide technology and data strategies, aid collaboration, and help reach out to right audiences, such as policymakers, grants, investors, etc.

What policies should the government introduce ?

The government should announce support policies that differentiate startups from bigger, established players

Refer to Annex 6(a) for details

Case study 2: A leading digital lending NBFC

Facilitates borrowing for MSMEs, currently within the travel, e-commerce, retail, and hotel segments

Status

No. of staff
400

Funding
USD 10M
Series B

Provides unsecured loans to MSMEs, 90% of which have prior exposure to credit. Most MSMEs also have a transaction history of personal loans, gold loans, etc.

Impact of COVID-19

Demand-side:

- MSMEs from the target segments have been closed for the past two months
- No demand for working capital
- Around 60% of total customers have opted for a moratorium on repayments
- Dependence on physical KYC has further hindered onboarding

Supply-side:

- No new acquisitions in April, 2020
- Around 40% of the lenders have offered a moratorium on repayments
- 0% infusion of new capital from their lending banks

Coping strategy

01 **Coping strategy**
Pay-cuts on staff salaries

02 **Renegotiations**
Software licenses and subscriptions

03 **Investments**
No plans to go to market to raise equity in the next 1.5 years

What policies should the government introduce ?

- Repayment moratorium is necessary for MSMEs. TLRO 2.0 was a good initiative that turned out to be a failure because of the risk-aversion of banks.
- Liquidity should not be the focus of government initiatives since the market already has sufficient liquidity. Instead, the focus should be on mitigating risk aversion by instruments that de-risk investments.

Expected recovery time: 12 months

"We are more worried about the existing liquidity and the adverse effects of rising defaults."

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Section 7: Annexures

Abbreviations used in the report

	Full forms		Full forms
AePS	Aadhaar enabled Payment Systems	**LTV**	Life time value
AMC	Asset management company	**M&A**	Mergers and acquisitions
AUM	Asset under management	**MoM**	Month on month
BBPS	Bharat Bill Payment System	**MSME**	Micro small and medium enterprises
BC	Banking correspondents	**NASSCOM**	National Association of Software and Services Companies
CAC	Customer acquisition cost	**NBFC**	Non-bank financial company
CICO	Cash In Cash Out	**NBFC-AA**	Non-bank Financial Company-Account Aggregator
DBT	Direct benefit transfer	**OPEX**	Operating expense
FMCG	Fast moving consumer goods	**PMJDY**	Pradhan Mantri Jan Dhan Yojana
G2P	Government to public	**POS**	Point of sale
GMV	Gross merchandise value	**RBI**	Reserve bank of India
GoI	Government of India	**ROSCA**	Rotating savings and credit association
IMPS	Immediate Payment Service	**SaaS**	Software as a service
IRDAI	Insurance Regulatory and Development Authority of India	**SEBI**	Securities and exchange board of India
KRA	KYC registration agency	**TAT**	Turn around time
KYC	Know your customer	**TLRO**	Targeted long term repo operations
LMI	Low and middle income	**VC**	Venture capitalist

Overview of sub-categories of fintechs we are tracking

Credit or lending

Credit or lending FinTechs in India that cater to the customer segments financially underserved by traditional lenders, largely via unsecured retail credit and working capital loans for MSMEs

Savings

Savings FinTechs have tapped into the demand for alternate and flexible investment avenues by offering mutual funds, bank saving products, and digitalizing ROSCAs

Payment or enabler

The largest sub-category which also includes two unicorns—startups with a valuation of USD 1 billion or above. These FinTechs largely offer services such as P2P, e-commerce, merchants and bill-payment services, blockchain-enabled ROSCA, BCNMs, etc.

InsurTech

InsurTechs offer tailor-made, do-it-yourself, and bite-sized insurance policies to customers through partnerships with insurance manufacturers

Annex 4(a): Most FinTechs have devised various coping mechanisms in response to the crisis (1/2)

Adjustments in product features

- Most FinTech teams are waiting to see what the norm looks like before they tweak their products.
- The focus is on the improvement of the current suite of products to make them more customer-friendly.
- Credit FinTechs are trying to identify and lend to customers least affected by the pandemic-induced lockdown.
- InsurTechs are coming up with need-based COVID-19 insurance products.

Adjustments in the business model

- FinTechs have placed a reinforced focus on profitability and steady scale up rather than cash-burn-induced hyper scale up.
- A few FinTechs have roped in NBFCs to meet their working capital requirements and keep cash reserves untouched.
- They have started to use digital APIs and links to facilitate collections in the absence of a physical leg.

Adjustments in the work profiles of the staff

- FinTechs have accepted remote working as the new norm
- Glitches experienced by operations teams who front-end with regulators and incumbent financial institutions have been progressively getting smoother.
- The focus is now on automation to gradually replace human capital intensive workflows.
- Technology departments across FinTechs have seen the least amount of layoffs and furloughs.

Adjustments to increase runway

- FinTechs have cut down on fixed costs as much as possible, including office and associated amenities, fixed lines, etc
- Up to 60% of costs can be people costs in terms of salaries and bonuses – pay-cuts of up to 50% have been introduced with deferred increments and cancelled bonuses
- Reduction of redundant workforce
- Reduction in marketing costs by as much as 100
- Customer incentives and cashbacks have been rolled back to bring down customer acquisition costs

Annex 4(b): Most FinTechs have devised various coping mechanisms in response to the crisis (2/2)

Realignment of processes

- FinTechs are circumventing the physical legs of their customer journey through novel means. One of the InsurTechs that we interviewed has actively used a combination of WhatsApp and payment links in place of physical POS devices.
- FinTechs have also embraced proactive communication with customers about any expected increase in the turn-around time. This can largely be attributed to the inability of traditional upstream players such as KRAs and banks to efficiently operate via remote teams

Humanizing customer engagement

- FinTechs express solidarity with customers at this time of duress.
- A few FinTechs have tried to empathize with customer needs and offer essential services.
- The number of customer interaction points has been increased to keep the FinTechs relevant, even during such times of reduced demand.

Targeting new customer segments

- Credit FinTechs have already started to identify borrowers employed in the essential services category as preferred segments within the LMI segment.

Launch of new products

- Most FinTechs are still analyzing the demand trends before they commit to the development of new products.
- Savings based FinTechs are exploring the possibility of offering bank saving products.
- InsurTech players have already started with tailored need-based COVID-19 insurance products that adequately cover quarantine and detection event triggers.
- Super apps such as PhonePe have started cross-selling COVID insurance products and other essential services.

Annexure 5(a): Data on the impact of COVID-19 on savings startups

Parameters	Sub parameters	Before COVID-19	During COVID-19 (phase 1)
Product offerings	Types and number of products	Most startups have one major product, ranging from ROSCA-based to MF-based savings	Most startups have one major product, ranging from ROSCA-based to MF-based savings
	Product composition	Debt liquid mutual fund	Debt liquid mutual fund
Customer retention and on-boarding	Number of customers	1600 to 27000 active users. 30% MoM growth	1600 to 27000 active users. ~0% MoM growth. Onboarding new users have taken a hit with AMCs and registrars unable to continue KYC and other operations seamlessly. Customer onboarding has been digitalized completely
	% change in marketing spend	~USD 910	nil
	Demand-side behavior	Rising disposable income led to around 7-8% MoM rise in AUM	AUM has not increased. Redemptions have increased from customers whose livelihoods have been affected
Revenues and expenses	Revenue per month/ x% change in AUM	~USD 1,040	~USD 390
	Burn rate	USD 5,200–19,500	Brought down by ~25%
Business model	Focus on unit economics	Focus to acquire customers and scale before the next fund-raise	Focus on conservation of cash in the short run, which has also inspired to loop in NBFCs for working capital
	Impact on the model	ROSCAs need regulatory approval to create new groups	While MF-based FinTechs have not had a drastic impact, ROSCAs have stopped making groups since the regulatory approval is not digitally ready
Organizational culture	Number of employees	~10	~10
	X% average pay cut	N/A	Founders have stopped drawing salary

Annexure 5(b): Data on the impact of COVID-19 on lending or credit startups

Parameters	Sub parameters	Before COVID-19	During COVID-19 (phase 1)
Product offerings	Types and number of products	One type: P2P lending	Modified P2P lending to targeted segments employed in essential services
	Total loan portfolio	~ USD 2.08 million	~ USD 2.08 million
Customer retention and onboarding	Number of customers	~75,000	~75,000
	Rate of MoM portfolio growth	~51%	~0%
	Demand-side behavior	Demand to meet the credit gap was on the rise across sectors. Repayment bounce = 10%	New borrowers are not keen while existing borrowers are delaying repayments because of the lack of predictability in future economic activities. Repayment bounce = 25% of the total customers
Revenues and expenses	Revenue per month	USD 22,000	USD 1,300
	Burn rate	USD 65,000	USD 26,000
Business model	External	Supply has been on the rise as a lucrative, diversified asset class	New disbursals have been halted to conserve cash: Collections have increased 2.5 times whereas lenders are holding on to their cash, resulting in a cashflow crunch
	Internal	Had a few physical legs in onboarding	Trying to digitalize the entire value chain. No significant impact until now due to 0 disbursals
Organizational culture	Number of employees	~60	~50
	X% average pay-cut	N/A	Planning to introduce pay cuts

Annexure 5(c): Data on the impact of COVID-19 on InsurTech startups

Parameters	Sub parameters	Before COVID-19	During COVID-19 (phase 1)
Product offerings	Types and number of products	Life and non-life both	Explored group insurances against COVID-19 for corporate employees or other points of aggregation
	Third-party products	Rural cross-selling business of financial products and services	Rural cross-selling business has completely stopped because of lockdown and social distancing norms
Customer retention and on-boarding	Number of customers	800,000	~ 800,000
	Demand-side behavior	Very need-based with not a lot of pull among the LMI segments	A marked increase in awareness but the uptick in adoption will depend on whether the LMI segment prioritizes insurance over livelihood and debt repayment
	Claim settlement ratio	Digital. Close 99%	Unaffected with no drop in TAT
Revenues and expenses	Policies per month	~3000	~0
	Burn rate	USD 39,000 - USD 45,000	USD 10,000 – USD 19,000
Business model	Impact on the model	Acquisition via rural POS. 80% Crop insurance is for Rabi crop	Point of sales (POS) have been shut with non-crop business close to 0. Claims settlement is largely unaffected since the Rabi season is over.
	Impact on processes	Physical POS, digital fulfilment and claim settlement with wet signatures	IRDAI has allowed claim settlement without wet signatures, thus making it digital
Organizational culture	Number of employees	20–42	20–42 (no impact)
	X% average pay-cut	N/A	30-100%

Annexure 6(a): Data on the impact of COVID-19 on Frontier Markets

Parameters	Sub parameters	Before COVID	During COVID: Phase 1
Product offerings	Types and number of products	Last mile sales and distribution of consumer durables and financial products through a network of rural women entrepreneurs	Unchanged, even though the sales of essential products is allowed. This is primarily because it is so low in margings that its not sustainable unless you the volumes are very high.
	Third party products	Consumer durables, solar, financial products	Unchanged
Customer retention and onboarding	Number of customers	~1 million	~1 million
	GMV per month	USD 845,000-91,0000	USD 13,000
	Demand-side behavior	Consumption demand is on the rise and penetrating deeper in India	Consumption dampening, women entrepreneurs have also been hit hard with income per unit of effort going down. Coupled with a depressed economy and increased family size because of reverse migration, this has led to increased domestic violence
Revenues and expenses	Revenue MoM growth	125%	-71%
	Burn rate	USD 88,400	Cutting down costs on OPEX such as salaries, branch expansion costs and CAPEX of demo units purchase
Business model	Impact on model	Women-led distribution	Distribution stopped, to be resumed after the lockdown
	Impact on processes	Mix of physical and digital legs	Training and customer support has also been paused because of the lockdown
Organizational culture	Number of employees	~121	Unchanged
	X% average pay-cut	N/A	54%

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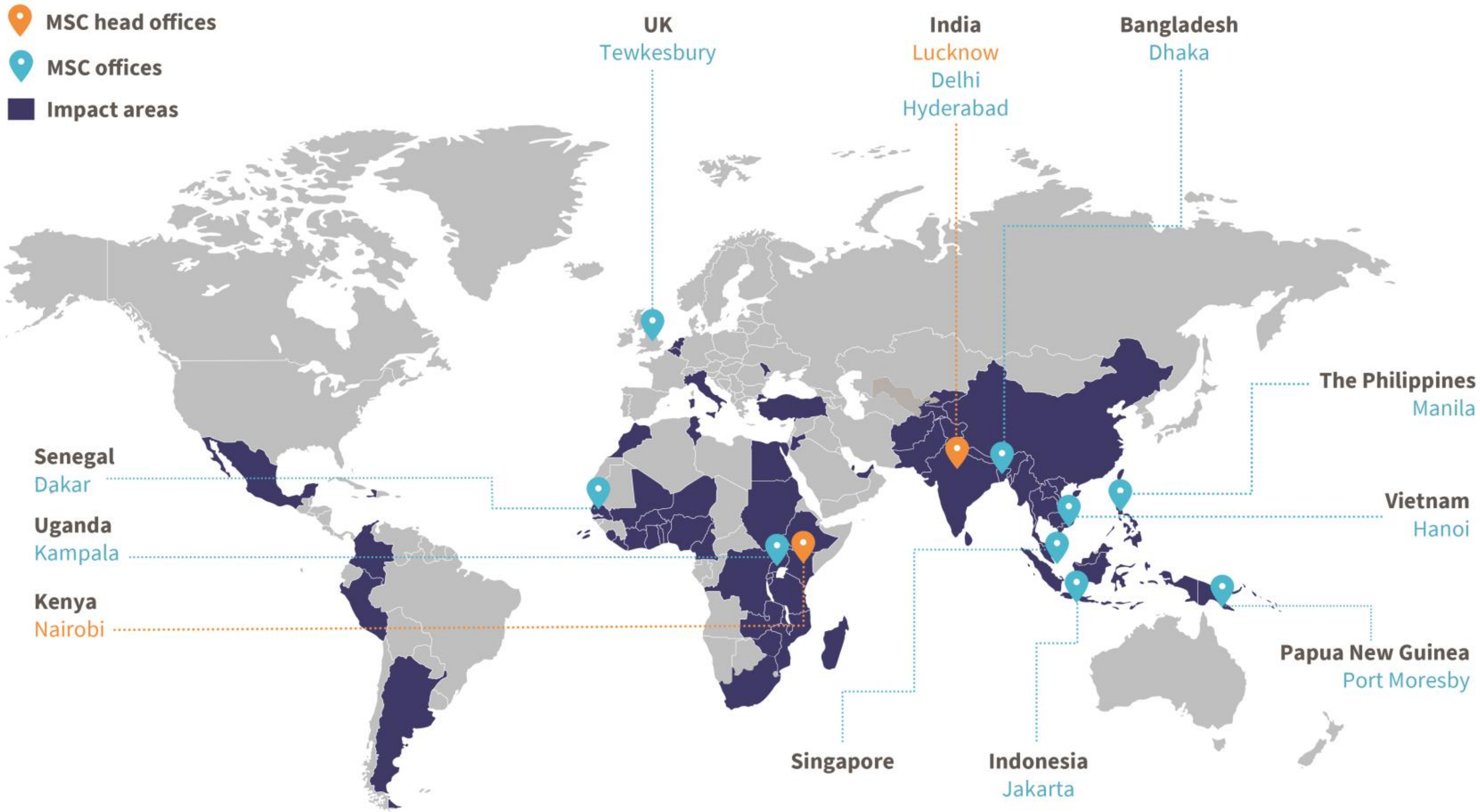

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