

FINO PayTech Ltd.

COMPANY BACKGROUND

Mumbai-based FINO PayTech Ltd. builds and implements technologies that enable financial institutions to serve under-banked populations. FINO PayTech offers a suite of products to banking, microfinance, insurance and government clients serving primarily rural and semi-urban regions of India.

As of April 20, 2012, the company's client base included 27 banks, 15 government entities, and 4 insurance agencies with over 47 million individual customers combined. FINO PayTech reaches clients in 399 districts across 25 states in India.

FINO PayTech was incubated by ICICI Bank, India's largest private sector bank and second largest bank overall, before spinning off as a separate entity in April 2006. Currently

Country: India

Sector: Information and Communication Technologies

IFC's Investment: \$7.3 million in equity

public sector banks, including Corporation Bank, Indian Bank, Life Insurance Company of India, and Union Bank of India, account for 16% of investment financing. Private sector investors include HSBC (25%), ICICI Group (25%), and IFMR Trust (1%). International investors are IFC and Intel which own 17% and 16% respectively.

DRIVERS FOR FINO PAYTECH'S INCLUSIVE BUSINESS MODEL

- Market opportunity for technology that enables financial institutions to serve more than 600 million under-banked Indians cost-effectively
- Mission to enable greater financial inclusion among the under-banked populations

The primary driver for FINO PayTech's business model is a market opportunity for technology and services that enable financial institutions to realize the untapped potential to serve profitably the more than 600 million rural Indians who are currently under-served by or excluded from the formal financial system.

According to the Reserve Bank of India, 41% of the adult population in India today is unbanked and only 27% of farmers have access to formal credit sources. Informal money lenders control up to 75% of the market and charge interest rates as high as 90%. Non-credit related services are virtually non-existent in remote areas.

FINO PAYTECH'S INCLUSIVE BUSINESS MODEL

FINO PayTech offers a banking and payments system that uses smart cards and agent-operated mobile point-of-transaction terminals to facilitate reliable, low-cost financial transactions between institutions and customers.

With this system, FINO PayTech addresses a number of challenges that financial institutions face when serving low-income customers in particular, including illiteracy, information asymmetry, inadequate infrastructure, security, and—highly important—high cost relative to transaction size. The system enables users to overcome these barriers to achieve financial sustainability and scale in serving under-banked populations.

FINO PayTech's core product offerings comprise several components, including:

- **Accounting and MIS systems:** back-end processing systems that FINO PayTech builds and may maintain to facilitate and track transactions at the financial institution
- **Point-of-transaction terminals:** hand-held mobile devices that 29,480-plus FINO PayTech agents and their customers use to conduct transactions such as deposits, loans, and payments

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- **Biometric smart cards:** authentication devices carried by customers and agents alike to ensure transactions are secure on both ends; each card carries fingerprints, demographic and financial relationship information on a chip and a photograph with cardholder details on the face of the card

FINO PayTech's core system can be used for a variety of financial transaction types for which specific products have been developed. For example, in the savings account product, the smart card enables people to check balances,

transfer funds, make deposits, and withdraw cash. The smart cards can also be used to access services such as subsidies, payments, or credit as well as health, life, and weather insurance.

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Today, they are used by the government to transfer payments under the National Rural Employment Guarantee Act and to administer health insurance under the government's health insurance program for people below the poverty line. Other services include a remittance solution which enables individuals to send remittances from cash-to-smart card, card-to-bank, or card-to-card; a deposits management product that enables institutions to process recurring deposits or mutual funds; and a credit scoring solution for banks and MFIs with plans to extend to credit bureaus and financial risk management services.



Although the revenue model varies by product and by client, FINO PayTech generally charges the financial institution ongoing rental fees for space on their back-end system and for point-of-transaction terminals, annual maintenance fees for the terminals, and new card issuance fees. Some institutions may opt to buy point-of-transaction terminals as well. Customers do not have to pay for any services except for the remittance product—for which they pay 20 rupees, less than \$.50, directly to FINO PayTech in exchange for remitting up to 10,000 rupees in a single transaction.¹

Currently, FINO PayTech's revenues are driven by one-time fees such as enrollment charges and sales of point-of-transaction terminals. By 2013, about 60% of its revenues will come from recurring revenue streams such as transaction fees and card and POT maintenance.

¹ Mahalingam, T.V. 2009. "Bank at the Doorstep." Outlook Business India.

RESULTS OF FINO PAYTECH'S INCLUSIVE BUSINESS MODEL

- Operating revenue growth of 1324% since 2006 (56% CAGR from 2006–2012)
- Client base of 27 banks, 15 government entities, and 4 insurance agencies
- As of early 2012, over 47 million individuals in 25 states had access to credit and non-credit related services

Operating revenues grew by 1324% between 2006 and 2012, for a compound annual growth rate of 56%. Further, in just a few years, FINO PayTech has grown its customer base to 27 banks, 15 government entities and four insurance agencies serving over 47 million individual customers who were previously unbanked. FINO has deployed over 29,480 point-of-transaction terminals to date, and currently reaches 1,852 different blocks in 399 districts of 25 states in India.

FINO PayTech's automated payments systems enable financial institutions to lower transaction costs, increase efficiency and productivity, and improve transparency. Institutions can allocate greater staff time to account acquisition and scale up operations. FINO PayTech's clients can offer customized products to their clients, provide cashless and paperless insurance, and ensure timely and full payment.

This model serves to promote financial inclusion among people who currently lack access to financial services, particularly in rural regions where 90% of FINO PayTech's customers live. Through FINO PayTech, even individuals in more remote regions of India can access formal loans as well as insurance, savings, remittances and government payments. FINO PayTech has also substantially contributed to employment generation, with more than 2,753 direct employees and 29,480 field agents, of which nearly 30% are women.

IFC'S ROLE AND VALUE-ADD

IFC's Investment: \$7.3 million in equity
Investment Year: 2007 to 2010

- IFC's equity investments filled an immediate financing gap that early-stage companies like FINO PayTech face, and enabled the company to reach a stage where funding options were more widely available
- Through its role as a trusted intermediary, IFC helped FINO PayTech to spin off successfully and to encourage banks and MFIs to adopt its technology
- IFC provided a grant of \$1 million to support pilot projects and training programs, enabling FINO to work with MFIs to develop and test its technologies, as well as conducted 872 training workshops for 8,002 participants across the country

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For more information, visit ifc.org/inclusivebusiness and finoPayTech.com