

From disruptor to collaborator, what's the future for fintech?

Financial technology, or fintech, has indeed come into its own. It has evolved from start-ups disrupting incumbent banks and financial institutions through their innovations to working in tandem with them and strengthening the financial ecosystem—including payments, loans and investments. At the second edition of the Mint Fintech Summit, held in Mumbai on 23 June, leaders from the sector discussed the current status and future scope of fintech in an increasingly connected world. Here are the highlights of the event:

‘Aadhaar and India Stack are revolutionary ideas’

BY A STAFF WRITER
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MUMBAI

V. Vaidyanathan, founder and executive chairman of Capital First Ltd, a financial institution specializing in providing debt financing to small- and medium-sized firms and consumers, says going digital is a sure path to success for companies. He buttressed the point by highlighting the explosive growth in the number of connected devices.

“The number of connected devices grew from 0.5 billion in 2005 to 8 billion in 2015. This number is set to grow to 50 billion in 2020 and a trillion in 2030,” Vaidyanathan said in his special address on the theme *Digitally Disrupting the Financial World*, at the Mint Fintech Summit in Mumbai on 23 June.

Vaidyanathan compared the largest companies by market cap in 2006 with those in 2017. In 2006, he noted, these firms included Exxon Mobil Corp., General Electric Co., Microsoft Corp., Citigroup Inc., BP PLC and Royal Dutch Shell



V. Vaidyanathan, founder and executive chairman of Capital First.

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PLC. In 2017, however, the companies by market value are Apple Inc., Google Inc., Microsoft, Amazon.com Inc. and Facebook Inc.

“There are two noticeable differences: the market cap of Apple is almost twice that of Exxon Mobil and all the firms in 2017 are from the technology sector. This trend is definitely indicative of a major disruption in our world,” he added.

Likening digital growth to Moore's Law, Vaidyanathan said digital had increased consumer welfare in the form of reduced prices and has made possible the advent of faster and smarter computers, aided by artificial intelligence.

“Let us think about the work-fintech companies and start-ups have accomplished by banking the micro-markets that no traditional bank would finance.

The current scenario, as I see it, is one of collaboration instead of competition, between banks and fintech companies,” he said.

But all progress is not directed at the digital space, cautioned Vaidyanathan. “Companies are increasingly going ‘phygital’ (a combination of the terms physical and digital) because the lines between e-commerce and bricks-and-mortar stores are blurring, as we have recently seen in Wal-Mart's acquisition of Jet.com and Amazon's purchase of Whole Foods.”

But the matters of most importance in the Indian context, according to Vaidyanathan, relate to Aadhaar—the initiative of giving a unique identity number to every Indian—and the India Stack, a set of application programming interfaces to enable e-governance services. “These two ideas are revolutionary and will be indispensable in curbing tax evasion due to the recent linkage mandate of the PAN, Aadhaar and the taxpayer's mobile number. Out of 25 crore PAN holders, only 4 crore are taxpayers. Therefore, the linkage mandate will immensely help in a situation where there are multiple PANs and bank accounts for a given individual,” he said.



J.A. Chowdhary, special chief secretary and information technology adviser to Andhra Pradesh chief minister N. Chandrababu Naidu.

AP govt has created an ecosystem for fintech success: Chowdhary

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Banking will exist even if banks don't because of the progress in fintech that can altogether eliminate conventional banking,” said J.A. Chowdhary, special chief secretary and information technology adviser to Andhra Pradesh chief minister N. Chandrababu Naidu, in his speech at the *Mint Fintech Summit* in Mumbai on 23 June.

Chowdhary, who was the guest of honour at the event, made this statement (reiterating something Microsoft Corp. founder Bill Gates first said in 1994) to underscore the fact that disruption and innovation are the essence in the finance sector.

In his speech, Chowdhary detailed the “essentials” for fintech start-ups identified by experts in the AP government. “Money, mentoring, market access, media and manpower—these five Ms are the *Franchise Pandas* that we have identified for the success of fintech start-ups. The role played by the media—in stimulating a meaningful debate, and by educational institutions in providing skilled manpower, will be vital to our strategy,” he added.

Chowdhary acknowledged that India was lagging slightly behind other economies in the fintech race. But fintech has enabled the unbanked to be brought

under the formal system, so “we have the potential to find robust and secure solutions” by incubating potential start-ups, he said.

“The potential to create successful start-ups lies in how we build our infrastructure. Under our honourable chief minister, we have developed the Fintech Valley Vizag as an ecosystem of success that helps identify and nurture financial technology institutions and start-ups. We intend to bring together the fintech community and catalyse the sector's growth by hosting global business competitions and awarding innovation,” he said.

Towards this end, Visakhapatnam is set to host two flagship events, the Global Blockchain Summit in October 2017 and the Fintech Spring Summit in February 2018, Chowdhary said.

“We have partnered with Wipro, Microsoft, Lattice80 (a Singapore-based fintech hub), UIDAI (Unique Identification Authority of India) and the NPKI (National Payments Corporation of India), among others, to boost our research and development capacity and provide the start-ups with the best intelligence,” he added.

Chowdhary is hopeful that the Fintech Valley Vizag forum will bring together regulators, banks, non-banking financial companies, educational institutions and the government, to create the best practices for the sector. “We hope to create as many successful fintech start-ups as we can through our initiatives,” he said.

Fintech is now an innovator and enabler, says Neha Punater

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There is something new in the fintech space every day. Traditionally, it was thought to be a disruptor but now it is an innovator and enabler,” Neha Punater, partner and head of digital strategy, innovation and fintech at KPMG India, said in her keynote speech at the Mint Fintech Summit in Mumbai.

“If the disruption has become so with the help of traditional institutions and we must understand that this can only happen on the basis of trust,” she said.

“This industry is definitely a force to reckon with,” Punater added, pointing out that the global annual growth of the fintech sector at 55% is not led by volume expansion but by investment, which shows investor confidence in the space. “Compared to about 12,000 global start-ups, there are about 900 Indian fintech firms—and over 120 of them were started



Neha Punater, partner and head (digital strategy, innovation and fintech) at KPMG India.

in 2016 alone. An investment of \$2.25 billion has been infused into Indian fintechs from 2010 to 2016,” she added.

The Indian fintech market, according to her, typically mirrors global trends. “Payments-related companies have the highest market share at 25% in India and in the world. Payments, lending and

wealth management are growing, while P2P (peer-to-peer) lending, blockchains and payment banks are still nascent. Many payments-related activities are still in the business-to-consumer space but we haven't seen much happening on the business-to-business side,” she added.

Terminology payments “the crown jewel of Indian fintech,” Punater said, demonstrated high-value banknotes in November had definitely provided a boost to the sector by increasing awareness and adoption of fintech. According to her, there was a 25% increase in volume of transactions through prepaid payment instruments—up from 37 million transactions in September 2016 to 342 million in March.

On the lending sector, she said, “When you look at fintech lending, it is driven by the need to fund small businesses and private consumption at all levels. Fintech lenders are evolving in two ways: one, fintech companies are acting as a marketplace between lenders and consumers—essentially, an Amazon.com for financial products. Two, they are emerging as alter-

native lenders.” Moreover, they have begun to carry the risk of the loans “on their own books.”

According to Punater, wealth tech is the third-largest sector in the fintech space and is still relatively small. “If we look at the mutual funds penetration in India by any metric and compare it to the global value, it's very low. Indians traditionally prefer other asset classes such as gold or real estate to invest in,” she said.

Talking about fintech growth drivers in India, Punater cited “increased mobile and internet penetration” on the payments side, in addition to higher international remittances. “In the lending sector, a major demand driver is the swift processing cycle; many micro, small and medium enterprise customers struggle with the long cycles they encounter with banks, and in a lot of cases, it is too late when they receive the loans,” she said.

Fintech lenders, she added, are also getting help from the increasing availability of personalized customer data, other than the conventional income statements,

Challenges ahead as initial excitement wanes

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Consumers from unbanked markets have mostly benefited from the advent of fintech companies, according to panelists at the Mint Fintech Summit held in Mumbai on 23 June. Participants in a discussion on “How fintech is disrupting the financial sector,” talked about the challenges that fintech firms will now face as the industry matures and the initial excitement over the disruption wanes.

The panelists were Rajnish Khare, head, digital transformation, social business and new media and mobility banking, HDFC Bank; Deepak M. Sharma, chief digital officer, Kotak Mahindra Bank Ltd; Chavi Jafa, head, commercial cards and B2B (business-to-business) payments (India and South Asia), Visa; Push Kothari, head, digital and customer analytics, Aditya Birla Idea Payments Bank; Probit Roy, co-founder and promoter-director, PayMate; Kartik Maheshwari, leader, Nishith Desai Associates; and Satyam Mehra, partner, Bain and Co. The session was moderated by Ravi Krishnan.



(From left) Probit Roy, co-founder and promoter-director, PayMate; Satyam Mehra, partner, Bain and Co.; Chavi Jafa, head, commercial cards and B2B payments (India and South Asia), Visa; Rajnish Khare, head, digital transformation, social business and new media and mobility banking, HDFC Bank; Ravi Krishnan, chief of Mumbai bureau, Mint; Deepak M. Sharma, chief digital officer, Kotak Mahindra Bank Ltd; Kartik Maheshwari, leader, Nishith Desai Associates; and Push Kothari, head, digital and customer analytics, Aditya Birla Idea Payments Bank, during a panel discussion at Mint Fintech Summit 2017 in Mumbai on 23 June.

chief of bureau (Mumbai), Mint. Edited excerpts

Jafa: We need a reevaluation of business

models and stronger collaboration between banks and fintech companies. We (the financial services industry) need

to take a better look at the business models because a lot of the traditional ones are not viable in the fintech space—be it lending

or payments. While the margins are narrow, customer experience is central to any business model, so we should try to find additional revenue sources. This may well happen with closer integration of the banks and fintech companies.

Khare: Fintech companies are not disruptors but value creators with whom we can only benefit. The companies that really need to be feared are the ones with a large and loyal customer base—such as Google, Samsung, Apple and Facebook. Some of them are trying to become financial aggregators or marketplaces. If that happens, banks need to be wary.

Kothari: I see a large opportunity for fintech. First, the Unified Payments Interface (UPI) has made payments easier. Second, digital lending is growing because there is substantial profit to be made. And third, low-cost distribution through digital means is now possible.

Maheshwari: In all our interactions with the Reserve Bank of India, the paramount concern has been the protection of small consumers.

In the last six-eight months, we have seen a concerted effort by everybody to move towards a system that works even though some deadlines (including the NITI Aayog's guidelines on digital payments) to comply with digital norms have been missed.

Mehra: Regardless of the disruption and the evolution, the consumer is king and there is potential for an inflection

point. It may or may not be a surprise but a majority of fintech start-ups are unlikely to thrive and survive going forward. I think that consolidation and scaling up operations for faster customer adoption is the only way forward for getting to the inflection point. That should be the focus for the next two to three years.

Roy: As we go forward, we need to think about when the inflection point will come for fintech. The inflection point for data consumption in India was in 2016, when a hockey stick-like growth curve—implying exponential growth—was observed. Similarly, Google overtook newspaper ads in 2016; that was a hockey stick year. As we speak today, Facebook is overhauling newsprint ads. Such an inflection is yet to be seen in fintech, given all the investment and innovation that has gone in. Demonetization, UPI and PPI (payment protection insurance) have happened but we still haven't seen the hockey stick trend in fintech. So the question is when?

Sharma: The sector should temper expectations on digital payments and recognize the challenges therein. The payments space is overrated; the low-hanging fruit is always easier to pick. There are larger problems in B2B, SMEs (small and medium enterprises), advisory, risk and customer experiences, among other things. We should look at solving those. I see very little coming out of fintech companies in the payments space.