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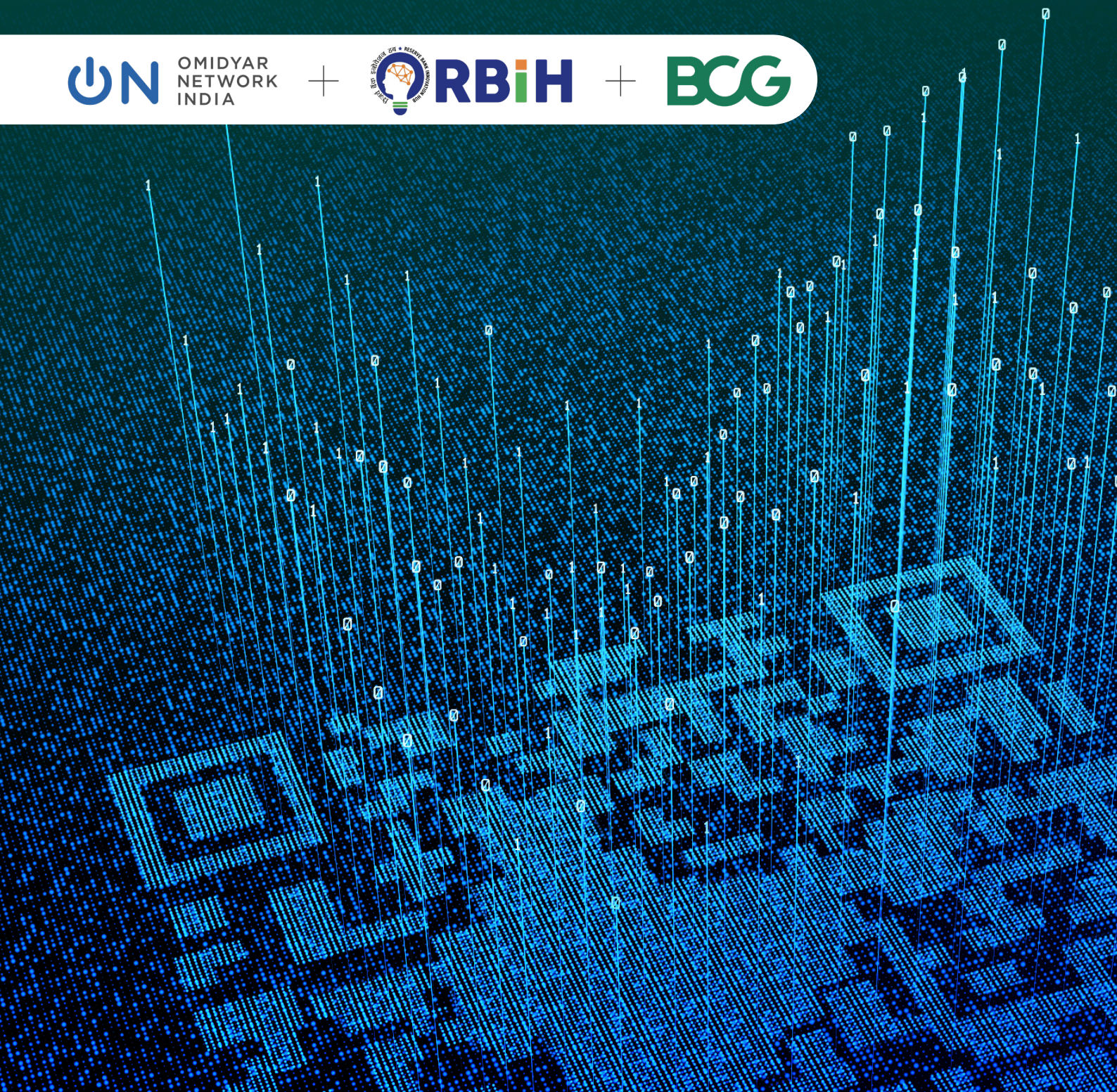
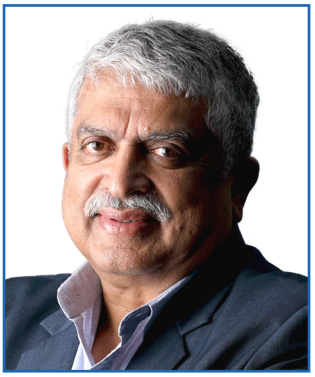


THE FINANCIAL INFRATECH OPPORTUNITY

Powering India's Digital Financial Services journey

2023

Foreword



Nandan Nilekani
Chairman and Co-founder, Infosys
Founding Chairman UIDAI (Aadhaar)

In the last 15 years, India has managed to achieve incredible results in financial inclusion. Simultaneously, we have managed to create very vibrant ecosystems around payments and data sharing, that many consider to be best-in-class globally. We've improved the baseline, but we've also raised the ceiling.

The underlying reasoning is that India excels in building digital public infrastructure. Almost every resident has an Aadhaar digital identity, enabling digital authentication. The nation also boasts the Unified Payments Interface, a low-cost, real-time payment system conducting over 10Bn monthly transactions. Its robust digital infrastructure, supported by citizen-controlled data through the Account Aggregator framework, positions India as a leader in fintech.

India's clean slate allows building these digital infrastructures from scratch, contrasting the scenario in developed nations. Where infrastructure itself is private, Financial InfraTech (F-IT) companies tend to have a low-volume, high-value, high-cost model. In India, population-scale use cases are about high-volume, low value and low-cost infrastructure.

I believe that the role of DPIs will change the shape of the market for Financial InfraTechs. The existence of robust DPIs requires Indian Financial InfraTechs to rethink their playbooks. The openness of the ecosystem also forces players to figure out innovations to retain their users' patronage.

As more and more countries adopt DPIs and Open Networks, we believe that F-IT models of India will be exported to the world, rather than the other way around. This report recognises the opportunities this creates for an "India for the world" F-IT ecosystem.

Now, especially with AI around the corner, we believe that there will be an even more pressing need for Financial Institutions to adopt technology into their workflows. I'm excited to see what the shape of the future in FinTech will look like.

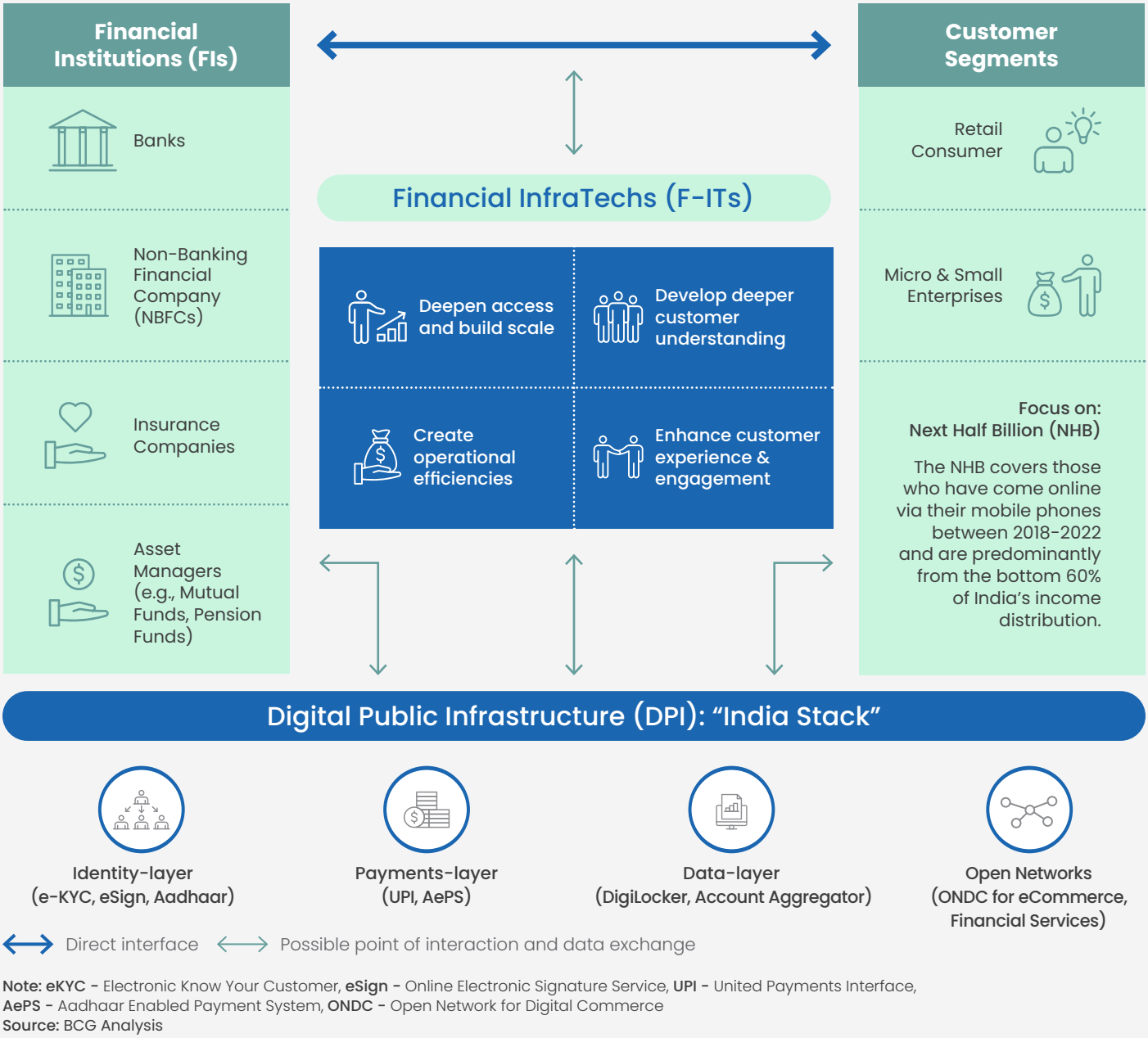
Executive Summary

The Indian financial services sector has leapfrogged the traditional path of inclusion using technology. In just under a decade, India increased its banking coverage from 27% in 2008 to nearly 80% in 2017, a transformation that would have otherwise taken 47 years, using traditional means[1]. This digital revolution has been enabled by a combination of government and regulatory impetus, responsive Financial Institutions (FIs), and a robust fintech ecosystem.

A subset of fintechs, **Financial InfraTechs (F-ITs)** have played a critical role in this transformation. **F-ITs are predominantly B2B fintech firms that partner with FIs to provide digital financial infrastructure** such as digital onboarding, electronic identity verification, data and analytics, proprietary underwriting, risk management, collections, and other functionalities.

By providing such infrastructure, F-ITs have helped FIs **deepen access, build scale, develop deeper customer understanding, create operational efficiencies, and enhance customer experience.** (See Exhibit 1)

Exhibit 4: F-ITs enabling the financial services ecosystem (as seen in the executive summary)



Note: **eKYC** - Electronic Know Your Customer, **eSign** - Online Electronic Signature Service, **UPI** - United Payments Interface, **AePS** - Aadhaar Enabled Payment System, **ONDC** - Open Network for Digital Commerce
Source: BCG Analysis

1. BIS 2019 Report: "The design of digital financial infrastructure: lessons from India"

There are 450+ F-ITs in India today, who partner across the spectrum of BFSI business processes

- **Customer sourcing:** Lead management, customer relationship management (e.g., EnsureEdit, LeadSquared, Spice Money, Yubi)
- **Customer onboarding:** Identity and document verification (e.g., IDfy, Signzy, Tartan)
- **Underwriting:** Risk analytics and use of alternate data (e.g., Crediwatch, Finbox, Kaleidofin, Perfios)
- **Core operations:**
  - **Banking:** Credit, savings, investments (e.g., DGV, Lentra, M2P, Pennant, Yubi, Zeta)
  - **Collections:** Predictive analytics, digital communications, and collections (e.g., Credflow, Credgenics, Creditas)
  - **Insurance:** Policy generation, distribution, renewal, claims (e.g., Riskcovry, Turtlemint, Zopper)
  - **Payments:** Payment infrastructure, point of sale infrastructure (e.g., Mswipe, Pinelabs, Razorpay, Spice Money)
- **Data exchange, analytics, and reporting:** Data intelligence and analytics (e.g., CAMSfinserv, Needl.AI, SatSure)
- **Risk and compliance:** Risk monitoring for operations and security (e.g., Analyze n Control, Cloud SEK, DronaPay, Fintellix, PrivaSapien, Sequretek)

F-ITs have garnered almost **$10Bn in funding till date,** comprising 30% of the funding to India's fintech sector ($32Bn) in the same time period (See Exhibit 6). Globally, F-IT funding as a proportion of total fintech funding is over 50%, thereby indicating the **potential for growth in India.**

F-ITs have harnessed this growth by leveraging their strong product market fit in India via a two-pronged approach. First, by getting regulatory go-ahead as third-party providers or core system providers. And second, through refining use cases via proven partnerships with anchor FIs, over the last 5-7 years. FI and FI-T partnerships are a win-win for both financial institutions and financial infratech providers. BCG's 2023 F-IT and FI Partnership Survey found that **FIs highly value F-ITs for a variety of reasons – with a key benefit seen in delivering top tier user experiences (70% find it very helpful) and enhancing decision-making by harnessing data effectively (55% find it very helpful).** Additionally, discussions with stakeholders underscored the unique strengths that **FIs offer F-ITs** including **well-established consumer trust, extensive scale, expertise in risk and compliance management, capital, and access to substantial data sets.**

Such collaborations have already created significant impact in the Indian market, with FIs and F-ITs together serving markets and customers that were previously unviable, including the NHB. A few examples include:

- **Deepening access and scale by building new products:** 6.8X growth in invoice discounting, via E2E digital integration across MSMEs and lenders and digital payment enablers.
- **Developing deeper customer understanding:** 30-40% decrease in credit decisioning time due to automated data pulls and use of alternate data.
- **Creating operational efficiency:** Almost 50% reduction in cost of acquiring a Savings Account (SA)customer due to digital sourcing and onboarding, hence lowering the required average monthly balance to break-even.
- **Enhancing customer experience:** 99% decrease in Dairy Loan onboarding time due to eKYC, digital scanning, and supply chain integration.

However, these partnerships have not yet realized their full potential. The current partnership constructs are often difficult to execute – **with large gaps in expectations and capabilities across both FIs and F-ITs.** These gaps include:

Key Partnership Gaps

- **Discoverability & Credibility gap:** Partnerships tend to cluster around larger F-IT companies, as they are perceived as the safer and more straightforward choice. The absence of a structured discovery mechanism and limited ability of FIs to evaluate emerging companies means that larger F-ITs continue to expand potentially causing newer innovations to be overlooked.
- **Technology & Capability gap:** FIs and F-ITs often differ in technology and capability levels. FIs may rely on legacy systems, often with limited documentation, while F-IT technology may be less mature and strained by FI scale. Custom integrations and limited business-technology coordination exacerbate these disparities.
- **Culture gap:** Bridging different organizational cultures and ways of working is challenging. Key gaps include differences in communications, decision-making pace, risk tolerance, innovation approaches, and conflict resolution.
- **Risk & Governance gap:** FIs are heavily regulated entities with strict compliance and governance requirements. Partnering with F-ITs can introduce regulatory complexity, as F-ITs may not have the same level of experience in navigating regulations.

Despite these gaps, partnerships can deliver significant value when the core aspects are handled effectively. Key partnership best practices we observed in the market include:

Partnership Best-Practices

- **FIs viewing partnerships as a strategic priority at the Board level,** supported by CXO sponsorship, and internal facilitators to navigate obstacles, bridge cultural divides.
- F-ITs not only **showcasing their technology but also a solid grasp of BFSI intricacies,** making them more relevant in crafting effective solutions.
- F-ITs focusing on **scalable solutions** capable of handling large volumes of data and multiple product stacks, thereby growing both across and within FIs.
- F-ITs offering **high service levels,** particularly in integration (e.g., API transformation, onward integrations) receive more favorable evaluations.
- F-ITs displaying a **deep and consistent understanding of FI regulatory contexts** and constraints can gain long-term credibility.

Looking ahead, we see **five initiatives to harness this potential and create additional value.**

1. **Facilitate industry-wide collaboration with a marketplace and sandbox:**
   - **What is the idea:** Create a credible platform with convening power to bring FIs and F-ITs together in a structured marketplace, along with a cloud-based pre-production sandbox environment that allows F-ITs to securely demo and prototype (e.g., APIX in Singapore, NayaOne in the UK)
   - **Why will it help:** The platform eases F-IT discovery via the marketplace and accelerates the F-IT evaluation process, as sandbox testing can occur without having the need to breach FI firewalls or access FI data.
2. **Hardwiring partnership culture in FIs**
   - **What is the idea:** Assign a dedicated, cross-functional FI leader and team to cultivate a strong partnering culture, build internal partnering capabilities, and effectively resolve issues and internal resistance to partnerships.

- **Why will it help:** This approach streamlines F-IT discovery, onboarding, and relationship management, resolves cultural gaps, and enhances FI's partnering infrastructure.

3 Lead industry excellence via an F-IT Self-Regulatory Organization (SRO):

- **What is the idea:** Establish an SRO - a Section 25, not-for-profit company with 70-80% F-ITs registered as members in a steady state. The SRO will promote industry accountability and customer centricity by defining and enforcing a code of conduct, setting standards, leading consistent interpretation of policy norms, and driving ecosystem growth.
- **Why will it help:** This initiative promotes industry representation in an impartial and inclusive way, while ensuring that F-ITs focus on risk awareness and compliance.

4 Standardize F-IT due-diligence with a "Know Your Partner" Repository:

- **What is the idea:** Create a central data library for collecting and maintaining F-IT due diligence data, a minimum compliance checklist, and standardized evaluation criteria. The repository would include third-party assessments of F-IT risk, compliance, and information security (e.g., CERT-In assessments) and authenticated documents to confirm organizational and financial soundness (e.g., MCA financials, leadership qualifications).
- **Why will it help:** This initiative increases the efficiency of F-IT evaluations by providing access to trusted, credible due diligence data in a timely way.

5 Drive consistency with standardized protocols:

- **What is the idea:** Develop data and technical protocols for utility services with wide-spread adoption. This will make integrations more efficient, consistent, and scalable.
- **Why will it help:** This initiative streamlines integration processes and timelines, making it easier to scale F-IT offerings across products as well as across FIs.

Together, FIs and F-ITs can serve markets and customers that were previously unviable - including the NHB. Presently, India has 759 million active internet users with 53% from rural India. **By 2025, India is expected to have 900 million active internet users with 56% of new users coming from rural areas[2].** Given increasing internet access, FI and F-IT partnerships can allow FIs to reach these new customers more efficiently, with data-driven insights.

Such partnerships encourage the development of innovative new financial products and services tailored to the needs of the underserved population, leading to the deepening of financial markets and increased participation of NHB and MSMEs in India's formal financial sector. From digital lending and remittance services to micro-insurance and small-scale savings and investments, these innovations prioritize accessibility, affordability, and ease of use, considering the specific challenges and needs of underserved populations. The impact resonates beyond mere convenience; it redefines economic participation, uplifts communities, and fosters a more equitable society.

As more FIs collaborate with Financial InfraTechs, **F-IT revenues could potentially surge up to 17 times the current level, reaching up to $60+Bn by 2030 from the current $3.5Bn. This creates a potential equity value pool of up to $365Bn in the same time frame.** As F-ITs continue to evolve in a large scale and complex ecosystem like India, their capabilities can also cross borders to different economies as SaaS plays or as protocols – effectively **creating an "India for the world" F-IT ecosystem.** To succeed globally, F-ITs will need to adapt their offerings to fit each market's needs, considering diverse regulations, consumer habits, and market landscapes. While certain utility services like identity verification may seamlessly transfer across borders, F-ITs dealing with complex functions, such as risk underwriting, will require tailored approaches for different markets, making market selection crucial for their success.

There is substantial value to be unlocked here – not only for industry players but for India as a country as well as global markets.

2. Internet in India 2022 report by Kantar and IAMAI

Table of Contents

01 Evolution of Digital Financial Infrastructure

Since 1990, India's Banking, Financial Services, and Insurance (BFSI) sector has made a noteworthy transition towards digital financial methods. The shifts are evident in the tableau of everyday life across the nation: Think about the digitally-native rural youth working in the cities, who access YouTube, WhatsApp – and now, can instantly and securely send remittances a digital payment platforms. Or the *Kirana* shop owner who can dream of expanding her business by accessing the wider market via an Open Network for Digital Commerce (ONDC).

These leaps have been enabled by a combination of government and regulatory impetus, responsive FIs, and a robust fintech ecosystem.

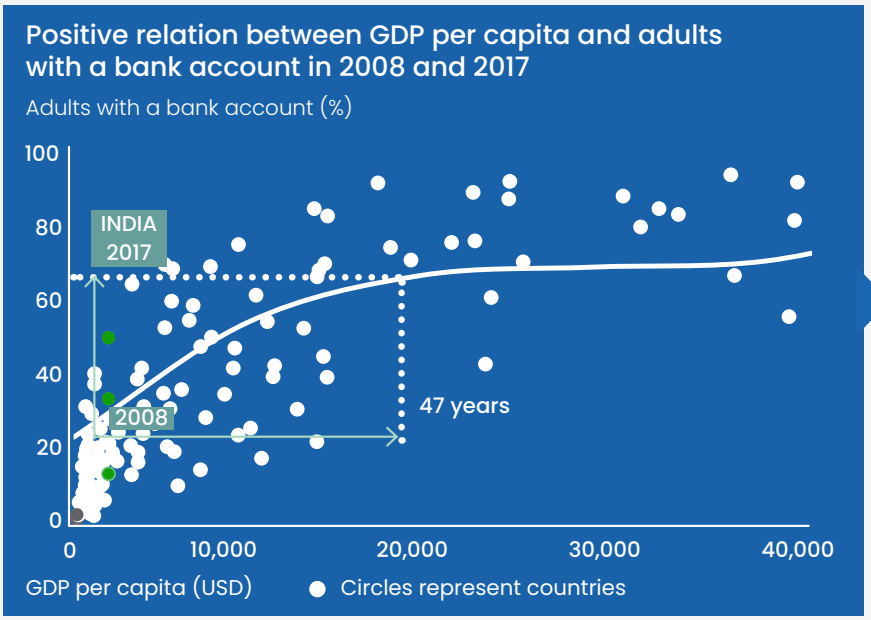
Wave 1: Kickstarting the digital journey - India's early foray into its technological journey set the stage for unprecedented advancements in banking technology. Core Banking Solutions (CBS), National Electronic Funds Transfer (NEFT), and other similar technologies streamlined data and transaction processing, standardized customer service across branches, facilitated better risk management, enabled global integrations, and laid the foundation for the digital revolution to follow.

Wave 2: The "JAM" Trinity - The advent of the "JAM" Trinity – Jan-Dhan Yojana (PMJDY), Aadhaar, Mobile – marked an unprecedented chapter for financial inclusion. Aadhaar, as a part of Digital Public Infrastructure (DPI), brought millions of previously underserved Indians into the folds of the formal financial ecosystem by provisioning a digital, biometric identity that can be authenticated easily and securely, for KYC, eSign, and fraud checks. PMJDY enabled access to a formal account while mobiles provided the ability to transact digitally. Together, they effectively democratized access to financial services, which is foundational for holistic well-being.

Wave 3: "India stack" - The rise of DPI has accelerated inclusive prosperity: Unified Payments Interface (UPI) has skyrocketed, seeing a 1400-fold increase in monthly transactions since its launch, in 2016. Advanced DPI platforms such as Account Aggregators (AA) and the ONDC are gaining traction, with FIs and fintechs innovating on top of this digital infrastructure.

These digital innovations helped India achieve an 80% financial inclusion rate in just nine years, a milestone that would have otherwise taken up to 47 years to reach[1] (See Exhibit 2).

Exhibit 2: What India did for financial inclusion in 9 years would have taken 47 years by traditional means



75X Growth in **online banking transactions**[2] (Mar 2017-2023) from 0.1Bn to ~9Bn per month

6X Growth in **demat accounts** from 20Mn to 114Mn (Mar 2012-2023)

233% **CAGR** in **UPI transactions** (Mar 2017-2023)– from 6Mn to 8,600Mn+ per month

2X Growth in **outstanding credit for emerging India**[3] (Mar 2017-2023) from INR~14Tn to INR~30Tn

1. Analysis from BIS 2019 Report "The design of digital financial infrastructure: lessons from India"
2. Includes mobile banking and internet banking transactions 3. Includes outstanding loan amount for Rural and Sub-Urban India
Source: RBI; NPCI, BSE; BCG Analysis

India's progress in expanding access to financial services to the underserved has been driven by leveraging technology and innovative solutions. Digital platforms and applications have penetrated areas that brick-and-mortar FIs have historically found challenging to penetrate. Digital financial infrastructure solutions are more cost-effective to develop and maintain versus traditional banking infrastructure. Financial Institutions are recognizing that partnering with financial infrastructure technology providers is extremely valuable to their own business proposition as well as to the Indian financial ecosystem, as a whole (See Exhibit 3).

Exhibit 3: Innovative Financial infrastructure technology has delivered value to both financial institutions as well as the ultimate customers

		Role of Financial Infrastructure
Launch new products e-invoice discounting (2018-2022)	**6.8x business growth[1]** INR 5.8K Cr → INR 40.3K Cr	○ **E2E digitization** (integration across corporate ERP, TReDS, FIs trade finance system) ○ Electronic **fund transfer** (NPCI)
Open new markets MSME credit disbursements by value and volume (FY 2019-2022)	**1.5x increase** Value INR 6.7L Cr → INR 10.3L Cr Volume 24L → 36L	○ Fit for use offerings (e.g., **low ticket sizes, better repayment terms**) ○ Reduction in **cost of servicing** (CAC & Opex) ○ Alternate data to underwrite risk
Reduce CAC[2] and Break-even AMB[3] Savings account	**50% reduction** CAC INR 2K-4K → INR 1K-2.5K Break-even AMB INR 30K → INR 10-20K	○ Digital lead **sourcing and engagement** ○ Digital **processing (e.g., automated scanning, eSigning)** ○ Aadhaar based **e-KYC**
Faster credit decisioning	**30-40% decrease in decisioning time for underwriting**	○ **Alternative data APIs** from 20+ sources (e.g., ITR, salary, GST, retail bureau, and more) ○ Analytics-driven **automated risk flags**
Improve onboarding time dairy loan (Average ticket size of INR 2L)	**99%+ TAT[4] reduction** 4-6 weeks & 5 visits → < 1 day	○ Aadhaar **e-KYC,** biometric **KYC** ○ Digital **document scanning** ○ **Digital underwriting** (e.g., ERP integration, digital state records)

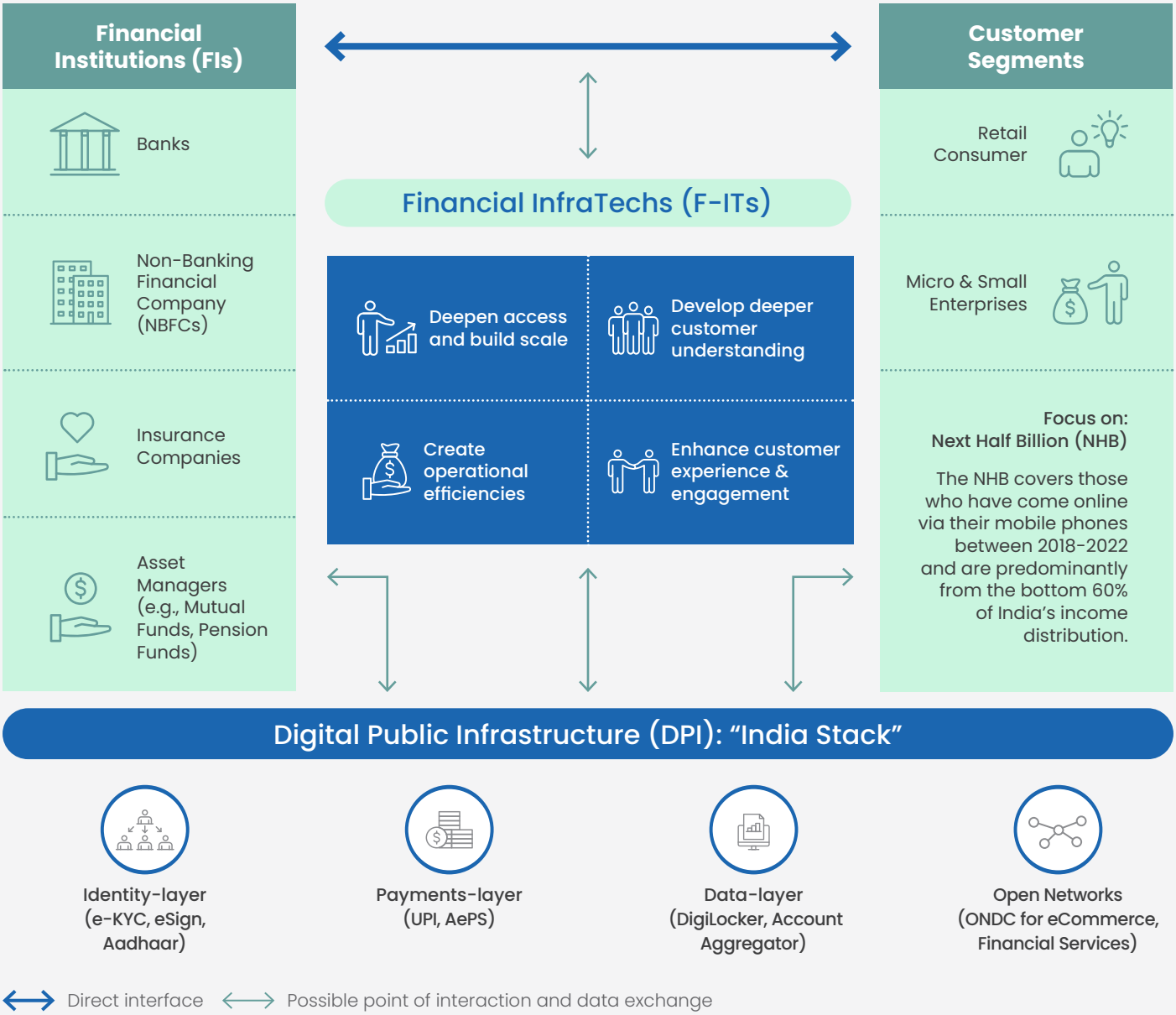
1. Value of invoices financed in the 4 years (since launch) **2.** Customer acquisition cost
3. Average monthly balance (3-years break-even) **4.** Turn-around time
Source: RBI report on TReDs: TransUnion CIBIL, Stakeholder discussions, BCG Analysis

02 Spotlight on the Financial InfraTechs:

F-IT value chain and landscape

Digital financial infrastructure has been driven by a key subset of the fintech ecosystem: **F-ITs**. F-ITs are predominantly B2B fintech firms that **partner with FIs to provide digital financial infrastructure,** such as digital onboarding, electronic identity verification, data and analytics, proprietary underwriting, risk management, collections, and other functionalities.

Exhibit 4: F-ITs enabling the financial services ecosystem (as seen in the executive summary)



Note: **eKYC** - Electronic Know Your Customer, **eSign** - Online Electronic Signature Service, **UPI** - United Payments Interface, **AePS** - Aadhaar Enabled Payment System, **ONDC** - Open Network for Digital Commerce
Source: BCG Analysis

We estimate that currently there are **450+ F-IT companies in India**. These F-ITs partner with FIs across the spectrum of business processes (See Exhibit 5).

Exhibit 5: 450+ F-ITs in India today, with $10Bn in overall funding

F-ITs operate across a wide range of business processes

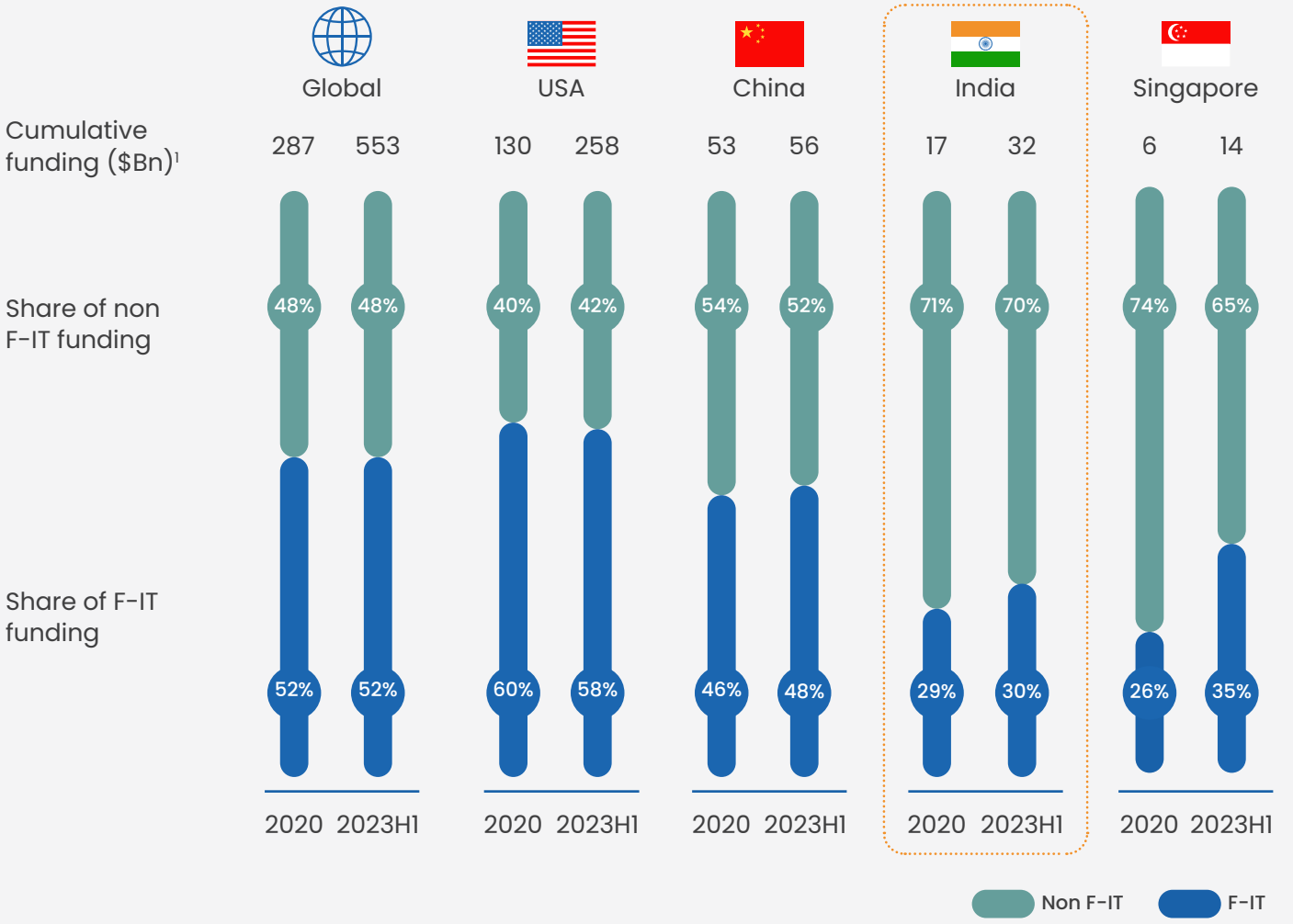
Node	Description	#F-ITs	Example F-ITs	Funding[1]
Customer sourcing	Lead management, customer relationship management	90-95	EnsureEdit, LeadSquared, Spice Money, Yubi	$1.4Bn
Customer onboarding	Identity and document verification (e.g., GST, employer, utility, anti-money laundering)	35-40	IDfy, Signzy, Tartan	$0.6Bn
Underwriting	Risk analytics and use of alternate data (e.g., bank statement analysis, mobile-data based analysis)	85-90	Crediwatch, Finbox, Kaleidofin, Perfios	$4.8Bn
Core operations	Banking & Collections: Credit, savings, investment	75-80	Credgenics, DGV, Lentra, M2P, Pennant, Yubi, Zeta	$4.8Bn
	Insurance: Policy generation, distribution, renewal, claims	25-30	Riskcovry, Turtlemint, Zopper	$0.5Bn
	Payments: Payment infrastructure, POS	115-120	Mswipe, Pinelabs, Razorpay, Spice Money	$3.3Bn
Data exchange, analytics, reporting	Data intelligence and analytics to drive and transform core processes	30-35	CAMSfinserv, Needl.AI, SatSure	$0.6Bn
Risk and compliance	Risk monitoring for operations, security, and privacy needs	30-35	Analyze n control, DronaPay, FIntellix	$0.6Bn

1. Captures total equity funding raised by companies (2000-2023H1)
Note: F-IT numbers and funding will not add up across categories, since F-ITs play across multiple categories. For example: F-ITs that offer onboarding services can also offer underwriting and core operations (LMS) services
Source: BCG Fintech Control Tower (FCT), BCG Analysis

Across categories, these F-ITs **have attracted almost $10Bn in funding** ($9.6Bn, from 2000 till 2023H1)– which is 30% of India fintech funding ($32Bn, in the same time period). Globally, similar companies have received 50% of all fintech funding, thereby indicating the potential for significant growth in India (See Exhibit 6).

Collectively F-IT companies can harness this growth by leveraging their strong product market fit in India. F-ITs have achieved this fit in two ways. First, by securing regulatory go-ahead as third-party providers or core system providers. Second, by refining use cases via proven partnerships with anchor FIs, over the last 5-7 years.

Exhibit 6: India F-IT market is underpenetrated with headroom for expansion



1. For 2020: includes cumulative sum of equity funding from 2000-2020; For 2023: includes cumulative sum of equity funding from 2000-2023H1 (July)
Source: BCG FinTech Control Tower (FCT), BCG Analysis

03 Case for partnerships:

Value-add, partnership barriers, and success factors

FI and F-IT partnerships are a win-win situation for both parties. F-ITs are valued by FIs for **delivering top-tier user experiences, harnessing data effectively, creating agile products**, and building **operational efficiencies**. In return, FIs provide F-ITs with their unique strengths, including well-established **consumer trust,** extensive **scale, expertise in risk and compliance management, capital,** and access to **substantial data sets**. The F-IT spotlight below illustrates a mutually beneficial partnership - including the ultimate goal of creating a positive outcome and experience for the end customer.

Exhibit 7: F-IT Spotlight | FIs partner with DGV to simplify credit for dairy farmers via an E2E digital process, alternate data, and an integrated ecosystem

Challenges: 50%+ dairy farmers rely on informal credit

- High travel & process cost for farmer (Up to 5-6% of an INR 1L loan)
- Long Turnaround Time (TAT) of 4-6 weeks
- Multiple documents, physical verification required
- Limited visibility for lenders into usage of funds

DGV[1] solution landscape[2]

	Origination	Verification	Disbursement	Collections
Base process	**Submit physical loan** application form	**Manual submission** (e.g., financials, collateral document) **Physical verification** **Manual decisioning**	**Physical sign** Loan **disbursed via branches/**ATMs **Limited visibility** into fund usage	Repayment and **collections through bank branches**
Key F-IT impact	Built option **for E2E digital or assisted loan journey** with digital footprints **Enabled Aadhaar e-KYC**	**Built integration into dairy ERP** for verifiable, digital underwriting Composed proprietary **decisioning algorithm built in partnership with bank**	**eSign; mATM[3]** withdrawals **Integrated bovine marketplace** (loan end-use check) **Embedded value-adds** (e.g., insurance provision)	**Facilitated repayment** via deduction from milk procurement payments at source **or digital options**

Impact metrics

- TAT reduced to <1 day
- Lower cost to farmer (12-14% vs. 19-25%, informally)
- FI visibility into fund usage on integrated marketplace
- Digital repayments (linked SA), field collection for 30-90 DPD[4]

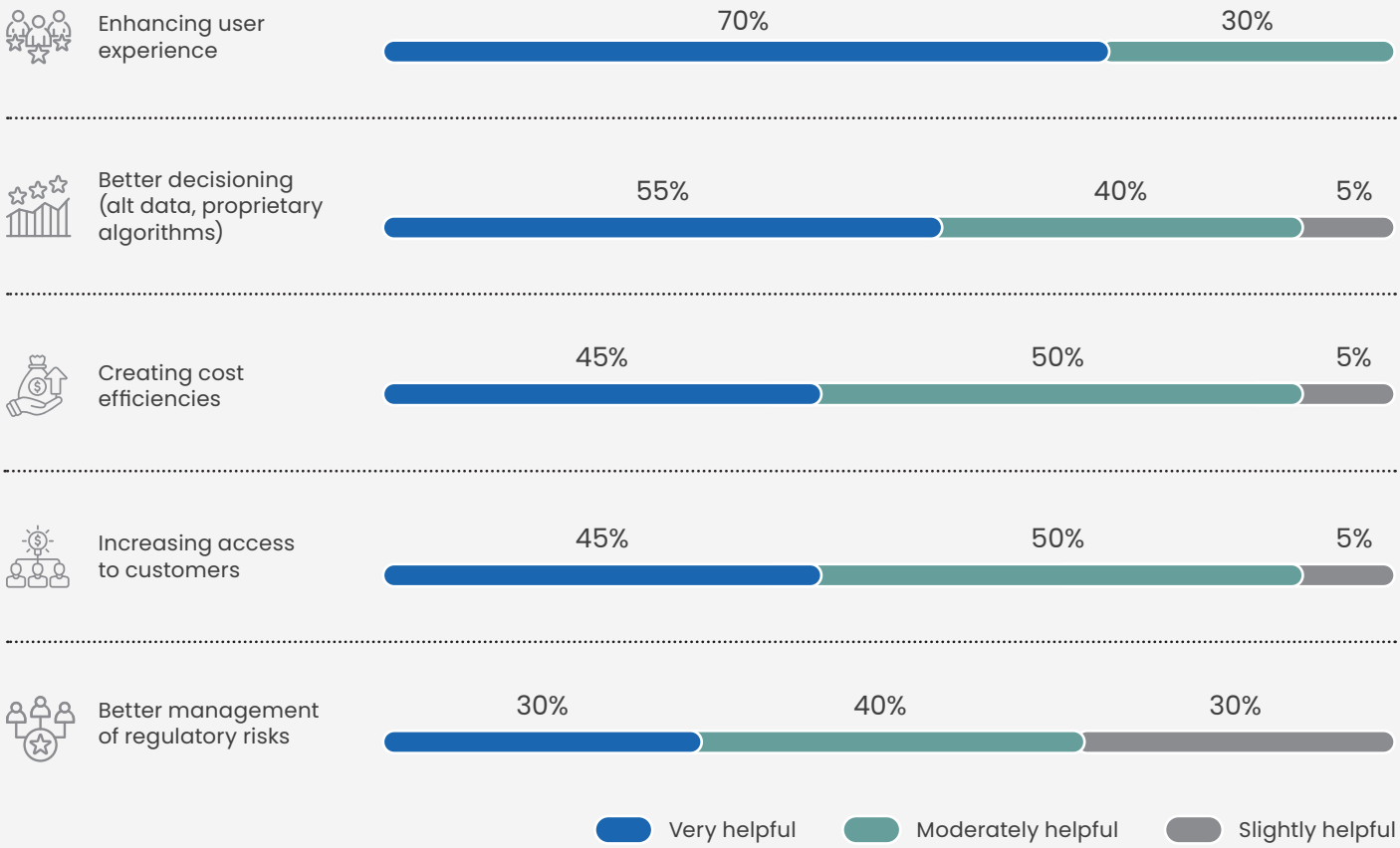
1. Digivriddhi, India's First Integrated Dairy Fintech & Marketplace Platform **2.** Based on DGV money solution **3.** Micro-ATM **4.** Days past due
Source: Stakeholder discussions, Company website, BCG analysis

In BCG's 2023 F-IT and FI Partnership Survey, we found that FIs highly value F-ITs for improving user experiences (70% find it very helpful) and enhancing decision-making (55% find it very helpful) (See Exhibit 8).

The role of F-ITs in driving cost efficiencies and scale is not just important but is considered table stakes. Presently, FIs see a limited role for F-ITs in risk and compliance management.

Exhibit 8: F-ITs are highly valued by FIs for enhancing user experiences and decision-making capabilities

Question for FIs:
How are these partnerships helpful in achieving the following FI objectives?



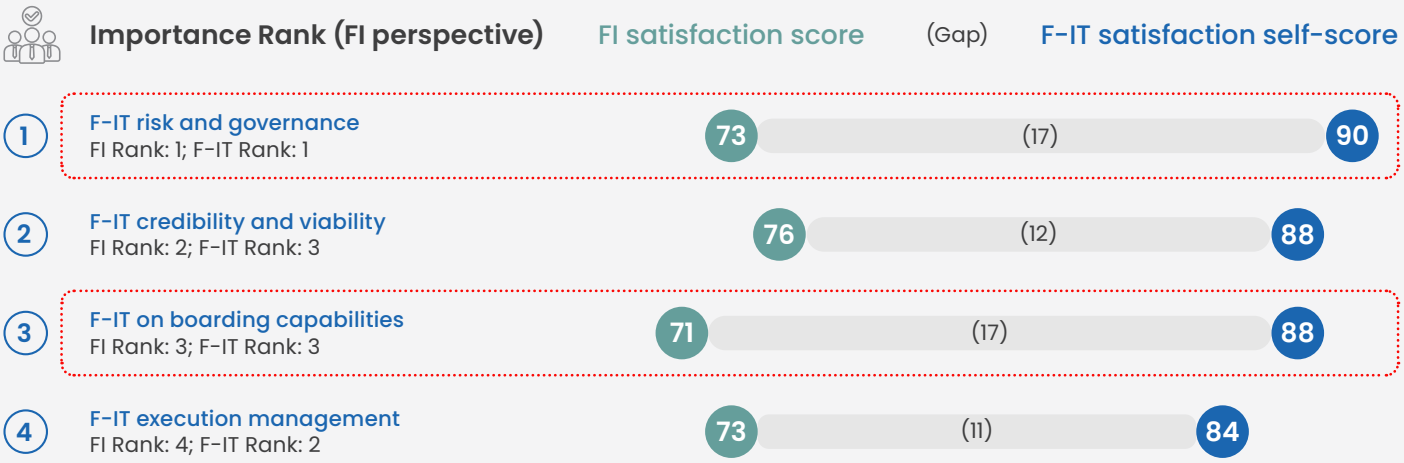
Source: Stakeholder Discussions, BCG F-IT and FI Partnership Survey 2023, across 20 Financial Institutions.

Partnership barriers

BCG's FI and F-IT partnership survey 2023 explored various challenges faced by industry players. The survey had 44 respondents across FIs and F-ITs. Participants were asked to assess their own and each other's partnership capabilities. The findings suggest an opportunity to strengthen partnerships as both parties often have high expectations regarding partnering capabilities.

Survey results show that both F-ITs and FIs prioritize risk and governance capabilities, with F-ITs believing that they meet FI expectations (See Exhibit 9). However, the satisfaction gap suggests an opportunity for F-ITs to prioritize proactive design in these processes. FIs also believe that the F-IT onboarding process, including visibility into F-IT data policies, terms, and conditions, should be made simpler and more efficient.

Exhibit 9: Opportunity for F-ITs to strengthen partnerships by prioritizing a more proactive approach to risk and streamlining onboarding requirements



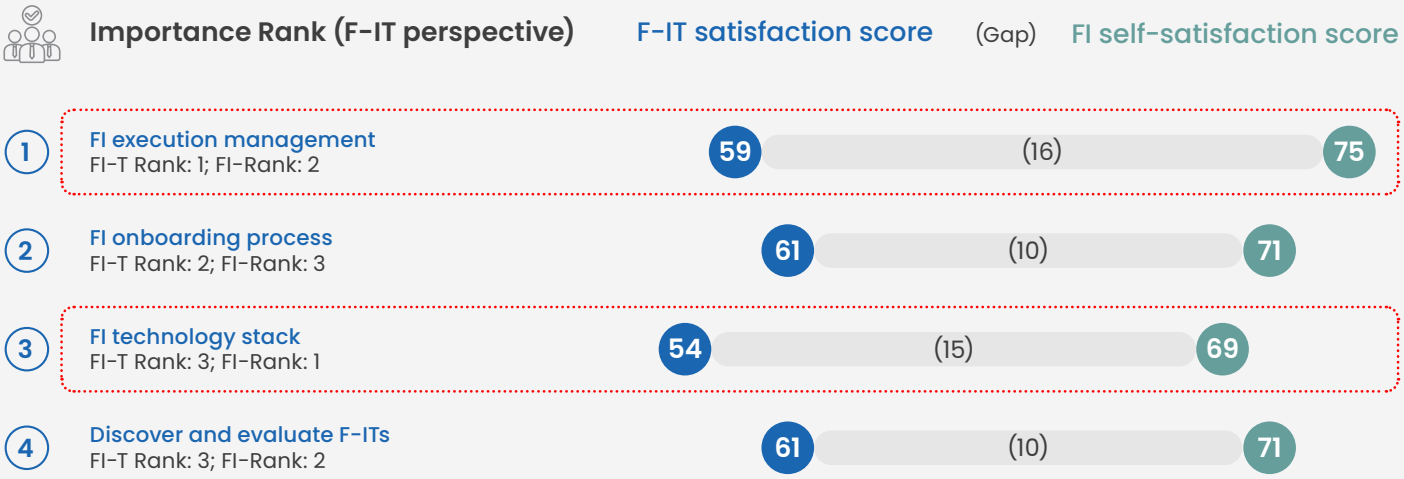
Question for FIs:
How important are the following in choosing an F-IT partner and how satisfied are you with your F-IT partner's performance on the same?

Question for F-ITs:
How important are your own processes, dependencies in building a successful partnership and how satisfied are you with your own performance on the same?

Source: BCG F-IT and FI Partnership Survey 2023 (N=44), BCG Analysis

On the other hand, FIs should focus on strengthening their own execution management and onboarding processes. This has been underscored in stakeholder discussions, with participants emphasizing the importance of adopting a more horizontal approach to partnerships, streamlining decision-making, and enhancing coordination between technology and business units. Furthermore, both FIs and F-ITs express the least satisfaction with legacy technology, highlighting the necessity for improving integration capabilities. FI ranking also highlighted the importance of F-IT discovery and evaluation, with the satisfaction gap showcasing the inherent complexity here (See Exhibit 10).

Exhibit 10: FIs should build internal partnership capabilities and increase ease of integration with legacy technology



Question for F-ITs:
How important are the following in building a successful partnership with an FI and how satisfied are you with your FI partner's performance on the same?

Question for FIs:
How important are your own processes, dependencies in choosing an F-IT partner and how satisfied are you with your own performance on the same?

Source: BCG F-IT and FI Partnership Survey 2023 (N=44), BCG Analysis

We examined these capability gaps and observed their impact across the partnership lifecycle, via 50+ stakeholder discussions.

Key partnership gaps

High friction in partner discovery:

Partnerships tend to cluster around larger F-IT companies, as they are perceived as the safer and more straightforward choice. The absence of a structured discovery mechanism and the limited ability of FIs to evaluate emerging companies meant that larger F-ITs continue to expand, potentially causing newer innovations to be overlooked.

> There is no structured discovery, mostly top-down referrals happen: a CTO will call up another CTO & ask "kya chal raha hai?" *(What's going on?)*
> **- Group Executive, Private Bank**

Establishing credibility is tough:

Once discovered, F-ITs face challenges in demonstrating their potential for long-term sustainability and scalability – since that cannot be tested in a POC or pilot. FIs therefore, favor partnerships with F-ITs that have a proven track record, making it hard for newer, younger F-ITs to build initial credibility.

> Banks only want to partner with players that others are partnering with... it is very hard to get established with a Bank.
> **- Founder, Underwriting F-IT**
>
> I don't want to be the first mover... let's see if their offering works elsewhere first...
> **- CTO, Public Bank**

Procurement is complicated:

Even after F-ITs credibility is established, there is no standardized F-IT procurement process, across FIs. Multiple stakeholders within an FI, often with competing objectives, lead to ambiguity, increased procurement timelines, and process complexity.

> It took us 23 months to close a bank after in-principle alignment...it is a constant struggle to figure out who the counterparty (buyer) within the bank actually is.
> **- CEO, Underwriting F-IT**
>
> It takes time to onboard [F-ITs]...we have to work with multiple teams within our bank... and sometimes after all that, we run into compliance challenges.
> **- Technology Head, SFB**

Culture differences, project management is challenging:

Once procured, executing partnerships can be challenging, given differences in culture, communication styles, decision-making pace, risk tolerance, innovation approaches, conflict resolution, and other ways of working.

> Bankers are open [with tech]...but it is the operating structure that makes [partnerships] hard. There is no senior product manager coordinating.
> **- Banking Head, KYC F-IT**
>
> F-ITs are not able to scale up their talent to meet our demands, at times.
> **- Digital Transformation Lead, Insurer**

Integration complexity slows down execution:

During execution, disparate technology and capability levels cause complications. FIs may rely on legacy systems with limited documentation, while F-IT technology may be less mature and strained by FI scale. Custom integrations and limited business-technology coordination exacerbate these disparities.

> Legacy tech has a gap...it is not built to be agile or put the customer in the center.
> **- CEO, Payments Bank**
>
> Implementation is a challenge because of integration ... we are still waiting to go live on a bid we won, a year ago.
> **- Banking Head, Analytics F-IT**

Effective management of risk and security is a key concern:

Underlying all the above, is the fact that FIs place a premium on trust and credibility. FIs are heavily regulated entities with strict compliance and governance requirements. Partnering with F-ITs can introduce regulatory complexity, as F-ITs may not have the same level of understanding or experience in navigating regulations.

> [F-ITs] don't understand systemic risk...per the regulator, banks are answerable under outsourcing policy
> **- CIO, Public Bank**

Therefore, to deliver on the potential value, it is imperative to get the core partnership mechanisms right. Some of the best practices we have observed in the market are:

Viewing partnerships as a strategic Board-level endeavor

Need a champion to help accelerate [progress]….and a manager to help coordinate across business and technology.
- Head of Banking Partnerships, Analytics F-IT

Demonstrating a solid grasp of BFSI intricacies

We have decades of experience via co-founders…relationships [and domain expertise] come from there.
- Co-Founder, InsurTech

Focusing on scalable solutions that can handle data volumes as well as multiple product stacks

[F-ITs] should provide a combination of services that meet our requirements…not offer a cookie cutter solution.
- CTO, NBFC

[F-ITs should] show that they understand the scale that our bank works with.
– CIO, Public Bank

Offering high service levels, particularly in API transformation and onwards integrations

[FIs] don't want a different F-IT for every small service…create the right onwards integrations, so you're like a one-stop shop.
- Digital Banking Head, Private Bank

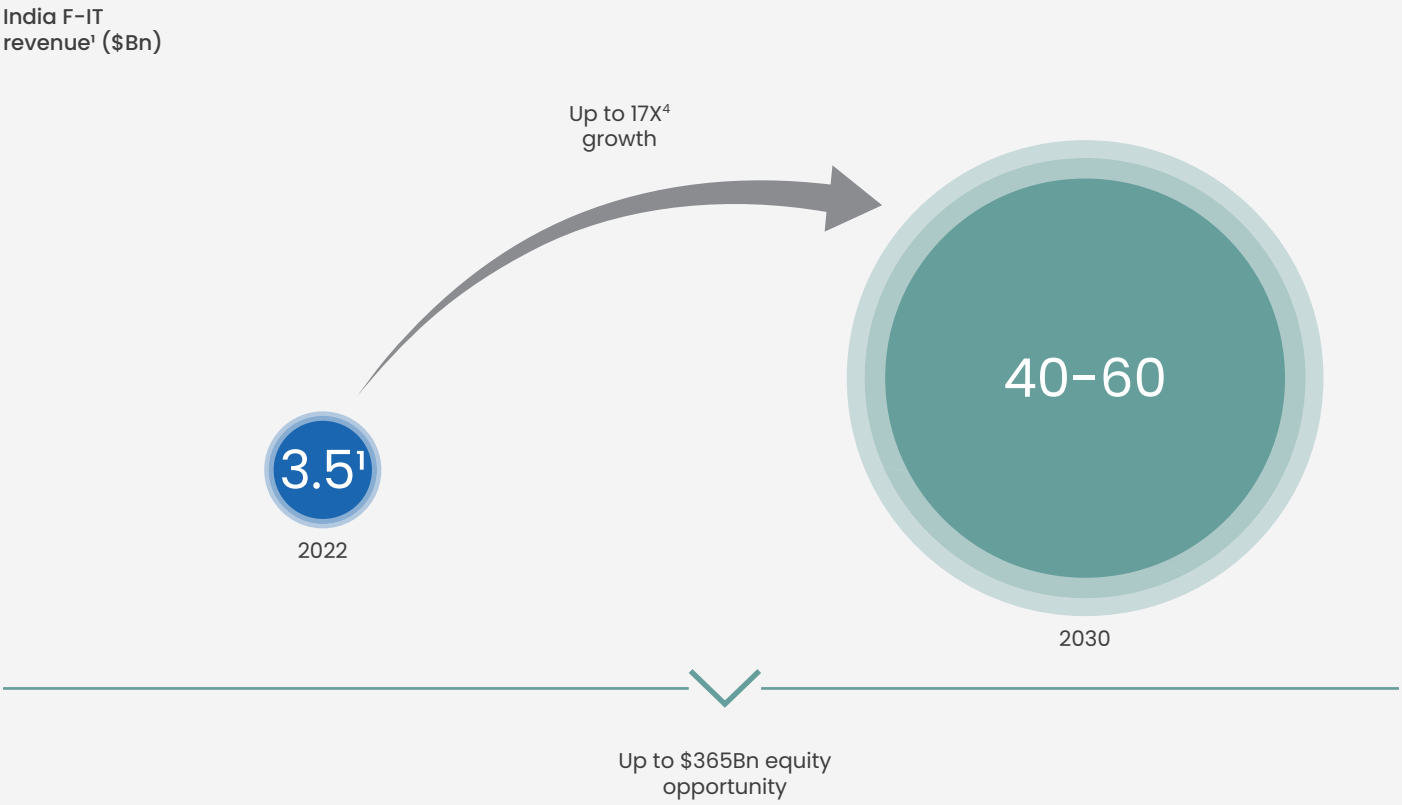
Displaying a deep understanding of FI regulatory context

Regulator holds banks accountable… F-ITs should showcase that they understand compliance implications on API security protocols, product structuring, channel encryption, and more.
- CIO, Public Bank

The digital financial infrastructure market is growing, driven by underlying demand for financial services across the country. F-ITs that master key partnership fundamentals will be positioned to capture a considerable share of this growth.

We estimate a revenue increase of up to 17X by 2030, creating a topline market of upto $60Bn. This translates to a potential $240Bn-$365Bn equity value pool, based on conservative, long-run average revenue-to-valuation multiples of 4x-6x.

Exhibit 11: F-IT revenue projected to grow by upto 17X ($60Bn+) by 2030



F-IT revenues will continue to grow as the Indian market evolves and more FIs partner with F-ITs, creating a $40Bn-$60Bn market

- **Revenue growth:** Strong momentum (~47% revenue growth in 2021-2022) expected to continue
- **Revenue share:** F-ITs contribute to 22% (2022) of the overall India fintech market[2] projected to increase to 32% (2030)

Potential equity value pool of $240Bn-365Bn given average revenue to valuation multiples of 4x-6x[3].

1. Based on available revenue data for 2022 ($2.8Bn), assumed to be 80% of market; **2.** India FinTech revenue is $16Bn (2022); **3.** Average revenue multiples for 85 public FinTechs from different geos and segments [Q2 2022 (6x) and Q4 2022 (4x)]; **4.** Based on historical growth rates and market estimates on future growth.
Source: Traxcn, Pitchbook, MCA filings, Stakeholder discussion, BCG Analysis

This continued growth is rooted in the underlying under-penetration of financial services, nationwide. Increasing demand will drive the need for underlying digital financial infrastructure (See Exhibit 12 for an overview of demand for select products).

Exhibit 12: Increasing demand for financial services nationwide will underscore the need for digital financial infrastructure

All units in K Cr.

Category	Product	Current (March 2022)		5 Year Projected Market Size	Key growth drivers
		Market size (Historical 3 Year CAGR %)	Penetration %	Projected Market Size (5 Year Projected CAGR %)	
Lending	Affordable housing loan, with average ticket size <= INR 30L	1,203 (7%)	11%[1]	~2,500+ (15-18%)	**Underlying affordable home market to grow** at ~19%. Steady increase in **urbanization** levels: Urban cities to hold 40%+ of population by 2030 from 30%, per latest census[2]
	MSME secured loan, with average ticket size <= INR 30L	217 (19%)	30%[3]	~520+ (19-20%)[4]	**Government focus on MSME growth:** Aim to increase MSME contribution to GDP by 1.6X (30% today to 50% in 2025. **Lender preference:** Collateralization, higher security
Savings & Investment	Mutual Funds	3,840 (16%)	<15%[5]	~9,500+ (20-22%)	Mass adoption of Mutual Fund SIPs driven by **investor awareness, affordability.** **18% SIP CAGR** for past 5 years
Insurance	Life Insurance	693 (11%[6])	3%[7]	~1,200+ (12-13%)	Pandemic emphasized the need for mortality protection; increased awareness. **Favorable demographics** with 68% of India's population young and 55% of its population working

1. Mortgage/GDP **2.** Per 2011 Census **3.** Micro enterprises (TO: 2Mn-20Mn): No. of current market borrowers of secured MSME loan with relevant ATS / No. of micro-enterprises in relevant ATS **4.** Projected CAGR same as current CAGR; **5.** Mutual Fund AUM as % of GDP. **6.** Life Gross Premium; **7.** Total Life Premium/GDP

Source: Avendus, Economic Survey of India, IBEF, TransUnion CIBIL Consumer Bureau; CRISIL reports; SBFC DHRP, UN India Digital Library, IBEF, Invest India Press Search, BCG Analysis

Business model overview:

There is space for multiple models of F-ITs to capture increasing demand and market success. Each model has an appropriate context for implementation. The key is to identify the right fit and to evolve with changing requirements, as needed. Broadly, these models can be categorized into three types:

Licensing model: Legacy model that is typically hosted on-premises. It gives users more control but can also require a large team to support. This model is typically used for critical systems (e.g., CBS) and involves a high one-time setup cost as well as a system integrator cost.

Pay-as-you-go model: Dominant SaaS model that is most useful for plug and play services. This model is largely used for enabling systems but innovators in the field are finding applicability in critical systems as well (e.g., user-based or transaction-based pricing for CBS).

Revenue-Sharing model: An emerging model beneficial for expanding into new markets and customer segments. This model is largely used in enabling systems and requires the ability to link product economics to the underlying technology (See Exhibit 13 for key elements of each of these business models).

Exhibit 13: Prevalent business models | Key to identify right fit, evolve with changing needs

Business models	Legacy licensing model	Fixed fee + pay per use model	Revenue sharing
Model definition	**Upfront fee** to use software for a specific period, typically annually	**Usage based fee** calculated on actual consumption of product or service (e.g., number of transactions, users)	**Outcome-based fee,** typically calculated on revenue generated
Example offering	**On prem, CBS**	**Bank statement analyzer**; **Cloud-based CBS**	**New age loan management systems**
F-IT / Tech provider benefits	**Consistent** earnings **High entrenchment** due to significant switching costs	**Easy to onboard, contract:** build value prop as key differentiator **Ability to charge more** for increased usage	**Market-making play,** can capture large value in growth market Seen as **value-additive**
F-IT / Tech provider challenges	**Limited scalability** given customization **Large teams** to support multiple clients	May be seen **as a utility business;** easy to switch commercially **Limited customization:** Architecture build to enable commercial model Need capability to **provide granular level of transparency into billing**	**Limited consistency in inflows,** Take on **increased risk,** that is out F-IT control
Considerations for FIs	**Full FI ownership, control – need resources to manage the same** **Robust regulatory oversight** (risk, compliance fully in FI purview) **Complex contracting procedure** (e.g., product layer vs. customization layer)	**Responsive to FI needs:** Only pay for what you need **Reduce entry barriers for smaller FIs:** No large capital outlay needed; limited switching costs **Limited customization potential**	**Limited upfront capital** Good fit to **explore new market, customers** **Unpredictable outlay –** depending on product success

04 Preparing for the road ahead

Key gaps to bridge

Five specific initiatives can further shape the future of FI and F-IT partnerships by addressing the key gap areas discussed above. These include discoverability and credibility gap, culture gap, technology and capability gap, and risk and governance gap.

Exhibit 14: 5 specific opportunities to optimize future FI and F-IT partnerships

1 **Marketplace and digital sandbox:** A credible, trust-worthy platform that accelerates partnership discovery, solution development, and prototyping. The marketplace enables ease of discovery, with a curated list. Digital sandbox increases speed of F-IT evaluation, since FIs can test APIs without going behind the FIs firewalls and through using synthetic data, which limits FIs security and risk exposure. Global sandbox examples, like NayaOne in the UK, have seen up to a 10X benefit through partnership creation (See Exhibit 16).

Fintech oriented industry bodies in India could own the marketplace and sandbox and ensure integrity via coordination with entities like the Reserve Bank Innovation Hub.

Given global best practices, key features of the offering should include the below (See Exhibit 15 and 16 for global examples of marketplace and digital sandbox).

a. **F-IT listing with key profile information** (e.g., leadership team, compliance certifications, funding raised) that is externally validated.

b. **Neutral third-party sandbox** hosted on a public cloud, that enables product or solution testing outside both the FI's firewall and the F-IT's proprietary environment.

c. **Convening events:** Ideathons, hackathons to bring industry stakeholders together in an efficient, targeted manner.

Key considerations to keep in mind to make this an effective idea:

a. **Strong sponsorship:** Ability to convene FIs and F-ITs in a trusted manner.

b. **Monetize to sustain:** Offering has to add demonstrable value in order for FIs to use it.

c. **FI adoption is key:** This offering is trust-driven. FI demand can be generated via awareness events, targeted conversations with top FIs, and ensuring compliance-focused innovation.

Exhibit 15: Select examples of global marketplaces and sandboxes (Singapore)

APIX | Collaborative innovation platform with open API marketplace, sandbox to transform cross-border FI and F-IT collaboration

APIX

93 countries | 110 FIs | 7,000 fintechs participated in challenges | 2000+ sandboxes created

2016
Conceptualized at Singapore FinTech Festival

2018
MAS[1], IFC, ASEAN Bankers Association (ABA) established APIX

2019
Launch of first working version at SFF

2022
Transitioned to Synfindo; Lematree and Mastercard as investors

Products and Services:

Hackathons & innovation challenges

- FIs can launch **Hackathons and Innovation Challenges** (publicly or privately conduct POC in a digital sandbox to partner with F-ITs and/or developers)
- Configurable platform with **workflow management**

Sandbox

- **Cloud based Integrated development environment** for prototyping
- FIs' and/or F-ITs' **expose APIs and test data** which can be tested in a non-production sandbox environment

Marketplace

- Facilitate **search, discovery and testing**
- Search for F-ITs based on self-declared and public data

Engagement model

FIs pay subscription fee for various offerings; F-ITs get free access

Adoption

Adoption driven by **regulator association, convening events, and marketing effort**

Advantages

Provides reach:
Has partnership with 25+ fintech associations providing access to 6-7K fintechs

Discovery and evaluation time reduced:
70-75% reduction in evaluation time as vendor integration not needed at the outset

Understanding new technology:
Industry players, regulators can access and evaluate emerging technology

Secure:
Safe, neutral platform (public cloud pre-production environment)

1: Monetary Authority of Singapore
Source: Stakeholder discussions, BCG Analysis

Exhibit 16: Select examples of global marketplaces and sandboxes (UK)

NayaOne in the UK: Enabling faster testing, higher conversions, and lower cost

NAYAONE

350+ vetted fintechs, 2.5Bn+ test datapoints

Platform offering a marketplace, digital sandbox, and hackathons as a service

- Platform used by FIs (white-labeled and/or customized) for relevant use-cases
- FIs pay license and maintenance fee for services (e.g., sandbox, hackathons)

Adoption driven by **regulator association** (operates digital sandbox for the FCA), tier 1 bank clients, marketing events, and deep banking experience in the team

Partnership journey		Without sandbox	With sandbox
3x Faster	From NDA → **POC:**	Success rate: **25%**	Success rate: **25%** (but decision made 3x faster
3x Higher conversions	POC → **Pilot:**	Success rate: **25%**	Success rate: **70%**

Overall, 10x better results

- **More effective screening** at early stages; only competent firms to be tested in POC
- **Internal momentum sustained and conserved** by increased speed of collaboration (e.g., FI leadership priorities stay consistent, virtuous cycle of momentum driven by results)

80% lower cost for complex POCs[1]

- **Optimize large spends,** e.g., reducing internal PMO costs, which can be up to 30% of total spend, due to quicker, easier integrations
- **Large savings in key categories,** e.g., 90% savings in security and compliance costs, given synthetic data use

1. Cost for complex POCs and includes spending on all internal resources.
Source: Stakeholder discussions, NayaOne inputs, BCG Analysis

2 **Hardwiring partnership culture in FIs:** Establishing a cross-functional role that empowers the FI to take a holistic approach to partnerships, improving discovery, evaluation, execution, and relationship management. To be effective, top FI leadership should establish such roles with accountability and authority. While Indian FIs have experimented with roles like Chief Product Officer, Chief Digital Officer, and Innovation Lab Teams, success hinges on empowering these roles to make business decisions and influence essential verticals (e.g., IT). We examined Fifth Third Bank, a fortune 500 entity in the United States, as an example of an FI codifying its partnership focus (See Exhibit 17).

Exhibit 17: Global case study | Fifth Third Bank seen as "partner of choice" due to focus on culture fit, strategic alignment, and horizontal approach to partnerships

The partnership team should be agile and cross-functional with representation from key business verticals, risk and compliance, IT, support functions, and other relevant teams. Based on stakeholder discussions and industry best practices, key competencies for the team lead could include:

a. **Techno-commercial expertise:** Understanding the FI's internal tech stack, prioritizing use cases, and developing external-facing commercial models.

b. **Supply-side knowledge:** In-depth knowledge of the supply-side ecosystem and relationship-building.

c. **Horizontal demand-side understanding:** Bridging requirements and vendor relationships across the FI, ensuring readiness of internal APIs for external use (e.g., taxonomy, data types, business objects).

d. **Project management:** Coordinating business and technology during execution, addressing bottlenecks, and navigating hierarchy.

e. **Culturecmanagement:** Establishing timely grievance resolution and conflict resolution processes.

Key considerations for success involve ensuring leadership support and business empowerment behind the role.

3 **F-IT Self Regulatory Organization (SRO):** An industry-led SRO, owned and led by F-ITs from various categories (e.g., underwriting, KYC, collections), is crucial to fostering industry knowledge in a rapidly evolving technology and data landscape. This SRO should emphasize risk and governance within the F-IT community and facilitate industry-wide coordination with regulated entities and regulators.

Key activities under the SRO purview should include:

- **Risk & governance:** Establish core standards and a code of conduct, ensuring compliance through third-party audits.
- **Regulatory engagement:** Help drive consistent interpretation of regulatory frameworks across F-ITs and FIs (e.g., digital KYC norms, F-IT data access).
- **Market insights:** Publish data-driven industry insights regularly (e.g., F-IT-driven disbursements) and promote third-party quality reviews to enhance market visibility.
- **Industry representation and impartiality:** Operate as an independent organization with 4-5 full-time employees for daily operations. Maintain an impartial board of directors with equal membership rights irrespective of entity size.

Success of the SRO hinges on striking the right balance between self-regulation and industry advocacy (See Exhibit 18). This requires an independent board and ample funding to uphold transparent and credible daily operations (See Exhibit 19 for examples of industry bodies and SROs in industry, today).

Exhibit 18: Key success factors of a SRO

Key SRO attributes: Success hinges on striking the right balance between self-regulation and industry advocacy

Independent

2/3rd of the Board of Directors should be independent and not associated with member institutions

Representative

Have at least **70-80% of the F-ITs registered as its members,** in steady state

Self-Sufficient

Have adequate capital to discharge its function and not be overly dependent on subscription from members

Drive industry accountability and good behavior

Hold members accountable to code of conduct and standards; have a **grievance redressal mechanism** and dispute resolution mechanism in place

Exhibit 19: Example of industry bodies and SROs today

Organization	MICROFINANCE INSTITUTIONS NETWORK	FACE	AMFI
Operating segment	Microfinance	Digital lending	Mutual Funds
Members	55 members (NBFC-MFIs)	45 members (35 NBFC, 11 LSPs)	44 members (AMCs)
Board structure	**4 independent members**[1] (Ex-RBI ED, Non-Exec Vice-Chairperson Northern Arc, MicroSave Director,Swaadhar FinAccess) **2 industry members** (Svatantra, CreditAccess Grameen)	**3 independent directors** (Ex-COO Private Bank, ex-NPCI,Corporate Governance) **2 directors from industry** (Co founder & CEO-PaisaBazaar; Co-Founder & CFO, Fibe)	**15-member board** consisting of CEOs and MDs from the industry
Activities under purview	**Inhouse regulatory team:** Monitor member adherence to regulatory, industry standards **7-member enforcement committee:** Handle grievance and non-compliance **Support for funding needs:** MFIs interaction with lenders and investors **Trainings and workshops** for customer awareness	**Engage with regulator and govt** for effective policy framework **Support and monitor members for their customer engagement practices** and compliance with regulatory/ industry standards Seek **constant feedback from customers** about problems and expectations wrt to digital loans Support a **safe digital lending ecosystem by reporting illegal lending** apps to relevant agencies	Detail the regulations released by SEBI Define and maintain **professional, ethical standards; promote best-practices** **Represent MF industry** to SEBI, Government, RBI, and other bodies Undertake nationwide Investor **awareness programs** Regulate conduct of distributors including **disciplinary actions (cancellation of ARN, penal actions)** for violations of Code of Conduct

1. Board structure of Self-regulatory Organizing Committee (SROC) of MFIN
Source: Stakeholder discussions, BCG Analysis

4 **Know your partner repository:** Establish a credible, centralized data warehouse for gathering and managing third-party due diligence information related to F-IT assessments. This initiative aims to expedite onboarding, reduce FI risk exposure, and enhance efficiency. The repository should be overseen by a trusted entity and include private F-IT evaluation data beyond what's available in the open marketplace.

The repository should include minimum compliance evaluation results:

- **Information security,** e.g., ISO 27001 compliant
- **Business continuity:** e.g., ISO 22301 compliant, F-IT disaster recovery plans
- **Data privacy,** e.g., Compliant with ISO 27701, 2000 IT Act
- **Organization and financial soundness,** e.g., financial statements (MCA), leadership qualification, total funding, institutional partners
- **Grievance redressal mechanism**, e.g., protocols in place for customer complaint redressal

FIs can conduct additional due diligence through the Know Your Partner platform or directly with F-ITs. The warehouse also enables F-ITs to better understand the minimum standards expected of them.

Successful implementation relies on strong ecosystem support to gain FI buy-in and adoption. Exhibit 20 below showcases a global example of partner evaluation library.

Exhibit 20: Global example of due-diligence data warehousing

KY3P Offering for FIs: Centralized hub for third-party due diligence

IHS MARKIT

Launched in 2015, in partnership with FIs, buyside firms, third parties; platform standardizes third party due diligence and risk management

KY3P Components

- **Onboarding and oversight:** Standardized onboarding, due diligence, inherent risk calculation, oversight and off boarding of third-party products, services; assists with ensuring audit readiness
- **Due-diligence and monitoring:** Helps collect, maintain risk data, including cybersecurity and financial ratings, sanctions data, news alerts, cyber event data, and questionnaire responses from third parties that can be used to generate risk scores, drive remediation
- **Shared Assessments:** Services and software for third party risk assessments, which are standardized, cost effective on-site, desktop or express assessments by accredited partners based on market standard criteria delivered through the KY3P platform

KY3P workflow

Benefits

Efficiency:

Benefit from standardized questionnaires and access to information at a single location

Seamless integration:

Integrate data from KY3P into FI system through standard API

Vendor discovery and onboarding:

Helps connect and collaborate with 3rd party vendors categorized by service & region

Risk mitigation and scoring:

Receive quicker and more complete; score response to reduce operational risk

Source: IHS Markit website, BCG Analysis

5 **Establish industry protocols:** The need for technical and data protocols arises due to a lack of consensus among FIs on regulatory interpretation, resulting in varied execution approaches for the same services (See Exhibit 21). The F-IT SRO along with relevant industry bodies should advocate for the development of protocols, particularly for widely adopted utility services (e.g., KYC and employer verification), to facilitate smoother integrations in FI and F-IT partnerships.

FIs can reduce integration timelines and enhance partnership ease and speed, while F-ITs can scale their products and services with ease, ensuring standardized integration across partners.

Exhibit 21: FIs interpret KYC processes differently, indicating the need for further standardization

Illustrative list of process components

Categorization of KYC process flow	Video KYC	e-KYC (soft KYC)
Front-end customer experience	Process can vary widely, **from 2-15 minutes,** due to lack of common understanding across FIs, e.g., • **Liveliness test:** RBI mandates "live audio-visual interaction" with "liveness detection" using varied questions but provides limited additional nuance • **The number and type of questions vary drastically across FIs** (e.g., simple live OTP receipt, read-out vs. interview style questions; FIs may embed cross-sell, risk & security language)	**Interpretation of Aadhaar fulfillment varied given different Aadhaar formats** (e.g., Aadhaar picture, eAadhaar, DigiLocker, UIDAI portal for offline eKYC, Aadhaar QR, and more)
Business rules (including AML, CFT controls)	**Limited guidelines on processing of non-standard documents,** e.g., utility bills, GST, driving license, etc. **Minimum AML, CFT guidelines,** e.g., RBI mandates checks against UNSCR, PEP etc., but also notes that customer should be checked for "known criminal background" – leading to varying interpretations	
Backend operations	**Maker checker mandate:** Varying interpretation - some FIs host both maker and checker within call-centre vs. others host maker in call center, checker in bank	**Inconsistent treatment of data:** eAadhaar or Digilocker Aadhaar only valid for a year; XML Aadhar copy valid in perpetuity

Source: Stakeholder discussion, RBI Circulars

Key implementation factors include:

- Foster consensus on regulatory interpretation among FIs and F-ITs to drive interoperability.
- Standards should establish minimum requirements for key categories (e.g., data treatment, InfoSec), with the option for additional differentiation on CX.
- A project management team of 15-20 individuals across product, business, tech, and ops is needed for protocol development and maintenance.

Success considerations include the need for incentives to drive standardization. For instance, FIs may adopt ONDC protocols to access a new market or UPI protocols to participate in a new product. KYC is a critical component of every transaction and FIs would benefit from clarity around basic governance required as digital KYC methods evolve.

The five initiatives aim to further streamline FI and F-IT partnerships, creating a stronger, more accessible financial services ecosystem in the country.

Conclusion

FI and F-IT partnerships are rapidly evolving, closing product gaps, enhancing customer engagement, and elevating operational efficiency. Simultaneously, they're expanding the reach of financial services across India, particularly for the NHB. Presently, India has 759 million active internet users, with 53% from rural India. **By 2025, India is expected to have 900 million active internet users, with 56% of new users coming from rural areas.** Given increasing internet access, FI and F-IT partnerships can allow FIs to reach these new customers more efficiently, with data-driven insights.

However, these partnerships aren't just about connectivity; they encourage the development of **innovative new financial products and services tailored to the underserved population,** leading to the deepening of financial markets and increased participation of NHB and MSMEs in India's formal financial sector. From digital lending and remittance services to micro-insurance and small-scale savings and investment, these innovations prioritize accessibility, affordability, and ease of use, considering the specific challenges and needs of underserved populations. The impact resonates beyond mere convenience; it redefines economic participation, uplifts communities, and fosters a more equitable society.

As more FIs collaborate with F-ITs, **F-IT revenues could potentially surge by upto 17 times their current level, reaching up to $60+Bn by 2030 from the current $3.5Bn. This creates a potential equity value pool of up to $365Bn in the same time frame.**

As F-ITs continue to evolve in a large scale and complex ecosystem like India, their capabilities can also cross borders to different economies as SaaS plays or as protocols – effectively creating an "India for the world" F-IT ecosystem. To succeed globally, F-ITs will need to adapt their offerings to fit each market's needs, considering diverse regulations, consumer habits, and market landscapes. While certain utility services like identity verification may seamlessly transfer across borders, F-ITs dealing with complex functions, such as risk underwriting, will require tailored approaches for different markets, making market selection crucial for their success.

Looking ahead, the growth potential for FI and F-IT partnerships is immense. As technological advancements continue, the scope for innovation multiplies – artificial intelligence, distributed ledger technology, GenAI, and other cutting-edge technologies amplifies the scope for reimagining financial services. The synergy between traditional FIs and F-IT partners is set to pave the way for an even more inclusive and accessible financial landscape, with opportunities for all.

Glossary

AA: Account Aggregator

AePS: Aadhaar Enabled Payment Services

AML: Anti-money Laundering

API: Application Programming Interface

B2B: Business-to-Business

BFSI: Banking, Financial Services, and Insurance

CBS: Core Banking Solution

CERT-In: Indian Computer Emergency Response Team

CFT: Combating the Financing of Terrorism

CX: Customer Experience

DLAI: Digital Lenders Association of India

DPI: Digital Public Infrastructure

E2E: End to End

FACE: Fintech Association for Consumer Empowerment

FCC: Fintech Convergence Council

FI: Financial Institution

F-IT: Financial InfraTech

IBA: Indian Banks' Association

ISO: International Organization for Standardization

JAM Trinity: Jan-Dhan, Aadhaar, Mobile

KYC: Know Your Customer

MCA: Ministry of Corporate Affairs

MSME: Micro, Small, and Medium Enterprises

NEFT: National Electronic Funds Transfer

NBFC: Non-Banking Financial Companies

OCEN: Open Credit Enablement Network

ONDC: Open Network for Digital Commerce

PMJDY: Pradhan Mantri Jan-Dhan Yojana

POC: Proof of Concept

PSBs: Public Sector Banks

RE: Regulated Entity

SaaS: Software as a Service

SFB: Small Finance Banks

SRO: Self-Regulatory Organization

UPI: United Payments Interface

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