

Democratising digital commerce in India

An open network for inclusive, competitive marketplaces

Sub-Report on Financial services



This booklet is an excerpt from the Financial Services section of the report 'Democratising Digital Commerce in India' and is based on joint research conducted by ONDC and McKinsey & Company. The complete report covers 11 sectors. To access the full report, please use the QR code provided below.



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Financial services

The face of financial services in India has transformed. In a paradigm shift from queuing at the bank branch and counting out cash at points of sale, Indians today are banking with ease without leaving home and scanning to pay their way through their daily transactions—notching up the highest digital payment volumes globally. ONDC could take financial services deeper into the ecosystem, delivering credit and insurance to the stakeholders who sorely need it, powering seller growth and boosting investments. The open network could connect more than a billion consumers seeking financial services and 100 million MSMEs and self-employed skilled workers eager to scale up their operations, customer base, and offerings.



The landscape

Continuously evolving, the financial-services sector is reaching unprecedented scale (Exhibit 1). The map of India is dotted with a vast network of more than 150,000 bank branches representing more than 130 banks, and around 8,000 NBFCs. While just over a third of Indians had bank accounts in 2011, around 80 percent of the population is banked today. In just three years, the number of demat account holders has tripled to 100 million. Insurance premiums have reached an all-time high of \$115 billion, and 40 asset management firms support India's investors in managing their portfolios.

India is also home to around 2,000 fintech companies that are constantly innovating to cater to the dynamic needs of a modern India.¹

In recent years, two major transformations have changed the financial-services landscape in India. First, the push to open bank accounts for every single Indian through the Jan-Dhan Yojana has boosted account penetration like never before. In just a decade, India's account penetration rose from around 35 percent in 2011 to about 80 percent in 2021 (Exhibit 2).²

¹ <https://www.ceicdata.com/en/indicator/india/total-deposits>; <https://www.investindia.gov.in/sector/bfsi-banking>; Global Findex Database; ACI Worldwide.
² Global Findex Database.

Exhibit 1

Landscape of financial services in India.

India is among the top countries globally on key aspects of financial services



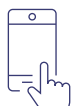
~80%

Bank account penetration (age 15+), from 35% in 2011



1st

Rank in volume of real-time transactions globally, 3x more than the nearest challenger (China)



5th

largest insurance market globally with \$115 bn annual premiums



3x

growth in past 24 months in number of demat accounts totaling to 100 mn+



5th

largest equity market and expected to become 4th by 2024

In last 10 years,

Total deposits have grown ~1.8x from \$1.2 tn to \$2.2 tn (9% CAGR)

Loans have grown ~2x from \$0.8 tn to \$1.6 tn (10% CAGR)

...supported by

130+

Banks

1.5 lakh+

Bank branches

2.1 lakh+

ATMs

55+

Insurance companies

40+

Asset management companies

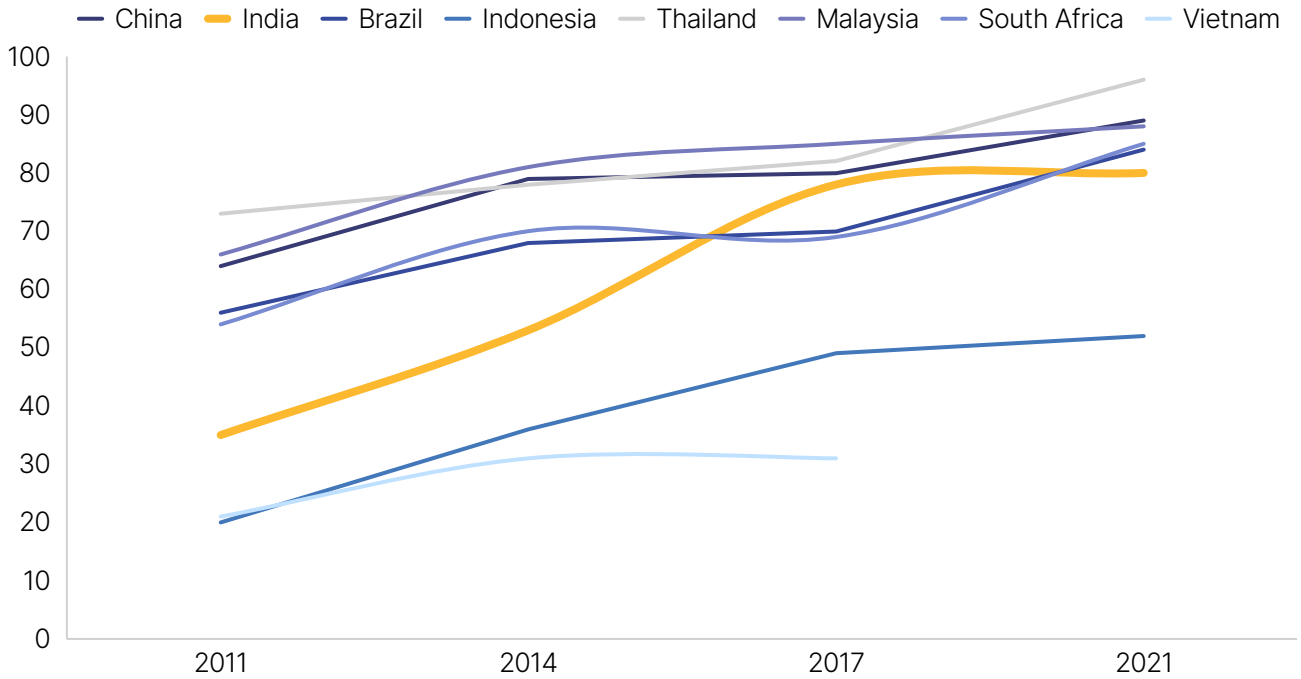
10k+

NBFCs and fintech players

Source: <https://www.ceicdata.com/en/indicator/india/total-deposits>; <https://www.investindia.gov.in/sector/bfsi-banking>; Global Findex Database; ACI Worldwide

Account penetration in India has doubled in the past ten years, from 35 percent in 2011 to about 80 percent in 2021.

% of adults (15+) with bank accounts



Source: Global Findex Database

Second, India has established itself as a prominent global player in financial services. The launch of digital payment infrastructure (DPI) such as Aadhaar, e-KYC, and Unified Payments Interface (UPI), along with extensive efforts by public and private institutions, has greatly increased access to banking services. Today, India boasts the world’s highest volume of digital real-time payments. There is an S-curve of rapidly growing adoption as a critical mass of users scale up, spurred by a shift from physical banking (characterised by customer walk-ins and face-to-face interactions) to digital channels (branchless banking made possible by modern, contactless technologies).

Room for greater growth

While this rapid evolution is heartening and transformative, scope remains for greater growth across major financial products.

Credit lending

A glaring lending gap dominates in both the retail lending and MSME segments in India (Exhibit 3). Household debt is a mere 14 percent of GDP, compared with a global average of about 60 percent. Of India’s roughly 400 million to 440 million eligible retail-lending customers, only 25 to 30 percent have received credit from formal lenders. The remaining 70 to 75 percent face a range of challenges:

- Patchy or insufficient documentation makes it difficult to comply with the “know your customer” (KYC) norms that stand between the applicant and the loan.
- Around 60 to 65 percent of customers are not part of the credit bureau, so there is a dearth of reporting on their creditworthiness.³ As a result, such loan seekers turn to high-interest informal loans instead of formal credit.
- While innovative lending products exist, they are not easily discoverable online. Their value proposition helps no one if there is no uptake.
- Credit options at the point of sale are available only through select digital channels for a small subset of retail consumers.

Like retail borrowers, small-business owners face a host of issues when seeking loans:

- They may be unable to furnish audited financial statements and have limited banking history or statements that can help the credit issuers to make an informed decision.
- They have limited documented collateral to provide in support of their application.
- The lengthy application process requires multiple bank visits, taking away from their productive working hours.
- The repayment cycle of 30 days is not in sync with the cash flow pattern of receipts coming in every 45 days.

These challenges have led to an MSME lending gap of \$300 billion. At least 60 percent of India’s 100 million MSMEs (including kiranas) are unable to access formal credit because of the barriers to financing.⁴

Insurance products

Digital penetration in India’s insurance industry is low, at less than 5 percent of the population; by comparison, digital

penetration in the United States is 14 percent. Even in non-life categories, the digital share is 5 to 6 percent in India and 19 percent in the United Kingdom.⁵ This is due to various factors. For example, awareness of benefits is low, and complex products are insufficiently explained online, which deters potential buyers who might be looking to understand a product.

Traditional products exist, but there is a need to innovate to offer more tailored insurance products—for example, health policies that cover preexisting diseases common among Indians, such as heart disease. And finally, the insurance purchase and claim filing process is not standardised.

Mutual funds and investment products

Indian consumers have raced to put their funds in investment products in the past six years—and assets under management (AUM) across fintech players have grown 10x to \$5 billion. During this period, the emergence of discount brokerage players has promoted a 4x increase in the number of demat accounts—from around 25 million in 2016 to more than 100 million in August 2022. Digital platforms now account for 8 to 10 percent of AUM across direct and indirect channels in India.⁶ This leaves scope for greater growth, especially compared to other economies where digital platforms manage higher percent of AUM.

Several challenges restrict digital penetration. Consumers have limited awareness and financial literacy about investment products, online platforms, and regulations. They are in the habit of building trust through in-person interactions with investment counsellors, and online transactions raise lingering fears of malpractice or fraud.

Overcoming these challenges for deeper digital adoption across financial products is crucial for a more robust and flourishing financial-services ecosystem.

³ Empowering Credit Inclusion 2022 by TransUnion.

⁴ Ibid.

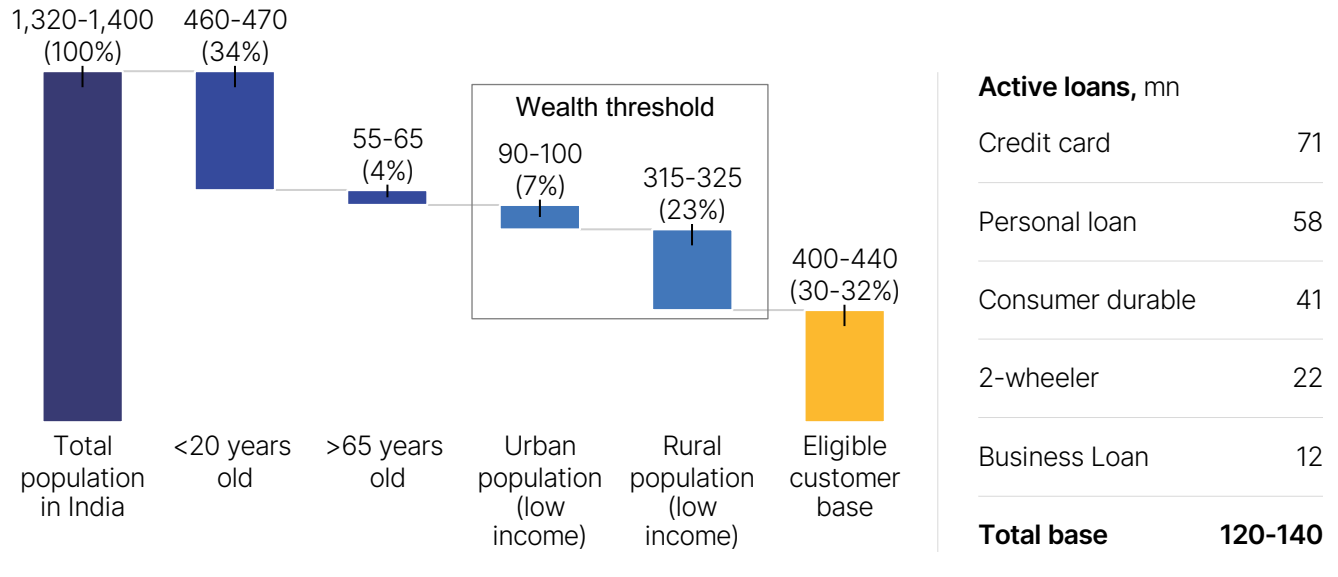
⁵ IRDAI.

⁶ NSDL, CDL.

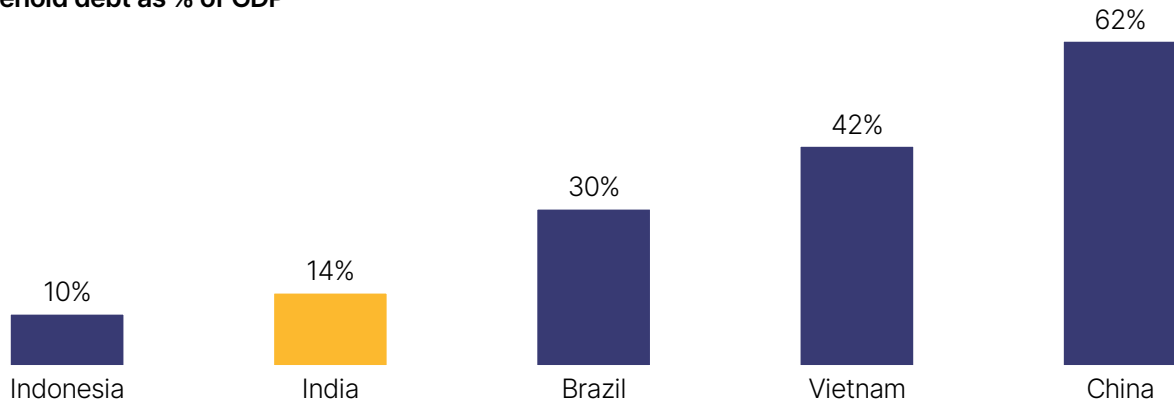
India has a significant lending gap across the retail and MSME segments.

Retail credit gap in India

Out of total 400-440 mn eligible people, only 120 mn are covered by formal lenders, i.e., approximately 25-30% of base is covered

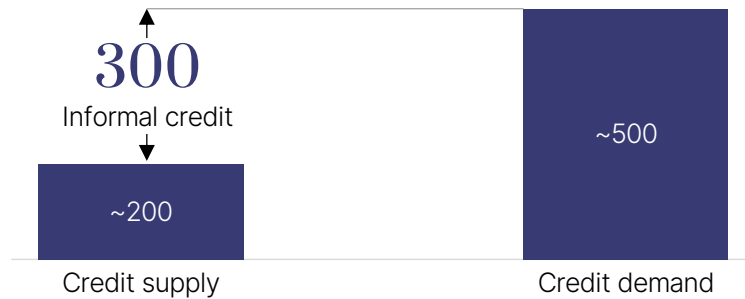


Household debt as % of GDP



MSME lending gap in India

\$ billion



Source: National Commission July 2020, UN Population Prospects, Periodic Labor Force Survey FY21, CEIC, RBI

The role of ONDC in accelerating digital adoption

India's digital economy has seen several inflection points over the past few years (Exhibit 4). Aadhaar enrolments grew from 600 million in 2014 to 1.3 billion in 2022, the percentage of Indians age 15 and older with a bank account more than doubled, and digital transactions grew sevenfold over the past five years.

In addition to these developments, India's comprehensive digital public infrastructure forms a strong backbone for financial services to grow exponentially, with the rollout of DPLs, e.g., account aggregators (AAs) at scale. Add to this the ONDC muscle

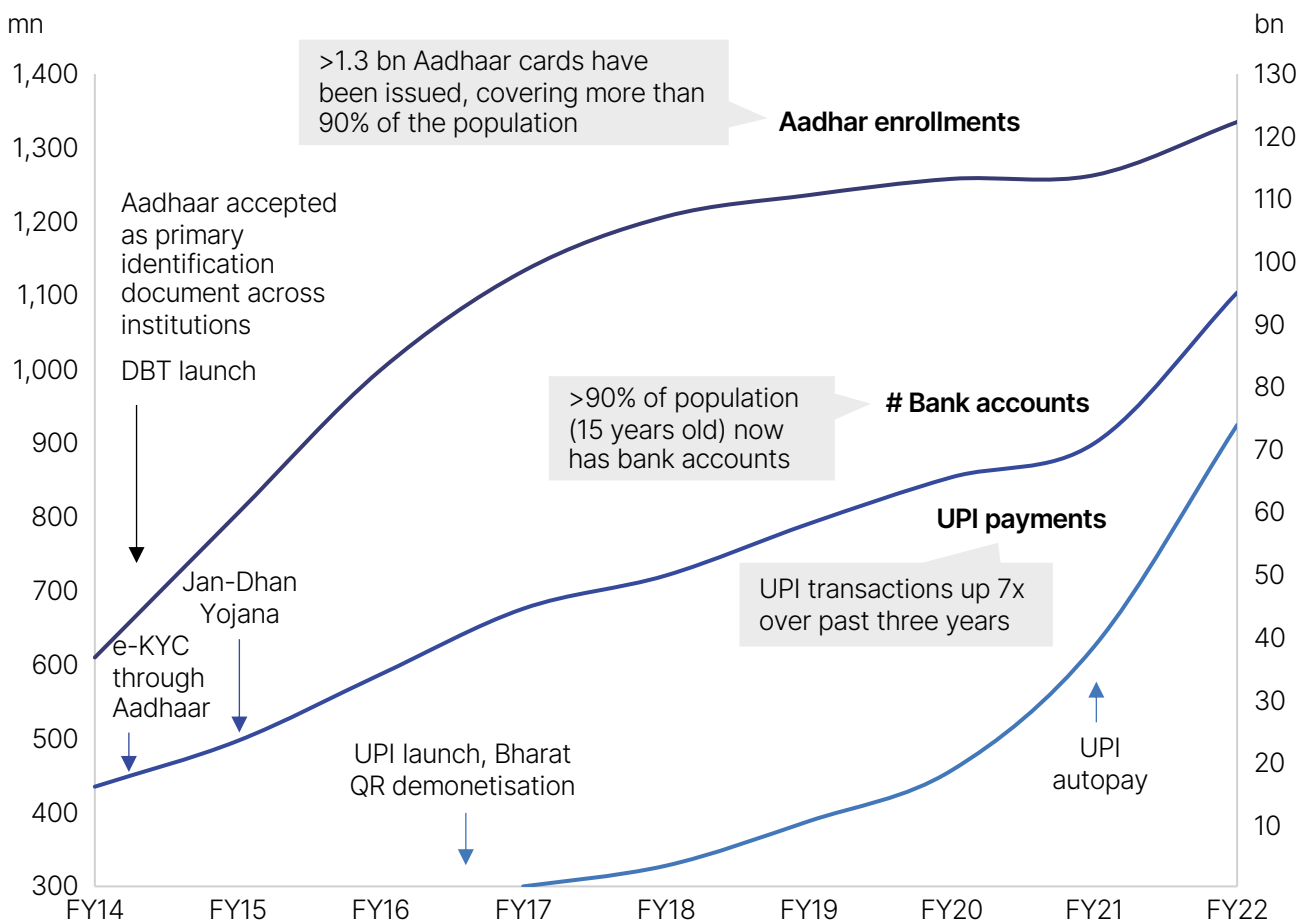
that is poised to eliminate barriers to digital commerce for stakeholders, and financial services could be at an inflection point in India (Exhibit 5). The network could connect financial institutions with more than one billion consumers and 90-100 million MSMEs, benefitting them all in the following ways:

Meeting credit needs of MSMEs

With the expansive open data on the network, financial institutions could more smoothly extend credit to underserved small businesses and that could drive significant growth in MSME lending (Exhibit 6).

Exhibit 4

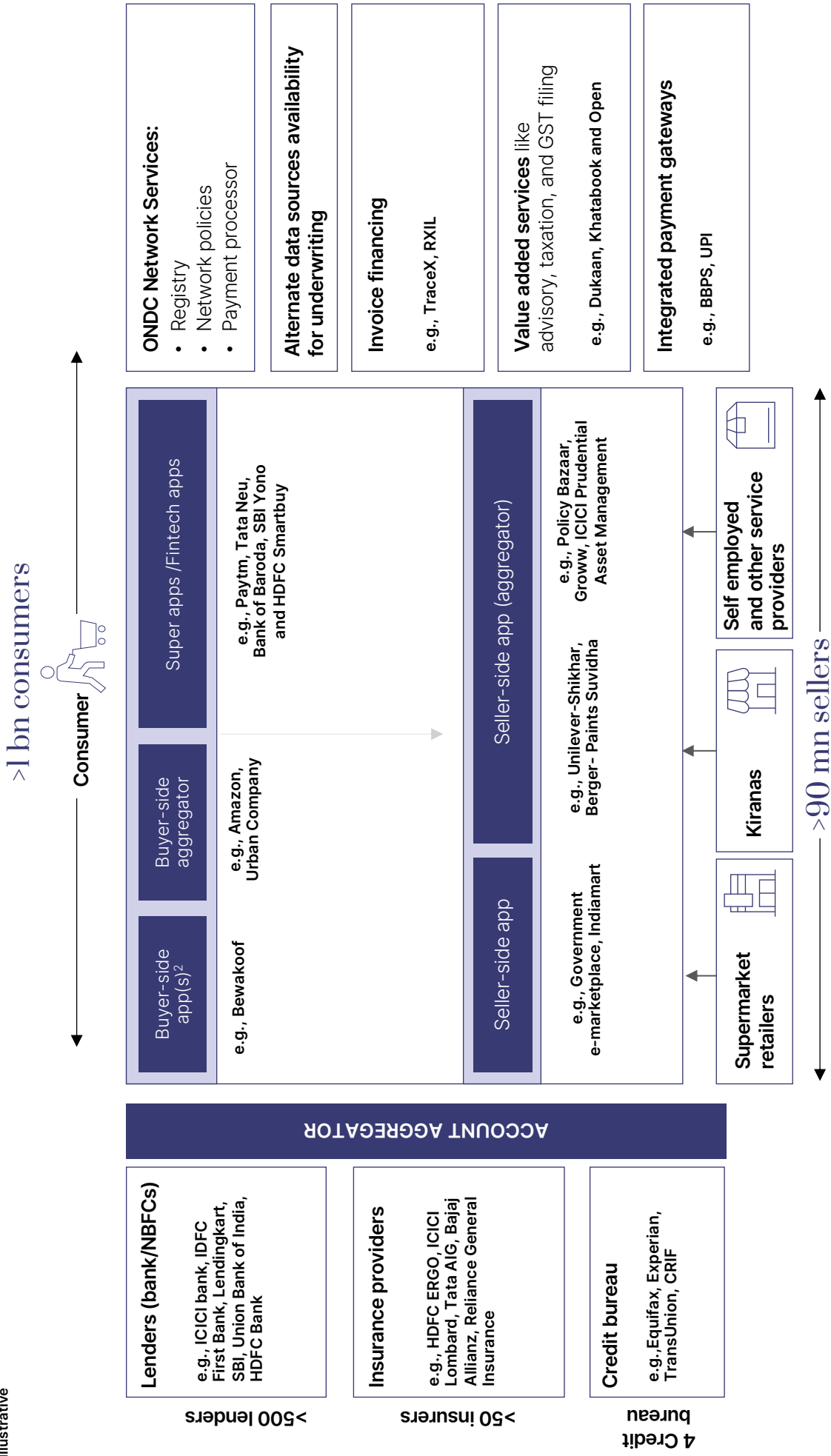
India has seen several inflection points in the last few years..



Source: IBEF, CLSA, UIDAI, RBI, NPCI

ONDC can unlock key areas of growth in financial services with implementation of targeted use cases.

Illustrative



¹ Buyer-side apps interact with seller apps via gateways.

New possibilities: ONDC can unlock credit access for small businesses.

Illustrative



Sai owns a medium-sized fleet of trucks, and his business has an annual turnover of INR 5 crore. He can more easily request a loan through the open network, a big shift from the earlier complex processes that denied him funding.

Key financing needs

Fleet expansion

Purchasing additional vehicles and hiring new operators to grow business

Technological investment

GPS, communications systems, fleet upgrade (collision avoidance systems etc.)

Working capital

To meet operating expenses, e.g.,

- Tyre replacement at ~1 lakh km/ 1 yr, mark
- Other consumables (e.g., lubes, oil) to be replaced every 6 months
- Annual insurance payment
- Trip fuel and toll costs

Emergency spends

Ad-hoc expenses like vehicle overhaul in case of accidents, sudden drop in demand/ revenue etc.

The power of AA and ONDC network

High discoverability through embedded credit at POS and easy access to leading lenders registered on open credit enabled networks

Formal credit will provide **access to multiple lenders with competitive product pricing**

Granular products tailored to needs and preferences of MSMEs, e.g., invoice financing, short term insurances, etc.

Enables 'more' fluid access to data from other banks/lenders, alternate sources like transaction data, GST data leading to better underwriting

Greater visibility enabled via LSPs and credit monitoring through AA

Significantly lower TAT due to availability of verifiable documents through once click

Recurring repayments through UPI/NACH: capture **end to end needs across business cycles** through supply chain financing

EWS/credit monitoring through AA (cash flows) and seller side app on ONDC (orders)

Focus on core capability around superior product building and buyer app to focus on UI and customer experience

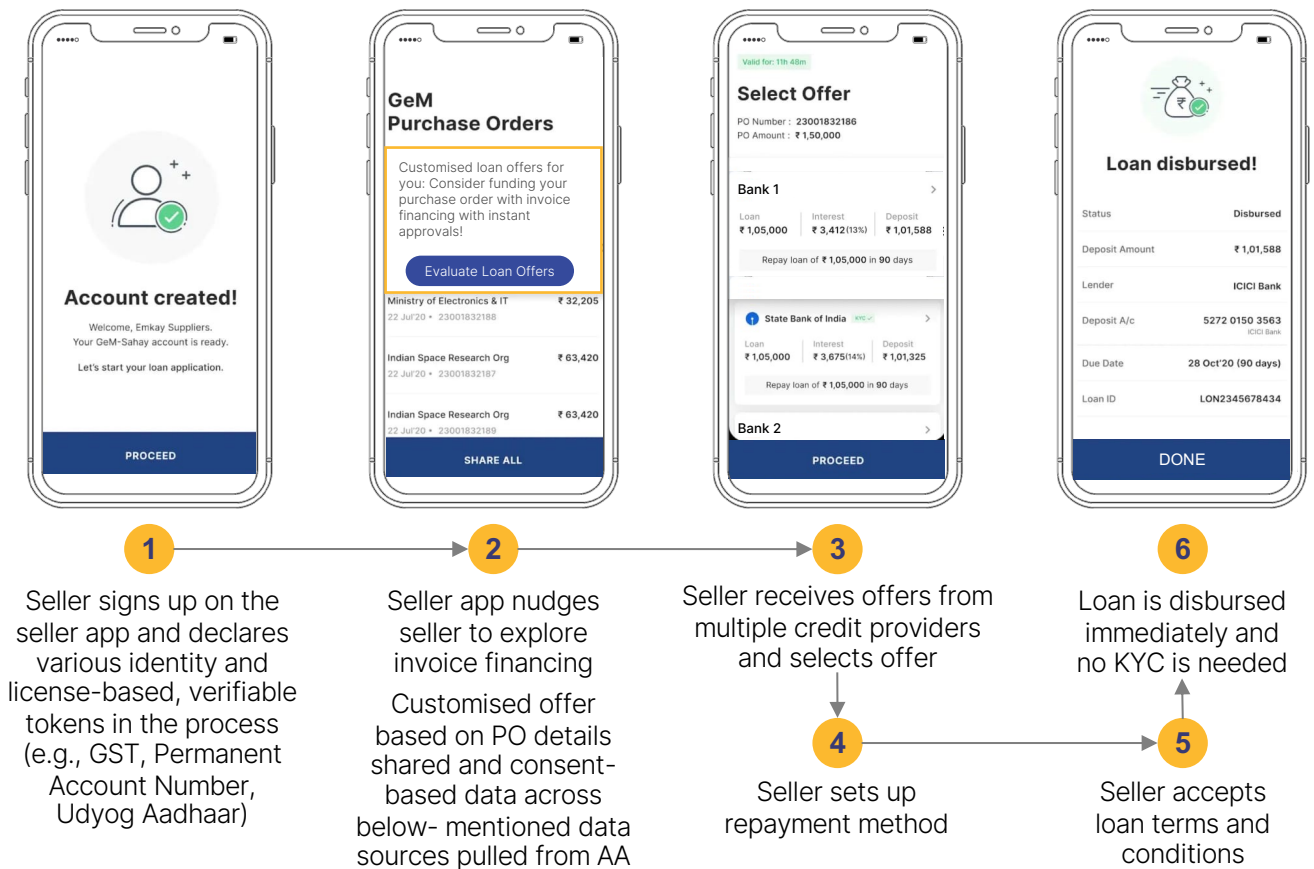
The integration of ONDC with multiple platforms—such as Government e-Marketplace (GeM), Sahay, Trade Receivables Discount System (TreDS), and Receivables Exchange of India Ltd (RXIL)—could enable the relevant data flow to process supply chain and invoicing finance loans (Exhibit 7). Underlying this is a complex, enabling layer from ONDC that integrates data from the Income Tax Department, GST, Credit Bureau, and Supplier Banking Data from AA, along with ONDC's supplier scores.

MSMEs could get unsecured business loans to support their expansion plans (for example, for a restaurant owner to upgrade operations) as well as working-capital lines. Suppliers could benefit from embedded insurance products to safeguard their goods during shipping and export. Financial institutions might also provide MSMEs with other value-added services such as tax filing, advisory services, personal financing, and legal counsel—on their own or through ONDC network partners.

New possibilities: Invoice financing loan enablement for sellers on ONDC.

Seller's journey for obtaining invoice financing

Illustrative



Data sources (secured and leveraged based on consent)



Tax data
Income Tax Return



GST data
Filings, historical statements, etc.



Credit bureau
Financials and transaction data



Supplier data
Payment and transaction data of suppliers



Supplier score enabled by ONDC
Overall supplier score based on customer and fulfillment ratings



Supplier banking data enabled by Sahamati
Accounts data, outstanding loans, etc.

An attractive customer value proposition

With ONDC, buyer apps could offer an array of financial services, from travel insurance to payment financing options (Exhibit 8). Ease of use, faster access to credit, and a memorable customer experience could grow **consumer financing significantly** from its current market size (\$3 billion).

Buyers making online purchases could receive financing options at checkout as a payment option, along with an explanation of benefits and terms. If they express willingness, they could also see customised offers (based on the buyer profile) for credit and insurance products, giving them greater choice across multiple lenders, rates, and discounts. They also would enjoy an attractive user interface and high-quality customer service.

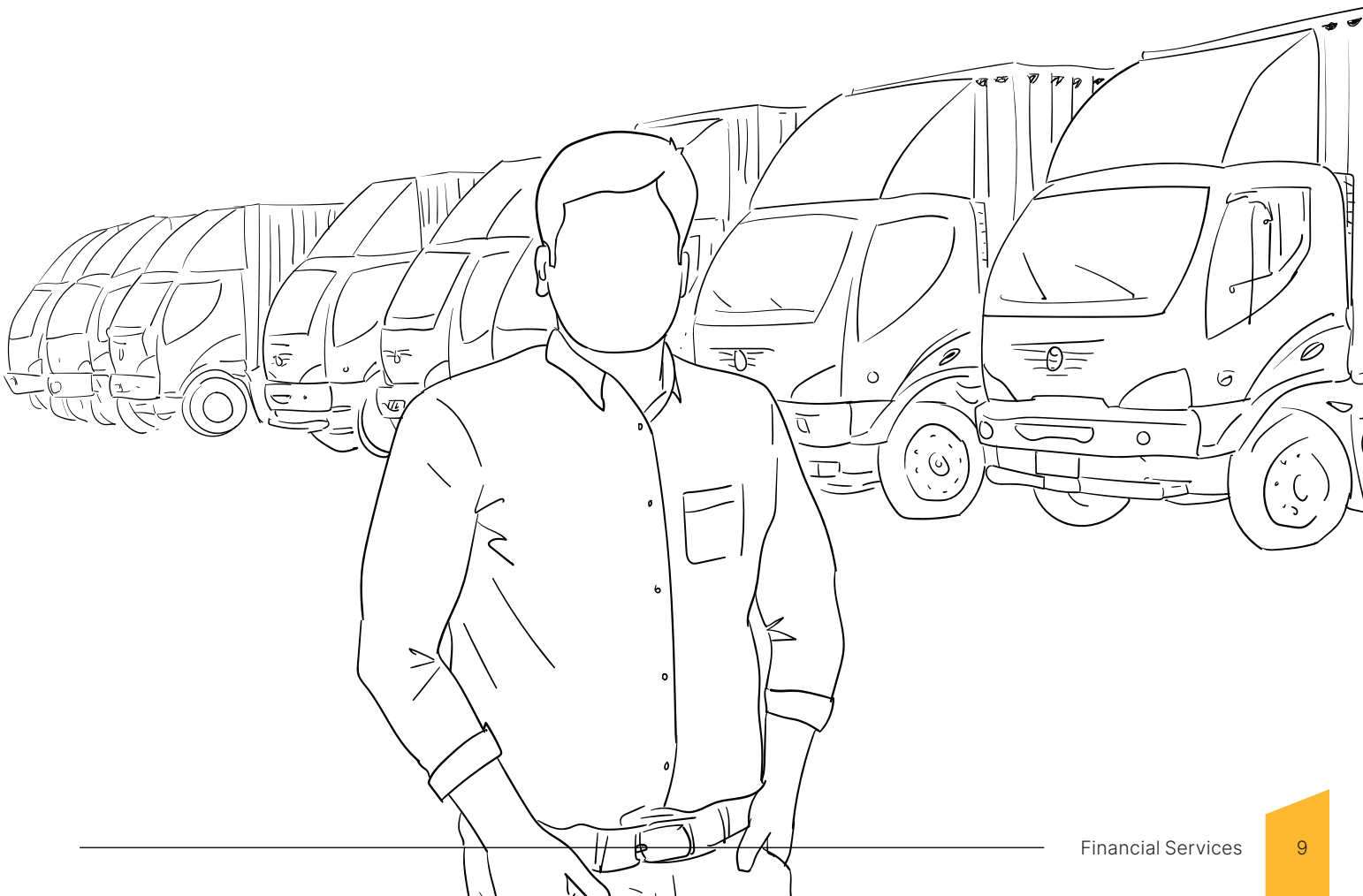
Seller apps (in this case, financial-services providers) could focus on improved products and underwriting processes to extend credit and insurance products to a broader set of consumers.

A dynamic, expanding suite of financial-services products

ONDC envisions an open, inclusive, and competitive marketplace that could provide new opportunities for banks and financial institutions to connect with customers. NBFCs and niche fintechs (such as monoline lenders that focus on a specific type of credit) could tailor their offerings to targeted use cases using the open network data.

An NBFC or fintech company, for example, could partner with fintech companies on the network to expand its offerings (Exhibit 9). It could choose to collaborate with a personal finance manager to stretch to a fuller suite of financial services offerings for a wider customer base.

In these ways, an open network such as ONDC could create multiple use cases that promote digital commerce and embed it in financial services.

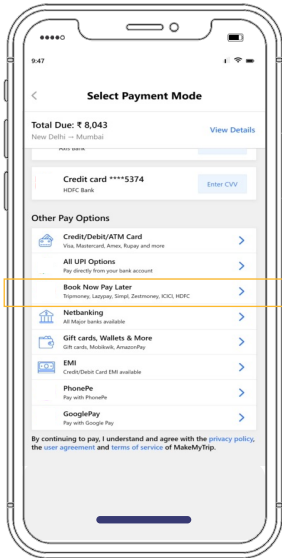


New possibilities: Buyer apps can provide an array of financial services, including travel protection and financing solutions, to enhance the customer experience.

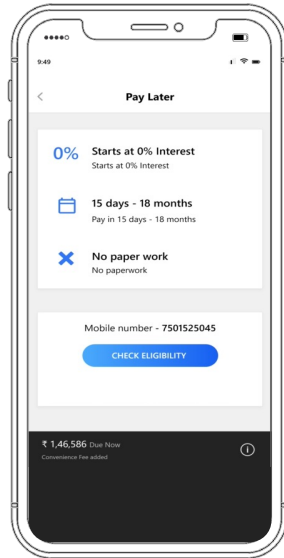
Illustrative

Consumer financing

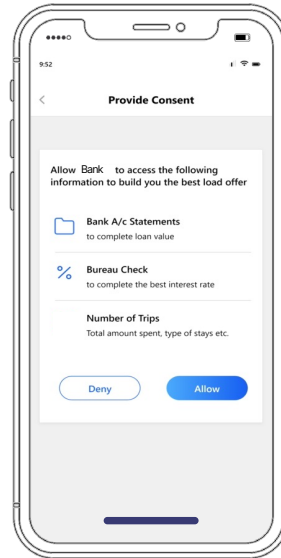
Checkout financing available as a payment option



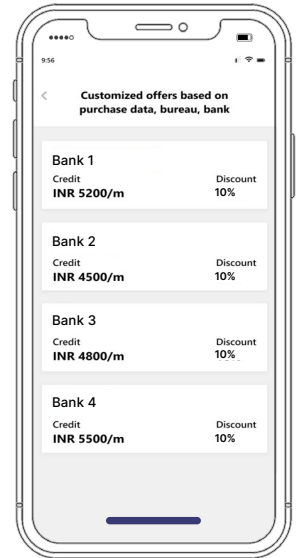
Explanation of benefits of consumer financing



Seeking consent to show customised offers

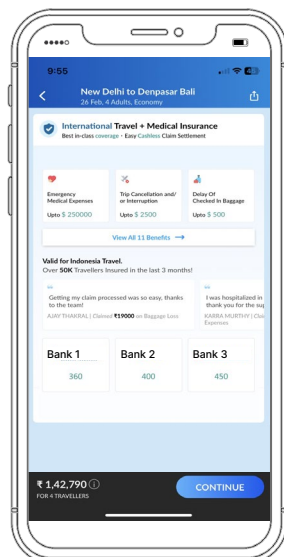
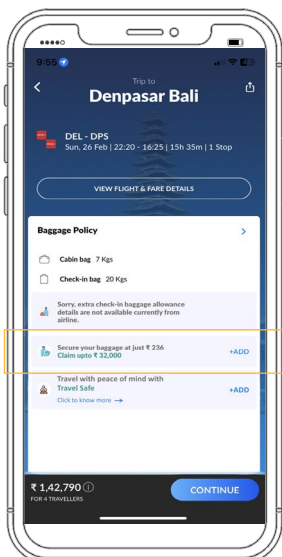


Customised offers based on the buyer profile



Embedded insurance

While booking flight on the buyer app, customers can also get travel insurance from multiple providers, depending on profile



With the availability of gateway and standardised protocols from ONDC, the buyer app can focus on User Interface(UI) and provide best-in-class customer service.

Seller apps (in this case, financial service players) can focus on offering a better product proposition, ensuring ease of underwriting to provide credit to maximum consumers

Data sources (secured and leveraged based on consent)



Credit bureau
Financials and transaction data



Supplier banking data by Sahamati
Account data, outstanding loans, etc.



Customer score
Buyer app enabled customer score based on returns and platform engagement

New possibilities : NBFCs and fintechs with a focus on specific use cases can expand offerings in financial services to drive higher engagement and monetisation.

Illustrative

**Existing offering by a leading NBFC/
Fintech player**



Buy new gold loan
Low interest gold loans at home



Shift existing gold loan



Safety
Gold safely stored at partner banks
branches near home
100% Insurance on gold loan



Convenience
Hassle free online repayments



**ONDC enabled partners to expand full
suite of offerings**

Product



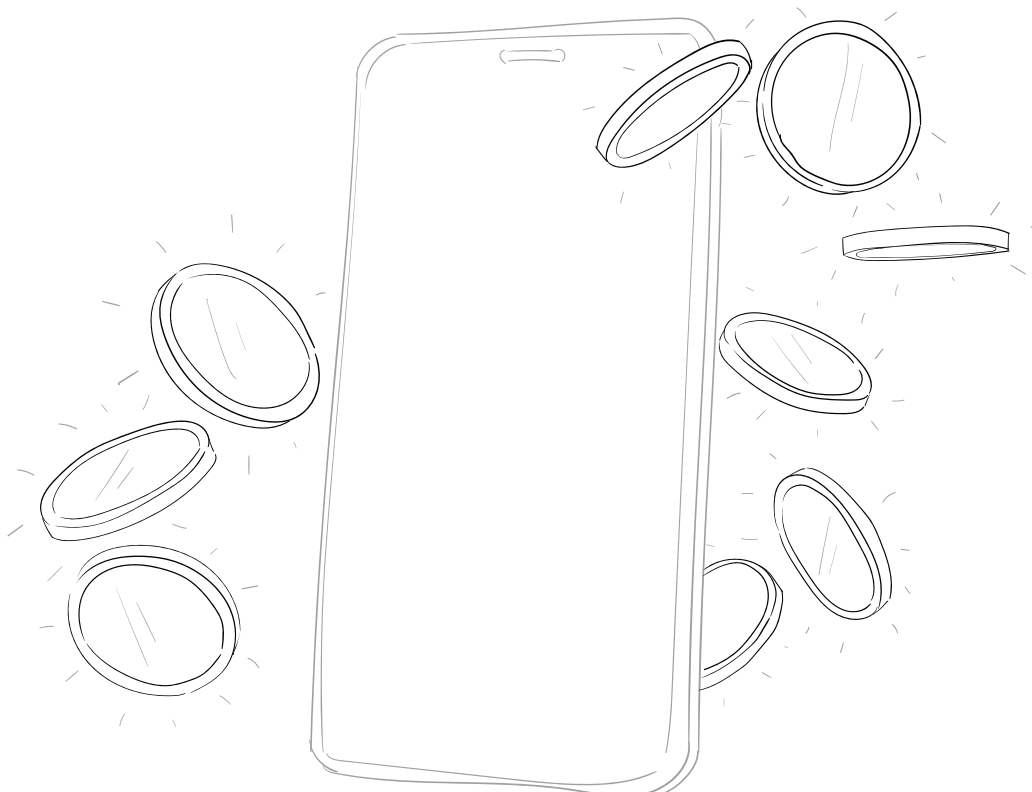
Personal finance manager
(e.g., spend analyser, budget planner etc.)



Insurance products
(e.g., nonlife insurance like travel, consumer durable)



Allied value-added services like GST filing,
taxation etc.



Six considerations for digital commerce in the financial services sector

01

Stitch together digital public goods such as AA and UPI with ONDC for a seamless commerce, payment, and lending experience

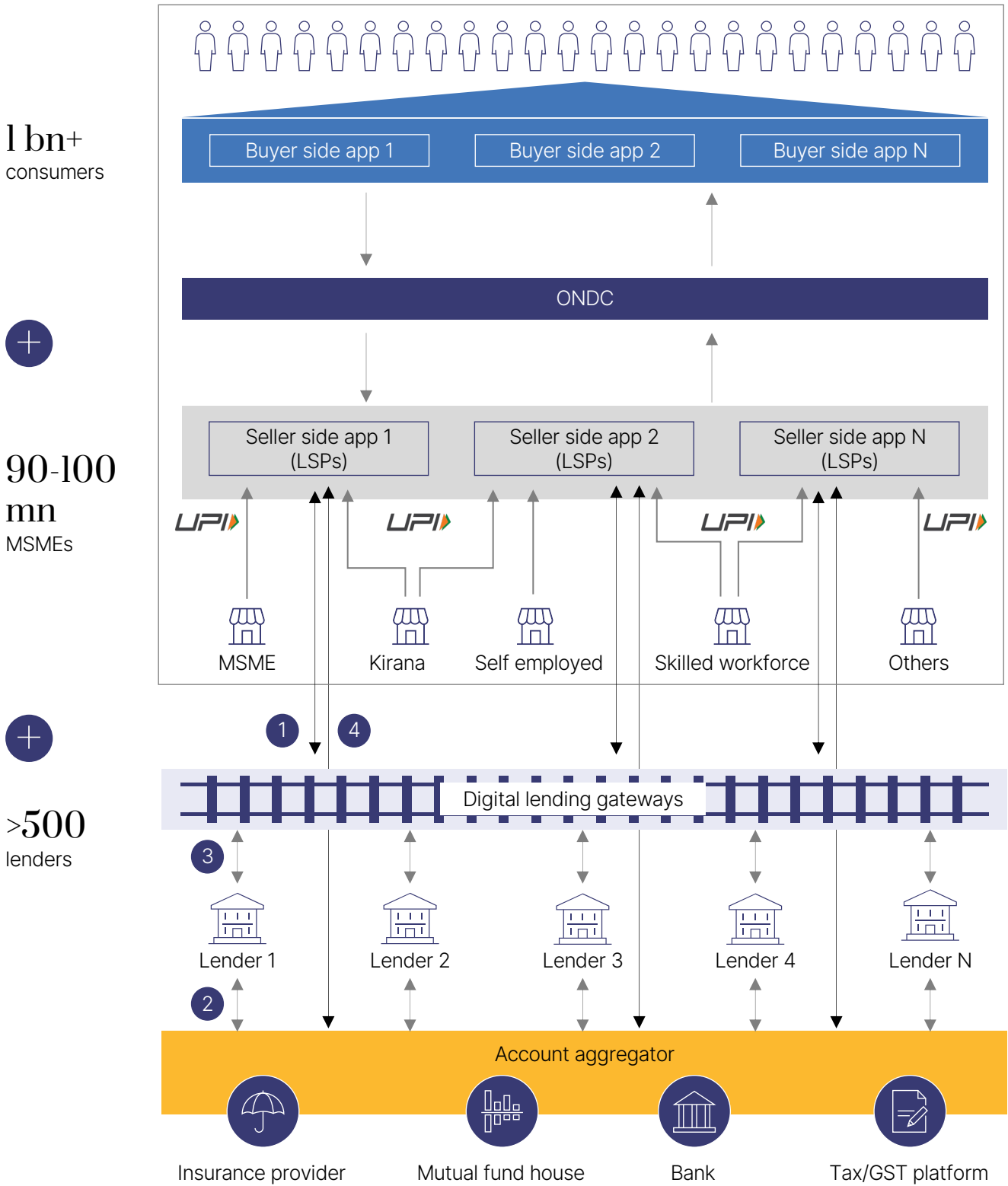
Issuing credit to those who are deserving but underserved could become smoother as ONDC scales up. Its buyer apps could bring more than a billion potential consumers to the marketplace, while its seller apps could bring nearly 100 million small businesses and more than 500 lenders. The integration of protocols for a digital lending gateway and AAs (to provide data to lenders for underwriting) with ONDC could mean a new unlock for MSME credit (Exhibit 10).

As an illustration, a supplier app loan service provider (LSP) signals a nudge to a credit-seeking MSME and brings it on board. With the MSME's consent, the lender accesses an account aggregator to receive consolidated financial information. Armed with this information, the lender offers a loan, in parallel with offerings from other lenders. The supplier then selects the offer, completes the KYC, and provides disbursement account details, setting up repayment through E-NACH or E-Mandate. After the agreement is signed, the MSME allows monitoring, and the loan is disbursed.

In this way, both the borrower and lender have made an informed choice to borrow or to lend, creating inclusion and empowerment in a free-flowing, transformed lending landscape for both consumers and MSMEs.

New seller apps could emerge to cater to previously unserved MSMEs—unlocking their access to secure funds at lower rates than they would get from unorganised providers. Financial institutions could tailor offerings to MSMEs—for example, with granular, lower-ticket products that fit with their repayment cycles and working-capital needs. Various participants in the ecosystem could also enable the seamless disbursement of credit. Personal financial services for MSMEs could ensure financial fitness, embed insurance across the supply chain (for example, covering products that could be damaged in transit), and ensure that businesses have the goods to support day-to-day functioning.

Stitching together of digital public goods e.g., AA, UPI with ONDC could scale up credit access for underserved MSMEs.



02

Improve underwriting through availability of alternative data sources enabled by ONDC

Access to open data would make it possible to assign scores to financial services. The financier could access MSME data across sources for better underwriting, whether for invoice financing, a working-capital loan, or capital financing (Exhibit 11).

03

Modernise core technologies across banks, especially public-sector banks

Traditional banks in India would need to step up their IT infrastructure to truly tap into the potential of ONDC. Investing to modernise their core technology will be critical, for example to build the capability to ensure 24/7 loan disbursements and servicing.

04

Engage and enable ecosystem players (TSPs, fintechs) to accelerate the digitalisation of financial-services journeys

Technology service providers and fintechs could facilitate the digitalisation of financial-services journeys in ONDC for a seamless customer experience. This could include providing services such as virtual KYC, fraud checks, NACH (National Automated Clearing House) mandates, and more.

05

Drive supportive product policies and mindset changes across financial-services and ecosystem partners

The enactment of supportive credit policies to enable machine-led underwriting could eliminate the need for certain manual and cumbersome processes, such as validating customer profiles. The adoption of ONDC would represent a huge shift from traditional ways of working. Therefore, financial institutions and other ecosystem partners would need to pursue change management efforts within the organisation to instill the appropriate mindset and culture.

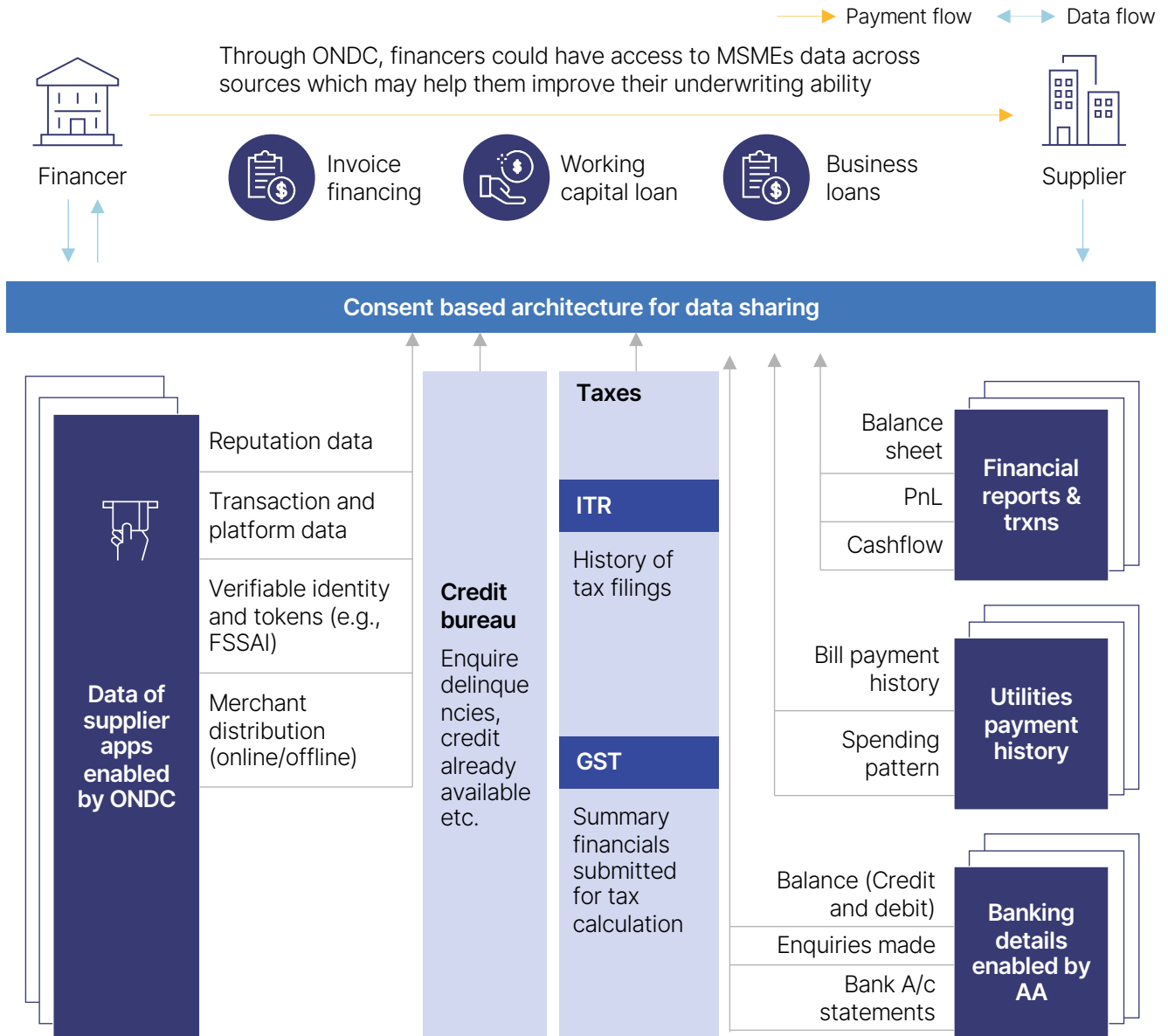
06

Streamline and evaluate KYC norms

Simplification of existing KYC norms and guidelines for full digital lending—that is, existing KYC norms and limits—need reevaluation to enable full STP digital lending journey especially for MSME segment.

Ensuring these enablers are in place could help to unleash the full potential of ONDC to transform the financial-services landscape in India. Doing so could bring financial inclusion and prosperity to a huge segment of India's population, accelerating the country's economic and social development.

Availability of alternative data sources enabled by ONDC to help drive data and cash flow-based underwriting.



Key benefits



Real time access data for better underwriting and monitoring

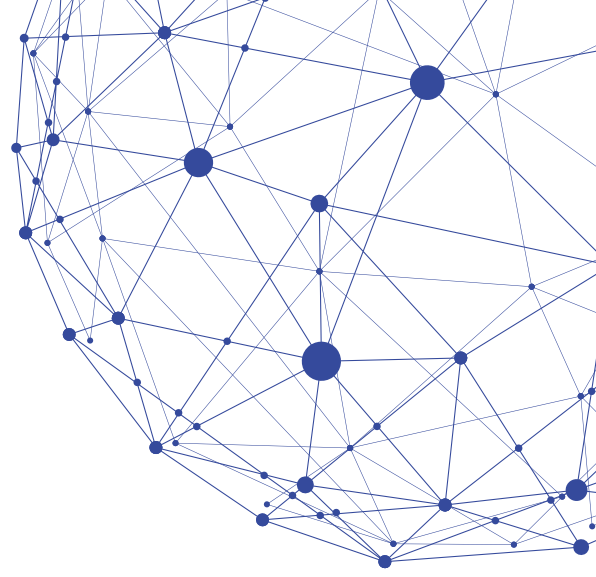


No requirement of collateral due to **comprehensive data and cash flow backed underwriting**



Increased MSME credit penetration, especially among micro enterprises with limited bureau history





Getting on board with ONDC

ONDC holds the potential to create open, inclusive, and competitive marketplaces in the virtual world. It will be important for companies to carefully evaluate the options available to them as they consider entering this space. This could help them to identify plays that maximise benefits from the immense opportunities unlocked by the open network. As company leaders look to make the most of the opportunities ONDC offers, they could explore the possibilities across two themes.

First, they could determine which use cases have potential to scale fast and which would take longer to yield results. And second, they could evaluate where they are best positioned to play—through the lens of the market opportunity, their own capabilities, and the consequent feasibility of investing in specific use cases. This could support them in making the most relevant investments to achieve their company's strategic objectives.

Assessing scalability

As a market maker keen to create and democratise opportunities for all participants, ONDC could catalyse a range of business opportunities in the short, medium and long term (Exhibit 12).

This answer emerged after analysing three indicators of potential to scale:

- Short term: Digitisation of existing hyperlocal goods and services
- Medium term: Scaling up and innovating in D2C businesses
- Long term: Digitising new use cases for ONDC-first business models, especially in B2B

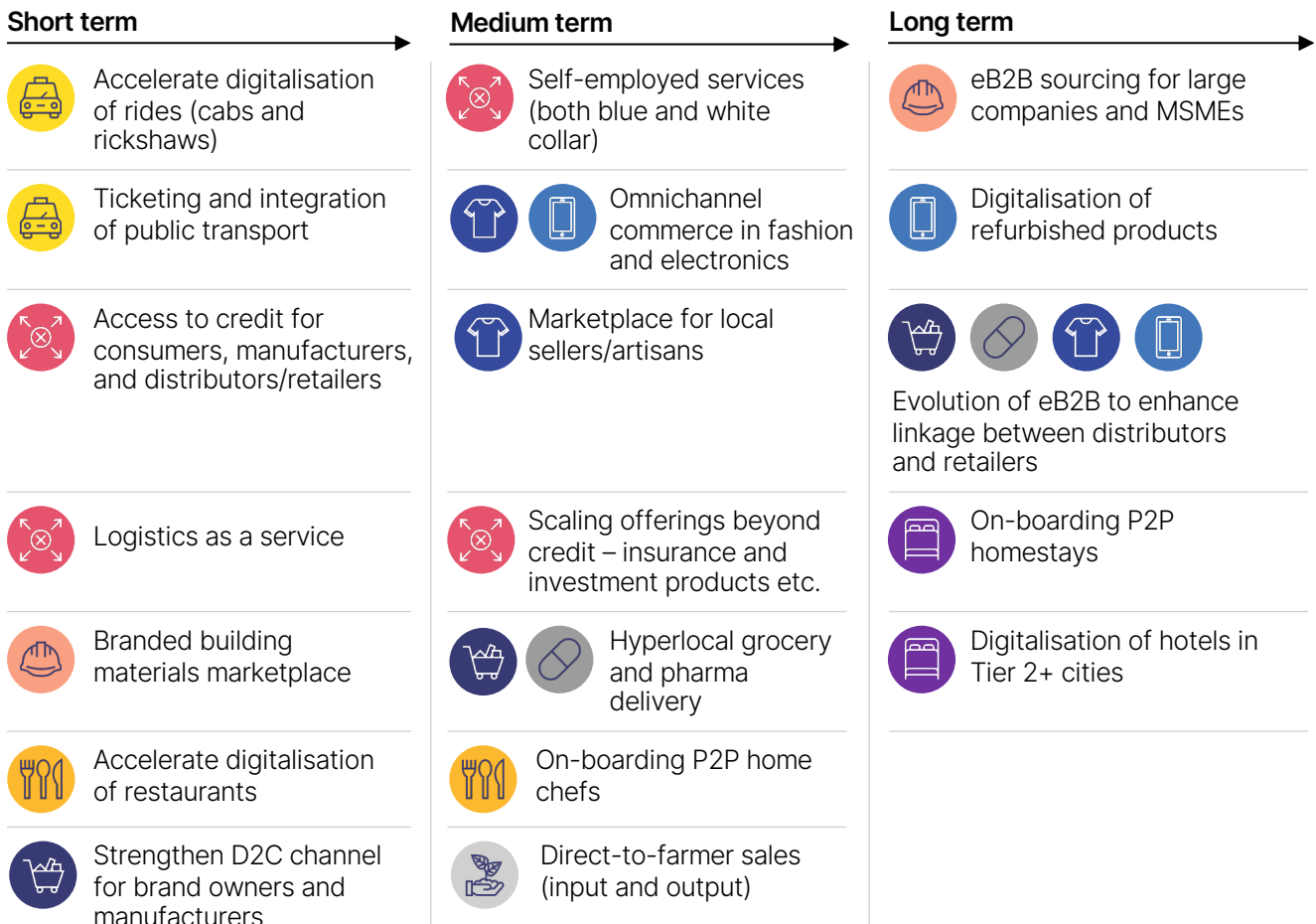
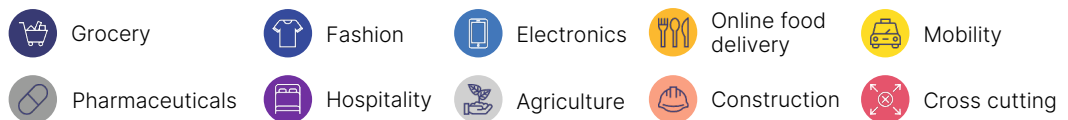
As companies think about use cases they could prioritise, it would make sense to look at their options through three lenses:

1. The use case should solve an unsolved problem.
2. It should have a ready ecosystem (for example, digitalised supply chain, standardised goods and services, or ease of logistics and fulfilment).
3. It should be economically viable.

Exhibit 12

Use cases in the short term could prove the most beneficial for driving early adoption and scale.

Not exhaustive



Identifying the best-fit use case for a company

Companies looking to develop innovative business models that tap the open network can examine the opportunity against two considerations: how to participate immediately in a fast-developing space, and how to reimagine their business for an open network and its possibilities.

Businesses need to zero in on the most relevant use cases that map to their chosen stance as a shaper or a fast follower. They can accordingly identify a pool of investable resources to help them pursue the opportunity.

If the collective investments of companies across industries can support the expansion of ONDC, they could unlock the full potential of digital commerce for buyers, sellers, third-party providers, and India as a whole. Companies and entrepreneurs must carefully consider several strategic questions:

- **Evaluate the opportunity.** How will an open network disrupt the sector? What is the problem that it will solve, and for whom? Which are the most relevant use cases for the business? What are the

potential benefits of addressing this problem? What are the potential risks and challenges in implementing these use cases?

- **Identify the capability required.**

Which role (e.g., seller, buyer, tech service provider, etc.) is the company best positioned to play? What are the key capabilities needed to execute the use case? What are the resource requirements (for instance, people, time, or money) in building out these use cases? How should governance be managed, including engagement with the ONDC core team and network participants?

- **Evaluate feasibility of the use cases.**

When should a company decide to implement or pilot a use case? Should the organisation be a leader or a fast follower? What are the feasibility considerations for executing the use case (for example, market, financial, or legal)? What should be the pilot structure for prioritised use cases including the initial investment and scale-up milestones?

ONDC presents a unique avenue for India to revolutionise its digital commerce landscape and set an example for the world, much as it did with UPI. With vast potential for a robust buyer and seller ecosystem, ONDC represents an opportunity that arises once in a decade. Stakeholders—government, industry players, and consumers—can determine how to seize this ‘tech-ade,’ putting their best, most innovative selves forward to democratise digital commerce for all.

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Notes



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