

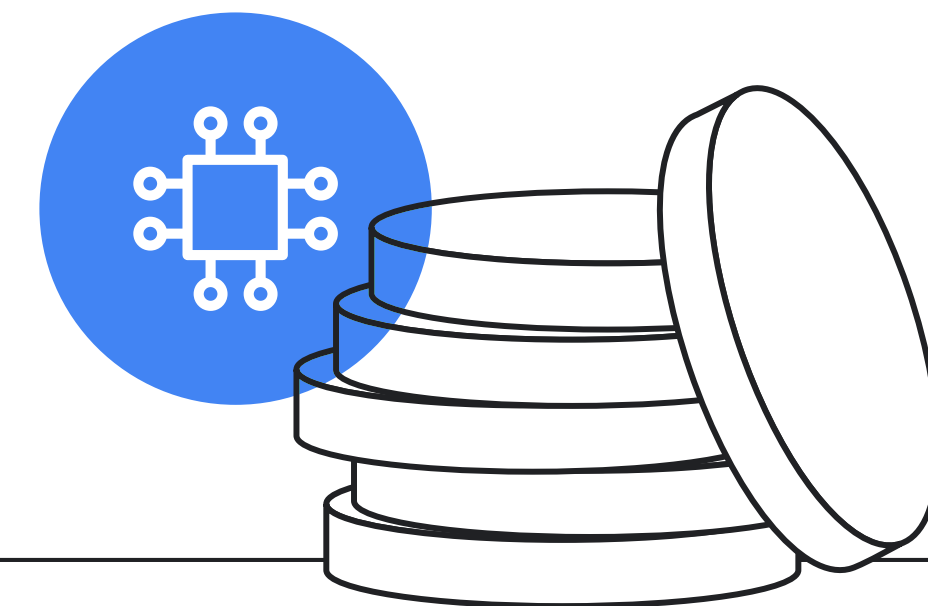
AI revolutionizes Inclusion & Profitability for Financial Services

Enabling financial empowerment
for the next 300 Mn Indians



Acknowledgements

‘AI revolutionizes Inclusion & Profitability for Financial Services’ is a research report published by **Google** with Knowledge partner, **McKinsey & Company**, and Data & Insights partner, **Experian Credit Information Company**.

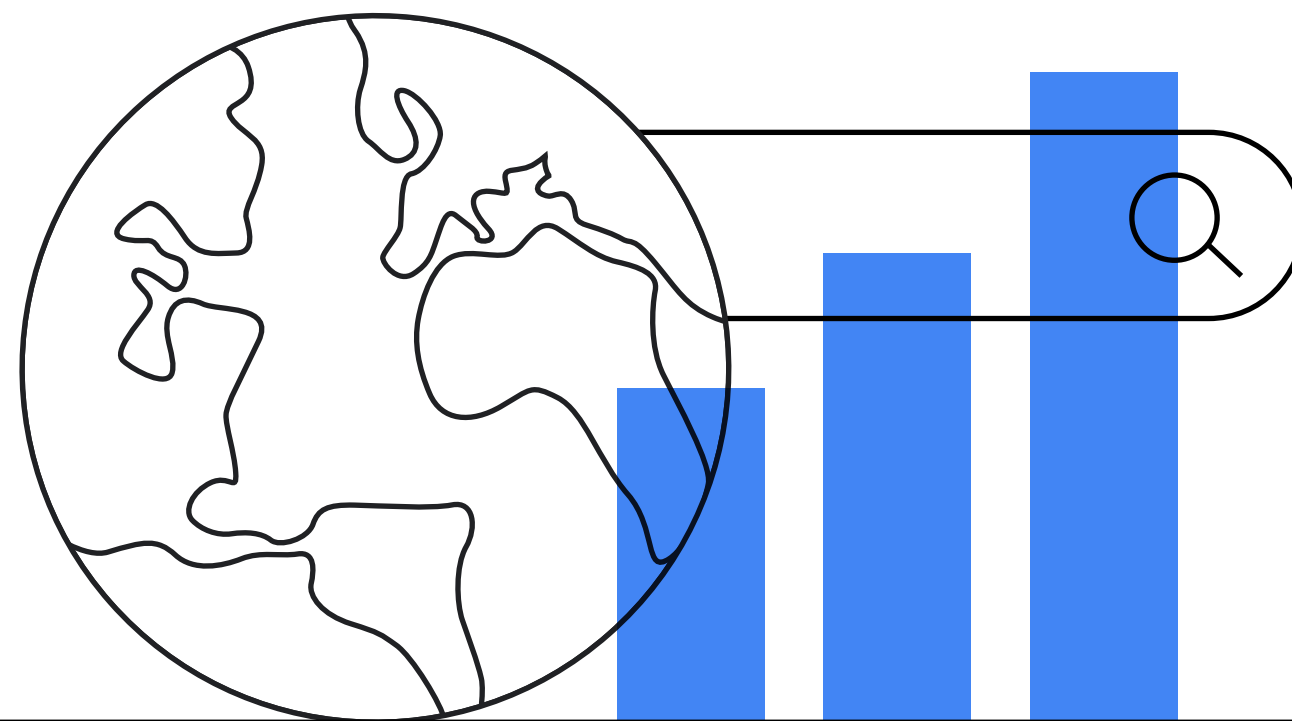


Introduction

Reference

‘AI revolutionizes Inclusion & Profitability for Financial Services’ is a research report published by Google, with our knowledge partner, McKinsey and Company which analyzes India’s evolving digital landscape and how people buy financial products today.

The research leverages McKinsey analysis, Google insights, primary research, expert interviews and industry sources to shed light on the future of AI-led digital acquisition in BFSI economy in India. The information included in this report is sourced as “AI revolutionizes Inclusion & Profitability for Financial Services Report 2023”, unless otherwise specified.

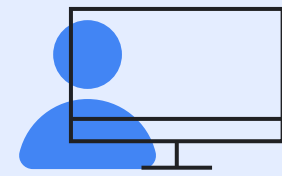


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Executive Summary



p.1

Potential to acquire the next 300 mn BFSI customers online

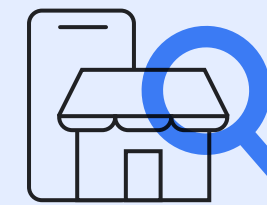
- With increasing demand for fast, convenient, on-the-fly processes, investing in capabilities to drive end-to-end digital acquisition is a strategic growth lever
- Even though India has 700 Mn active internet users, even the most well penetrated BFSI categories like UPI and non Jan Dhan bank accounts have only touched 300-400 Mn customers - 300 Mn active online users untapped by financial services



p.14

Digital acquisition in BFSI can be driven profitably at scale

- ~90% of BFSI customers start their purchase journeys online today, but only 30% end up buying digitally, leaving a huge untapped opportunity on the table
- LTV-to-CAC ratio is at least 30% better for digital channels in life insurance and unsecured personal lending compared to traditional channels for BFSI products



p.22

Building a digital BFSI business requires investment in 5 capabilities powered by AI

- AI-based full funnel marketing to best optimize spends across channels and discover new customer bases on previously untested properties
- Personalized, risk-based omnichannel fulfillment journeys, ensuring seamless “pick up where you left off” experiences across digital and physical channels for maximum efficiency
- Build-Measure-Activate Martech to build a true “Customer One” view across siloed data sources and activate the data to enable personalization at scale
- Measurement and Attribution to establish true omnichannel ROAS measurement
- Digital first org with Agile Operating Model that translates marketing goals to business KPIs



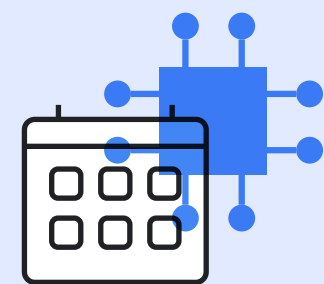
The compelling case for AI-enabled digital BFSI growth



4 key trends setting the stage for at-scale digital BFSI businesses



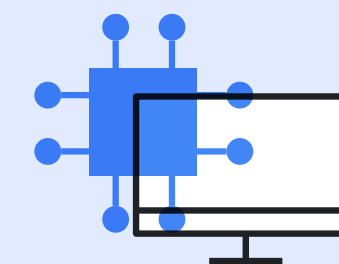
1 Sustained profitability with significant penetration potential



2 Big shifts in digital Adoption over the last 3-5 years



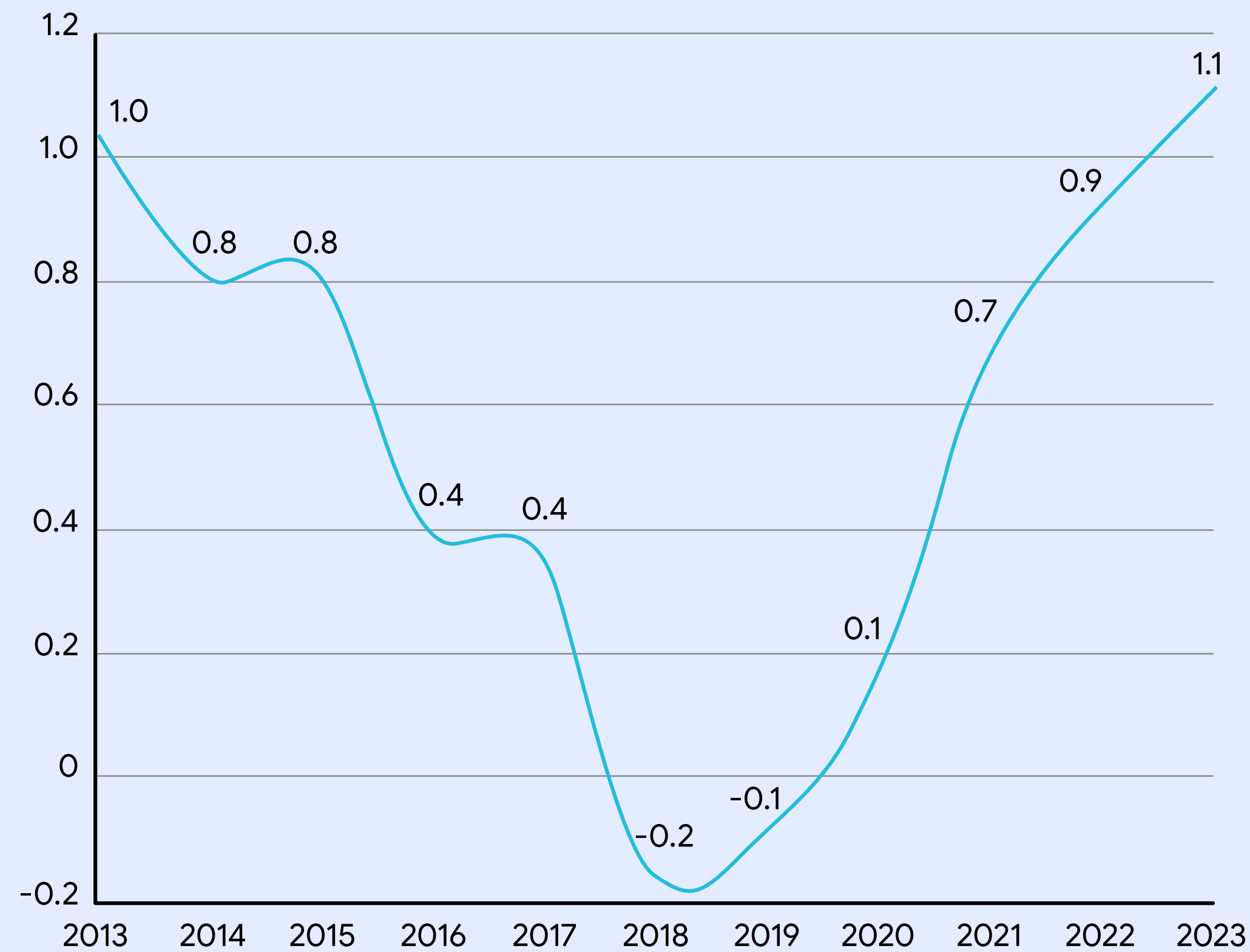
3 Huge potential (3-5X of current sales) to tap into online demand for financial services products



4 Gen AI has the potential to fundamentally transform digital customer acquisition

Indian banks' profitability at decade high levels

Indian Banks RoA , % movement from FY'13 to FY'23

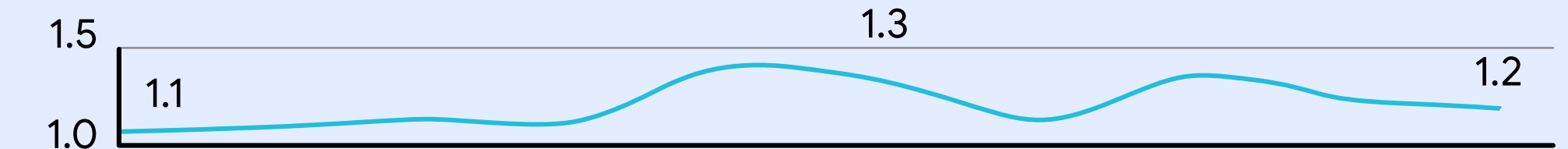


Key factors affecting RoA, FY'13-22 trend in India

NIM (Net Interest Margin)



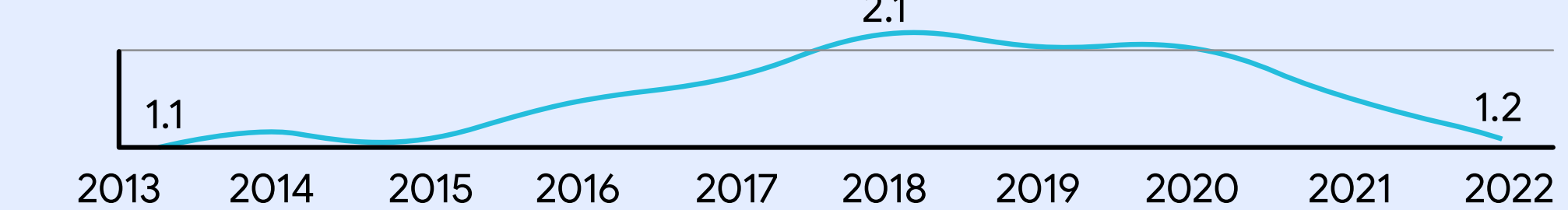
Other income



Opex

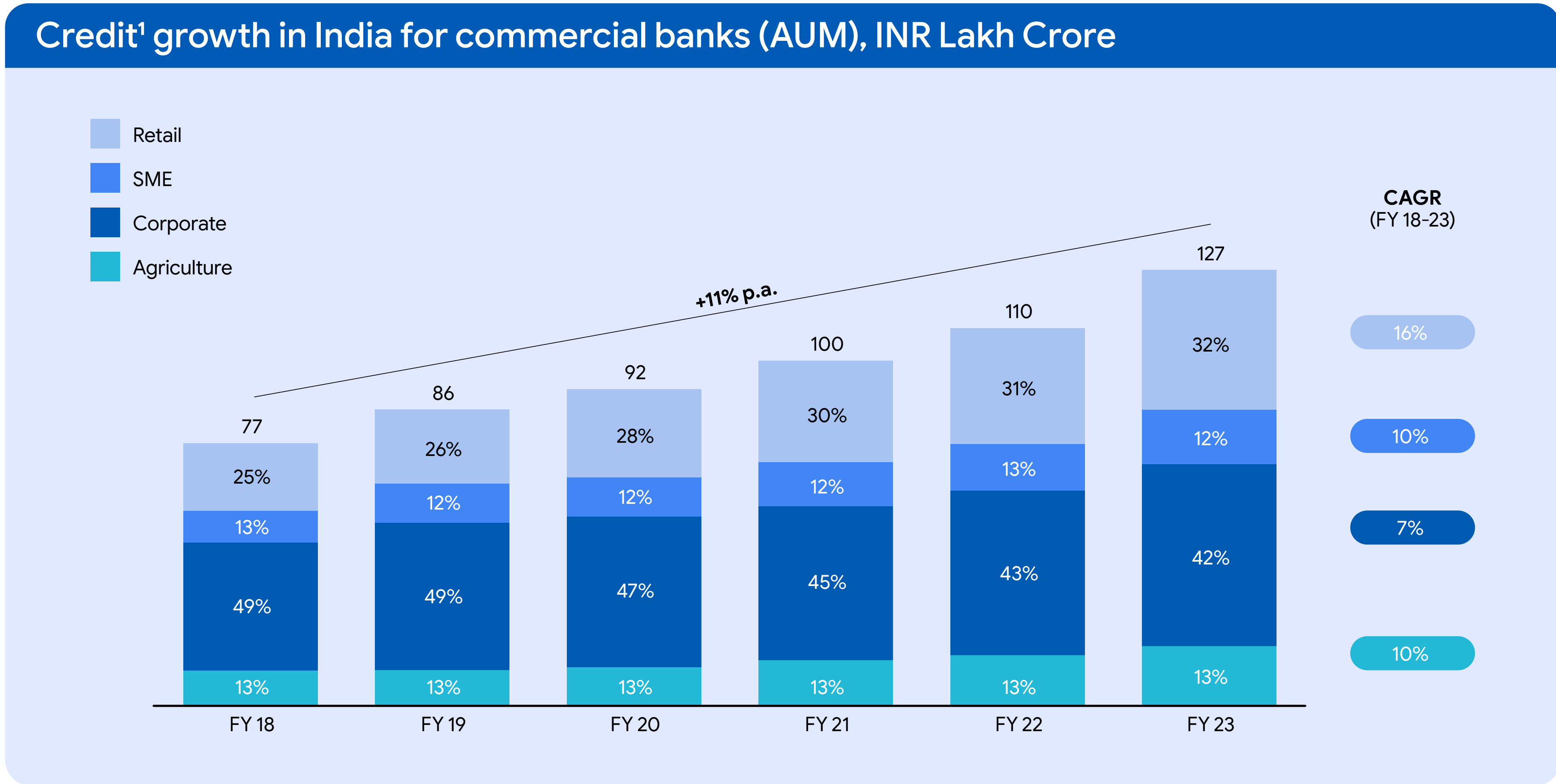


Risk costs

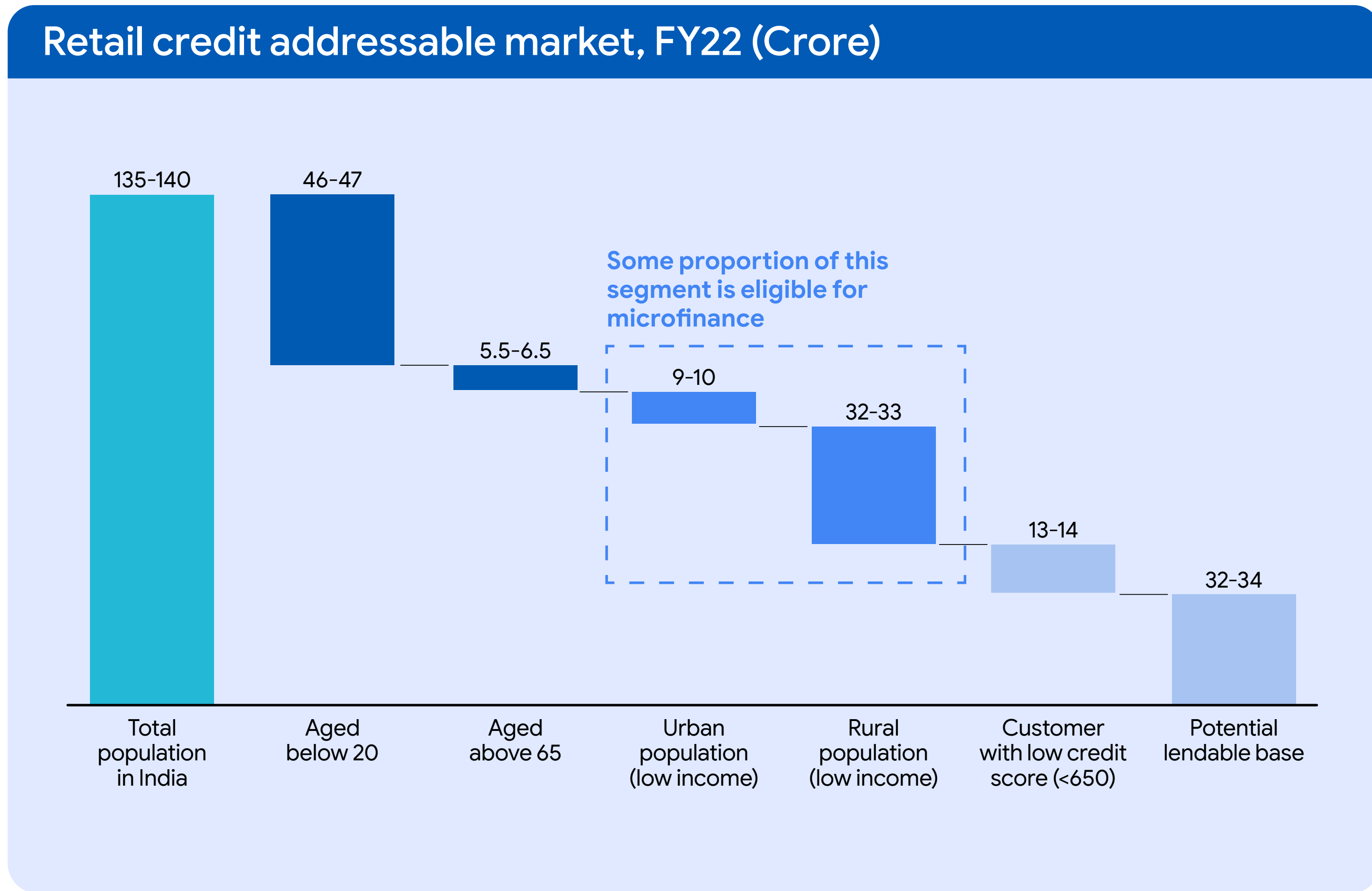


Note: SCBs ROA breakdown for FY23 yet to be updated on RBI DBIE. All factors are as percentage of weighted avg. assets during the FY as stated by RBI, weights being the proportion of total assets of the bank as percentage to total assets of all banks
Source: RBI

Credit growth in India has been driven by increased retailization



India remains a credit underpenetrated market, with 50% of the eligible population uncovered



Active loans (Crore)

Credit card	7.1
Personal loan	5.8
Consumer durables	4.1
2-wheeler	2.2
Business Loan	1.2
Total base (ex-MFI & accounting for overlaps)	12-14



1. Assumed average number of cards per customer to be 1.8 (based on expert input)
 Source: McKinsey Analysis, National Commission July 2020, UN Population Prospects, Periodic Labor Force Survey FY21

India has seen big shifts in digital adoption over the last 3-5 years

Smartphone users in India

450 Mn in 2019 $\xrightarrow{1.4x}$ 650+ Mn in 2022

100 Mn 5G smartphone shipments expected by end of Q2 2023

665 Mn+ unique visitors on Top 10 e-commerce platforms

UPI transactions

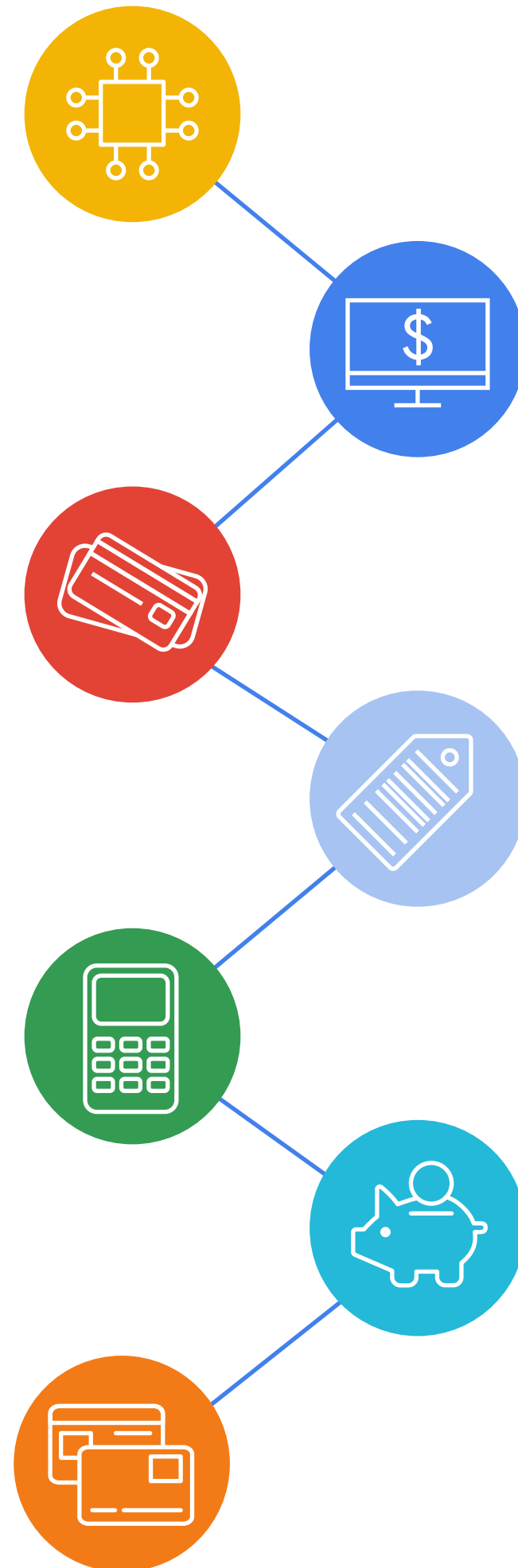
~782 Mn in Apr'19 $\xrightarrow{\sim 11x}$ ~8,898 Mn in Apr'23

with a monthly transaction value of INR ~14 lakh crore

Digital penetration in rural India

85% of farmers have at least one smartphone in the household

55% farmers are active users of social media, while almost 70% use instant messaging apps



New to bank digital accounts

6X increase in Kotak 811 digital accounts during FY19-22 from ~2 Mn to ~12 Mn and contributing ~150% of incremental SA Balance

7.9 Mn new SB accounts through YONO in FY23 (~64% of total) viz a viz ~2.8 Mn in FY19

Fastag transactions

0.4 Bn in 2019 $\xrightarrow{\sim 8x}$ 3.2+ Bn in 2022

JAM-tech based Direct Benefit Transfers

800 Mn Citizens have received Direct Benefit Transfer through JAM-tech (Jan Dhan, Aadhar, Mobile)

DPI is unlocking new data sets that enterprises can leverage to innovate at scale

● Available and accessible to companies

● Under development, accessible once completed

● 1. DigiLocker

631 demographic documents currently:

- Identifiers (e.g., Aadhaar, PAN)
- Certificates (e.g., Academic, Residence, Income, Birth, etc.)
- Financials (e.g., Insurance, UAN)
- Property (e.g. property certificates)

Companies to register as requestor on Digilocker to access data via APIs

● 2. Sahamati

- Bank statements (current / savings acc.)
- Income Tax, Pension data
- Securities and Insurance data
- Past Tax, future invoice data from GSTIN
- Non-financial data (health, telecom data)

AAs to be NPCI certified to manage consent

● 3. Unified Logistics Interface Platform (ULIP)

Access to 1600+ data fields from 7 ministries:

- Fastag, Vahan – Transaction, registration data
- Gatishakti – Highway, state road data
- LDB – Container tracking, Port information
- ICEGATE, PCS – Vessel, cargo tracking data
- Sarathi – Driving license information
- FOIS – Rail Freight tracking data
- ACEMS – Air Cargo tracking data

Companies to register and sign NDA's with ULIP to access data via 106 APIs

● 4. Land Records Digitization

- Maps and land ownership records digitization (ownership history, parcel ID #, geo location, digital maps)
- 20+ states have completed 90%+ digitization
- 10+ states have established apps/APIs to access digital ownership records using APIs

Users can check ownership records for any address using APIs (10+ states initiated)

● 5. AgriStack

UFID – Unique farmer ID with:

- Electronic Farm records
 - Land ownership, Land records
 - Production details (Crop sown registry)
 - Financial details
 - Farmer identifiers (Aadhaar, etc.)
- Directory of industry standards, regulations, products, entities across the Agri Stack

Agriculture Data Exchange (DeX):

- Soil health, weather data
- Crop data (Yield, EXIM, production, etc.)
- Historical prices, Real-time mandi data

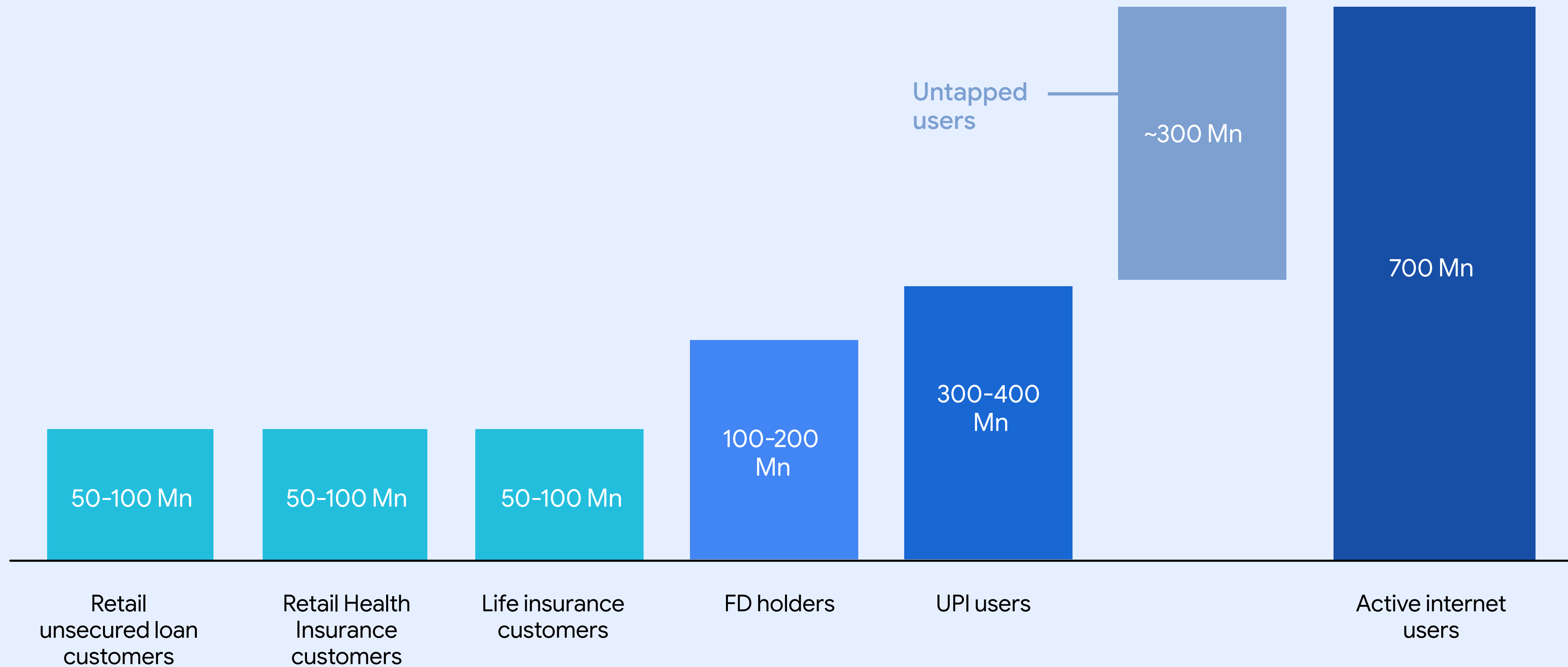
Other ready to access data includes:

- Latest research from Agri universities
- Integrated data across all govt schemes

Stack Under development; Data access via consent managed API link to UFSI, DeX

Untapped potential of 300 Mn users

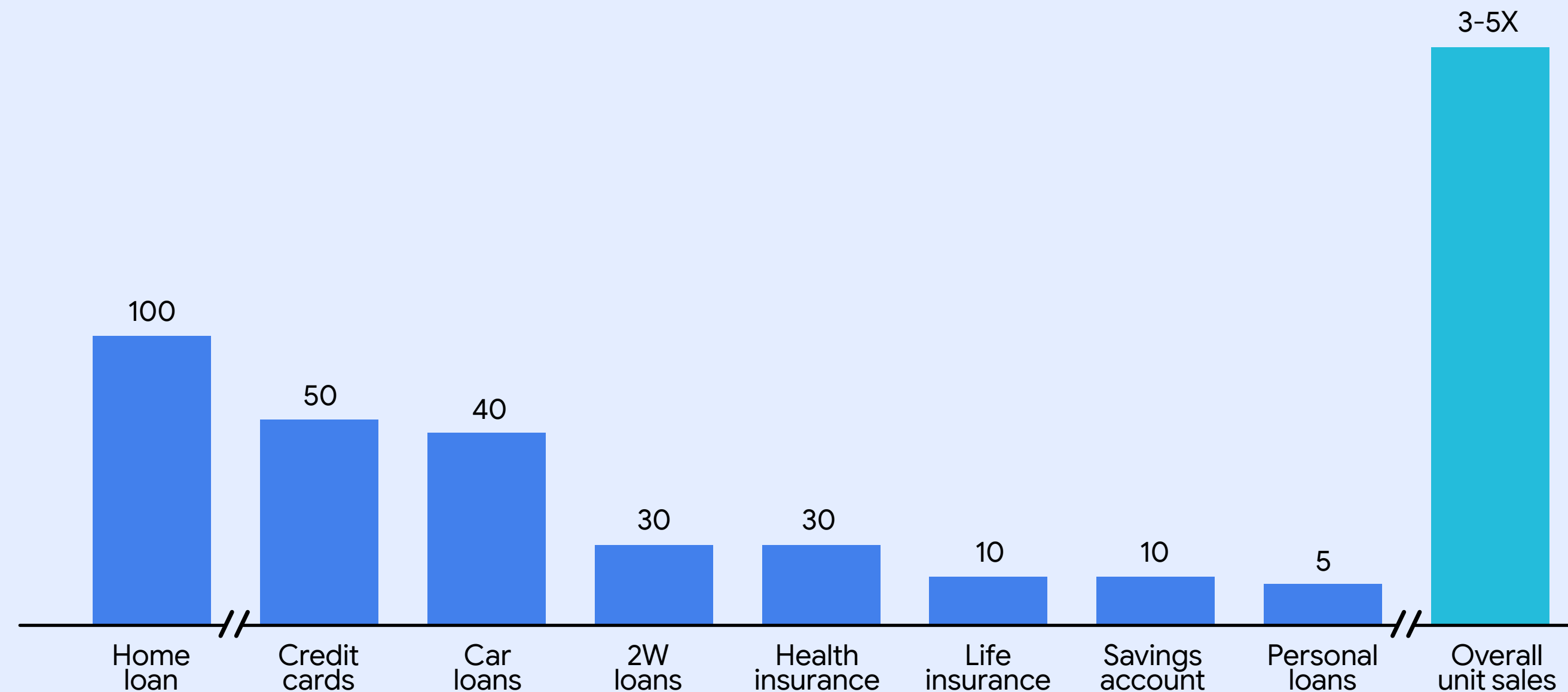
Even the largest BFSI categories cover only 300-400 Mn users of 700 Mn active internet users



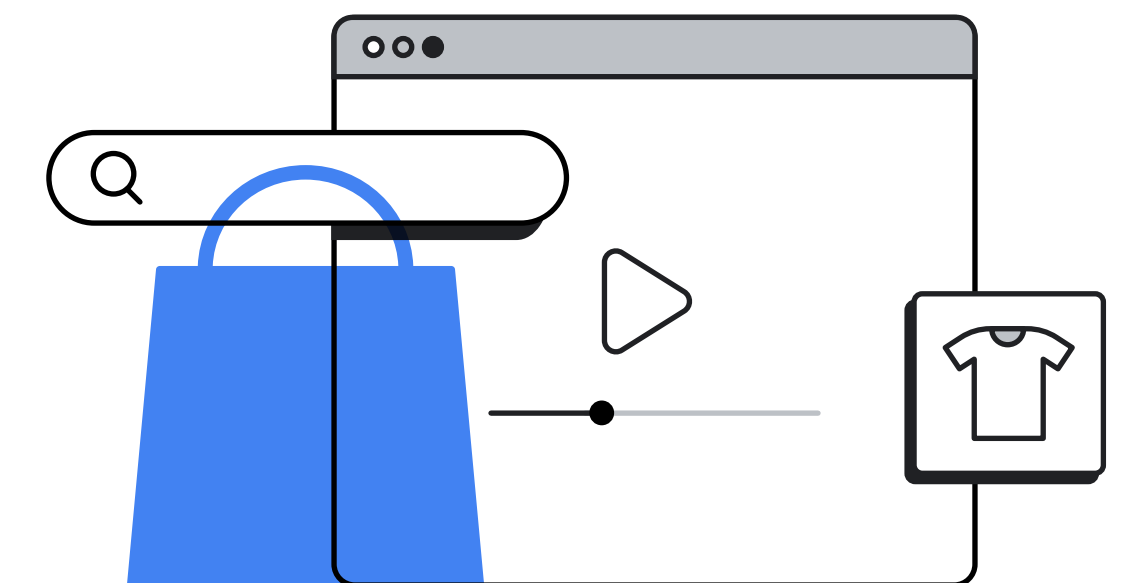
3-5X online demand vs. BFSI unit product sales in FY22

3-5X online demand vs. BFSI unit product sales in FY22

Total indexed online demand as a factor of total unit sales per product

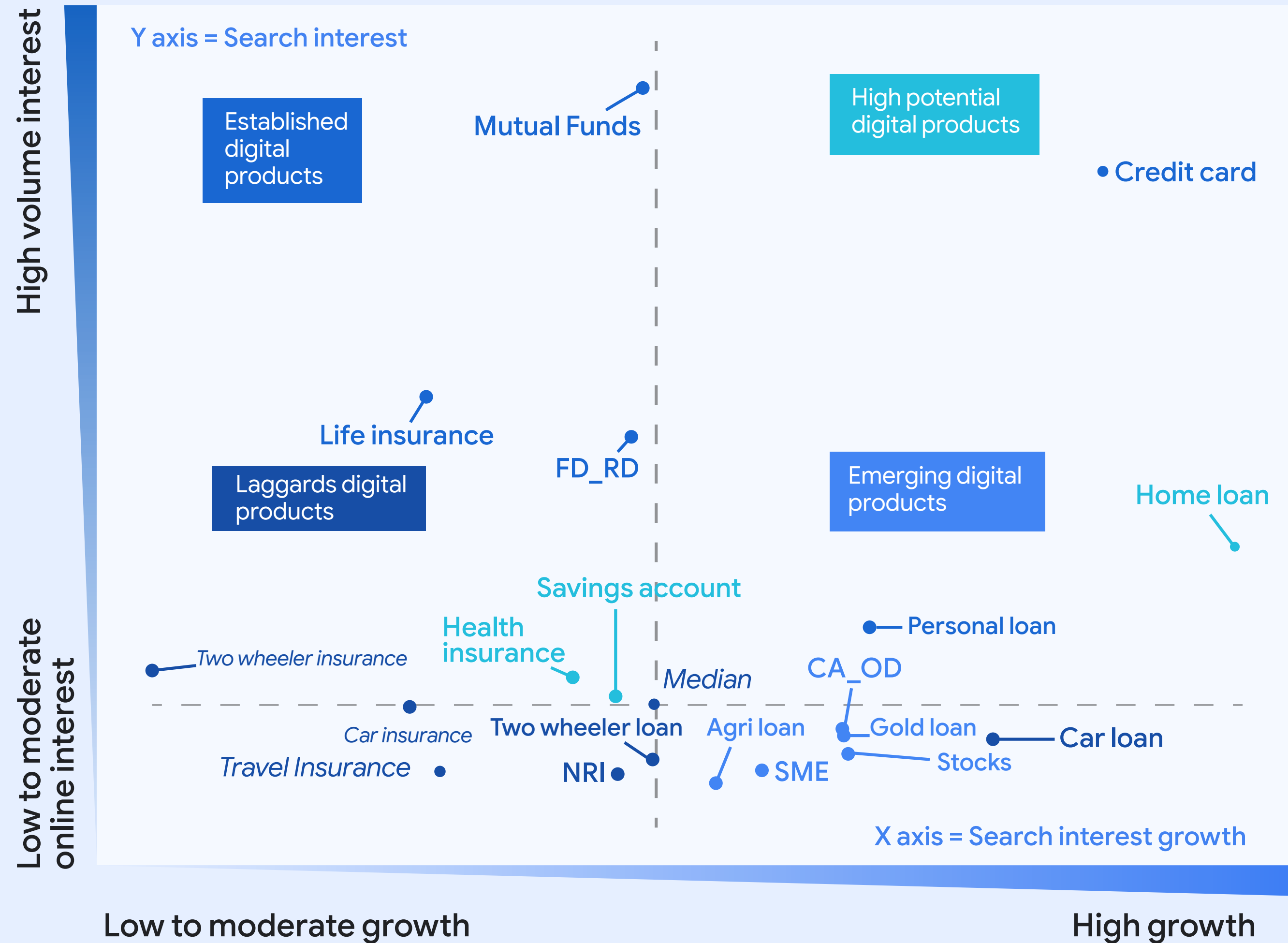


- The annual online search interest for financial products and services has far outgrown the actual sales converted in each category across all channels – digital and physical included.
- Our research indicates that 87% of customers who buy any FS products start their journey online, and most customers undertake 1-2 unique searches on each product category before they decide to purchase.



Categories of online demand maturity in BFSI products

Categorization of FS products based on online interest maturity



¹ Growth ranges Low to moderate +10 to +15%, High CAGT >15%

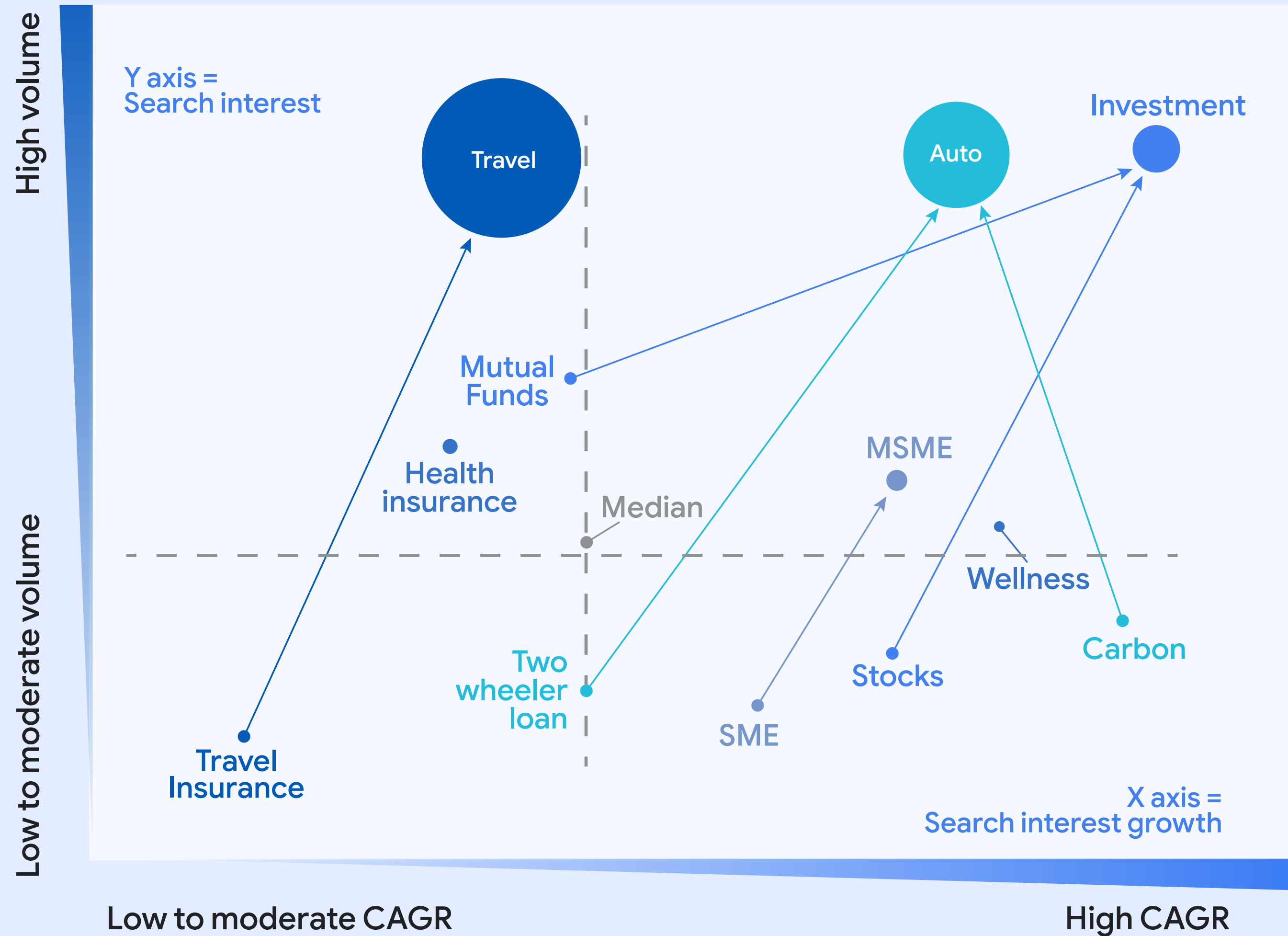
There are 4 categories of BFSI products based on online demand maturity

3

- **Established digital** products are those that have tapered in online demand growth rate, yet the volumes are substantial and sizeable share of the online demand is brand specific
- **High potential digital** products continue to show high online demand growth, but brand search is still relatively low
- **Emerging** products are those where significant exploration has started online, especially for price and feature comparison
- **Laggards** are products where high intent brand demand is much lower and this presents an opportunity for online category creation by leading players

Which categories have the highest and fastest growing search interest?

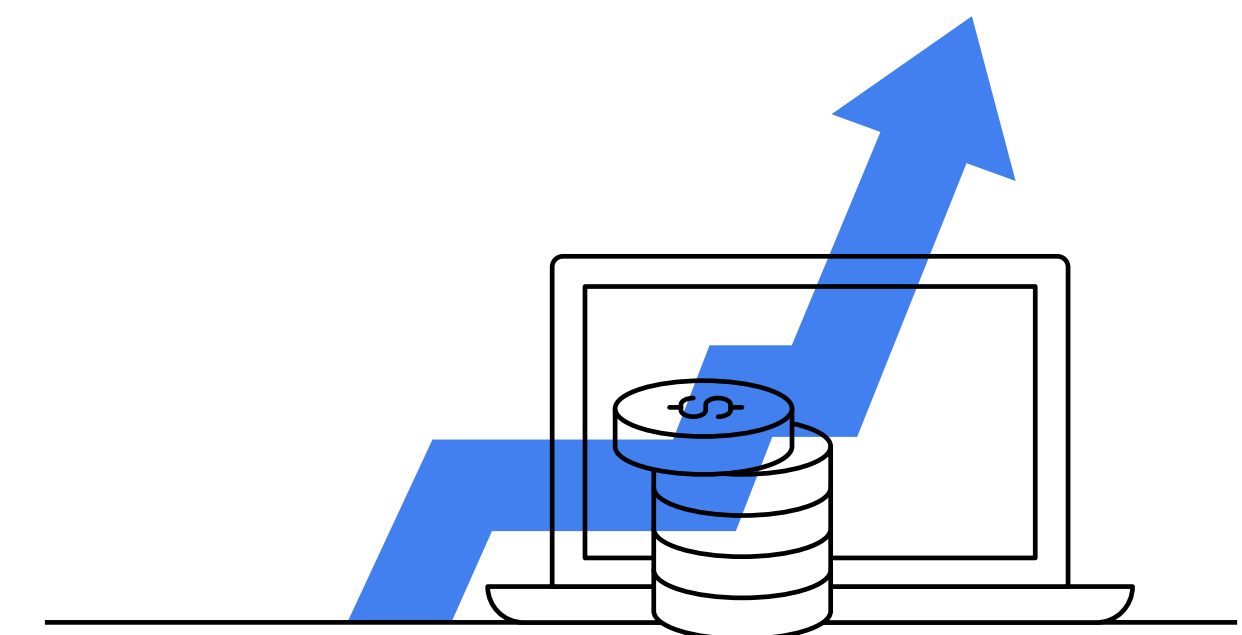
Product grouped with their respective allied category
Bubble size: X times Search interest of respective product



Beyond the FS horizon: Huge untapped potential in allied categories

3

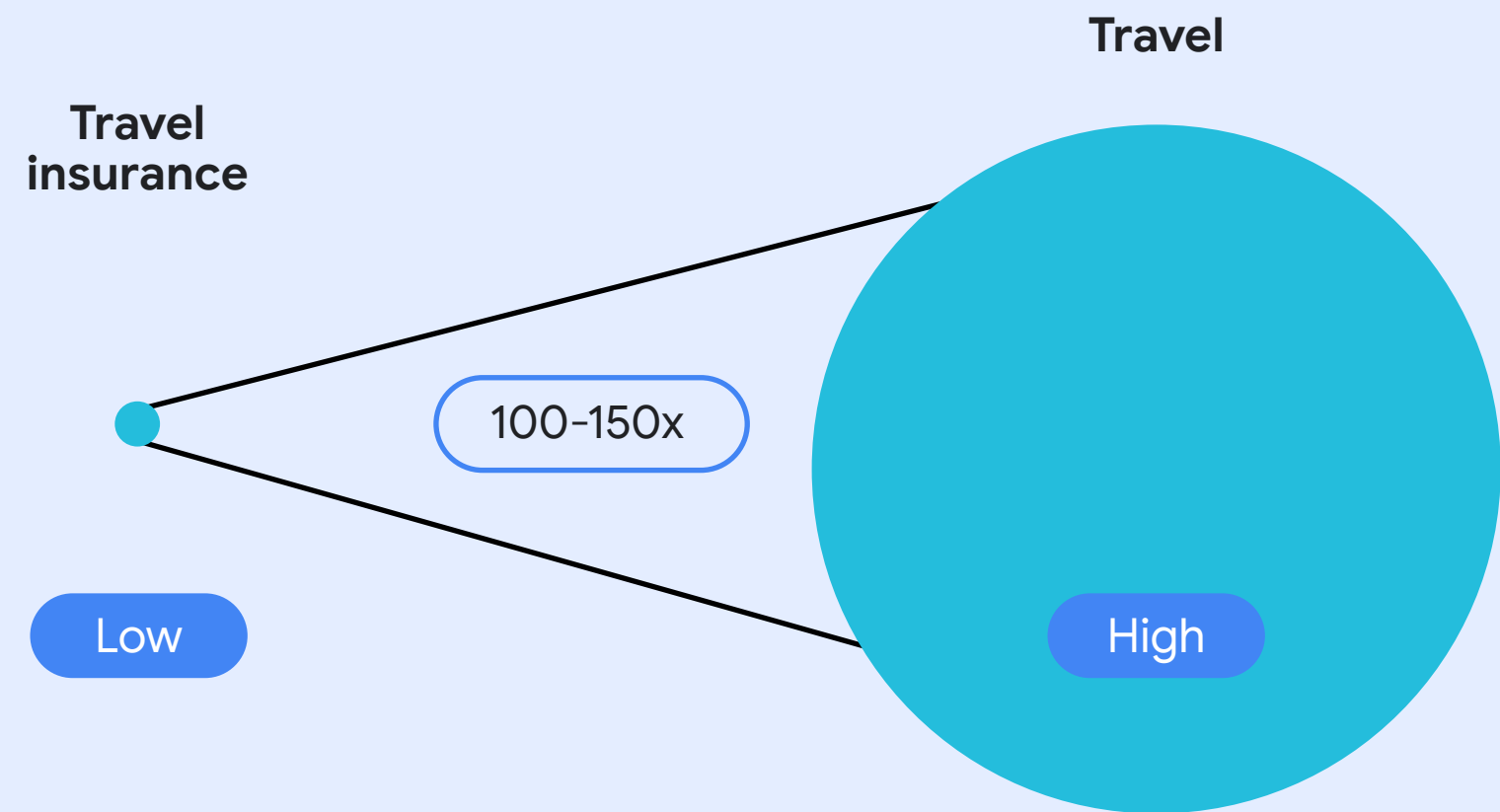
- In most BFSI category, the BFSI purchase being made is the secondary purchase to support another primary decision. For instance, customers first decide their travel destination, book tickets & then look at purchasing a travel insurance.
- Most BFSI players have not explored "allied categories" beyond the core keywords linked to their products



Potential to tap into online demand from allied categories across sectors

Online demand for travel is much higher than that for travel insurance

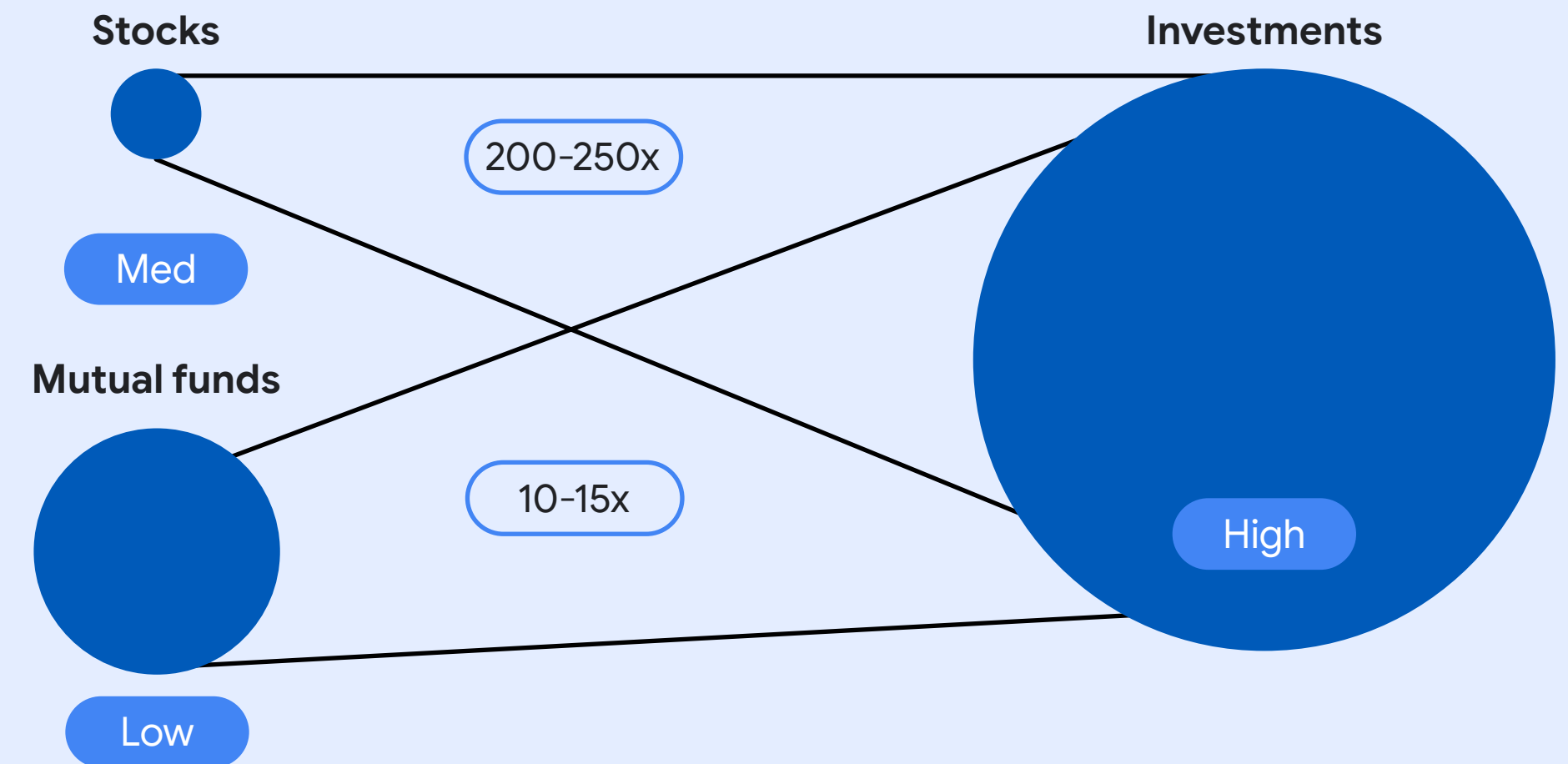
Travel Insurance



CAGR of search volumes between 2019-2022

Online interest in the broader theme of investments is much higher than that for specific stocks or mutual funds

Stocks, Mutual Funds



CAGR of search volumes between 2019-2022

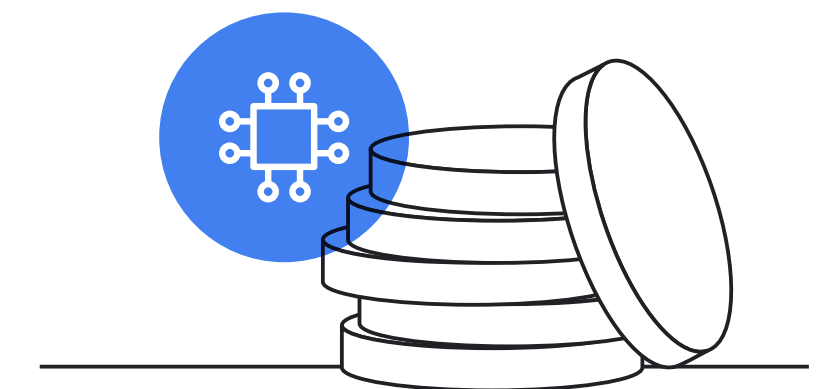
Gen AI is uniquely able to handle ...

- 1 Insight extraction**
Rapidly search large corpuses of text and identify relevant answers
- 2 Content generation**
Develop complex documents and messages tailored to specific context
- 3 User interaction**
'Out-of-the-box' human-like conversational ability incl. context memory

Gen AI has the potential to fundamentally transform industries, value-chains and the way work gets done

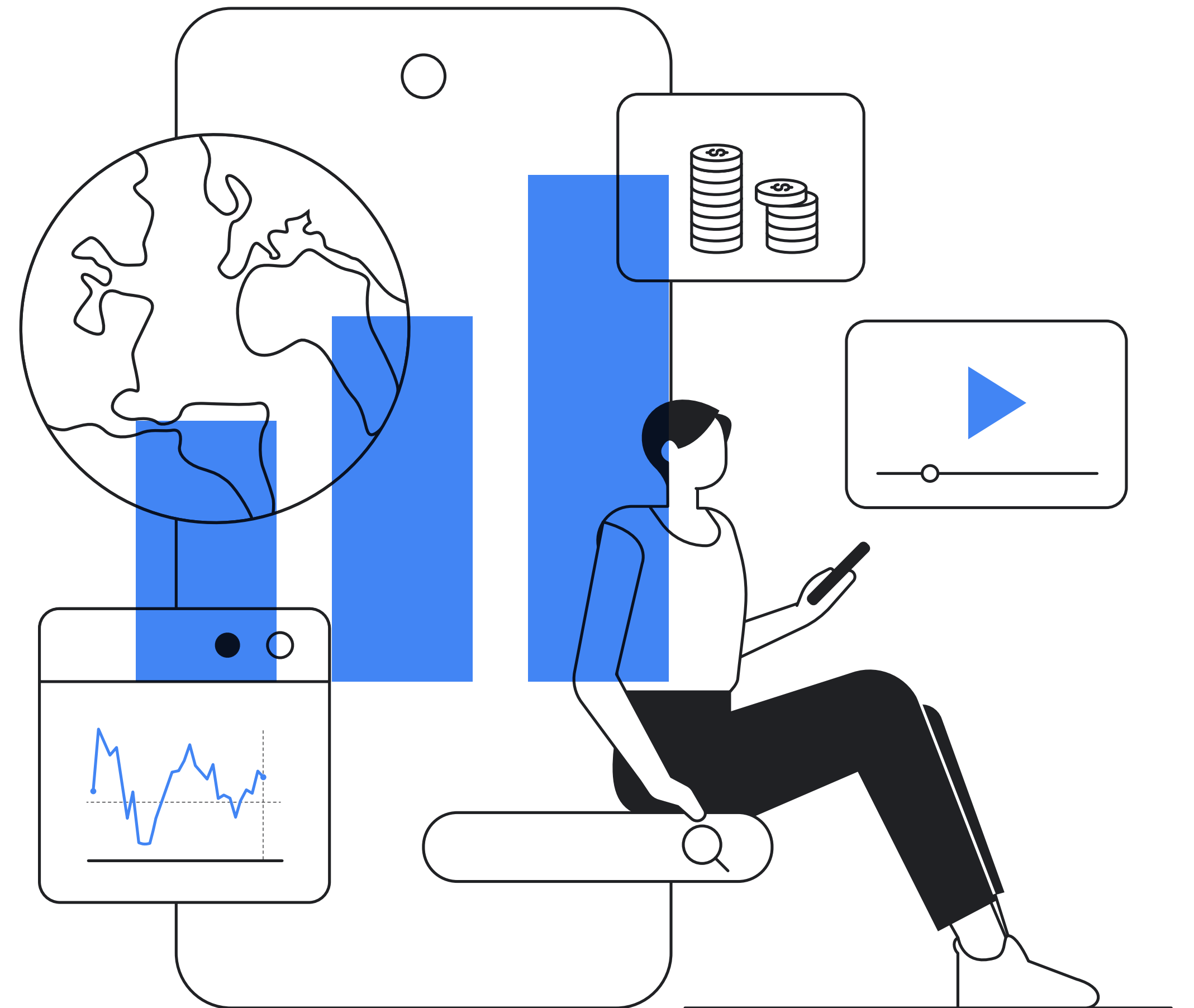
Across banking industry, technology could deliver value equal to an **additional \$200 billion to \$340 billion** annually if the use cases are fully implemented.

Generative AI has the potential to **change the anatomy of work**. Workforce transformation **will accelerate**, given increases in technical automation.

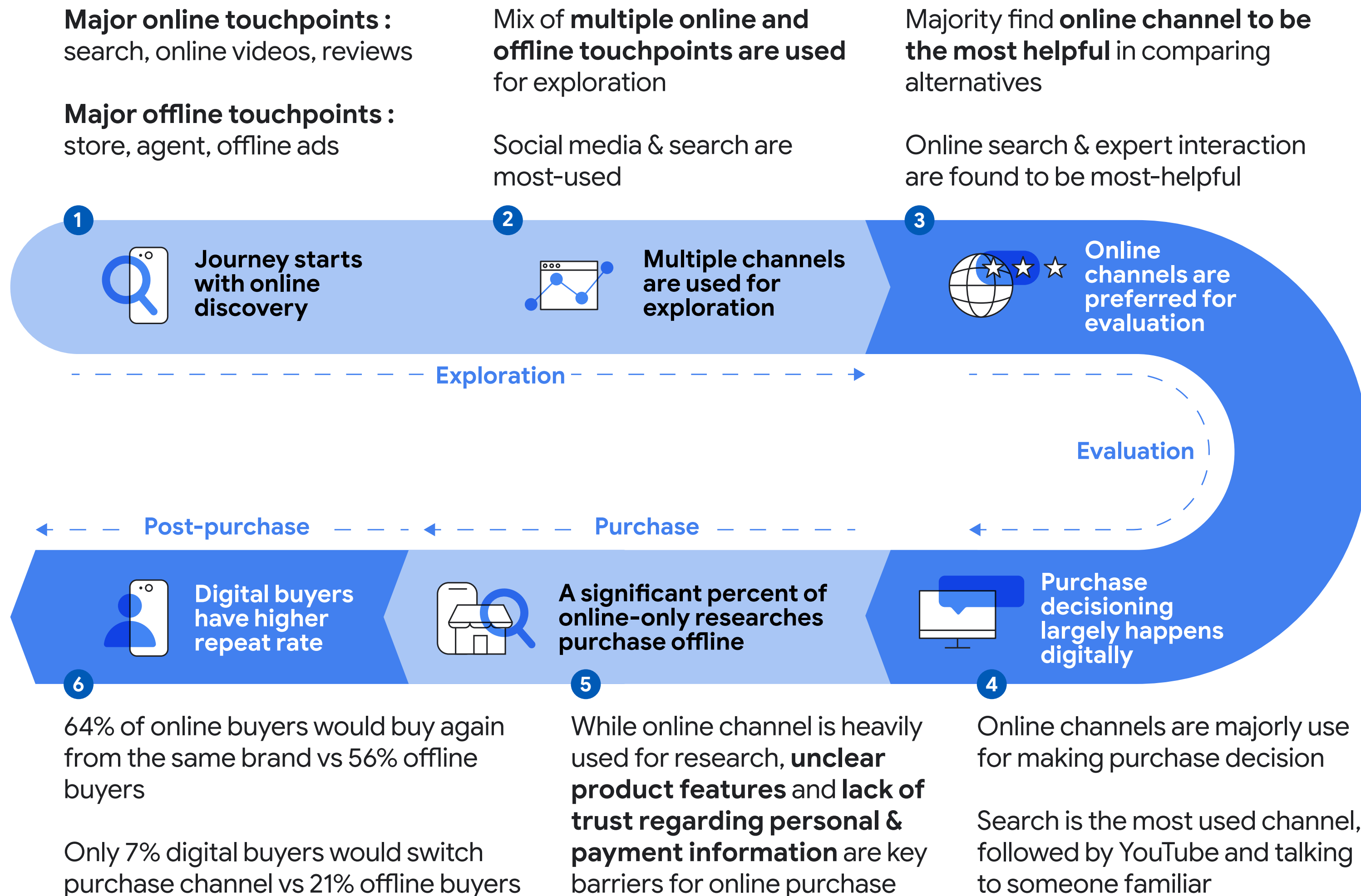




Building at-scale, profitable digital BFSI businesses



Our survey indicates that the purchase journey for financial services products today is driven by digital touchpoints



Key highlights of the purchase journey:

87% Start exploring online; 22% of which start with search engine

90% Use one or more online channels for exploration

40% Use search to take purchase decision; 31% use online videos

2/3rd Consumers find online channels to be most helpful in evaluation

1/3rd Online-only researches still purchase offline

65% Digital buyers would buy again from same brand; <7% would switch to offline purchase

Detailed bottom-up cost teardown analysis conducted to compare channel efficiencies

We evaluated 3 key metrics across products

1 LTV

Lifetime value of the customer through the AUM and profits (e.g. interest)

2 CAC

Customer acquisition cost including all variable costs across the funnel

3 Quality

Stickiness, default rates

Factors considered for measurement against each metric

- Average Ticket size (ATS) for the product within the channel
- Cross-sell and re-purchase rates

For digital:

- Cost for leads
- Costs and conversion efficiencies across the full funnel including call centre incentives

For physical:

- Commissions as per industry standards

- Product specific metrics e.g. persistency rates for insurance, NPA rates for loans

Sources of Insight

- Google Platforms data across BFSI products
- Proprietary Google Surveys across 5K+ BFSI customers in India
- Asia-wide Personal Financial Services surveys conducted by McKinsey and Company over last 5 years
- Expert interviews with digital marketing leaders in BFSI in India
- Credit history assessment across customer acquisition channels by Experian

We have built detailed models over a product lifetime of 5 years and conducted a full sensitivity analysis with metrics such as ROI, tenure etc. to derive these insights

2 product categories evaluated to observe the profitability and customer portfolio quality

We identified two product categories to observe the underlying profitability drivers of digital business

Key findings for digitally acquired customer portfolios across the two product categories

1 Life insurance

- **Typical purchase behavior:**
Trust-based purchase
- **Conversion cycle:**
Over 6 to 12 months

2 Personal loans

- **Typical purchase behavior:**
Trigger based purchase with focus on best rates and disbursement time
- **Conversion cycle:**
Immediate and short-term purchases

20-30%

lower customer acquisition cost (CAC) by best-in-class players

30-40%

better lifetime value (LTV) versus traditional channels owing to higher engagement and thus more opportunities for cross-sell & up-sell

1.3-1.5X

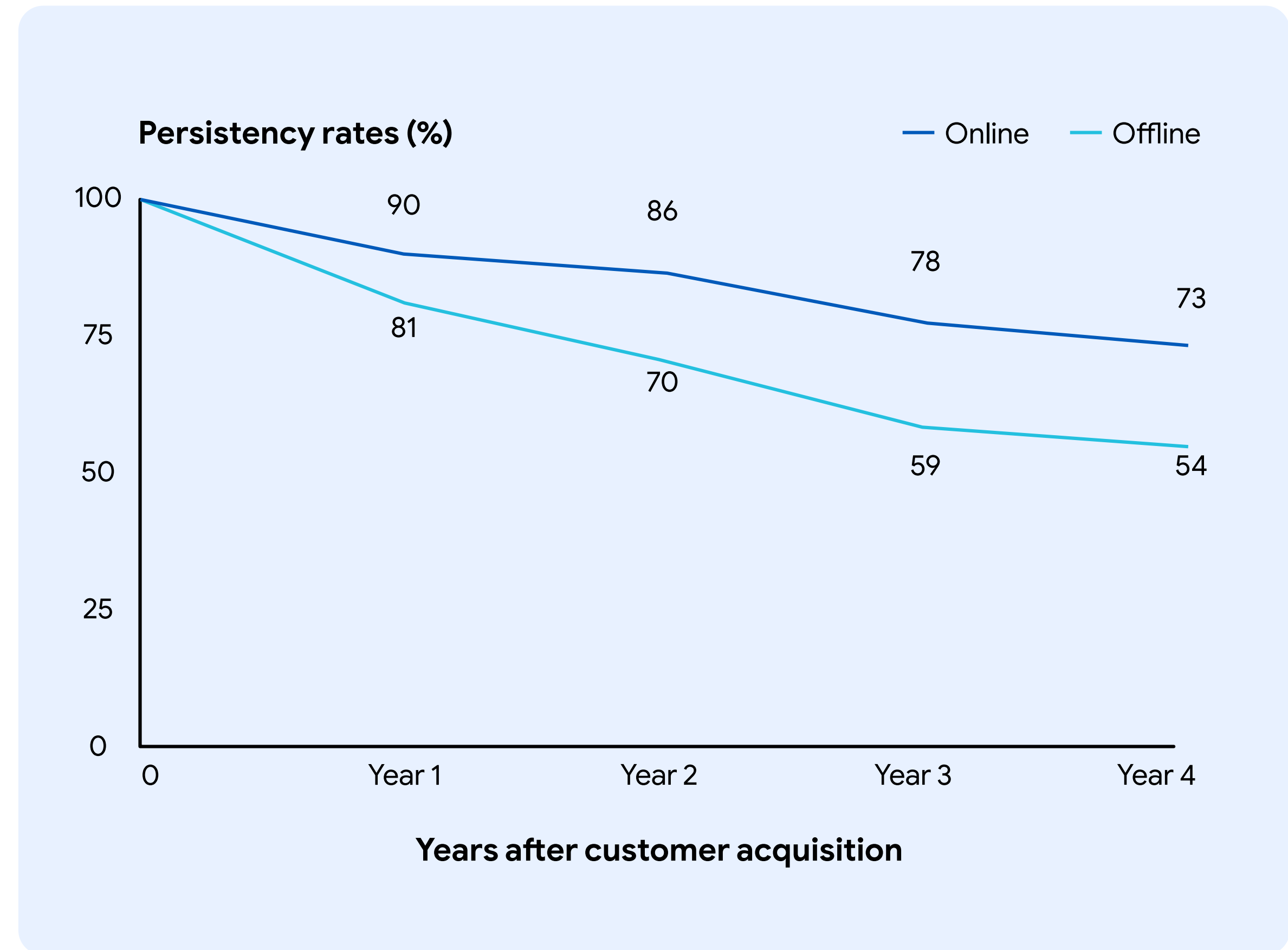
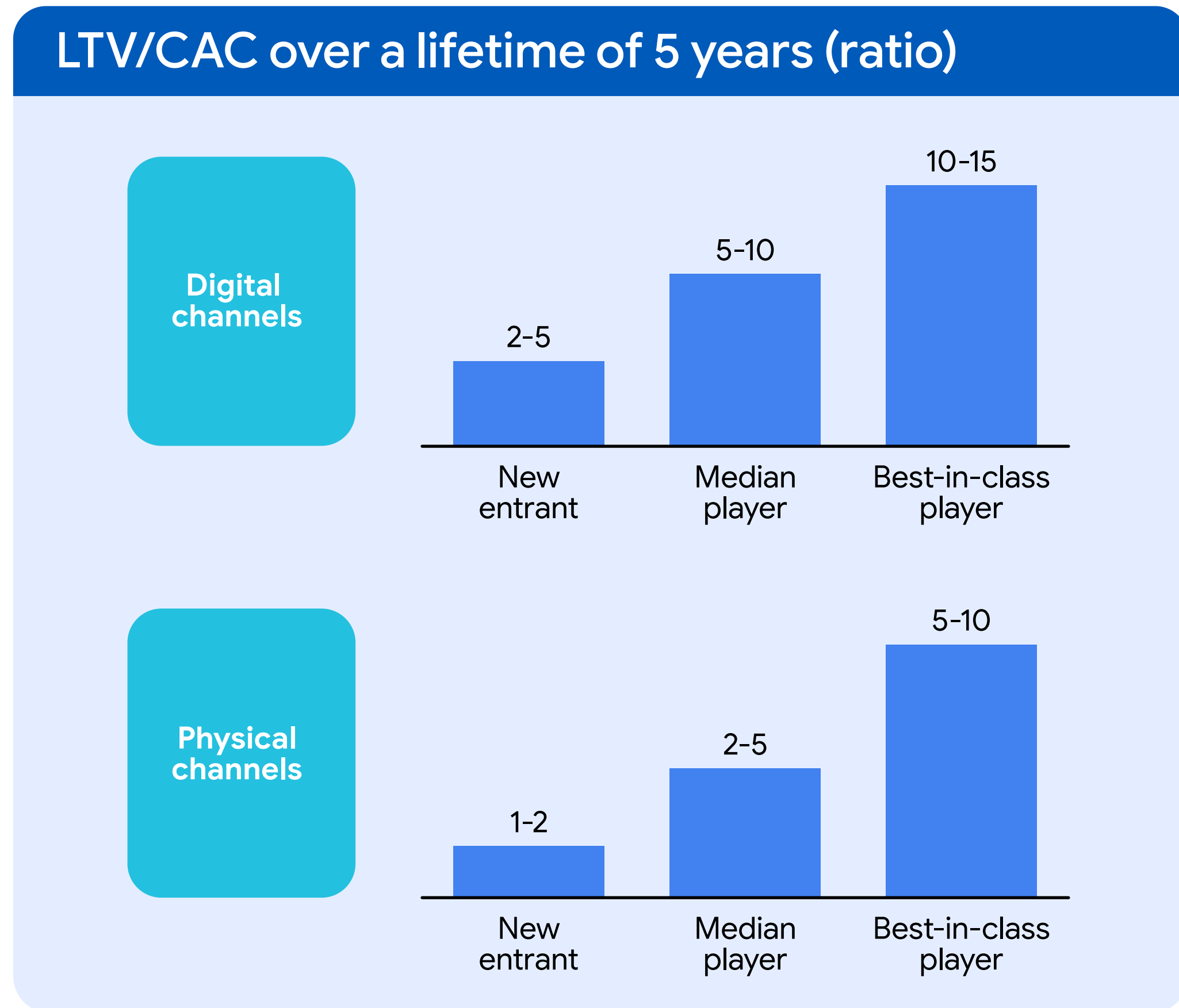
higher ROI i.e. LTV-to-CAC ratio for digital versus traditional channels.

Early indications of portfolio quality (i.e., persistency and NPAs) suggest better quality digital portfolios vs. physical channels

Life Insurance: 30% higher ROI customers in digital portfolio

Optimized at-scale digital players have a 30% higher **LTV/CAC**¹ over physical channels

Typical **persistence rates** of digitally acquired customers is 10 to 15% higher in first two years and ~25% higher in years 3 and 4



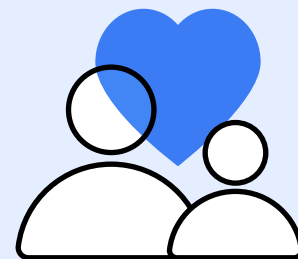
1. Over a lifetime of 5 years
Source: McKinsey Analysis, IRDAI, Expert Input

Life Insurance: 3 key factors drive better quality of digitally acquired portfolio



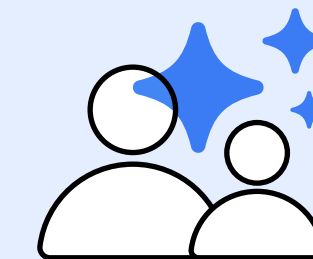
Customer driven/ DIY

- Self-driven purchase and renewals journeys
- Re-imagined digital journeys enabling the exploration and purchase online
- Reduced documentation and STP approvals



Better Engagement

- Direct association with brand entity
- More understanding of customer patterns and behavior
- Better engagement for cross-sell, autopay, etc.



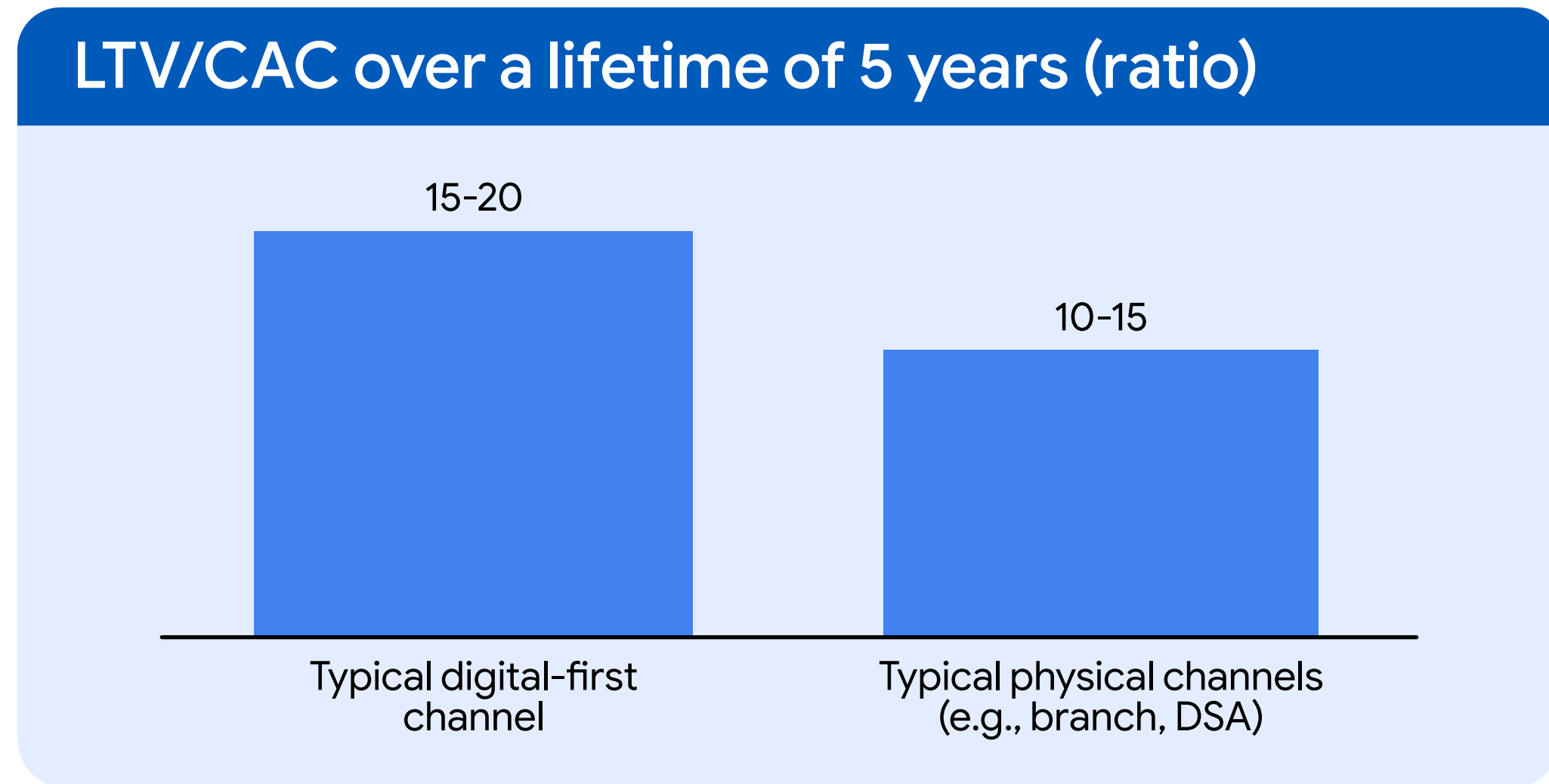
Improved customer experience

- Many DIY servicing options e.g., self tax form download via Whatsapp
- Campaigns customized according to customer behaviour

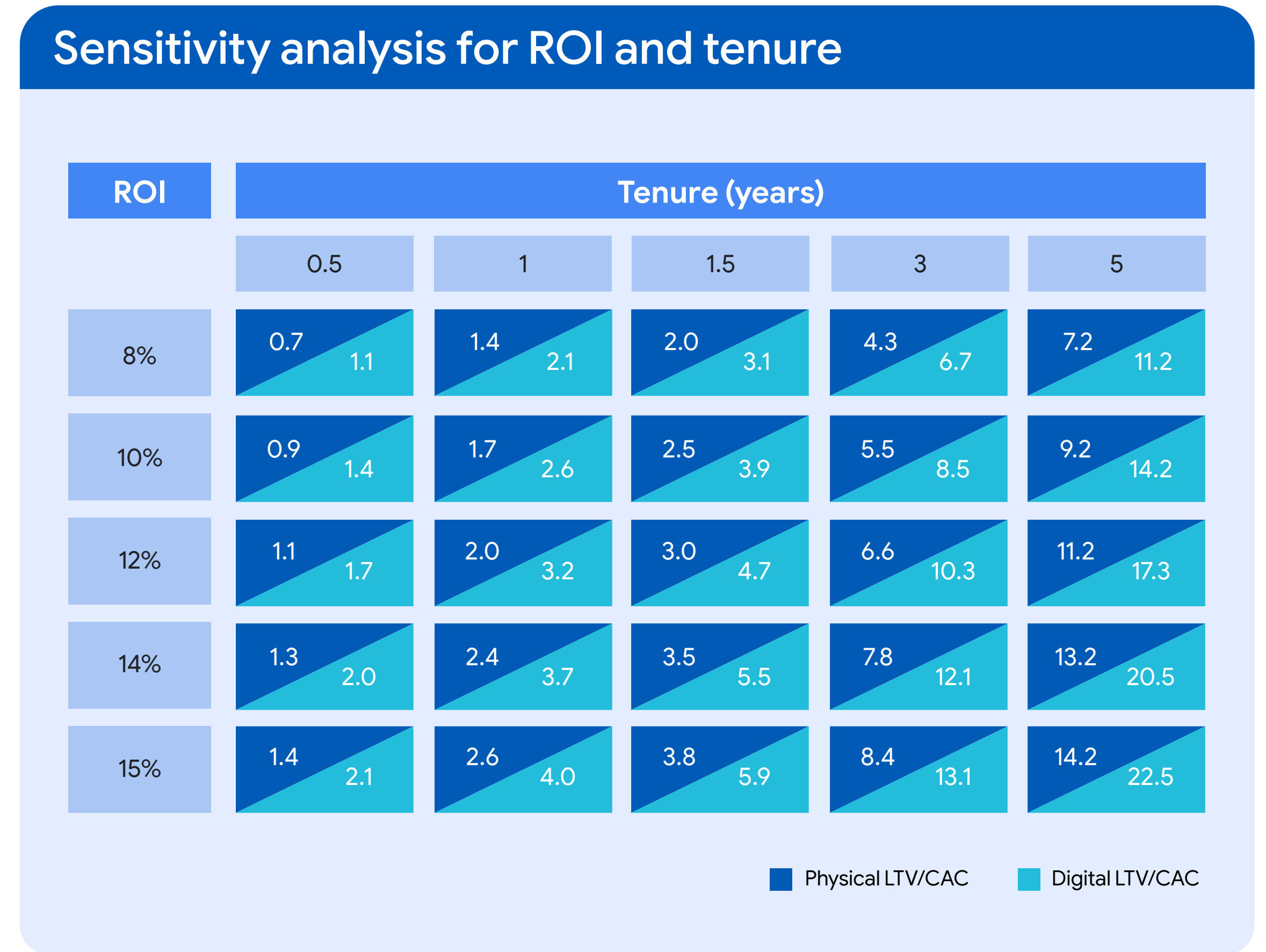
Personal Loans: 50% higher ROI customers in digital portfolio

~1.5X LTV/CAC for digital channels compared to physical channels for NTB customers

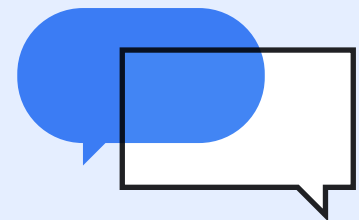
Higher the ROI and tenure, the more attractive the digital channel becomes vs. the physical channel metrics



- LTV is generally higher for physical channels driven by a higher ATS, the higher ratio is driven by a far lower CAC – fully loaded digital CAC for a best in class at-scale player is 70% less than the CAC for physical acquisition
- For select sample portfolios from the bureau across players, the NPAs from the digital portfolio for NTB customers for banks are lower than NPAs for physical customers; the average credit score for digitally acquired customers are also 3-50 points higher

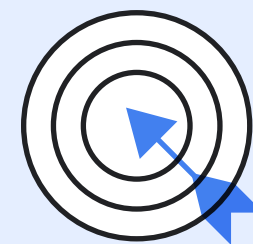


Personal Loans: 3 key factors drive a better quality digital portfolio



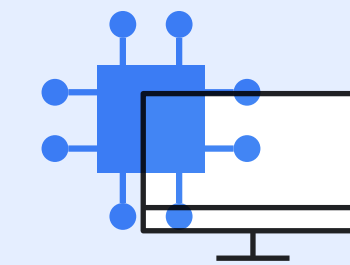
Deep integration with ecosystem partners, including at point of sale

- With wide range of partners including for non emergency needs like travel
- Integrations with broader partners like credit bureaus and loan aggregators



Focus on key customer pain points – TAT and interest rates

- Many players have come up with propositions like instant PL in seconds
- Interest rates for online are not higher than offline – customer trust has been built



AI-based full funnel marketing

- Several banks have set up trigger based marketing e.g., targeting for PL based on FD breakage
- Personalized re-approved offers even for NTB customers



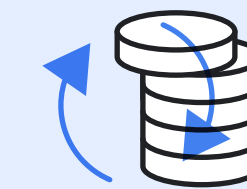
5 AI capabilities that BFSI players should invest in





5 capabilities to build a digital BFSI business

Key business outcomes expected:



120-165% conversion rate improvement



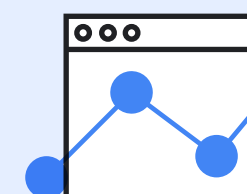
2-3X new accounts acquired through funnel and landing page optimization



30-40% AdTech cost savings through consolidation



15-30% increase in revenue from cross-sell



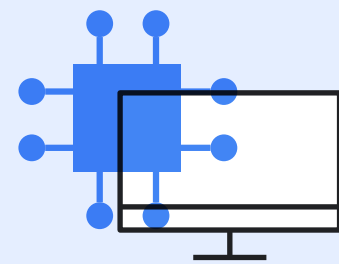
20% spend efficiency improvement



3-6X improvement in speed to value capture through agile org. structures

Several industry leaders have started building these capabilities and are seeing the impact on their digital businesses

1



**AI-powered full
funnel marketing**



Tata AIA Life Insurance adopted DV360 based full funnel marketing with a 3.1% relative lift in brand awareness and a 10-16% incremental brand search uplift.

Axis Bank used full funnel marketing and Ads Data Hub to measure the impact of branding campaigns across channels to achieve increase in 267% search lift and 18% increase in organic new users.

HDFC Ergo achieved +1.8x revenue and +49% higher ROAS using a fully automated search strategy with broad match and RSA.

TATA AIG drives +126% higher ROAS and +8% higher Revenue with value based bidding on Search, and Performance Max.

Several industry leaders have started building these capabilities and are seeing the impact on their digital businesses

