

# FINTECH IN INDIA

## The Evolution of the Investment Landscape

India has become a vibrant center of fintech innovation on the back of growing digital adoption, demographic tailwinds and government initiatives. The rise of the Unified Payments Interface (UPI) has been instrumental in not just shifting how consumers and businesses transact, but also expanding access to financial services for a growing share of Indian consumers. This report delves into the latest fintech developments in India and highlights the evolution of major private capital investment themes based on GPCA's proprietary dataset and discussions with GPCA Members.

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## POLICY BACKDROP

The Indian government has helped foster fintech investments by digitizing the economy and establishing regulatory frameworks to support UPI utilization.

The government has promoted digital transactions by demonetizing large cash bills, establishing the UPI framework and launching the Bharat Interface for Money (BHIM) peer-to-peer (P2P) payment system.

These developments allow startups to bridge P2P and peer-to-merchant (P2M) transactions that were not cost-effective prior to the introduction of UPI. For instance, payment platforms like PhonePe and Paytm can now process small-ticket transactions, such as buying a 10-rupee tea, resulting in the average UPI transaction size dropping to INR687(USD8.26) as consumers leverage the system for everyday spending needs. Moreover, at the time of writing, the government is also working on a Central Banking Digital Currency (CBDC) which will allow seamless and immediate cross-border transfers.

### Key Policy Milestones Driving Fintech Momentum in India

DATE	GOVERNMENT BODY	INITIATIVE	DESCRIPTION
2016	National Payments Corporation of India (NCPI)	Unified Payments Interface (UPI)	Payments infrastructure allowing instantaneous and cost-effective money transfer across different banks
2016	Reserve Bank of India (RBI)	Demonetization	Removed existing notes from circulation as legal tender to promote digital payments and prevent tax evasion
2016	National Payments Corporation of India (NCPI)	Bharat Interface for Money (BHIM)	Mobile application that is intended to facilitate e-payments through barcodes and encourage cashless transactions
2023	Reserve Bank of India (RBI)	Phased out highest denomination INR2,000 note	93% of notes are already out of circulation; larger purchases are more likely to be made through digital means
2023	Reserve Bank of India (RBI)	Central Banking Digital Currency (CBDC)	In the pilot phase of developing CBDC with 9 Indian banks, which will facilitate international trade, remittances and cross-border transactions

Source: GPCA analysis.

Among the various initiatives spearheaded by the Indian government, UPI stands out as the most transformative, reshaping transactions in the country.

UPI enabled swift peer-to-peer and merchant transfers across different banks and payment providers. Distinct from international counterparts like Venmo, UPI’s open-source design allows direct bank transactions, eliminating intermediary fees and enhancing transactional efficiency. Digital payments now account for 40% of total payments in India compared to 10% in 2016 – before UPI was developed – and with India’s prevalent cash-on-delivery methods, this growth is set to continue. UPI’s unmatched convenience, security and seamless integration have made it a cornerstone of India’s digital payments revolution.

“UPI has had a profound impact in terms of lowering the cost of distribution to customers that cannot otherwise be accessed through a bank branch. Banks have an expensive distribution and cost structure, so it does not make sense for them to tackle small-ticket transactions, which in turn creates a massive opportunity for investors and new digital platforms. Financial services need to be provided in a micro form to reach the Indian mass market. UPI has allowed companies to make digital payments more accessible, emphasizing ‘sachet-sized’ offerings.”

– Shantanu Rastogi, Managing Director, Head of India, General Atlantic

## INVESTMENT TRENDS

Private capital investment in fintech in India hit an all-time high in 2021 at USD7.5b,

building on momentum from government initiatives and heightened demand for online payment methods during the COVID-19 pandemic.

The pandemic created an opportunistic moment for companies to attract new customers and gain a first-mover advantage in the Indian payment processing market. Companies such as PhonePe, Pine Labs, Razorpay and BharatPe raised large rounds during that period and continue to hold dominant market positions in the P2P and merchant payments segments today.

### Notable Payments Investments in India, 2021-1H 2023

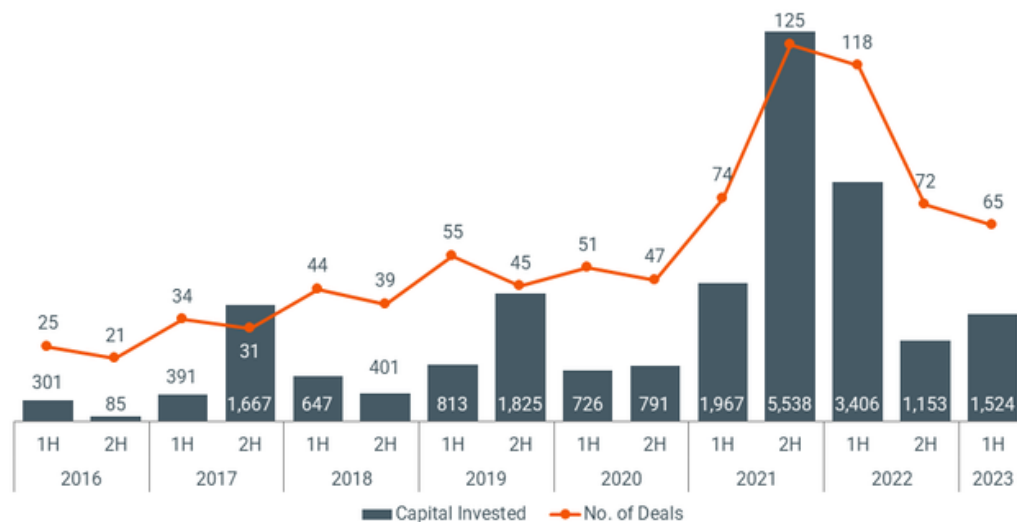
INVESTOR(S)	COMPANY	PAYMENT TYPE	DEAL TYPE	TRANSACTION VALUE (USDm)	INVESTMENT DATE
360 ONE, Baron Capital, BlackRock, Duro Capital, Fidelity, Kotak Mahindra Life Insurance, Lone Pine Capital, Marshall Wace, Moore Capital, Neuberger Berman, Sunley House Capital	Pine Labs	P2P	Late-Stage	600	Jul-21
General Atlantic, Ribbit Capital, Tiger Global, TVS Capital	PhonePe	P2P	Growth	450	Feb-23
Alkeon Capital, GIC, Lone Pine Capital, Sequoia, TCMI, Tiger Global, Y Combinator	RazorPay	P2M	Late-Stage	375	Dec-21
Amplo, Coatue, Dragoneer Investment, Insight Partners, Ribbit Capital, Sequoia Capital, Tiger Global	BharatPe	P2M	Late-Stage	370	Aug-21
Alpha Wave Global, Dragoneer Investment Group, Financial Technology Partners, GIC, Sofina, Tiger Global	Cred	P2M	Late-Stage	140	May-22

Source: GPCA. Data as of 30 June 2023.

Capital invested in Indian fintech reached USD1.5b across 65 deals in 1H 2023, with deal value recovering after decelerating in 2H 2022 amidst the global dealmaking slowdown. Fintech has grown as a share of capital invested in India’s tech ecosystem, accounting for 18% of capital deployed so far in 2023 compared to 11% in 2016.

**Investment in fintech in India hit an all-time high in 2021 at USD7.5b driven by government initiatives and demand for online payment methods during the COVID-19 pandemic**

India Fintech Investment, 2016-1H2023 (USDm)



Source: GPCA. Data as of 30 June 2023.

**THE PAYMENTS LANDSCAPE**

The boom in fintech investment in India over the last several years was heavily concentrated in the payments space.

Since 2016, PhonePe, Pine Labs, Razorpay, Paytm and BharatPe have accounted for 30% of overall fintech deal value and 72% of overall payments investments. Currently, three companies (PhonePe, Paytm and Google Pay) hold 95% market share within the P2P payments sector according to NPCI. Furthermore, with the government's introduction of its own P2P payment solution, BHIM, the competition has been amplified in an already concentrated payments market.

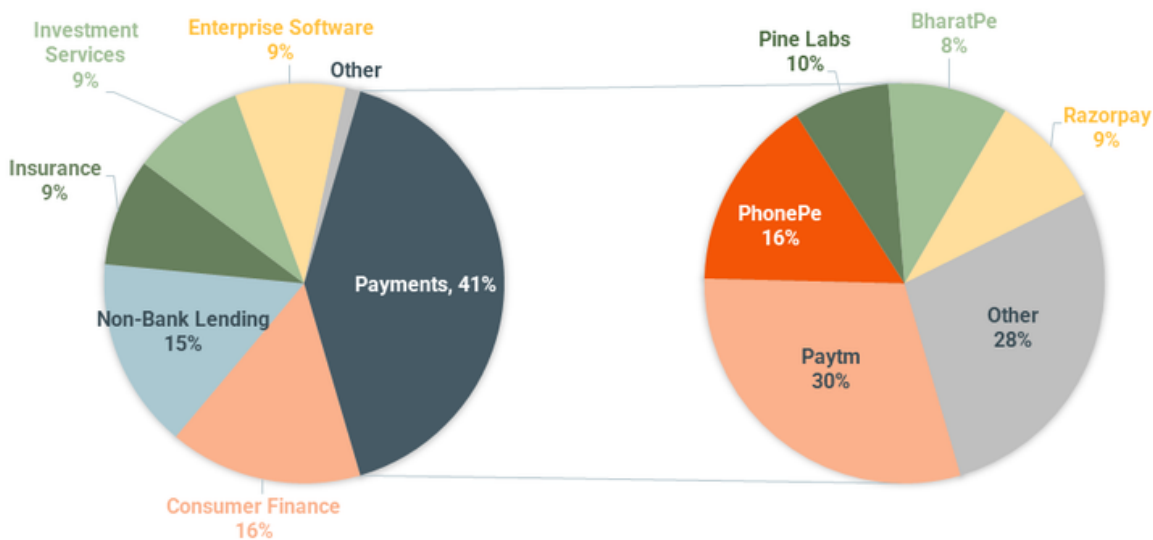
“Pure-play payments is a saturated space with limited potential in terms of what services can be monetized. However, layering different solutions on top of payments, such as credit solutions, cross-border payments or other offerings, could be an interesting avenue to explore in the future.”

– Ashish Fafadia, Partner, Blume Ventures

For example, Razorpay, a company that focused on P2M payment processing, has now introduced other business solutions such as tax payments, employee payroll and short-term lines of credit.

Payments have accounted for 41% of Indian fintech deal value since 2016, with five companies accounting for 72% of payments investment

% of Capital Invested in India Fintech by Sector, 2016-1H 2023



Note: 'Enterprise Software' includes IT solutions for financial services companies.  
Source: GPCA. Data as of 30 June 2023.

## THE ROAD AHEAD

While payments have captured 41% of capital deployed in Indian fintech since 2016, India's expanding middle class, attractive demographics and rising disposable incomes spotlight two other sectors poised for transformation: insurance and credit.

The penetration levels in both sectors remain below those of developed economies, signaling untapped potential. Recent developments such as identity verification through UPI and demand for digital-first products support further growth and mass adoption in India.

Acko General Insurance secured a funding round of USD255m in October 2021 from notable investors like General Atlantic, CPP Investments and Lightspeed Ventures, pioneering the way forward with its digital-first approach in the insurance domain.

In the credit sector, KreditBee, with its focus on personal loans, garnered USD120m in funding from Advent International, Mirae Asset Management and Motilal Oswal in January 2023.

“Insurance is at sub-5% penetration and lending is at sub-15%, so we are still scratching the surface. Both these and banking are very much evolving markets, especially on the back of digitization and ‘contextualization’ of financial services. If I had to pick the most transformative pieces, insurtech will see promising growth and evolution driven by smart regulatory changes, and digital public infrastructure and new financial infrastructure will rewrite the face of traditional financial services.”

– Ganesh Rengaswami, Co-Founder and Managing Partner, Quona Capital

**Emerging opportunities in Indian fintech include:**

**Microcredit and Virtual Credit**

The rise of identity verification through UPI provides the infrastructure to offer small loans digitally. Robust and scalable risk management tools such as Perfios’ credit underwriting software further lower the cost of assessing creditworthiness and allow lenders to tap the microcredit market’s full potential. Aye Finance, which secured USD21m from responsAbility Investments and BlueOrchard Finance in late 2022, exemplifies this new wave by concentrating on micro- to small-sized rural businesses.

**General Insurance**

General insurance constituted 4.2% of India’s GDP in 2021 versus estimates of 11 to 12% in the United States and the United Kingdom, underscoring significant room for growth and development in this sector. Digital platform InsuranceDekho raised USD150m in a Series A round from Goldman Sachs, TVS Capital, LeapFrog Investments and others. Companies such as PolicyBazaar have also been able to benefit from the growth of this sector by creating an online marketplace to compare aggregated insurance plans from different providers.

**Cross-Border Payments**

The ongoing collaboration between the government and banks to develop a Central Banking Digital Currency (CBDC) lays the foundational infrastructure for enabling international money transfers. With this development, the government is positioning its UPI technology and the emerging digital currency as leading instruments in transforming global transactions. Recently, India and Singapore have interconnected UPI and PayNow, enabling cross-border payments. Major firms like PhonePe and Paytm are already piloting cross-border payment solutions between Singapore and India.

**Integrated of Layered Financial Services**

Established companies with significant market share are developing integrated platforms that consolidate various financial services from credit and insurance to payments into a single application. By taking a multi-product approach, these platforms can improve unit economics, business fundamentals and profitability. For instance, Pine Labs, traditionally known for its P2M payment processing, has expanded its scope by introducing business loans and lines of credit for inventory.

**Niche Financial Solutions for Specific Industries and Demographic Groups**

Seed- and early-stage companies are finding advantages in identifying and offering niche financial solutions for customer segments that are not broad enough for larger banks or financial service companies to target effectively. Aerem, for example, has carved out a space by focusing on credit tailored for solar panels and renewable energy solutions, successfully raising USD5m from Avaana Capital and Blume Ventures in March 2023.

**Notable Fintech Investments in India Outside of Payments, 2021-1H 2023**

INVESTOR(S)	COMPANY	SECTOR	DEAL TYPE	TRANSACTION VALUE (USDm)	INVESTMENT DATE
CPP Investments, General Atlantic, Intact Ventures, Lightspeed Venture Partners, Multiples, Munich Re Ventures	Acko General Insurance	Insurance	Late-Stage	255	Oct-21
Temasek	PolicyBazaar	Insurance	PIPE	225	May-23
InnoVen Capital, Trifecta Capital	Stashfin	Consumer Finance	Venture Debt	100	Mar-23
Alstroemeria Investments, Avataar Venture Partners, GSAM Services, Investcorp, LeapFrog Investments, TVS Capital	InsuranceDekho	Insurance	Early-Stage	150	Feb-23
Advent, Mirae Asset Global Investments, Motilal Oswal Alternates, MUFG Union Bank, NewQuest Capital Partners, Premji Invest	KreditBee	Consumer Finance	Late-Stage	120	Jan-23
BlueOrchard Finance, responsAbility Investment	Aye Finance	Non-Bank Lending	Venture Debt	21	Nov-22, Dec-22
Avaana Capital, Blume Ventures	Aerem	Non-Bank Lending	Seed	5	Mar-23

Source: GPCA. Data as of 30 June 2023.



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