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Bank–FinTech collaborations for promoting financial inclusion

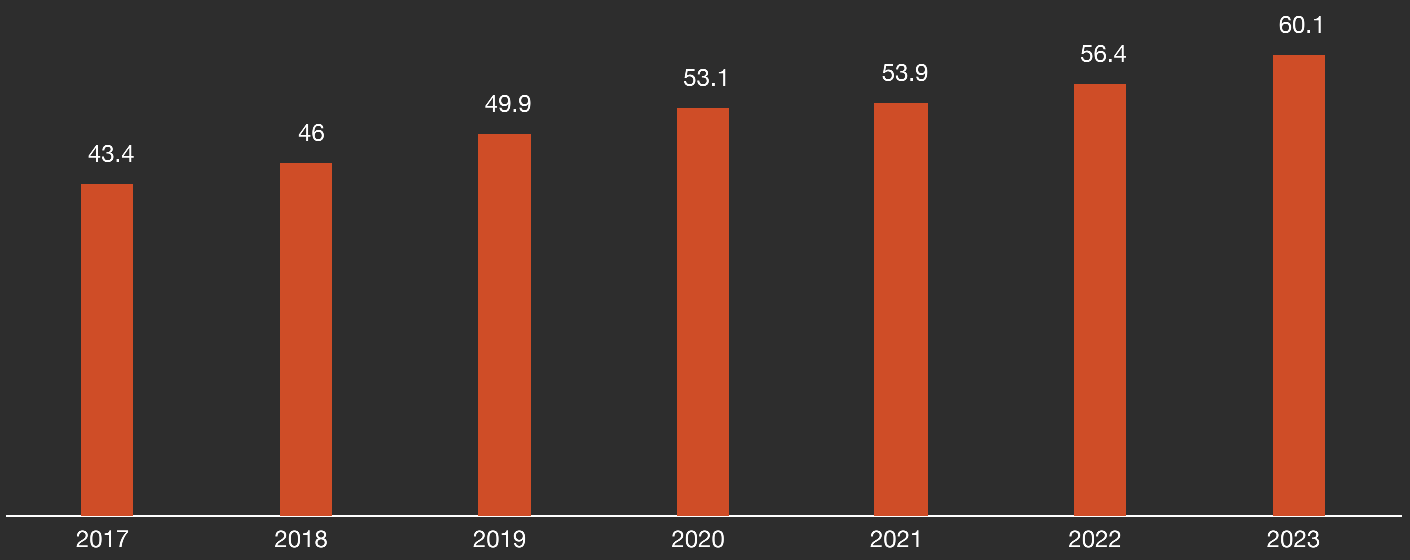
pwc

State of financial inclusion in India

India is competing with global economic powerhouses, with its economy set to grow at a consistent pace of 6.7% (as compared to the global growth of 3.1% as in 2024) in the period between 2024 to 2031, as estimated by CRISIL.[1] However, India's economic landscape poses a paradoxical reality in which a significant portion of its citizens remain excluded from formal financial systems. It is thus imperative to enable access to affordable and quality financial services to all individuals and businesses in order to aid India's inclusive growth and development.

India has been taking remarkable strides to improve the financial inclusion agenda within the country. The Indian financial inclusion index released by the Reserve Bank of India (RBI) every year saw growth from 56.4 in 2022 to 60.1 in 2023.[2] This comprehensive index consolidates details on banking, insurance, investments, postal and pension sectors along with inputs from the Government and sectoral regulators, into a value ranging from 0 to 100, with 0 representing absolute financial exclusion and 100 representing absolute financial inclusion.

Indian financial inclusion index



Source: Statista

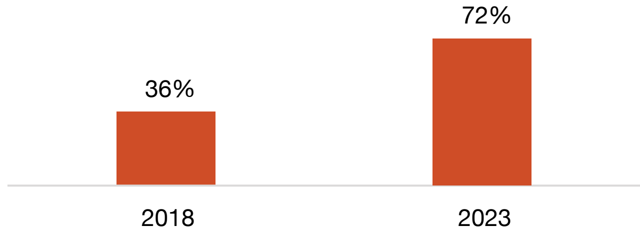
1 https://www.livemint.com/economy/indian-economy-set-for-6-7-growth-till-2031-says-crisil-report-11706945892349.html
2 RBI

The index is designed to reflect the responsiveness in terms of accessibility, availability and utilisation of services, as well as the quality of these services encompassing a total of 97 parameters. As per the RBI, the last decade saw a considerable increase in the 'access' sub-index with additional growth in 'usage' and 'quality' sub-indices in the previous year. The considerable growth in access in India can partly be attributed to factors such as improved internet and mobile phone penetration, India Stack initiatives like the digital identity (Aadhaar) and UPI, targeted account-opening drives such as Pradhan Mantri Jan-Dhan Yojana (PMJDY) as well as other initiatives like National Centre for Financial Education (NCFE), Centre for Financial Literacy and others.

Internet penetration in India

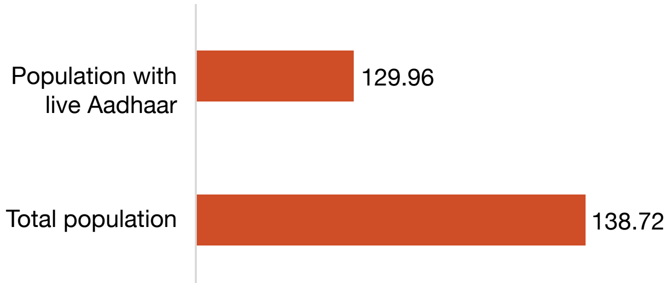
Source: The Hindu

Smartphone penetration in India



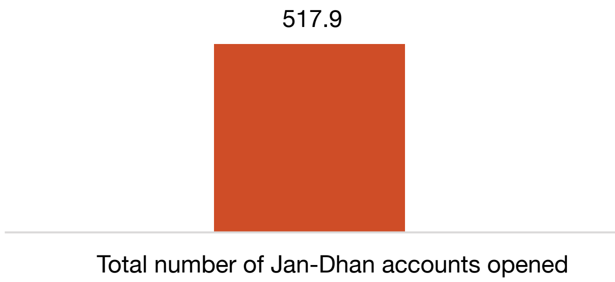
Source: Statista

Projected coverage of Aadhaar as of May 2023 (in crores)



Source: UIDAI

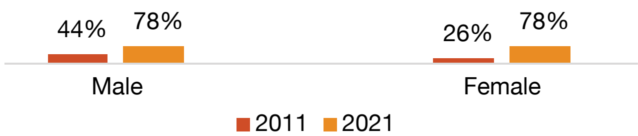
Number of accounts opened through PMJDY (in millions)



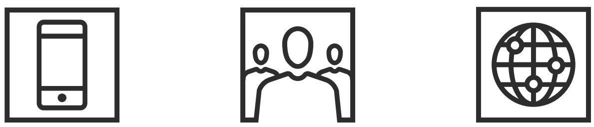
Source: PMJDY website

As of May 2023, over 50% of Indians are actively using the internet, which translates to over 759 million users to whom digital financial products could be delivered.[3] This growth in internet penetration is aiding India in its journey towards financial inclusion. Indian households have also seen greater smartphone penetration from around 36% back in 2018 to 72% in 2023,[4] which translated to over a billion people having access to smartphones. This widespread adoption of smartphones and internet access in India is improving financial inclusion by reducing customer acquisition costs and extending last-mile access to banking services to the populace, thus increasing the overall accessibility for the underserved population.

Percentage of population with a bank account in India (% adults)



Source: Statista



300 million UPI users

500 million merchants

Live in 550 banks globally

Source: Mint; NPCI

While the percentage of people with bank accounts in financial institutions across the globe has increased from 51% to 74%, the equivalent figures in India have increased from 35% to 78% in the last decade.[5]

3 https://www.thehindu.com/news/national/over-50-indians-are-active-internet-users-now-base-to-reach-900-million-by-2025-report/article66809522.ece

4 https://www.statista.com/statistics/467163/forecast-of-smartphone-users-in-india/#:~:text=The%20smartphone%20penetration%20rate%20in,followed%20by%20Xiao-mi%20and%20Vivo

5 https://www.eastasiaforum.org/2023/05/18/the-g20-can-bridge-indias-digital-financial-service-gap/

Challenges in the financial inclusion journey

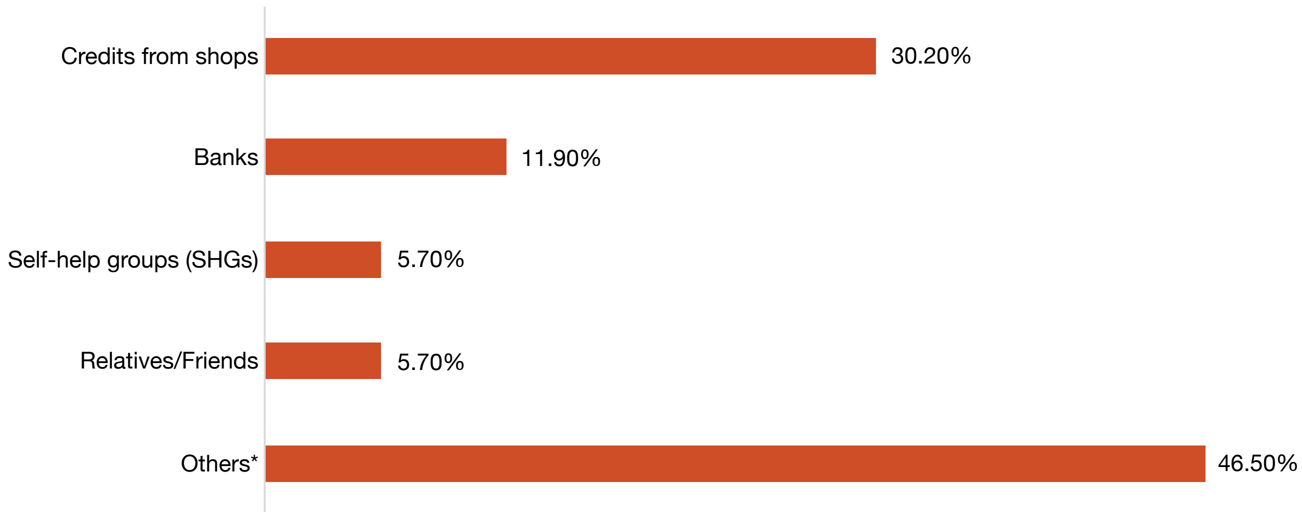
According to the RBI, while the ‘access’ metric for financial inclusion index has seen significant growth, there is further need to focus on the ‘usage’ and ‘quality’ metrics.[6] Although these metrics are growing, there are a number of challenges that affect these.

Access to formal credit

While India moves forward, it is facing challenges in its journey towards financial inclusion. One of the major challenges is the access and utilisation of formal credit. Only 11% of the Indian micro, small and medium enterprises (MSMEs) have access to formal credit, and more than 60% of their credit demand is not met by formal institutions.[7] As of 2023, credit gap for MSMEs is estimated to be USD 530 billion in India.[8]

Based on RBI data, almost 50% of Indian households borrowed money in some form to meet their needs.[9] Most of them sought credit through informal means like credit from shops and borrowing from friends or relatives.

Source of household borrowings (December 2022)



Source: Times of India

Note: ‘Others’ includes NBFCs, moneylenders, chit funds, micro-finance institutions, credit cards and employers.

6 https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=20502

7 https://www.forbes.com/sites/rahulrai/2023/01/26/how-ocen-is-democratizing-credit-access-in-india/?sh=4bc0488a37b6

8 https://www.financialexpress.com/business/sme-msme-fin-530-billion-massive-credit-gap-in-indias-msme-sector-out-of-819-billion-addressable-demand-report-3031372/

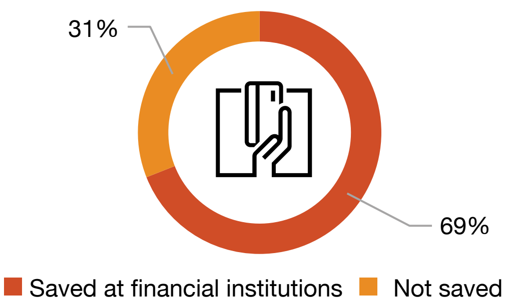
9 http://toi.in/e9Kvrb/a26gk

While most Indians rely on formal institutions for savings and deposits, many still depend on informal sources for securing credit. This represents a significant opportunity for financial institutions and banks to better serve Indian customers.

We've outlined some of the reasons for continuous reliance on informal sources below:

- Limited reach: Access to banks and other formal institutions can often be limited in rural areas. Even the available sources may not offer a flexible amount, tenure and repayment schedule basis the customers' needs.
- Speed and flexibility: While informal lenders follow simple procedures, banks and formal institutions tend to have lengthy, time-consuming processes with stringent guidelines, requiring appropriate documents, collaterals and guarantees. Quicker loan approval times can be crucial to smaller vendors with urgent needs.
- Perceived benefits: Informal lenders can have personal relationships with the borrowers and may be more lenient, offering more favourable terms for repayment.

Percentage of Indian adults using banking instruments to save money



Source: Business Standard

FinTechs in India are playing a significant role in addressing this challenge by providing access to formal credit to consumers and MSMEs through innovative solutions that either complement or compete with offerings from incumbent players. FinTechs are offering credit predominantly through online platforms, thereby reducing the dependency on physical assets like branches and paperwork. They are also utilising alternative data sources like phone call records and digital footprints to assess the creditworthiness of customers and automating their loan disbursal journey to expedite approvals. Moreover, FinTechs are offering solutions to improve access to formal credit for Indians through innovations in product and technology.

Financial literacy

According to a study published by the Asian Development Bank in 2022,[10] only 27% adults and 24% women in India meet the minimum financial literacy level defined by the RBI. This is an issue that affects not only the marginalised but also the middle- and upper-middle class income groups within the country and have a direct impact on the 'usage' metric.

These individuals are more susceptible to fall into debt traps, face the repercussions of poor investments and get scammed. Promoting financial literacy will help people to make informed decisions regarding their debt and investments. An increase in financial literacy can also impact growth and mobilisation of savings in formal channels such as financial markets, especially considering that less than 9% of Indians have demat accounts.[11]

To overcome this significant challenge, it is important to look at solutions that combine education and trust-building. Education programmes could be integrated into school curriculums through partnerships with non-governmental organisations (NGOs) and educators, for providing content in multiple languages to meet the needs of a diverse populace, curated to both urban and rural areas. Furthermore, it is necessary to develop financial products that are transparent and inclusive, by considering inputs from local communities and self-help groups (SHGs), so that they may help solve specific problems and build trust in the process.

Due to the growth of FinTech products and solutions, it has become more convenient to initiate a personal finance journey for customers, as the new-age solutions offer enhanced experience, convenience and accessibility. There are a plethora of tools, applications, solutions and resources available to individuals to educate them about financial offerings, while customising the same to meet their unique requirements.

FinTechs offer innovative technology and agile delivery methodologies, which can help incumbent banks in reaching the last mile where traditional banking methods may be limited. Moreover, FinTechs' capabilities in data analytics and user experience design enhance the effectiveness and accessibility of financial education initiatives to the underserved.

10 https://www.adb.org/results/india-financial-literacy-programs-lifting-families-out-debt-fueling-new-prosperity

11 https://www.zeebiz.com/economy-infra/news-demat-accounts-grow-26-to-127-crore-in-august-255993#:~:text=Going%20by%20the%20data%2C%20a,12.3%20crore%20at%20July%2Dend

Bank–FinTech collaborations

Collaborations between incumbents and new entrants is a pivotal strategy to facilitate innovation and drive financial inclusion at the last mile. Both banks and FinTechs have their unique set of capabilities and propositions that can be leveraged to provide innovative offerings to customers. While financial institutions bring in brand recognition, licencing for providing regulated financial services, funds, risk management expertise, an existing customer base and a plethora of existing products, FinTechs offer agility, speed to market, a lean set up, data analytics solutions, better customer experience (CX), and modernised IT systems.

Key areas that are impacted through Bank–FinTech collaborations are highlighted below:

Markets

FinTechs can use cutting-edge technology and innovation to reach underserved segments at lower acquisition costs, thus opening up unbanked segments to banks.

Talent

FinTechs usually attract niche and top talent. Banks can tap into a pool of talented individuals with unique skills and expertise.

Customer

- FinTechs help deepen customer engagement and product usage through seamless CX.
- They help create new offerings for existing customers through co-product development.

Cost

- FinTechs can provide cost-effective solutions and help banks/financial institutions to reduce their operational costs and increase efficiency.
- Banks/financial institutions can leverage new technologies without heavily investing in their own research and development (R&D).

Product

- FinTechs offer targeted solutions for the underbanked by understanding local markets.
- They offer innovation and agility through cutting-edge technologies and solutions.

Business model innovation: Case studies of partnerships

1. Enhanced value propositions to existing and new customers

Tactical focus	1. Increasing use of financial services 2. Enhancing customer loyalty
Use case	ICICI Bank partners with multiple new-age start-ups to build a digital ecosystem for MSMEs[12] The bank is offering MSMEs with various value-added services for better business compliances, connectivity and communication, tax filing and advisory services, accounting solutions, digital store management and digital marketing, and data analytics by partnering with multiple vendors. **Impact[13]** • Value of financial transactions on the app – 57% YoY growth • Growth in active merchants – 69% • Growth in spends through the app – 280%

2. Efficient data management (collection and usage)

Tactical focus	1. Organising and mining data 2. Enhanced risk modelling 3. Alternate credit scoring and decisioning to improve access to credit to MSMEs
Use case	Partnership between Artoo and Ujjivan for efficient use of customer data[14] Ujjivan bank partnered with Artoo between 2012 to 2020, to develop a cloud-based digital sales assist platform to improve the efficiency of its data collection and management, enabling its agents to improve their decisioning in terms of providing credit. This platform digitised the entire application including lead generation, underwriting and issuance, which led to the reduction in turnaround time (TAT) for loan approval and improved disbursals for the underserved. **Impact[15]** • Loan TAT – 40% reduction • Loan processes – 50% increase • SME customer base – more than 200% increase

12 https://indianexpress.com/article/business/banking-and-finance/icici-bank-launches-digital-ecosystem-for-msmes-instabiz-7891829/
13 https://www.zeebiz.com/agencies/sandeep-batra-icici-bank-value-of-transactions-by-non-icici-bank-customers-on-imobile-pay-grew-by-35-q-o-q-191959
14 https://www.livemint.com/Companies/p1HP91VmkQXdyUo9TRZ57O/Artoo--A-solution-to-serve-the-bottom-of-the-pyramid.html
15 https://www.centerforfinancialinclusion.org/how-artoo-helped-ujjivan-unlock-the-power-of-data

3. Access to new market segments

Tactical focus	1. Access to new customer segments for FIs 2. Financial products for underserved customers
Use case	Axis Bank's partnership with Rupifi to offer credit to the MSME segment[16] Axis bank partnered with Rupifi, a FinTech that offers business-to-business (B2B) payment solutions, to provide a business credit card. The business card was targeted at the untapped MSME segment, which transacts on the aggregator platforms partnered with the FinTech. The card offered instant credit in the range of INR 1 to 2 lakhs basis gross monthly volume (GMV) and overall revenue, among other factors. Moreover, it offered cashbacks to attract new customers and streamline procure-to-pay processes. **Impact:** • Access to the untapped MSME market amounting to USD 100 million

4. Improved customer engagement through personalised user experience

Tactical focus	1. Financial education/exposure 2. Enhanced and personalised experience, user-friendly interface 3. Increasing demand for offerings 4. Short-term benefits – increasing number of transactions
Use case	Indian Bank partners with Fisdom to offer personalised investment solutions and wealth management tools[17] Indian Bank partnered with Fisdom to integrate the start-up's robo-advisor platform into their banking application. This enabled their customers to automate their investment portfolios basis their risk profile and financial goals and also helped them to simplify their investment decisions. **Impact:** • Access to wealth management tools to 10 crore customers of the bank across 6,000 branches

16 https://www.axisbank.com/docs/default-source/press-releases/axis-bank-and-rupifi-launch-an-exclusive-business-credit-card-for-msmes.pdf

17 https://www.livemint.com/companies/news/indian-bank-partners-with-fisdom-to-offer-wealth-management-solutions-11623241711287.html

Challenges in managing partnerships

While bank–FinTech partnerships are creating value for multiple stakeholders, many of them face challenges during operationalisation, due to shortfalls in strategy, execution and governance.

Based on a 2022 survey in which 290 senior banking executives participated, technology integration and API experience/ maturity of the bank are some of the key challenges faced during bank–FinTech partnerships.[18]

While banks and FinTech collaborations have been happening over the last decade, banks have now realised the importance of dedicated ecosystem teams and streamlined processes for finding the right partners as well as managing partnerships. To enhance partnership value, banks can set up frameworks, policies and processes that oversee the entire lifecycle of a partnership with a FinTech. As a precursor to partnerships, banks can establish an innovation management office (IMO) as an overarching function to manage timebound and seamless partnerships. This IMO can enhance partner identification, assess readiness of FinTech partners, identify key performance indicators (KPIs) – like revenue growth, customer acquisitions, time-to-market and compliance metrics. This will help to continuously assess the value of FinTech partnerships, develop financial models for performing cost-benefit analysis and track compliance, security, and operational risks, and suggest measures to mitigate the same.

18 https://www.forbes.com/sites/ronshevlin/2022/01/19/bank-fintech-partnerships-are-under-performing-whats-going-wrong/?sh=18379f1a559a

Before going ahead with any partnership, it is important to identify a specific use case/ problem that the bank needs solving. Once that is identified, each bank–FinTech partnership can be enabled through a four-pronged approach as mentioned below:

Four-pronged approach

Identifying the right partners

Banks need to institute effective processes and programmes to identify partners. These dedicated FinTech processes could help formalise and manage these partnerships. This includes setting up policies for procurement of FinTech partners and vendors based on mutual interests and benefits. Some of the modes for vetting FinTech partners in higher numbers include making use of innovation labs, sandboxes and hackathons. These policies could also include eligibility criteria and evaluation templates which are specifically curated for the type and value of partnerships, standard operating procedures (SOPs) for empanelment, demos, scoring and prioritisation to fast-track the scouting process and aid in accelerated onboarding.

Getting ready for innovation

Identifying a FinTech partner is a challenging process but transitioning from that stage to executing a successful partnership hinges on the financial institution's readiness for innovation. Many partnerships do not materialise because of deficiencies in identifying use cases aligned to institutions, program management, streamlined approval processes and alignment of leadership. Therefore, organisations must set up an IMO team with authority, influence and resources which works across departments that can manage sourcing, due diligence, pilots and implementation. This team could be separate and overarching to the existing technology, business, regulatory and marketing teams and may function as an orchestrator and manage innovations. This can aid in shortening the approval process.

Co-creating and working together

Post onboarding a partner, a considerable investment from each organisation becomes essential for making the collaboration work. Co-creation enables banks and FinTechs to collaborate closely, thus optimising efficiency and promoting a shared understanding. This could involve working in sprint cycles to expedite technology development. It is not uncommon for organisations to face delays during this phase due to unforeseen regulatory challenges, complex onboarding processes and approvals, and integration procedures. Organisation should therefore utilise learnings from each partnership to fine-tune their partnership policy to make the process more efficient.

Managing partnerships

As the number of partnerships for banks increase, banks may be unable to effectively measure and optimise outcomes of a successful partnership. Therefore, value realisation frameworks (VRFs) need to be set up for the continuous evaluation of bank–FinTech partnerships.

How PwC can help

PwC's FinTech team is deeply entrenched into the FinTech ecosystem, having worked with multiple incumbent banks to manage their partnerships and alliances and driving their innovation and growth. Basis our experience, we are seeing a substantial shift in the way FinTechs are evolving in the banking space, with advanced technologies shaping digital banking solutions. Bank–FinTech partnerships are leading to the co-creation of innovative products for the underbanked across areas such as ecosystem banking, artificial intelligence-driven predictive solutions and offerings, large language models (LLM)-enabled products such as chatbots, and interactive and personalised UI/UX.

FinTechs are gradually evolving from being the frontend players to acting as enablers for banks. Banks are increasingly seeking partnerships through new and enhanced form factors that can extract the most value and aid in the improvement of financial inclusion in the country.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 151 countries with over 360,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

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