Impact of the Covid 2nd wave on Fintech Business

June 2021

The Fintech Association for Consumer Empowerment (FACE) is a not-for-profit association that aims to drive ethical lending practices among the Indian Fintech sector and establish thought leadership in consumer finance.

The association is mentored under the guidance of experts & governance council members which include members like Mr. Srinath Sridharan, Strategic Counsel & Independent Markets Commentator, Mr. Ram Rastogi, Independent Digital Payment Strategist, and Mr. Avtar Monga, Managing Partner at Stride Ventures, who form the honorary Governance Council for FACE.

The members of FACE comprise of leading digital lending platforms, EarlySalary, KreditBee, Kissht, CashE, LoanTap, LoanFront, VIVIFI India, PaySense, Stashfin, Chqbook, mPokket & MAS Financial. The cumulative consumer base of the members comprises over 50Lakh+ consumers across 19,000 Pin-codes in India with over Rs. 21,000 crores disbursed throughout the territory of India.

Impact of the Covid 2nd wave on Fintech Business

Fintech Association for Consumer Empowerment (FACE) conducted an online survey with 100 odd respondents (CEOs, CXOs of top 20 Fintech companies) to assess the impact of Covid-19 on fintech industry. The survey covered all the critical aspects of business including business origination, credit underwriting, disbursement and collection.

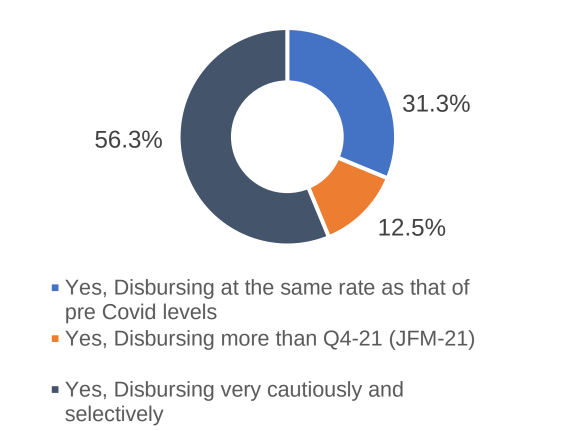
It's been a year since the Covid outbreak and we are again in midst of national lockdown as last year. This coupled with the moratorium announcement by RBI has led to a lot of uncertainties in the lending business. However, it is interesting to note that Covid-19 impact is different this time when compared to the same situation last year. While most of the players expected the business to normalize by July '21, some aspects of the business are expected to be impacted for a longer period.

The responses from survey are categorized into six key sub sections

1. Disbursement: similar levels to last year

While the first wave saw a lot of lending companies refraining from disbursals, in the second wave most of the companies have continued to disburse loans. **~ 45% of FACE members have continued to disburse loans at the same or higher levels as they did in the 4th quarter of 2021.**

Exhibit 1: Are you continuing disbursements to the customers amid the second wave of Covid-19?



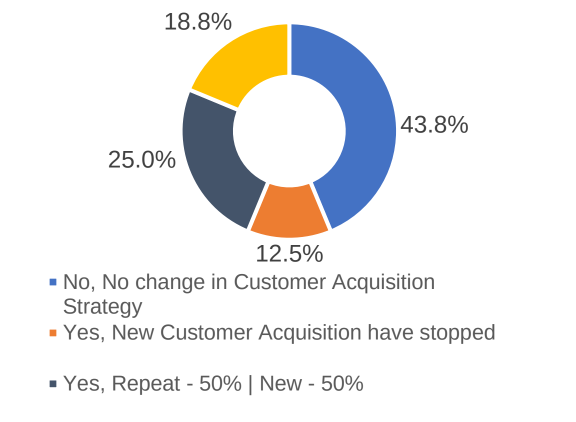
Members with large customer base have observed lesser impact on disbursement because repeat business continued to provide support. This time around employers were prepared and cut down on salaries have not been majorly observed so far. However, members involved in lending to self-employed customers have seen some impact on lending linked to business closures for significant period.

2. Customer acquisition: focus on repeat customers

As a measure of caution, some lenders have responded to the second wave by reducing their marketing spends while for some the marketing cost has marginally increased due to low conversions and stricter underwriting parameters. **68% of the members have seen a marginal increase in CAC (Customer Acquisition cost) per customer.**

While 44% of the members continued with their existing acquisition strategy, a few have stopped spending on new acquisitions (12.5%). **25% of the respondents are spending equally on both new and repeat customers**.

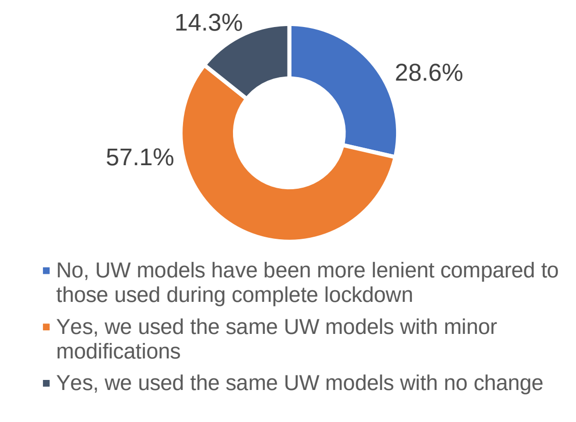
Exhibit 2: Amid the Second wave of Covid-19, has the focus shifted more towards repeat loans?



3. Risk and underwriting: no major changes in underwriting models

Most of the members had retrained their underwriting models after wave 1 of covid and these models continue to perform well during wave 2 as well. **57.1% of the members are using the same underwriting model** that they used in the first wave of Covid; 14.3% with minor changes. The focus has largely been on farming repeat customers.

Exhibit 3: Are the risk models created for wave 1 effective in wave 2?

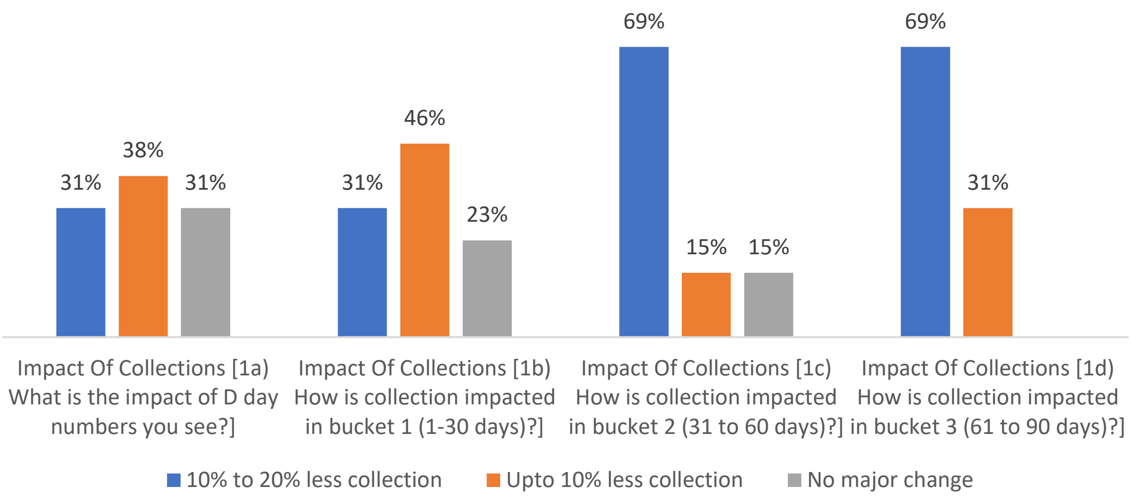


4. Collections & recovery: temporary decline in collections

Overall slow down has been observed on collections recovery due to lesser field visits and in general lower ability to pay, mainly coming from genuine distress and medical emergencies. The positive is that the requests for delayed paymentare significantly lower than the first wave. 87.5% of the members reported lesser requests for delayed payments. This indicates that the phenomenon is temporary and should not have long term impact on asset quality.

Further, largely, higher DPD buckets are more affected due to lockdown. **69% of the members see 10-20% less collections in the 31-60 days and 61-90 days overdue buckets.**

Exhibit 4: what is impact on collections & recovery?



5. Operations and hiring

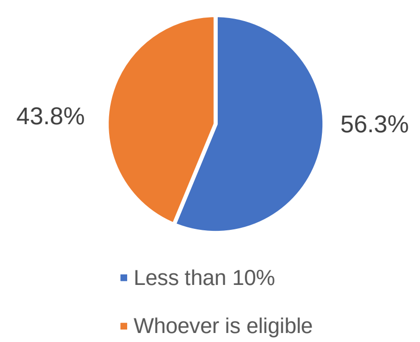
Over this last one-year period companies have behaviorally changed to operate remotely. Almost all of the companies today have shifted to working from home. **50% of our members have stated that more than 80% of their calling team is now working remotely.** On one side this provides flexibility to continue business, but there are challenges with regards to information security, data sanctity and overall monitoring standards. The companies are working on building a robust technology infrastructure to manage these challenges.

In terms of hiring, companies do not see a significant impact.

6. Regulatory environment

The RBI announcement on loan restructuring has created confusion within the customer segment in general, though the fintech players have been conservative on providing moratorium to the customers. ~**56% of the members expect to provide loan restructuring to 10% or less of the customers.**

Exhibit 5: What percentage of customers you plan to provide moratorium?



Overall, while companies expect the business to return to normal levels soon, the business outlook in wave 2 is more positive in comparison to wave 1. About 44% of the members currently have a comfortable cash position, while the remaining have seen a marginal impact on cash flows.