Fintso

Excerpts from the Report: The Next Billion – Inclusion Through Digitization

Fintso, India's leading B2B2C WealthTech startup has come up with a report detailing the need to achieve financial inclusion to tap investors beyond tier 1 cities. In this report titled '**The Next Billion – Inclusion Through Digitization'**, the Authors have given a detailed breakdown on how combining the technology with the upliftment of financial advisors to create a high touch model can effectively tap the next billion market of first-time investors.

1. Digital Percolation to infuse Financial Inclusivity beyond Tier 1 cities

The economic boom and financial inclusion policies, which started from Aadhaar, have steadily been increasing the footprint of Financial Inclusion. Till now, this large base, especially beyond Tier 1, has been plagued by low penetration of structured savings. But with changing times, wider internet availability, technological advancements, and educated youth, the concept of better financial management is finally finding ground. Pandemic has played an important role to make individuals incorporate the habit of saving and investing, adopting digitally equipped financial services. With a sluggish FY20 market, hopes for FY21 were all time high. The D-Street reached record highs, and the benchmark indices gained over 70%. The surprising aspect from this finding was a massive rise in new Demat account openings across Tier 2 and Tier 3 in the country. A significant reason for this unprecedented surge has been the presence of entrepreneurs who have acted as the bridge to get first-time investors into the mainstream.

2. The Role of Technology to shift from Physical Investments to Equity and Mutual Fund market

The Indian population had a preponderance of their savings in physical assets, i.e., gold or real estate. However, Karvy's India Wealth Report 2020 indicates the declining trend as the share of physical assets has fall from 48% to less than 40% currently, compared to 2015. Even though the government and private entities run a plethora of initiatives, the country has experienced sub-par growth in financial adoption. As per June 2020 RBI data, bank FDs form 53% of the total household financial assets in the country. With Mutual funds only 13%, there is a need to drive higher financial adoption amongst the masses.

Few years back, it was difficult to find experts who could accurately explain the trickery of financial instruments. But with the internet becoming cheap and widely available, it has led to a manifold surge in easily accessible online content. It has led to a rise in people willing to spend their money elsewhere, other than gold and real estate. Brands like Zerodha and Upstox have provided a clutter-free platform where individuals can invest based on their knowledge.

3. Challenges hindering faster financial inclusion in India

The new age investment platform and initiatives innovated by the government such as Bharat Net is trying to modernize the rural parts of the country. However, the use of technology for savings and investments is still extremely low and lacks penetration. With the increased number of digital frauds, people are reluctant to invest digitally due to lack of financial awareness and Lack of trust in the source of advice. According to the BCG report, 85% of the investors beyond the Top 30 cities require an initial high touch to take them through the first steps. If beginners can be connected to an expert from a local region to assist them, they can act as their bridge of trust. A high-touch model refers to utilizing communication abilities to ensure that the customers place their trust and partnership with a company/individual/product. For Tier 2 and Tier 3 people to invest, they will first need to inculcate the habit of investing. A high-touch model will help bring awareness and clarity and encourage individuals to invest more.

4. Unravelling the potential of Independent Financial Advisors, Mutual Fund Distributors, Individual agents and distributors to supercharge India's growth and augment financial inclusivity

The distributors are primarily responsible for financial products distribution and account for 80% of the total investments. It has been observed that areas with higher MFDs/IFAs had higher penetration of mutual funds. However, high agent churn and stagnant productivity are the two major key issues for MFDs/IFAs to reach to the masses. A distributor selling a single product is not viable as a long-term business in the long-term perspective. Hence, it has become imperative for advisors to shed their insecurities and move towards becoming IFPPs (Independent Financial Product Providers). Hence, collaborating will help to sell a product from multiple manufacturers. Incorporating the IFPP model would help a lot of standalone advisors embark on a full-time financial distributor journey that would be more economically viable for them as a business model. It will also pave the way for them to digitize deliveries, offer micro-advisory services via AI, and increase their outreach capabilities by upskilling.

60% of agents believe that digital trends will materially impact the sales process and reflect the gaps in the digital tools available with them, hampering their growth. The digital growth would enable the creation of the modern store - a new-age solution capable of providing the high touch and imbibe the benefits of being an IFA.

5. Two Phased Plan to Digitize the "Next Billion"

The report has designed a two-phase plan that would help the nation utilize independent financial product providers (IFPPs) to create a high-touch model to increase acquisition and lower CAC –

❖ Phase I: Create local touch points between investors and IFPPs

First-time investors in rural India have always resorted to cash. So it would take time for them to embark on their digital journey and trust someone's remote advice. It would require leveraging existing relationships and creating a bridge of trust with local independent financial entrepreneurs (Independent Financial Products Providers) who have access and knowledge to financial instruments, who can guide their clients in an accurate manner. A single product distributor typically has been selling only one product (and sometimes a single manufacturer) so far and this is not a viable business for the entrepreneur given limited scope and low. This makes it imperative for such agents to move towards becoming multi-product distributors, i.e. IFPPs (Independent Financial Product Providers), upskilling and enabling themselves to be able to effectively cross-sell.

❖ **Phase II: Arm IFPPs with the power of automation**

The second phase would require adding AI into the mix and automating some parts of the management for these financial entrepreneurs. It will also require shifting to the digital back end infrastructures by these Independent Financial Products Providers for advisory, execution, and monitoring so that they are left with more time to

IFPPs will play a crucial role in streamlining and augmenting the financial inclusion process. Technology can play a massive role in IFPPs and their penetration abilities. Further with the help of IFPPs, it would be easier to reach deeper into the country and provide more stability to IFAs' business structure. But for that to happen, it will require all the parties involved to come together and forge a plan.

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About Fintso: Fintso is a full-stack wealthtech platform focused on giving access to retail investors, especially the NeXT Billion, by enabling Independent Financial Product Providers (IFPPs) with access to financial products, digital execution, and robo-advisory support. Fintso helps enhance their practice by providing multi-product access, digitising execution, automating operations, and increasing client engagement through app and reporting. Fintso's communication is white-labelled, allowing the IFPP to continue in his role as the bridge-of-trust. Extensive automation and use of AI and Machine Learning by Fintso assist the IFPPs with insights, research, recommendations, and model portfolios.