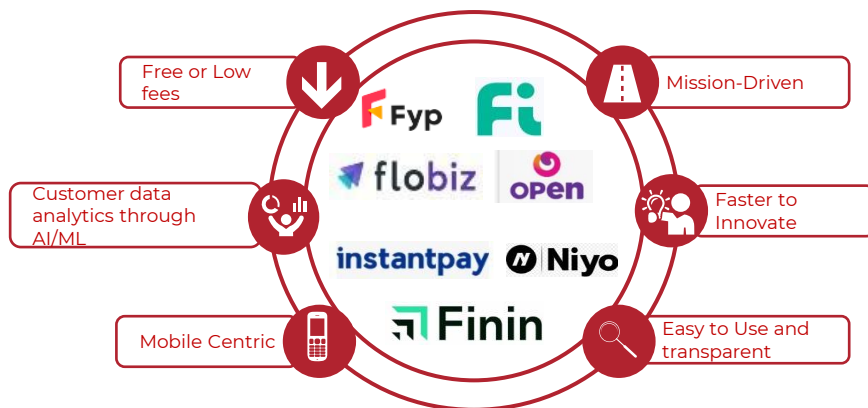


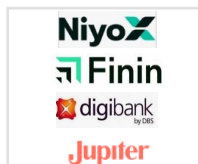
## 2. Neo-banks are differentiating by targeting specific customer segments or offering better, user-friendly tools

Neo-banks compete with traditional banks based on mobile-centric technology along with more consumer-friendly solutions (easy-to-use, low fees)



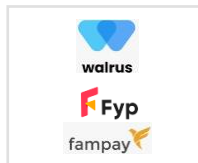
### Market Segmentation: Target audience

#### For Millennials and GenZ



- High yield saving account
- Cards with no credit history
- Data-driven personal finance management

#### Teenagers



- Zero-balance or no fee-saving account
- Rewards and cashback programs
- Financial skills learning through bite-sized content

#### SMEs/MSMEs



- Current accounts with overdraft limit
- Working capital loans
- Tools to track spending, forecast cash flow

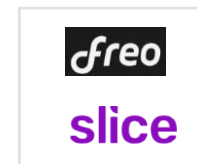
#### Rural



- Basic banking services(money transfers, cards)
- Simple and Affordable products

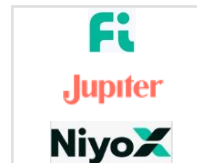
### Market Segmentation: Revenue stream

#### Credit-led model (Credit line focused)



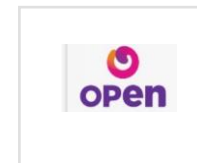
- Credit and EMI cards
- Buy Now Pay Later (BNPL) schemes
- Flexible credit offering

#### Saving-led model (Digital saving account)



- Payments infrastructure (IMPS/NEFT/UPI)
- Co-branded debit and prepaid cards
- Smart solutions like expense tracking

#### Technology and API driven



- Embedded banking stack: Payment collection, Expense management
- AI and ML-powered suites like Zeta Tachyon

Illustrative and non-exhaustive

# 3. Global neo-banks have entered the Indian market highlighting its attractiveness, but there are substantial hurdles ahead

## Entry of global major neo-banks in Indian market

- Surge in digital financial services in India after the pandemic has attracted global neo-banking players
- Tide and Revolut have both entered the Indian market, currently forming relationships with banks and other players to kickstart operations
- Multiple multinational players likely to enter the market through acquisitions or by greenfield implementations

Revolut

tide



Investment plans

- An initial investment of \$45 Mn
- To hire 300 employees by 2022
- Build first product and engineering hub outside UK

- Initial investment of \$130 Mn
- To create over 1,000 jobs



Launch pipeline

- Cross border and domestic remittance
- Trading and Investment platform
- Digital bank
- Retail and B2B credit

- Administrative solutions including invoicing, digital ledger, taxation, payroll
- Digitize unorganised SMEs



Acquisition/Partnership



## Impact of new banking initiatives in Budget 2022



75 digital banking units are to be set up by scheduled commercial banks.



1.5 lakh post offices are set to be connected to the core banking system in the FY 2022-23.



Impact



More credit to rural regions in an efficient manner

Stimulate financial inclusion and economic development at the ground level

More liquidity (deposits) pools and a new consumer base for banks

## Neo-banks are likely to face tough competition in the long run from digital units and other strategic initiatives of incumbent banks



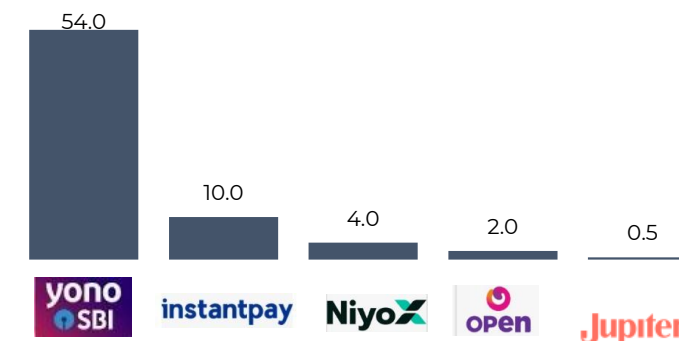
Innovative offerings by traditional banks.



Licensing dependency on traditional banks; while neo-banks can offer front-end for customers, the core backend operations need to be managed by banks.



Huge customer base: SBI's digital-only arm YONO leads the neo-banking club in terms of monthly active user ~ 54 million.



Source: Press articles, Company websites

# 4. As policymakers scale-up efforts, a full digital banking licensing model likely to emerge in India

Regulators like RBI and policy makers scaling efforts to cater to digital banking needs



Regulators likely to follow the global licensing suit

## Discussions on digital bank licensing and payment banks: A chance to become a full-stack bank

NITI Aayog proposed a three-step licensing process. These FinTechs would be first given a restricted digital business bank licence and then be allowed to operate in a regulatory sandbox.

After the FinTech meets requirements like minimum paid-up capital of \$2.624 Mn (₹200 Cr), it can be extended to a full-stack digital business bank licence.

### Three-step process to finally acquire a full-stack digital banking licence



Source: NITI Aayog Discussion paper