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FINTECH 2021

Fintech in India: beyond the horizon



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Fintech in India: leading the curve

India leads global Fintech adoption rates. 99.5% of consumers in India are aware of online payment services.

(Source: EY 2019)

Since 2015, Indian Fintech firms have received more than US\$8 billion in investment, across 1031 deals.

(Source: Deloitte, Tracn)

Total transaction values in Indian Fintech are expected to rise from \$66.1 billion in 2019 to \$137.8 billion in 2023, growing at a CAGR of 20.18%.

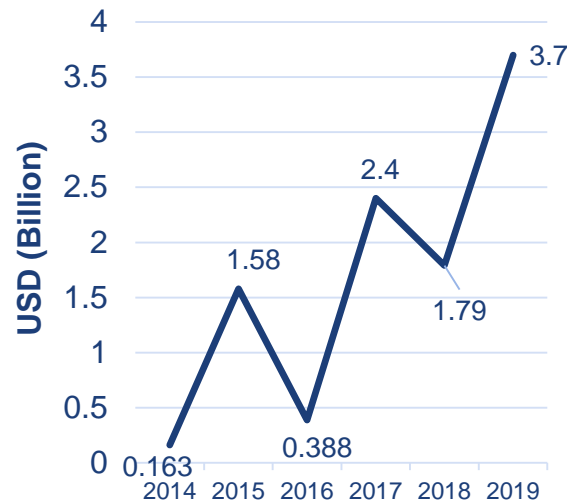
(Source: PWC, ASSOCHAM, Statista).

INDIA LEAD EY'S GLOBAL FINTECH ADOPTION INDEX FOR 2019

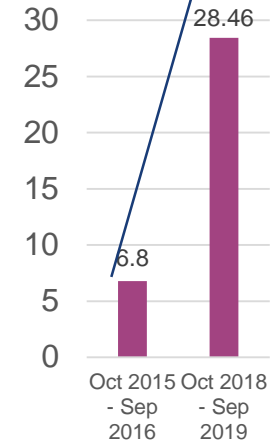
The adoption rate rose from 52% in 2017 to 87% in 2019



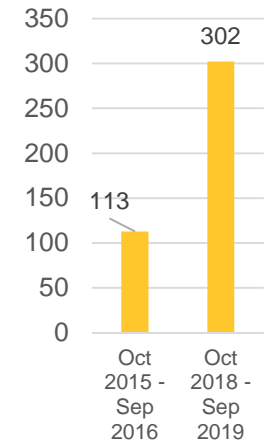
INVESTMENT IN INDIAN FINTECH (2014-2019)



Digital transaction volumes (Billions)



Digital transaction amounts (INR Tn)





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THE INDIAN PRIME MINISTER SUPPORTS FINTECH:

“Yes to digital
payment, no to
cash!”

“Digital money will
empower the poor!”

Growth of Fintech in India: key drivers

- **Demonetization:** in 2016, India's overnight ban of Rs. 500 and 1000 notes (representing 85% of the physical currency in circulation) created a huge need - and opportunity - for digital financial services in India.
- **Government Support:** the Indian government's active promotion of a cashless society, of digital initiatives, and its support for corresponding regulatory developments, has also facilitated the growth of Indian Fintech, including:
 - the Unified Payments Interface (“UPI”): developed and launched by the Indian government, the UPI is a single-window platform which facilitates instant inter-bank payments and which, by ensuring the interoperability of existing services, has revolutionised payment systems in India; and
 - the Digital India Programme: India has developed a programme to create a robust digital infrastructure, promote digital literacy, and increase volumes of cashless payments.
- **Regulatory Support:** including creating tax incentives for Fintech start-ups, planning regulatory sandboxes for Fintech firms, and recognising P2P lending platforms.
- **Greater financial inclusion:** increasing financial inclusion has led to greater opportunities in Indian Fintech: for example, Jan Dhan Yojana, which increased access to financial services, and the Goods and Services Tax regime which formalised unorganised payment sectors; from 2014 to 2017, 55% bank accounts opened globally in were from India (source: World Bank).
- **Greater consumer demand:** Indian consumer demographics, coupled with increasing financial awareness, have led to a rise in demand for Fintech services.
- **Technological advancements:** the increasing availability of the internet across India has facilitated the growth of Fintech sector.

Fintech in India: segments and players

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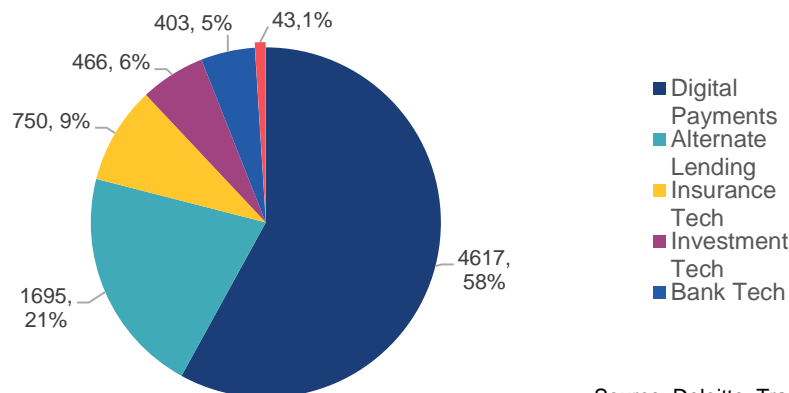
Fintech Segments

Fintech players in India are usually classified into the following segments:

- **Digital Payments:** facilitation of electronic payments, inter-bank transfers and merchant payments
- **Alternative Lending** and alternative credit scoring
- **Insurance** : promoting increased distribution and access to insurance products and services
- **Asset Management:** easier investing and personal wealth management, including Robo-advisory and AI
- **RegTech:** allowing quicker and easier regulatory compliance
- **Banking as a service:** improving efficiency in the operations of banks and other financial institutions

Source: Deloitte

Investment across Indian Fintech segments (US\$ million)



Source: Deloitte, Tracxn

Major Indian firms include:

- **Paytm:** launched in 2010, facilitates digital wallet and UPI – has created two \$10bn companies
- **PhonePe:** UPI-based app, supporting billing, recharge, etc
- **MobiKwik:** services include digital wallets, wealth management, and insurance
- **PayU:** a payment gateway for SMEs
- **ETMoney:** a Fintech app for financial services such as mutual funds
- **PolicyBazaar:** an insurance aggregator
- **LendingKart:** NBFC focussed on lending

Big tech's entry into Indian Fintech

Google:

- Google launched its UPI-based app Tez in 2017; it was rebranded to Google Pay in 2018
- As of November 2017, it had 67 million monthly users, more than 2.5 billion transactions, and annual run rate of US\$110 billion in transaction value

WhatsApp:

- Launched its UPI-based platform WhatsApp Pay in 2017 as a trial
- WhatsApp Pay has now been approved by the NPCI to launch officially

Source: Inc



Major deals in the Indian Fintech sector include...

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- **Paytm** raised **US\$ 1 billion** in funding led by U.S. asset manager **T. Rowe Price** including contributions of \$400 million from existing investor **Ant Financial** and \$200 million from existing investor **SoftBank Vision Fund** (2019). The funding valued Paytm at \$16 billion.
- **PhonePe** was acquired by e-commerce giant **Flipkart** in 2016 for an undisclosed sum. When **Walmart** acquired Flipkart in 2018, it also acquired Flipkart's payment business PhonePe, which is now valued at \$10 billion.
- Insure-Tech **PolicyBazaar** raised **\$282 million** in equity financing led by **SoftBank** (2018).
- Indian start-up **Qwik-Clover** which was backed by **Amazon** was acquired by Singapore-based **Pine Labs** for **\$110 million** (2019).
- Digital payments start-up **RazorPay** raised **\$75 million** led by **Sequoia** and **Ribbit Capital** (2019).
- Digital insurance start-up **Acko** raised **\$65 million** from **Flipkart co-founder Binny Bansal, SAIF Partners** etc. (2019).

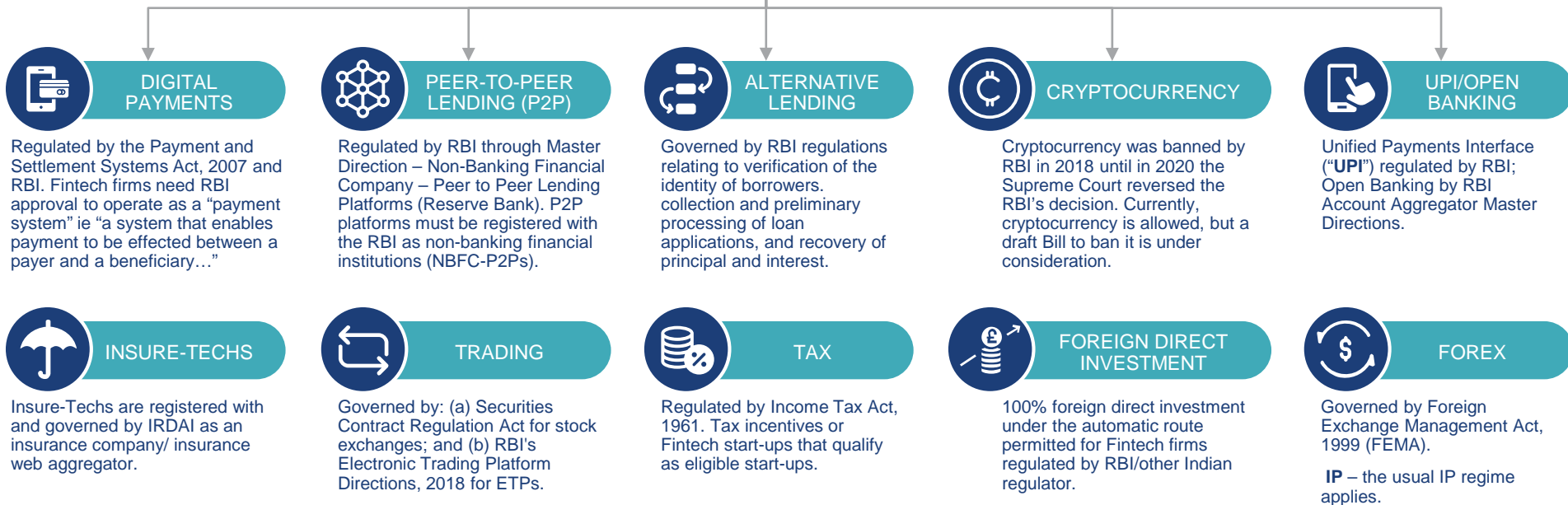
Regulation of Fintech in India

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REGULATIONS





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India's revolutionary UPI and open banking

Unified payments interface (“UPI”)

- UPI is a real-time payment system developed by India to facilitate money transfers instantly and directly from one's bank account.
- It is regulated by Reserve Bank of India.
- UPI ensures interoperability among existing players: banks can integrate with UPI to provide money transfer services, and PPI issuers can act through UPI.
- Around 143 Indian banks currently use the UPI platform.
- Money can be sent/requested using only a UPI ID, mobile number, account number and IFSC, Aadhaar, QR code or mobile application.
- UPI has put India ahead of other countries in relation to payment systems, and has been widely adopted. Google launched its UPI based app, Google Pay (earlier called Tez), in 2017.
- The total amount transacted using UPI in 2019 was 217% higher than in 2018. The total number of transactions in 2019 was 1.9 times higher than in 2018.

Account aggregators

- To facilitate Open Banking, the RBI enacted the Account Aggregator Master Directions, 2016 (“**Master Directions**”) to regulate financial data.
- The Master Directions regulate financial data amongst banks, non-banks and private financial players.
- Under the Master Directions, RBI can allow some NBFCs to consensually aggregate and share customer's financial data with other financial companies.



Data protection in India

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- Privacy is a Fundamental Right (“**FR**”) in India - but there is not yet a specific data protection regime.
- Instead, data protection is addressed by the Information Technology Act, 2000 (“**IT Act**”) and the related Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011 (“**IT Rules**”).
- Section 43A and 72A of the IT Act create a right to compensation for improper disclosure of personal information. The IT Rules also include obligations relating to the collection and disclosure of sensitive personal data.
- The Ministry of Electronics and Information Technology (“**MeitY**”) governs the administration of the data protection regime under the IT Act and the IT Rules.
- Following the declaration of privacy as a FR by the Supreme Court of India in 2017, the Government has proposed the Personal Data Protection Bill 2019 (“**PDP Bill**”) which is expected to be enacted in 2020/21.
- The PDP Bill aims to align India’s data protection regime with GDPR and will replace Section 43A of the IT Act.
- The PDP Bill contains provisions which are likely to affect Fintech firms, including:
 - a requirement to store sensitive personal in India, which may affect Fintech firms with foreign servers;
 - a requirement to obtain clear, free and specific consent before processing personal data; and
 - a requirement to prepare a Privacy by Design policy and appoint a Data Protection Officer.

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