NBFC 2.0
Enormous Potential in Non Bank Finance and Ways to Make it Happen

December 2015
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NBFC 2.0

Enormous Potential in Non Bank Finance and Ways to Make it Happen

| SAURABH TRIPATHI |
| JITESH SHAH |

DECEMBER 2015 | THE BOSTON CONSULTING GROUP
Executive summary

NBFCs are here to stay—the compelling case for growth acceleration

The secret sauce—innovation and focus—needs a digital makeover

NBFC 2.0—winners of the future will be bionic entities

Need to encourage a vibrant NBFC sector in the country

For further reading

Note to the reader
Non Bank Finance Companies (NBFCs) are here to stay. Between 2005 and 2015, their share of credit in India went up from 10% to 13%. The share growth is not only observed in traditional NBFC domains like commercial vehicle (CV) finance but also in products like mortgages where commercial banks are very active. Success of NBFCs is attributed to very sharp focus on product lines leading to better cost control, bad debt control, better customer service and consequently faster growth at higher profitability as compared to banks. NBFCs' credit penetration in GDP of India at 13% is well behind economies like Thailand and Malaysia at ~25% and China at ~33%. We expect the growth in NBFC credit to further accelerate over the next 5-10 years.

The promise of accelerated growth is predicated on NBFC sector transforming itself to serve the latent credit needs of emerging India. Both consumption as well as commercial credit demand are characterized by lack of income proof documents owing to large scale self employment in the country. Lack of documents can now be compensated by huge amount of surrogate data available in digital ecosystems. NBFCs have to find a way to use the digital surrogate data to make better credit decisions. Indian consumers and businesses are adopting digital at a rapid pace. NBFCs have to embrace digital to dramatically enhance internal productivity (sales, operations and pricing) and to reimagine the end to end customer experience.

The winners in next decade – NBFC 2.0 – will augment the strengths of NBFC 1.0 in four key areas. Firstly, high touch model for credit and collections will be augmented with surrogate digital data based analytical techniques. NBFC 1.0 relied mostly on a standalone business model with few partnerships. NBFC 2.0 will heavily rely on partnerships to gain access to data and to create unique customer experiences. NBFC 1.0 won on the basis of sharp product-customer focus. NBFC 2.0 will be diversified in different product segments and gain synergies based on data analytics on customer data. And finally, NBFC 1.0 had a heavy physical model with predominantly cash transactions. NBFC 2.0 will be a bionic model that will synergize human touch with digital interface and process.

The recent introduction of payment banks, small finance banks, and proposed bill payment service providers will deconstruct the banking value chain in India. This opens up very strategic opportunities for NBFCs to partner with asset management companies, and payment banks to create complete financial offering for customers including savings, investments, transactions and borrowings. This "best of breed" banking model could be better than the bundled offer of traditional banks. NBFCs will need to take the initiative to put the coalitions together.

RBI's policy stance has been pro-innovation and pro-competition. It should support the NBFC sector to fill the gaps left by banks in serving demand.

1. NBFCs should get full parity with banks in tax treatment of loan loss provisions
2. NBFC lending should come in the ambit of SARFAESI along with HFC and banks
3. NBFC sector should get support from the RBI in the form of lending of last resort
4. Expedite legislative changes to permit use of utility bill payments data to be part of information bureaus
5. Expedite digitization of title search, hypothecation, mortgage creation to permit NBFCs to offer end to end digital experience to consumers
6. Release regulatory guidelines to encourage innovative new FinTech start up in areas like peer to peer lending market places
7. Consider a regulatory architecture that can permit large ticket deposits with NBFC sector directly from HNI customers. Such large ticket deposits could be instruments for wealth management with higher yield and higher risk as compared to bank deposits.
NBFCs are here to stay—the compelling case for growth acceleration
NBFCs have gained share in the total credit in India. Between 2005 and 2015, NBFC share in credit rose from 10% to 13%.

If we consider narrow product segments, the gain in market share is even more pronounced. In home loans, HFCs’ share has gone up from 26% to 38% between FY09 and FY15. In the last 3 years, NBFCs’ share in CV financing has gone up from 42% to 46%.

In smaller ticket segments like micro finance, consumer durables, two wheeler etc, NBFCs dominate.

Clearly when it comes to credit with wide reach, NBFCs are winning.

Credit penetration in India is low as compared to other economies. On similar benchmarks, the non bank finance penetration in India is even lower.

While it is commonly expected that credit will grow rapidly as economic growth gathers pace, it is safe to assume that non bank finance will grow even faster. This is borne out by the growth rates seen over the past several years.

Indian economy has a huge latent credit demand fuelled by a massive self-employed population that is underserved by banks due to inadequate income proof.

With public sector banks under severe stress due to mounting bad debt, the appetite to lend is expected to be weak in the medium term till a proper resolution can be found. This will increase the gap in the market and provide an opportunity for NBFCs to fill in.

The recent developments in deepening of wholesale debt markets also bode well for liquidity and funding of NBFCs.

**NBFC sector growth should accelerate in the medium term in India**

Both demand side and supply side factors to contribute to NBFC growth

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**Sources:** RBI Financial Statistics of NBFC Sector database, World Bank (Global Economic Prospects – Publication), BCG analysis.

**Note:** Figures for overall NBFC market. Forecasted GDP growth of India assumed to be 7.5% as per World Bank forecasted figures.
**NBFCs likely to maintain high growth momentum**

Developments and trends augur well in medium term

Large number of government initiatives such as smart cities, improvement in the ease of doing business in India and renewed focus on infrastructure development will create demand for credit.

Similarly, Digital India and e-commerce growth will give impetus to SME sector and demand for credit. Consumer consumption is also going to see significant rise.

NBFCs are likely to benefit from underlying trends and developments in the Indian market.

<table>
<thead>
<tr>
<th>Key initiatives</th>
<th>Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E-commerce</strong></td>
<td>• India the fastest growing e-commerce market in the world (43% CAGR)</td>
</tr>
<tr>
<td></td>
<td>• Size of market likely to be <del>6X in the next five years (</del>$130-140 bn by 2020)</td>
</tr>
<tr>
<td></td>
<td>• 43% of SMEs participated in online sales in FY’15</td>
</tr>
<tr>
<td><strong>Smart cities &amp; urbanization</strong></td>
<td>• 100 smart cities to be built over five years with more than US $7-8 billion investment</td>
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<tr>
<td></td>
<td>• Under &quot;Housing for All&quot;, 20 million houses to be constructed in urban areas in next 7 years</td>
</tr>
<tr>
<td></td>
<td>• Under urban development Scheme &quot;AMRUT&quot;, 500 cities to be developed</td>
</tr>
<tr>
<td><strong>Infrastructure development</strong></td>
<td>• ~US $600 billion investment target over five years for infrastructure development</td>
</tr>
<tr>
<td></td>
<td>• ~US $130 billion planned investment in railways in the next five years</td>
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<tr>
<td><strong>SME</strong></td>
<td>• Low current penetration levels (~25%) of financing in the SME industry</td>
</tr>
<tr>
<td></td>
<td>• Financing gap of more than US $40 billion</td>
</tr>
<tr>
<td></td>
<td>• 40% of SMEs in India financed through informal sources or self-financed</td>
</tr>
<tr>
<td><strong>Ease of doing business</strong></td>
<td>• Deregulation, delicensing and simplification of procedures; e.g.</td>
</tr>
<tr>
<td></td>
<td>– Online application for environmental clearances</td>
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<tr>
<td></td>
<td>– Simplification of allotment of PAN cards</td>
</tr>
<tr>
<td><strong>Digital India</strong></td>
<td>• &quot;Digital India&quot; to enable investment of ~US $68 billion and create ~1.8 million jobs</td>
</tr>
<tr>
<td></td>
<td>• More than 1 million SMEs expected to plug into digital platforms in the next 5 years</td>
</tr>
</tbody>
</table>

**Sources:** RBI, Press release, Websites of Government initiatives, BCG analysis.

**Note:** 1 USD = INR 66.
Growth in middle class and next billion segments will spur demand for consumption and commercial finance

The accompanying graphs show how demographic profile in India will evolve till 2020.

The largest household group by income category by 2020 will be the next billion group with annual income in range of Rs 1.5 – 5 lakh per annum.

This segment along with middle class will drive demand for consumption and productive credit.

NBFCs which focus on these segments will benefit from the huge market developing over the next 5 years.

Sources: NCAER income distributions; EuroMonitor; Indian Readership Survey 2005 and 2010; BCG analysis.
Note: Years represented as calendar year, HH–Households; LPA–Lakhs per annum.
Annual gross income based on 2015 prices.
Significant increase expected in consumption in hinterland

The accompanying graphs show how geographic profile of consumption expenditure will evolve till 2020.

The concentration of business in the top few cities will give way to a vastly dispersed pattern with significant consumption in smaller towns and rural areas.

Many NBFCs are focused on smaller towns as their home markets. Such NBFCs with distribution presence and understanding of hinterlands, will find significant tailwinds as the income profile shifts.

Sources: Euromonitor, National Sample Survey Office; BCG proprietary research of 6,300 consumers; BCG analysis.

Note: Population of Top 8 cities exceeds 4 million. Population range of tier 1 cities is 1 million to 4 million; of tier 2 cities is 500,000 to 1 million; of tier 3 and 4 cities is 10,000 to 500,000, of rural area is less than 10,000.
The secret sauce—innovation and focus—needs a digital makeover
NBFC industry has maintained higher profitability

Despite the perception of higher cost of funds disadvantage, on an average, NBFCs have outperformed banks on "Return on Equity (ROE)" by 1.5-2.0%. In the last ten years, only for two years has the average ROE of NBFCs dipped below the average ROE of banks.

Higher profitability with higher growth is clearly a massive value creation story.

NBFCs' business models have had unique strengths and thus are able to deliver such performance consistently.

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Sources: IBA, Capitaline, BCG analysis.
Note: Sample set of 500 NBFCs considered for analysis; All Scheduled Commercial Banks considered for analysis.
NBFCs follow different business models than banks
Higher yields, lower opex and credit cost help NBFCs deliver higher RoA at faster growth

NBFCs operate at higher yields given that they operate in underserved markets. Despite the cost of funds disadvantage, they operate at higher NIM. Their operating costs as well as bad debt expenditure is lower as compared to banks leading to much higher ROA. Even though they are at a lower leverage as compared to banks, NBFCs deliver higher ROE.

This has been possible due to very focused business model designed around a product – customer segment. This focus has enabled the NBFCs to operate with better response times and service levels, leading to faster growth as compared to banks.

### NBFCs follow different business models...

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Banks</th>
<th>NBFCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield on advances</td>
<td>10.1%</td>
<td>13.8%</td>
</tr>
<tr>
<td>Cost of funds</td>
<td>6.3%</td>
<td>9.4%</td>
</tr>
<tr>
<td>NIM²</td>
<td>2.6%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Fee income/ Avg. Assets</td>
<td>0.8%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Opex/ Avg. Assets</td>
<td>1.7%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Credit cost/ Avg. Assets</td>
<td>0.9%</td>
<td>0.8%</td>
</tr>
<tr>
<td>ROA</td>
<td>0.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Leverage</td>
<td>13.2</td>
<td>6.3</td>
</tr>
<tr>
<td>ROE</td>
<td>10.5%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Advances growth</td>
<td>9.5%</td>
<td>14.1%</td>
</tr>
</tbody>
</table>

### ... with different underlying capabilities

- Better risk appreciation and management
- Lower costs due to lean and focused business model
- Better service – Faster speed of response, customized approach

Sources: RBI, Capitaline, IBA, BCG analysis.
Note: All Scheduled Commercial Banks considered for analysis; Top-25 private sector NBFCs considered for analysis.
1All data pertains to FY’15.
2NIM calculated as ration of net interest income and average total assets in the fiscal year.
3ROA =Return on average assets.
4ROE= Return on average equity.
Over the years, a number of product segments have been monopolized by the NBFCs.

The story of Shriram Finance creating a whole new market in used truck finance is legendary. Consumer durables is largely in the NBFC domain. Even relatively safe products like mortgage are well covered by the NBFCs. This is due to the massive self employed customer base which does not have adequate income proof. New car finance in small towns is also served by the NBFCs.

<table>
<thead>
<tr>
<th>Product segments</th>
<th>NBFC AUM (Rs '000 Cr)</th>
<th>NBFC share of lending (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used CV</td>
<td>60</td>
<td>90%</td>
</tr>
<tr>
<td>LAP</td>
<td>180</td>
<td>80%</td>
</tr>
<tr>
<td>CEQ</td>
<td>25</td>
<td>70%</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>8-10</td>
<td>70%</td>
</tr>
<tr>
<td>New CV</td>
<td>25</td>
<td>50%</td>
</tr>
<tr>
<td>Tractor</td>
<td>10-15</td>
<td>45%</td>
</tr>
<tr>
<td>2 wheeler</td>
<td>10-15</td>
<td>45%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>400</td>
<td>40%</td>
</tr>
<tr>
<td>New Car</td>
<td>50</td>
<td>30%</td>
</tr>
</tbody>
</table>

Need to embrace new levers of competitive advantage

Winning NBFCs have mostly sought advantage in a high touch credit and collection model. The NBFCs have mostly been standalone companies with sharp focus on one customer-product segment and most of the dealings have been physical (in cash).

The technological and digital consumer trends require NBFCs to adjust to the new opportunities. Credit has to be data enabled, given the huge surrogate data captured in the digital age. NBFCs should forge partnerships to create differentiated customer experience. Data analytics can create synergies between different product economics. And cash has to give way to an electronic fund flow.

<table>
<thead>
<tr>
<th>NBFC 1.0: Traditional source of advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High touch model for credit, risk management, and collections</td>
</tr>
<tr>
<td>Mostly stand alone end to end business model</td>
</tr>
<tr>
<td>Sharp focus on a product-customer segment</td>
</tr>
<tr>
<td>Mostly physical model heavy on cash</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NBFC 2.0: New levers available</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explosion in surrogate data availability and data science to establish credit worthiness</td>
</tr>
<tr>
<td>• Ecommerce platforms, retailers, social media, bill payments, statutory filings, etc.</td>
</tr>
<tr>
<td>• OEMs</td>
</tr>
<tr>
<td>• Retailers, e-market places</td>
</tr>
<tr>
<td>• Payment Banks</td>
</tr>
<tr>
<td>Partnerships can create compelling customer propositions with embedded lending</td>
</tr>
<tr>
<td>Diversified model with synergy across product segments driven by customer data capture and backed by analytics</td>
</tr>
<tr>
<td>Bionic model – with synergetic combination of human and digital processes and interface to customers</td>
</tr>
</tbody>
</table>

Source: BCG analysis
NBFC 2.0—WINNERS OF THE FUTURE WILL BE BIONIC ENTITIES
Current landscape: Wide dispersion in performance

The accompanying graph compares different NBFCs along their 3 year growth and average return on assets.

Even as the sector as a whole shows better performance as compared to banks, there is a wide dispersion in the performance of NBFCs.

Clearly not all the fine tuning of economics right.

Sources: Capitaline, investor presentations, annual reports, BCG analysis.
Note: Data as of Mar’15. ROA = Return on average assets.
NBFC 2.0: Nine elements in the winning NBFC of the future

Traditional sources of advantage for NBFCs will erode over time with deepening of banking in the country. It is imperative that NBFCs harness latest trends in technology, digital adoption by customers, and the web of partnerships to innovate and come up with new models.

Three enablers – (1) Partnership model, (2) Agile IT & data platform and (3) Agile organization structure are needed to support any strategy in the digital world. NBFCs must strive for excellence in five pillars – customer experience, digital sales, digital operations, advanced credit and collections, and pricing system. These are detailed in subsequent pages.

Source: BCG analysis.
Right product mix selection is extremely important for NBFCs

For growth avenues, NBFCs of the future might look to diversify like multi product conglomerates. However, as a general trend, diversification leads to a reduction in ROE, unless the product strategy and synergies are carefully planned and managed.

As the NBFCs chart their strategy and product portfolio, a few key questions need to be answered regarding the choice of products / business lines:

- What is the synergy between business lines and how it will be harnessed?
- How to stay lean and maintain a low risk profile like a monoline?
- How to prevent centre from becoming an excess overhead?

![Diversification and ROE of various NBFCs](Image)

**Strategic rationale of product and customer portfolio is critical**

1. How to identify and capture synergies across business lines?
2. How to ensure sharp focus on product economics?
3. How to ensure ultra low cost?
4. How to ensure tight risk management?
5. How to implement lean and identify value adding role of centre?

**Sources:** Capitaline, Investor presentations, annual reports, BCG analysis.

**Note:** Data as of Mar’15. ROE=Return on average equity.
Financial institutions have started re-imagining processes to dramatically improve customer experience and offer "more than just loans"

Advent of digital is permitting the entire customer experience to be reimagined. Financial institutions are creating end-to-end customer journeys through appropriate partnerships that do not just offer a loan but the entire experience of search, choice, and ownership. It is expected that this trend will accentuate further as more and more finance moves to digital platforms.

The exhibit shows how the home loan journey is being redesigned by some players from imagining a dream house, looking for available choices, legal and technical due diligence, buying, taking a mortgage, to completion of interiors.

Source: BCG case experience.

Re-imagined end-to-end process engaging customer from asset selection, purchase to loan disbursal

- **Customer wants to buy a house**
- **Use interactive app to choose and plan**
- **They finalize the type of house they are looking for**
- **They buy the house of their choice!**
- **Interactive app helps them manage their finances**
- **A local realtor contacts them to further discussions**

Source: BCG case experience.
Digitally enabled rhythms to enhance productivity
20%+ productivity enhancement potential

Deployment of digital tools and analytics can enhance sales force productivity by as much as 25%. Digital device in the hands of sales staff allows alerts for action to be pushed to them in time, provide product information at their finger tips, and help on the spot sales closure.

Increasingly, a number of leads would come on digital channels and they have to be qualified quickly. An advanced call centre is critical. Digital channels have to be designed in a manner that they engage the customers and generate leads. Many financial institutions are aiming to generate up to 20% of all new business, purely online.

<table>
<thead>
<tr>
<th>Categories</th>
<th>#</th>
<th>Illustration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Acquisition</td>
<td>6</td>
<td>Ministry of Corporate Affairs’ registration list</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LC Issuance trigger to acquire LC beneficiary</td>
</tr>
<tr>
<td>Up-Sell/ Cross-Sell</td>
<td>29</td>
<td>Payment history analysis to sell payment solution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Share of wallet trigger to deepen product penetration</td>
</tr>
<tr>
<td>Attrition Control</td>
<td>12</td>
<td>Client satisfaction analysis to arrest customer churn</td>
</tr>
<tr>
<td>Service Excellence</td>
<td>6</td>
<td>Service delay trigger to resolve client complaint</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Document pending trigger to collect pending documents</td>
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<tr>
<td>MIS</td>
<td>15</td>
<td>Client coverage trigger to ensure regular coverage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fee income at-risk trigger to ensure fee targets are met</td>
</tr>
</tbody>
</table>

Sales & productivity excellence

Use case based Advanced analytics to generate Leads / Triggers for sales teams

User friendly, but intrusive sales team digital tools to prompt action

Tablets for sales at customer locations

Intuitive, action oriented supervisor app

- 15% productivity uplift observed by tablet sales force
  - Lower re-work
  - Faster TATs
  - Straight through processing

Sales teams reviewed via app
  - Income achievement
  - Key indicators (meetings, leads, conversion rates)

Notification to supervisors
  - eg. no leads, likely to miss target, etc.

Source: BCG analysis.
End to end digitization of processes can improve service, reduce costs, and reduce operations risks. NBFCs have to adopt Digital@Scale

End to end processes need to be re-imagined and digitized. The exhibit demonstrates the impact of rigorous process digitization at a BCG client.

Digitization has to be undertaken with an aim to fundamentally improve customer experience with objectives like:

- Fulfillment at first touch point
- Paper truncation at first instance
- System driven checks for operations risks
- National centralization
- Proactive end to end visibility to customer
- Single face of company across multiple channels

### Case Example: Mortgage processes

<table>
<thead>
<tr>
<th>Operational excellence</th>
<th>Case Example: Mortgage processes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current process</strong></td>
<td><strong>Redesigned process</strong></td>
</tr>
<tr>
<td>Number of handovers</td>
<td>19</td>
</tr>
<tr>
<td>Number of reviews / checks</td>
<td>6</td>
</tr>
<tr>
<td>Employees &amp; Effort involved</td>
<td>11 (People) 205 (Minutes)</td>
</tr>
<tr>
<td>Rework</td>
<td>40%</td>
</tr>
<tr>
<td>Physical movement of docs across departments</td>
<td>12</td>
</tr>
<tr>
<td>Number of system inputs</td>
<td>12</td>
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</tbody>
</table>

**Impact**

- **TAT**: 50% reduction
- **Productivity**: 25%+ increase across functions
- **Costs**: 15-20% reduction in processing costs

Source: BCG case experience.
Credit analytics and monitoring leveraging electronic surrogate data
Rapidly evolving ecosystems is permitting generation and capture of surrogate data on borrowers

With increasing digitization of ecosystems, more and more data on borrowers is available electronically. This data is not financial information but non financial information that can be used to infer credit risk through smart use of analytics. Such analytics can be used for ongoing monitoring and planning of collections initiatives as well.

One major source of data is the rise in ecommerce market place platforms where over a million SME are expected sign up to sell goods ad services over next 5 years. These platforms capture massive electronic data on the sellers that can be used to create straight through lending systems.

<table>
<thead>
<tr>
<th>Public sources – ~40 data points available</th>
</tr>
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<tbody>
<tr>
<td>MCA</td>
</tr>
<tr>
<td>Corporate Filings</td>
</tr>
<tr>
<td>• Details of directors</td>
</tr>
<tr>
<td>• Shareholding pattern</td>
</tr>
<tr>
<td>• Form 23AC, Form 20B</td>
</tr>
<tr>
<td>• Form 8, Form 10</td>
</tr>
</tbody>
</table>

| RBI                                      |
| Bureau Data                              |
| • Existing facilities                    |
| • Credit bureau score                    |
| • Previous credit enquiries              |
| • RBI defaulters list                    |

| ESIC, EPFO                               |
| Employee Related Data*                  |
| • Provident fund data                    |
| • Employee state insurance corporation data |

| Alexa                                    |
| Online Data                              |
| • Website traffic                        |
| • Ecommerce marketplace data             |

| DRT                                      |
| • Pending cases against                  |
|   • Company                              |
|   • Management                           |
|   • Directors                            |

| IT Dept                                  |
| • Income Tax                             |
| • Form 26 AS                             |
| • …                                      |

| CBEC, State Wise Tax Dept                |
| • Duty                                   |
| • VAT                                    |

<table>
<thead>
<tr>
<th>Private sources – ~50 data points available from e-commerce platforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seller information</td>
</tr>
<tr>
<td>• Vintage</td>
</tr>
<tr>
<td>• Snapdeal’s seller rating</td>
</tr>
<tr>
<td>• No. of categories</td>
</tr>
</tbody>
</table>

| Net-sales                                                             |
|• Last 3 months avg. net-sales                                       |
|• Net-sales for last month                                           |
|• No. of sales with COD                                              |

| Inventory                                                            |
|• Average inventory                                                  |
|• Trend of inventory                                                 |
|• Inventory value                                                    |

| Customer                                                             |
|• No. of customers served in                                         |
|• No. of customer locations served                                   |
|• …                                                                  |

| Pricing and product                                                  |
|• Seller composite pricing score                                      |
|• No. of products sold                                                |
|• …                                                                  |

Source: BCG analysis.
Note: MCA–Ministry of Corporate Affairs, RBI–Reserve Bank of India, ESIC–Employee’s State Insurance Corporation, EPFO–Employees’ Provident Fund Organization, DRT–Debts Recovery Tribunal, IT Dept–Income Tax Department of India, CBEC–Central Board of Excise & Customs, VAT–Value Added Tax, COD–Cash on Delivery.
Technology & analytics systems need to be leveraged to implement customer level risk based pricing & internal work flow systems that prevent various sources of revenue leakages

One of the most powerful sources of advantage for NBFCs will be the ability to price services scientifically. NBFCs have to introduce customer risk based pricing to capture fair value.

More importantly, BCG experience has repeatedly shown that significant revenue leakage takes place with unnecessary discounting and waiver of fees in sales. Technology based workflow systems can prevent such a leakage by making the process highly transparent and ensuring pricing discipline.

![Relationship between base price and risk score](image)

**Key reasons for price leakage**
- Average prices lower than price lists
- Leakages related to price structures
- No correlation between prices and risk/value level of the client
- RMs granting the maximum allowed level of discount
- Complex discounting process
- Price management process fragmented

![Price range — Rates on short term](image)

**Source:** BCG case experience.
Digital ready agile IT architecture is a basic necessity. NBFC need data architecture and analytics capabilities to capture right customer data and generate relevant insights.

None of the ideas in the report are implementable without a robust and agile IT architecture that is digital-ready. Many banks struggle with legacy IT systems that prevent advanced digital propositions from being rollout out rapidly. NBFCs need to put in place a modern and agile IT architecture.

Customer data has to be captured and stored in a manner that can lend itself to analytics. The IT architecture has to be suitable for capture of massive unstructured customer data beyond the regular financial and accounting information.
Partnership can completely revolutionize the banking experience in India. NBFC can orchestrate a partnership for "best of breed" solution including non banking elements

Presently, banks offer a bundled set services to their customers including savings & investments, payments, and borrowing all in one. Introduction of specialized players like payment banks, prepaid service providers, bill payment service providers, etc will deconstruct the value chain of banking.

It is possible for NBFCs to put together partnerships with specialist players addressing each of these needs in a "best of breed" manner. These partnerships can include non financial service players in housing, education, shopping and health-care to create an entirely new customer experience.

Source: BCG analysis.

- Savings/ investment
- Transactions/ payment
- Borrowings

Bank 'bundled' model

Unbundled 'best of breed' model

Payments
Bank

Mutual
Fund

NBFC
(borrowing)

Ecosystem
Partner

Housing

Education

Health

Shopping

(Savings/ investment)
Need to encourage a vibrant NBFC sector in the country
It is in major national interest to create a vibrant NBFC sector in the country. Need to create a positive regulatory architecture to encourage growth and innovation

| Recognition that NBFCs will play a very critical role in extension of credit and deepening finance in India.  
  | • Their role is going to increase over next decade due to unique nature of demand in India  
<table>
<thead>
<tr>
<th>• NBFC platform is uniquely suited to foster much needed innovation to break the compromises in self employed and MSME credit</th>
</tr>
</thead>
</table>
| Create a level playing field vs. banks  
  | • Tax treatment  
  | • Access to SARFAESI Act |
| Expedite payment data capture in information bureaus to bring large number of customers in the net of formal finance  
  | • Eg. Utility bill payments |
| Government departments involved in hypothecation of vehicles, creation and recording of mortgages need to digitize their systems to permit NBFC to offer end to end digital experience to their customers, reduce costs, and reduce frauds and operations risks |
| There is significant innovation taking place in the FinTech space in form of new business models like peer to peer lending. RBI should consider regulatory guidelines to encourage further innovation |
| Consider a regulatory architecture which permits large ticket deposits from HNI customers to be place with NBFCs directly. This will help with NBFCs funding and a wealth management instrument in HNI banking |

Source: BCG analysis.
For Further Reading

The Boston Consulting Group publishes reports, articles and books on related topics that may be of interest to senior executives. Recent examples include those listed here.

**Inclusive Growth with Disruptive Innovations: Gearing up for Digital Disruptions**
A report by The Boston Consulting Group in association with the Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Bank’s Association (IBA), August 2011

**Indian Banking 2020: Making the Decade’s Promise Come True**
A report by The Boston Consulting Group, September 2010

**Being Five Star in Productivity: Roadmap for Excellence in Indian Banking**
A report by The Boston Consulting Group in association with The Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Bank’s Association (IBA), August 2011

**Digital Banking: Opportunity for Extraordinary Gains in Reach, Service, and Productivity in the Next 5 Years**
A report by The Boston Consulting Group in association with The Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Bank’s Association (IBA), August 2011

**Consistency, Quality and Resilience: The next frontier for productivity excellence**
A report by The Boston Consulting Group in association with The Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Bank’s Association (IBA), August 2013

**Better Recruiting Through Social Media**
An article by The Boston Consulting Group, September 2010

**The Transformation Trap: The Smart and Simple Way to Avert HR Risk**
An article by The Boston Consulting Group, August 2015

**Operational Excellence 2015—Creating Digital Banks with a Human Touch**
A focus by The Boston Consulting Group, April 2015

**Operational Excellence 2014—No Compromise: Advocating for Customers, Insisting on Efficiency**
A focus by The Boston Consulting Group, May 2014

**Operational Excellence 2013—Committing to Customers in the “New New Normal”**
A focus by The Boston Consulting Group, February 2013

**Operational Excellence 2012—Raising Performance in Turbulent Times**
A focus by The Boston Consulting Group, February 2012

**The Double Game of Digital Strategy**
An article by The Boston Consulting Group, October 2015

**How to Jump-Start a Digital Transformation**
A focus by The Boston Consulting Group, September 2015

**Making Big Data Work**
A focus by The Boston Consulting Group, November 2015

**Sales Force Effectiveness—Getting Full Value from Sales Channels**
A whitepaper by The Boston Consulting Group and EFMA, January 2012

**Four Steps to Becoming Fluent in the Language of Pricing**
An article by The Boston Consulting Group, October 2015
Note to the Reader

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Acknowledgements

This report has been prepared by the Boston Consulting Group. The authors would like to thank CII for their support in the creation of this report. The authors would also gratefully acknowledge the contributions of Varun Kejriwal, Nikit Shah and Nishad Acharya in conducting various analyses for this report. A special thanks to Jasmin Pithawala and Maneck Katrak for managing the marketing process and Jamshed Daruwalla, Pradeep Hire and Sajit Vijayan for their contribution towards the design and production of the report.

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