



Confederation of Indian Industry

Improvisation driving performance

How the financial services sector in Kerala has grown to make an impact, and influence the national narrative



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Foreword

India's Banking, Financial Services, and Insurance (BFSI) sector is undergoing a profound transformation one that is not merely quantitative in scale but qualitative in purpose. This report , offers a panoramic view of how finance in India is evolving from a transactional utility to a strategic enabler of inclusive growth, technological leadership, and societal resilience.

At its core, this report reflects a philosophy: finance must serve as infrastructure for opportunity. It must be simple enough to reach the last mile, intelligent enough to adapt to emerging risks, and resilient enough to withstand systemic shocks. The BFSI sector is no longer just a facilitator of commerce – it is verily a platform for empowerment, a driver of sustainability, and a custodian of trust.

Kerala exemplifies this transformation in action. The state has emerged as a powerhouse of innovation within India's BFSI landscape—home to leading gold-loan NBFCs, pioneering cooperative banking reforms, and a vibrant startup ecosystem. Its dominance in NRI banking, rapid adoption of digital payment platforms, and commitment to ESG-linked finance showcase how regional strengths can shape national priorities. Kerala's ability to blend traditional banking excellence with cutting-edge technology offers a model for inclusive growth and resilience that resonates far beyond its borders.

As the reader engages with this report, they will

encounter a narrative that connects regional innovation with national transformation, and operational efficiency with social impact. It explores how financial services are being reimagined to serve not only economic goals but also developmental and environmental imperatives. The report brings to light how technology, regulation, and institutional agility are converging to reshape the contours of financial access, governance, and resilience. Additionally, the report also tends to ask searching questions – what else, how much more should get done, how does the future look?

This document weaves together the threads of inclusion, innovation, and integrity. Together, these themes underscore a central idea: India's BFSI sector is not just adapting to change it is architecting it. It invites stakeholders to reflect on finance as a public good, a strategic lever, and a shared responsibility in building a future-ready economy.

To our esteemed stakeholders,

As you engage with this report, I encourage you to view it not merely as a reflection of where the sector stands today, but as a shared blueprint for where we must go. The insights within are intended to provoke thought, guide action, and reaffirm our collective responsibility in shaping a financial ecosystem that is inclusive, resilient, and future-ready.



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Foreword

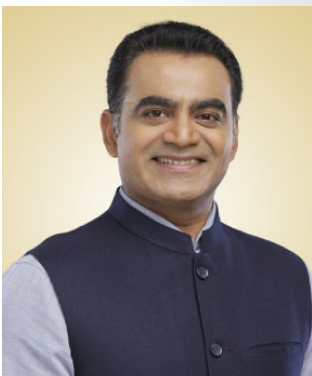
India's Banking and NBFC sector stands at the cusp of a historic transformation. As Convenor of the CII Kerala Banking and NBFC Panel, I am honored to present this comprehensive report which captures the dynamic evolution of our financial landscape.

CII has always viewed the BFSI sector as a critical engine of India's economic and social progress. It is not merely a facilitator of commerce but a strategic pillar for inclusive growth, innovation, and resilience. The sector's ability to empower individuals, businesses, and communities directly aligns with CII's broader vision of sustainable and equitable development.

Kerala, in particular, deserves special mention as a thriving hub for Banking and Non-Banking Financial Companies (NBFCs). With its strong financial institutions, high literacy levels, and robust regulatory environment, Kerala has emerged as a key player in India's BFSI ecosystem.

This CII-KPMG in India report highlights a paradigm shift—where finance is increasingly a platform for opportunity, sustainability, and trust. India's BFSI ecosystem, including dynamic states like Kerala, is well-positioned to lead this change by harnessing technology, forward-looking regulation, and institutional agility.

I invite all stakeholders, industry leaders, policymakers, and innovators to engage with the insights shared here. By embracing the shared responsibility that CII champions, and drawing on Kerala's strengths alongside national progress, we can collectively build a financial ecosystem that is inclusive, intelligent, and resilient.



Mr George Muthoot George
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Credits and Acknowledgements

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Our sincere thanks to the following key members of the CII Kerala Banking & NBFC Panel, whose active involvement and thoughtful contributions have been instrumental in the development of this report

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Technology as a Strategic Enabler

Technology is no longer a support layer it's the foundation of India's BFSI transformation. As institutions embed AI, blockchain, and cloud-native systems into their core, they're unlocking new possibilities across efficiency, security, and customer experience. The following drivers illustrate how tech is shaping the sector's next

phase. We see these transformation shifts happening in Kerala's financial services organizations too, as they rapidly start adopting AI linked underwriting models, collection frameworks and evaluate movement towards a digital-first and 'human light' customer engagement channel

AI, Analytics: Used for fraud detection, credit scoring, and hyper-personalized customer journeys.

Blockchain and DLT: Streamlining cross-border payments, trade finance, and digital identity verification.

Blockchain and DLT: Streamlining cross-border payments, trade finance, and digital identity verification.

Cybersecurity and Quantum Readiness: Institutions investing in zero-trust frameworks and quantum-resilient encryption, will become more prominent in the near future

Institutional Transformation and Innovation

From converting traditional gold jewellery into a bankable asset, amping up the cooperative and social banking landscape and using the prevalent state-wide customer demographics to push a digital first agenda, Kerala has forever sought to bring something that's different in terms of flavourful spice to mix up the financial services landscape in the state. From NBFCs, to home grown Small Finance Banks to large Scheduled

Commercial Banks, Kerala has today one of the highest concentration of financial services conglomerates within its borders. These are today expanding their wings and can be found even in Tier 2,3 towns in various parts of India –giving credence to the myth of the resilience, ambition and chutzpah of the traditional Malayali businessman.

NBFC Digitization: Use of psychometric and cash-flow data for inclusive lending to MSMEs and gig workers.

PSB Modernization: Core banking upgrades, mobile-first strategies, and improved asset quality.

Fintech Collaboration: Banks partnering with fintechs to build super apps and BaaS platforms

Regulatory Agility: RBI's digital-first policies fostering innovation while ensuring systemic stability.



Kerala – truly Glo'cal' in defining and attaining its 'efficient frontier'

India is setting global benchmarks in financial technology through its inclusive and scalable digital public infrastructure. With UPI, Account Aggregator, and CBDC pilots, the country is

redefining how finance is delivered and governed. The following dimensions showcase India's leadership on the world stage.

UPI Leadership: India processes nearly half of global real-time payments, with international expansion underway.

CBDC Pilots: India among the few nations with active retail digital currency trials.

Open Banking Frameworks: Account Aggregator model enabling secure, consent-driven data sharing.

Digital Public Infrastructure (DPI): India Stack setting global standards for scalable, inclusive finance

These developments have been a boon for Kerala's BFSI sector which stands at the intersection of innovation and impact, where technology is not just transforming operations but redefining purpose. Capacity building, credit offtake, MSME support, efficient financial supply

chains – Kerala based financial services organizations are usually to be found in the national leadership quadrant of every segment that they choose to operate in, thanks to affiliation to the twin principles of 'adaption and adoption'.



“Kerala has demonstrated a proven track record of creating national institutions in the financial services industry. Kerala is home to many Banking and NBFC majors which are now household names across the country. The time is now ripe for Kerala to leverage the inherent advantage of human talent and focus on creating more knowledge-based world class organizations that can serve the evolving futuristic needs of BFSI, not just in India but across the world”



Shalini Warriar
Co-Promoter and CEO
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Table of Contents

1	Growth, Reach, and Transformation – reaching everyone	10
2	Kerala’s BFSI Leadership: Regional Innovation, National Impact	12
3	Building the Backbone: Financial Inclusion and MSMEs as Pillars of the Financial Ecosystem	14
4	Tech-Driven BFSI: Innovation with Purpose for Tomorrow	16
5	Regulatory Evolution: Gold Loans, Microfinance, and Fintech Governance	18
6	Finance for Sustainability: Societal Impact and ESG Integration	21
7	Final Reflections: Architecting the Future of BFSI in India	22



1. Growth, Reach, and Transformation – reaching everyone

Over the last five years, India's Banking, Financial Services, and Insurance (BFSI) sector has been thriving, emerging as a key player in driving the country's economic growth and digital transformation. The sector's value has soared from INR1.8 trillion in 2005 to a notable INR91 trillion in 2025, CAGR of about 22 per cent¹. This rapid growth highlights India's BFSI sector as one of the most vibrant and expanding financial ecosystems worldwide, contributing a significant 4.7 per cent to the corporate profit-to-GDP ratio¹.

Public sector banks have turned things around remarkably, achieving record-breaking net profits of INR3.71 lakh crore in FY25 and reducing gross non-performing assets (NPAs) from 14.6 per cent in 2018 to just 2.58 per cent by March 2025². Scheduled Commercial Banks also experienced strong performance, posting net profits of INR4.5 lakh crore³, with gross NPAs reaching a multi-decade low of 2.3 per cent and net NPAs at 0.5 per cent by March 2025³.

Similarly, NBFCs are leading the charge in expanding credit, having achieved a 20 per cent year-on-year growth in FY25, outpacing the 12 per cent growth seen in commercial banks. The NBFC sector's net advances reached INR24.5 lakh crore, and its balance sheet grew to INR28.2 lakh crore, reflecting a healthy 20 per cent increase year-on-year. Public deposits in NBFCs continued their upward trajectory, likely crossing INR1.2 lakh crore by March 2025, building on the INR1.03 lakh crore recorded in March 2024 (up by 20.8 per

cent), surpassing traditional banks' deposit growth of 9.6 per cent⁴.

Coming on to the asset quality in the sector, which has improved, with gross non-performing assets hitting a 13-year low of 2.3 per cent by March 2025. NBFCs now account for nearly half of retail credit deployment, compared to banks' 34 per cent, showcasing their pivotal role in boosting financial inclusion and consumer finance⁵.

The Reserve Bank of India is championing the expansion of digital payment infrastructure, aiming to introduce UPI services in 20 countries by 2028-29. UPI is already accepted internationally in places like Bhutan, France, Mauritius, Nepal, Singapore, Sri Lanka, and the UAE. India proudly accounts for 48.5 per cent of real-time payment volume⁶, positioning itself as a leader in digital payment innovation. UPI's success includes seamless integration across 632 banks, support for over 500 million users, and processing around 590 million transactions daily with an average transaction value of INR79,903 crore⁷.

Unified Payments Interface (UPI) has transformed India's payment landscape, garnering global attention for its impressive scale. In FY25, UPI facilitated 185.8 billion transactions - a 41.7 per cent growth compared to the previous year; with transaction values rising to INR260.56 lakh crore from INR199.96 lakh crore. Monthly UPI transactions have consistently surpassed 15 billion, with March 2025 alone recording 19.78 billion transactions worth INR24.77 lakh crore⁸.

Key Catalysts Behind BFSI's Transformational Growth

The rapid progress of India's BFSI sector in the past 4 - 5 years can be traced to several landmark developments that have fundamentally redefined banking, payments, and access to financial services:

1. Digital Infrastructure and Financial Inclusion

Platforms like Aadhaar, UPI, DigiLocker, and the JAM trinity (Jan Dhan, Aadhaar, Mobile) have built a strong foundation for seamless, scalable financial services. With 93+ billion UPI transactions and INR43 lakh crore in DBT transfers⁹, these platforms have enabled instant KYC, account opening, and rural service delivery pushing financial inclusion to new heights.

1. Reserve Bank of India (RBI) – Trend and Progress of Banking in India
 2. Reserve Bank of India – Financial Stability Report (June 2025)
 3. Reserve Bank of India – Annual Report 2024-25
 4. Reserve Bank of India – Half-Yearly Payment System Report (Dec 2024)
 5. Reserve Bank of India – Annual Report FY25 (Payments Section)

6. Reserve Bank of India – Financial Stability Report (NBFC Section)
 7. National Payments Corporation of India (NPCI) – UPI Product Statistics
 8. Reserve Bank of India – Annual Report FY25 (Digital Payments)
 9. NPCI & DBT Mission – UPI Product Statistics & DBT Bharat Portal

2. Regulatory Vision and Innovation

The RBI has led with a digital-first approach, introducing DBU guidelines, Account Aggregator frameworks, and Digital Lending norms. CBDC pilots (retail and wholesale) and the Climate Disclosure Framework reflect India's commitment to innovation, stability, and sustainability in financial governance. Exponential and sustainable credit offtake for both the retail as well as the institutional customer has been the focus of the regulator. This has led to significant downstream improvisation, leading to faster new product development through a 'fail fast' approach – agility rather than legacy is what pervades the nation's financial services narrative today. The question is, are we doing enough from the standpoint of taking advantage of benevolent regulation and strong economic tailwinds.

3. Fintech Collaboration and Platform Banking

Over 2,100+ fintechs¹⁰ have become strategic partners to banks, driving API-first architectures and neo-banking models. The rise of super apps and Banking-as-a-Service (BaaS) platforms has expanded customer engagement, accelerated product development, and unlocked new revenue streams.

4. AI, Analytics, and Cybersecurity

Banks now use AI to process 100+ variables for credit decisions¹¹, automate customer service, and detect fraud. With 23 per cent of IT budgets allocated to cybersecurity¹¹, institutions have adopted zero-trust models, real-time threat monitoring, and centralized **(Security Operations Center) SOCs** to safeguard digital operations.

5. NBFC Transformation and Inclusive Lending

NBFCs have digitized credit assessment using alternative data cash flows, psychometrics, and social signals driving 21 per cent YoY credit growth¹². This shift has expanded access for MSMEs, gig workers, and thin-file borrowers, democratizing credit and boosting economic participation.

6. Integrated Financial Services and Sustainable Finance

Bancassurance has grown to INR105.2 billion, with banks contributing 48 per cent of new life insurance policies¹³. ESG integration, green loans, and carbon tracking are now embedded in credit strategies, aligning BFSI growth with India's sustainability goals.

7. Expanding India's Digital Payment Backbone

NPCI has built a versatile digital payment backbone beyond UPI, enabling seamless services like bill payments, Aadhaar-based transactions, and toll collections. Its platforms support real-time, inclusive financial access across urban and rural India.

8. Push for Inclusive Wealth Access

SEBI has driven retail investment growth by simplifying access to demat services and streamlining regulations. This has expanded participation, making wealth management more accessible and digitally enabled.

10. RBI & DFS – Account Aggregator Master Directions

11. RBI Annual Report & Cybersecurity Framework – Reports Section

12. RBI Trend & Progress Report – NBFC Credit Growth

13. IRDAI Annual Report – Life Insurance Distribution Data



2. Kerala's BFSI Leadership: Regional Innovation, National Impact

Kerala stands as a beacon of innovation and resilience in India's BFSI sector. Combining a tradition of cooperative strength with dynamic fintech adoption, the state's financial institutions have been playing an outsized role in shaping national trends. Over the past 5 - 7 years¹⁴, Kerala's homegrown banks and NBFCs have been driving substantial growth across key BFSI domains, creating models that India as a whole is emulating. The following points highlight Kerala's strategic contributions based on the latest 2025 data¹⁴:

1. Gold Loan NBFCs: Kerala and the Nation's Financial Powerhouses

Home to India's leading gold loan-focused NBFCs, together commanding nearly 90 per cent of the organized gold loan market¹⁴. With combined loan books exceeding INR1.2 trillion¹⁴, these institutions have maintained a strong 12–15 per cent CAGR over the past five years¹⁴, despite tighter regulations. Their extensive rural and semi-urban reach has significantly expanded credit access and driven financial inclusion at scale. The secret to their success is a holistic blend of traditional practices around underwriting and an adoption of latest technology to improve their multi-channel presence.

2. NRI Remittance Leadership: Banking Edge

Banks headquartered in the state dominate India's NRI banking segment, with deposits crossing INR3 trillion in early 2025¹⁵ and growing at a 9.4 per cent CAGR over five years¹⁵. These deposits form a major share of banking liabilities and have spurred the development of advanced remittance infrastructure. Regional private banks headquartered in Kerala have set national

benchmarks in specialized NRI services and remittance management.

3. Apex Cooperative Bank: A Model for Cooperative Banking Reform

Formed in 2019 through the merger of multiple district cooperative banks¹⁶, Kerala's apex cooperative institution has transformed the sector with a unified core banking platform serving over 1.5 crore customers¹⁶. With more than 27 per cent of its portfolio in MSME and agriculture lending¹⁶, it has sustained double-digit growth over five years, making it a model for cooperative banking reform in India.

4. Small Finance Innovation: Scaling Inclusion

Institutions rooted in Kerala such as one of its vaunted Small Finance Banks have emerged as national models for inclusive banking, expanding to 800+ branches across 11 states by 2025¹⁷. With a focus on underserved segments and maintaining GNPA below 2 per cent¹⁷, its digital and doorstep banking approach has proven both scalable and resilient driving replication of small finance models across India. Additionally a focus towards secured products and improving asset quality only points to the rapidly increasing maturity prevalent in financial services in the state.

5. Kerala Startup Mission: Powering the State's Fintech Innovation Hub

Over the past seven years¹⁸, Kerala's fintech ecosystem has grown to INR2,000 crore¹⁸, with 200+ startups¹⁸ and INR500 crore in funding since 2018¹⁸. Kerala Startup Mission serves as the state's flagship agency for nurturing entrepreneurship and technology-driven ventures.

14. RBI – Trend and Progress of Banking in India 2024-25:

15. RBI Press Release – Deposits with Scheduled Commercial Banks (March 2025): NRI

16. RBI Annual Report – Cooperative Banking Section

17. RBI Annual Report – Small Finance Banks: Branch expansion, GNPA ratios, and inclusion metrics

18. RBI FinTech Report & State Innovation Data

6. Kerala's Private Banks: Expanding National Influence

Kerala-based private sector banks have built strong national footprints, recording robust credit growth¹⁹ and leading in NRI banking. These institutions continue to scale customer-centric innovations and digital solutions across India's banking landscape. At the same time, due to the remittance culture prevalent in the state, these Banks are also driving strong programmes for liability and asset transformation.

7. Driving Sustainability: Kerala's ESG-Forward BFSI Sector

Financial institutions in the state are taking a lead in embedding ESG principles into their core practices.²⁰ Climate-resilient agricultural lending by cooperative institutions and sustainable credit portfolios by NBFCs reflect a strong commitment to green finance.

8. Knowledge-Driven Growth: GCCs as Enablers

Kerala's focus on knowledge-driven hubs and GCCs has strengthened its BFSI capabilities. With limited space for large industry, these centers leverage local talent to support digital transformation, analytics, and financial innovation—acting as key enablers of sectoral growth.

State's unique blend of traditional banking excellence, innovative NBFC leadership, cooperative banking reforms, and fintech ecosystem development has forged pathways that India's BFSI sector continues to follow. Kerala's contributions on gold loans, NRI banking, cooperative consolidation, small finance innovation, fintech advancement, and sector-specific financing collectively fuel the nation's financial inclusion, stability, and future readiness.

By continuously harnessing technology, aligning to regulation, and building customer-centricity, Kerala remains a critical architect of India's BFSI growth story.

However, despite these strong tailwinds, the focus should be on the future – what can Kerala's institutions do, to punch above its weight category, and perhaps begin the next wave of innovation? What help does it need from the policy and regulatory standpoint to help the retail and institutional customer improve the return from a banking or lending relationship? How does the society benefit beyond what's possible today through smoother credit availability and pervasive digital channels, how do we make finance 'available', 'sustainable' and 'frictionless'?



19. RBI Basic Statistical Return (BSR-1) – March 2025

20. RBI Report on Climate Risk and Sustainable Finance

3. Building the Backbone: Financial Inclusion and MSMEs as Pillars of the Financial Ecosystem

The remarkable journey toward financial inclusion has reached new milestones, with approximately 80 per cent of the nation's adult population now holding a banking account²¹ a leap achieved in just 6 years²¹. This transformation manifests the sector's commitment to making financial services simple, efficient, and accessible to every layer of the economic pyramid, where millions reside beyond urban centers and conventional banking corridors.

Financial Inclusion – Expanding Access, Deepening Impact

Streamlined Account Ownership through Landmark Initiatives

PMJDY has transformed financial inclusion, reaching 55.98 crore beneficiaries as of August 2025²² over 55 per cent women²² by offering zero-balance accounts, simplified KYC and doorstep onboarding. In Kerala, saturation campaigns have extended these benefits to remote areas like Wayanad and Idukki, bringing the remaining unbanked into the formal banking system.

Cutting-Edge Technology Driving Efficiency at Scale

Digital identity systems like Aadhaar and instant payments via UPI enable real-time, low-cost transactions even on feature phones; UPI processed 19.46 billion transactions in July 2025 with a value of INR25.08 lakh crore²³, showing how interoperable infrastructure removes geographic and cost barriers. AI, mobile banking,

and open APIs deliver credit and insurance directly to users, removing paperwork and delays.

Innovation and Inclusive Digital Ecosystem Grounded in Kerala's Local Realities

From flexible-collateral microloans to weather-indexed crop insurance and affordable life cover, simplified local financial products match the seasonal income, risk, and cash-flow needs of vulnerable households.

An inclusive digital ecosystem that simplifies financial access enables prompt crop payments, faster supply-chain finance for MSMEs, and credit and insurance for gig workers, catalyzing broader socio-economic growth. Nearly 40 per cent of Indians have limited internet access²⁴ so BFSI firms combine agents and digital platforms using banking correspondents with handheld devices to deliver personalized, trusted digital services— even in Kerala's backwaters and island communities.

Continuous Measurement and Adaptive Policy Frameworks

India's Financial Inclusion Index reaching 67.05 in FY25, up 24.3 per cent²⁵ since 2021, underscores ongoing progress. This index guides policymakers and industry leaders as a compass for refining inclusion strategies and scaling innovations focused on simplicity, efficiency, and customer-centricity.

21. World Bank / G20 Global Partnership for Financial Inclusion Digital Public Infrastructure and Financial Inclusion Report

22. Department of Financial Services (Government of India) Pradhan Mantri Jan-Dhan Yojana Progress Report (August 2025)

23. National Payments Corporation of India (NPCI) UPI Product Statistics (July 2025)

24. Telecom Regulatory Authority of India (TRAI) Indian Telecom Services Performance Indicators Report (Q1 FY26)

25. Reserve Bank of India Press Release: Financial Inclusion Index for March 2025



MSMEs: Sustaining India's Economic Heartbeat

The MSME sector is the backbone of India's economic structure, accounting for nearly 30 per cent of GDP²⁶, over 40 per cent of exports²⁶, and employing more than 20 crore people²⁶. With more than 6 crore registered units²⁶, MSMEs are

critical to local economic resilience and national industrialization. Yet, despite their significance, the sector faces chronic structural challenges a credit gap running into several lakh crores²⁶, working-capital blockages due to delayed receivables, and vulnerability to shocks in demand, supply chains, and compliance requirements.

Below table depicts India's MSME landscape :

Parameter	India
Number of MSME units	~63–64 million registered units ²⁷
Employment share	~20.4 crore (204 million) employed in registered MSMEs ²⁷
Contribution to GDP / exports	MSMEs contribute ~30 per cent of GDP and ~45 per cent of exports ²⁷
MSME finance gap	India estimated INR~25 lakh crore (~USD300–350bn) credit gap ²⁷
Invoice discounting / receivables financing (TReDS)	Cumulative INR1.9 lakh crore; FY24–25 ~INR48k–78k crore(platform forecasts point to INR1–1.25 trillion potential) ²⁸ .
Fintech lending	Rapid growth via co-lending, API scoring, AA/GST/e-invoice based scoring expanding access ²⁸
NPA / distress resolution	Standardized OTS and restructuring frameworks for small MSME NPAs introduced ²⁸

MSMEs in Kerala: The Regional Banking Opportunity-

- Kerala hosts 5.6per cent of India's MSMEs (~1 lakh new units in 2024-25, with creation of over 2.23 lakh jobs)²⁹
- Total MSME credit in Kerala rose to INR1 Lakh crore in Mar 2025- a 46 per cent jump over two years²⁹
- Women entrepreneurs head over 30 per cent of Kerala's MSMEs³⁰, creating demand for gender-focused financial solutions such as micro-loans, credit guarantees, and women's business advisory services.
- Near-universal branch penetration 93 per cent of villages have at least one bank branch enables deeper rural outreach and last-mile delivery of credit, deposits, and digital services³¹.

- Kerala boasts one of India's highest per-capita UPI adoption rates, opening doors for embedded lending, instant credit disbursements within payment apps, and innovative merchant financing³².

Mission 1000 (Kerala MSME Scale-Up Initiative)

A flagship program by the Government of Kerala aimed at transforming 1,000 high-potential MSMEs into INR100 crore enterprises within four years³³. Selected units receive capital subsidies (up to INR2 crore)³³, interest subvention (up to INR50 lakh)³³, DPR preparation support (INR1 lakh)³³, and dedicated handholding by Industries Department officers. The initiative aligns with Kerala's broader goals of industrial competitiveness, inclusive growth, and ESG-focused entrepreneurship.

26. Ministry of MSME, Government of India Annual Report & Parliamentary Replies on MSME Contribution to GDP, Exports, Employment, and Credit Gap (2024–25)

27. Ministry of MSME, Government of India Annual Report & Udyam Registration Data (2024–25)

28. Reserve Bank of India (RBI) Reports on MSME Credit, TReDS, Digital Lending, and Payment Systems (2024–25)

29. Government of Kerala, Department of Industries & Commerce Year of Enterprises Progress Report & Economic Review (2024–25)

30. Reserve Bank of India / State Level Bankers' Committee (Kerala) MSME Credit Outstanding and Growth Data (Dec 2024)

31. State Level Bankers' Committee (Kerala) Banking Outreach and Financial Inclusion Report (2024)

32. Reserve Bank of India & NPCI UPI Adoption and Digital Payments Statistics (2024–25)

33. Kerala Directorate of Industries – MSME Scale-Up Mission Overview

4. Tech-Driven BFSI: Innovation with Purpose for Tomorrow

The global BFSI sector stands at an unprecedented inflection point where technological innovation is not merely enhancing existing processes but fundamentally reimagining the future of financial services. As we advance into 2025 and beyond, the convergence of artificial intelligence, quantum computing, blockchain, and digital currencies is creating transformative opportunities that promise to deliver measurable impact across efficiency, security, inclusion, and customer experience.

Transformative Tech Forces Shaping the Future of BFSI across globe-

1. Artificial Intelligence and Machine Learning: The Intelligence Layer

AI has evolved from experimental applications to mission-critical infrastructure. Leading financial institutions are deploying AI across the entire value chain from hyper-personalized customer experiences to real-time fraud detection and automated compliance monitoring.

Global Use Case: A major international investment bank has implemented an AI-powered assistant capable of processing legal documents in seconds—dramatically reducing the considerable manual effort previously required each year.

Impact: Large financial institutions are increasingly adopting AI to enhance decision-making. Advanced models now evaluate hundreds of variables per credit decision, far surpassing the limited inputs used in traditional systems—resulting in faster, more accurate, and scalable lending operations.

2. Quantum Computing: The Next Frontier of Processing Power

Financial institutions worldwide are exploring quantum computing to accelerate risk modeling, fraud detection, and portfolio optimization—unlocking unprecedented speed and scale..

Global Use Cases: Quantum systems can process complex data exponentially faster than traditional computing, enabling real-time analysis across thousands of variables and transforming decision-making in finance.

Impact: Quantum systems can process complex data exponentially faster than traditional computing, enabling real-time analysis across thousands of variables and transforming decision-making in finance.

Blockchain and Distributed Ledger Technology: Trust Infrastructure

Blockchain has become a reliable backbone for financial services—streamlining cross-border payments, trade finance, and identity verification by removing intermediaries and accelerating settlements.

Global Use Cases: A US-based payments network enables real-time cross-border payments for hundreds of financial institutions globally

Impact: Cuts cross-border transaction costs, boosts transparency, and reduces fraud through immutable records.

4. Central Bank Digital Currencies (CBDCs): Sovereign Digital Money

CBDCs represent the digitization of sovereign currency, with various countries exploring or implementing digital currency initiatives. China's digital yuan is operational, while the EU's digital euro enters trials

Global Use Cases: The Bahamas' Sand Dollar facilitates seamless transactions across remote islands, while Sweden's e-krona pilot explores cashless society implications. China's digital yuan has processed trillions in transactions, demonstrating CBDC scalability.

Impact: CBDCs enable financial inclusion for unbanked populations, reduce transaction costs, and provide central banks with enhanced monetary policy tools while maintaining privacy and security standards.

5. Open Banking and API Monetization: Ecosystem Economics

Open banking transforms financial institutions from closed systems to API-driven platforms, enabling third-party integration and new revenue streams.

Global Use Cases: European banks earn significant revenues through API monetization via subscription models, usage-based pricing, and revenue-sharing arrangements with fintechs.

Impact: Banks implementing successful API strategies report significant increases in revenue from new digital channels while expanding customer reach through fintech partnerships.

6. Cloud-Native Architecture and Composable Banking

Financial institutions are migrating to cloud-native, microservices-based architectures that enable rapid innovation, scalability, and integration.

Global Use Cases: A US investment bank's cloud-first strategy enabled rapid deployment of a consumer digital banking platform, while a UK-based bank's cloud migration cut infrastructure costs considerably and improved system reliability.

Impact: Cloud adoption enables operational cost reduction while accelerating time-to-market for new services from months to weeks.

Bridging the Gap: Kerala's Challenges and Policy-Aligned Reforms

Global case studies show how technologies like digital currencies, open banking, API-driven ecosystems, and cloud-native architectures are reshaping financial services. Kerala has strong potential but faces structural and policy gaps such as legacy systems and fragmented frameworks. Bridging these gaps will be critical to ensuring Kerala's BFSI institutions remain competitive, secure, and future-ready.

1. **Legacy Infrastructure** – Many cooperative banks and regional institutions still operate on outdated core banking systems, limiting integration with cloud-native and API-driven platforms.
2. **Fragmented Ecosystem** – Kerala's strong cooperative banking network lacks unified digital standards, making interoperability and open banking adoption complex.

3. **Cybersecurity Risks** – Increased digitalization without robust security frameworks exposes institutions to fraud and data breaches.

4. **Regulatory Compliance Complexity** – Aligning state-level policies with evolving RBI norms on CBDCs, open banking, and digital lending will require significant coordination.

5. **Digital Divide in Rural Areas** – Despite high literacy, limited high-speed internet and device penetration in remote regions can slow adoption of advanced tech solutions.

Policy aligned measures/actions to consider

While these challenges highlight structural and operational gaps, Kerala's recent policy initiatives and digital infrastructure projects provide a strong foundation for reform. The following suggestions outline practical steps aligned with state priorities to accelerate BFSI technology adoption.

1. **Modernize Core Systems** – Accelerate migration to cloud-native architectures and microservices, supported by Kerala's IT policy focus on emerging technologies and digital infrastructure.
2. **Create Unified API Framework** – Develop state-backed standards for cooperative banks to integrate with fintech platforms, leveraging initiatives under **Kerala Startup Mission** and the **FinTech Accelerator Program**.
3. **Strengthen Cybersecurity Governance** – Mandate board-level security audits and adopt RBI's digital risk guidelines, building on Kerala's Digi Governance and Smart City cybersecurity frameworks.
4. **Policy Alignment and Incentives** – Harmonize state-level BFSI policies with national regulations and offer tax benefits or grants for tech adoption, supported by schemes like **KSIDC Innovation Grant** for BFSI tech projects.
5. **Expand Digital Infrastructure** – Invest in rural broadband and mobile connectivity, aligning with Kerala's **KFON (Kerala Fibre Optic Network)** project to enable last-mile BFSI access.

5. Regulatory Evolution: Gold Loans, Microfinance, and Fintech Governance

Regulatory stance in 2025–26 reflects an industry-wide transition from frontier growth to mature scaling. Policymakers are tightening consumer protections and operational standards while preserving capacity for innovation and financial inclusion. For boards and senior leaders, the priority is to convert compliance obligations into strategic differentiators improving customer trust, operational resilience, and investor confidence.

Gold Loans and Microfinance Standardization, Prudence and Continued Inclusion

Regulators have undertaken significant steps to harmonize frameworks governing gold-backed lending and microfinance, with the dual objectives of reducing systemic risk and enhancing borrower protection. Kerala's high dependence on gold loans, especially among households and small traders, makes adherence to these norms essential for maintaining trust and reducing operational risk.

Gold Loans:

- **Valuation and Custody Standards:** Regulatory directives now mandate clearer norms for gold valuation and secure storage, including standardized disclosures on loan-to-value (LTV) ratios and associated fees³⁴.
- **Collateral and Underwriting Norms:** Acceptable collateral types are being restricted, and underwriting for higher-value loans must incorporate borrower repayment capacity assessments³⁴. This is critical for Kerala's cooperative banks, which often serve customers with seasonal income patterns.
- **Operational Enhancements:** Institutions are expected to reinforce chain-of-custody protocols, ensure prompt return of pledged gold post-repayment, and maintain transparent communication with borrowers³⁴.

Microfinance:

- **Prudential Recalibration:** Regulators have relaxed qualifying asset thresholds to enable

prudent diversification, while simplifying onboarding for ultra-small ticket loans³⁵. Kerala's Kudumbashree and SHG-linked MFIs can use these relaxations to expand credit access for women entrepreneurs.

- **Borrower Protection:** Continued emphasis is placed on interest rate caps, ethical collection practices, and fair treatment of borrowers.
- **Governance Expectations:** Microfinance institutions (MFIs) are required to uphold strong portfolio quality and governance standards, even as they diversify offerings to meet evolving borrower needs³⁵.

Implications:

- Invest in end-to-end digital workflows for valuation, custody, and customer disclosures this reduces compliance cost and builds brand trust.
- Re-evaluate product mix to balance margin, NPA risk and regulatory capital impact; diversification (within prudential limits) can improve portfolio resilience.
- Strengthen collections governance, customer grievance redressal, and auditor-friendly reporting to reduce regulatory friction and reputational risk.



34. RBI Lending Against Gold and Silver Collateral Directions, 2025

35. RBI Regulatory Framework for Microfinance Loans (Master Directions, updated July 2025)

Fintech Governance, Domain Controls and Cyber-Resilience

The regulatory landscape for fintech is evolving rapidly, with increased emphasis on consumer protection, platform accountability, and digital safety. Key regulatory thrusts include:

- **Third-Party Product Promotion:** Stricter norms now govern the promotion of third-party financial products on bank and partner digital channels, aiming to reduce mis-selling and ensure platform accountability³⁶.
- **Data Consent Frameworks:** Regulators mandate explicit and auditable consent mechanisms for data sharing, reinforcing user autonomy and privacy³⁶.
- **Domain and Brand Hygiene:** Financial institutions are required to maintain secure and verified digital domains to mitigate phishing risks and fraudulent impersonation³⁶.
- **Operational Risk Management:** Enhanced expectations around incident reporting, API security, and third-party integration controls are being enforced to strengthen platform resilience³⁶.

Cybersecurity and Futureproofing

The cybersecurity posture expected of banks and fintechs is being significantly elevated:

- **Identity and Access Controls:** Mandatory implementation of multi-factor authentication across critical transaction flows and stronger identity verification protocols³⁷.

- **Secure Digital Practices:** Institutions must adopt secure domain management and anomaly detection systems to prevent fraud and unauthorized access³⁷.
- **Quantum-Resilient Infrastructure:** The industry is being guided to prepare for cryptographic transitions and long-term resilience against quantum computing threats³⁷.

Industry Response and Innovations

- **Digital Channel Governance:** Banks and fintech platforms are redesigning user interfaces to include explicit consent screens, eliminate implicit product cross-promotion, and log consent artifacts for audit trails enhancing transparency and regulatory compliance.
- **Domain Consolidation and Awareness:** Leading financial firms have consolidated customer-facing domains and launched consumer education campaigns to help users identify authentic digital channels, thereby reducing phishing-related losses.
- **API and Third-Party Risk Management:** Institutions are implementing rigorous onboarding protocols, SLA-backed monitoring, and sandbox testing environments for third-party APIs to meet regulatory expectations on platform risk.
- **Cyber Resilience Investments:** The sector is investing in AI-driven fraud detection engines, robust disaster recovery systems, and comprehensive incident response frameworks to meet elevated operational risk standards.



36. RBI Digital Lending Directions and IT Governance Guidelines (2025)
 37. RBI Cyber Security Framework for Banks and NBFCs (Updated 2025)

Implications

- Approve a prioritized roadmap for digital governance covering domain rationalization, consent management, third-party risk, and incident response.
- Link executive incentives to cyber-risk and compliance metrics ensuring accountability and speed of remediation.
- Consider strategic partnerships or acquisitions to rapidly gain compliant tech capabilities, rather than building all controls in-house.

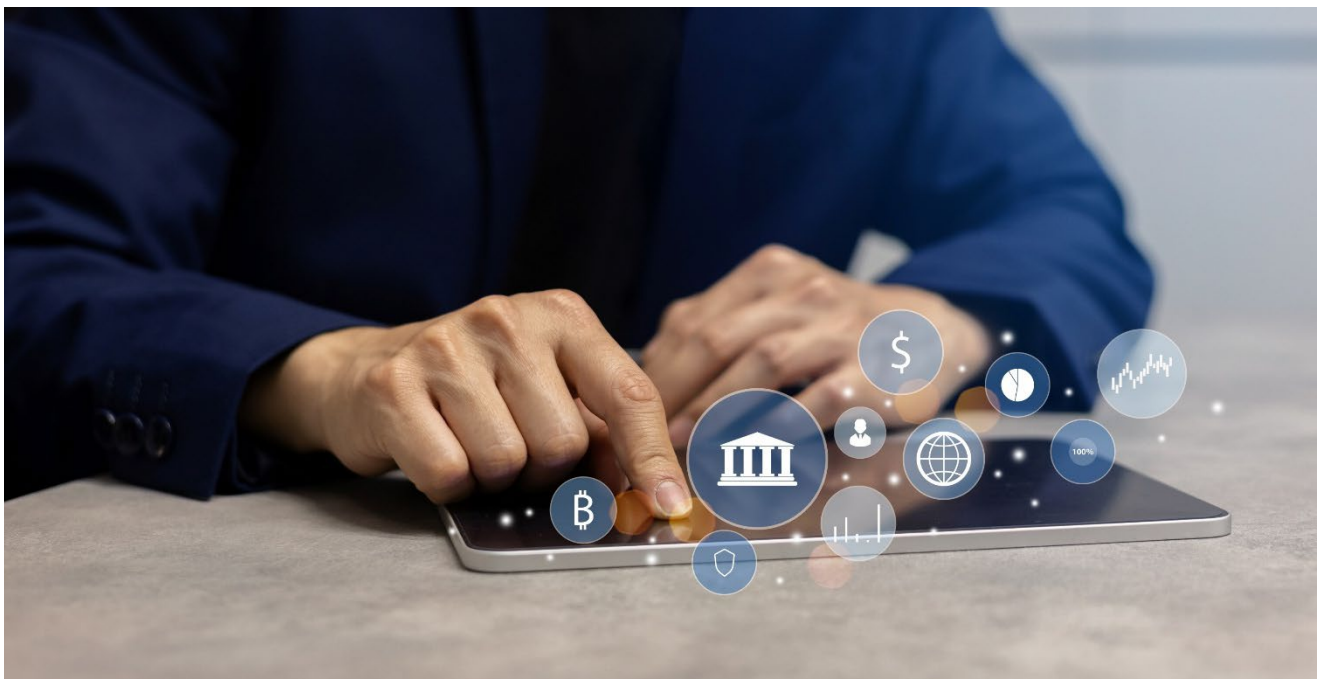
The evolving regulatory environment is not just a compliance challenge; it is a catalyst for competitive differentiation. Regulators are signaling three priorities consumer protection, operational transparency, and systemic resilience and firms that align early will gain customer trust and optionality in capital and distribution.

Suggestions to take forward -

- A periodic interlock between regulators, policy bodies and industry affiliations to aid Kerala's institutions to share ideas, jointly take work on solution propositions using a 'hackathon' approach and improve visibility for the state's financial institutions that are working at the frontier of social upliftment.
- Digital Transparency Program: Mandate an enterprise program to digitize valuation/custody (for gold), consent logs, and disclosure dashboards targeting measurable

reduction in customer disputes and faster audits.

- Prudential Product Recalibration: Task product heads with stress-testing the portfolio under new LTV/underwriting norms and microfinance qualifying asset splits; present options for diversification without diluting mission.
- Digital Governance and Cyber Roadmap: Approve capex for domain consolidation, consent management, third-party API governance, and enhanced cyber detection. Link these to a quarterly reporting cadence to the board.
- Customer Protection and Communication: Launch a proactive consumer-awareness campaign explaining product terms, renewal mechanics, and grievance channels reducing friction and reputational risk.
- Regulatory Liaison and Scenario Planning: Establish a regulatory monitoring cell (or strengthen the existing one) to run scenario analyses for potential policy shifts and to engage proactively with regulators on implementation pain-points.
- Regulation in 2025–26 is steering the ecosystem toward more transparent, resilient, and inclusive finance. Boards that treat regulation as a design constraint and an impetus for customer-centric modernization will be better positioned to scale responsibly and capture long-term value.



6. Finance for Sustainability: Societal Impact and ESG Integration

Financial services are moving beyond voluntary ESG commitments toward actionable sustainability-linked financing. From green bonds and rooftop solar loans to community-driven credit models, institutions are embedding climate and social priorities into core strategies. This convergence of finance and sustainability is redefining BFSI's role as a catalyst for climate resilience, social equity, and long-term economic stability. Kerala, with its strong renewable energy programs and community initiatives are well-positioned to leverage these models for inclusive growth.

Below are the key focus areas driving this transition:

- 1. Financing the Green Transition: From Commitment to Capital:** The financial sector is transitioning from voluntary ESG pledges to tangible sustainability-linked financing. By end-2024, cumulative green and sustainability debt issuances surpassed USD 46 billion³⁸, more than doubling since 2021³⁸. This surge is enabling banks, NBFCs, and fintechs to design products that fund the low-carbon transition from rooftop solar loans for households to green infrastructure financing.
- 2. Kudumbashree: Community Finance Driving Inclusive Sustainability:** In Kerala, the Kudumbashree network one of the world's largest women-led self-help ecosystems demonstrates how finance can amplify societal impact. With over 46 lakh women organized into 3 lakh+ neighborhood groups³⁹, it serves as a channel for micro-credit, savings, and livelihoods. Embedding sustainability-linked products such as clean energy loans or climate-resilient livelihood credit into this ecosystem can scale both social empowerment and environmental resilience, making community finance a lever for inclusive green growth.
- 3. Rooftop Solar: Unlocking Household-Level Climate Finance:** India's rooftop solar capacity reached ~14.5 GW by late-2024⁴⁰, reflecting growing demand for household and MSME-level green finance. Financial institutions are
- responding with rooftop loans, leasing models, and pay-as-you-save schemes, supported by capital from development finance institutions and ESG investors. This segment is emerging as a scalable opportunity for BFSI players to build green retail portfolios while contributing to national energy transition goals.
- 4. Institutional ESG: Building Capacity for Climate Risk Integration:** At the institutional level, sustainability-linked loans and green bonds are gaining traction. The RBI's 2024 draft guidelines on climate-related disclosures and green deposits⁴¹ are pushing regulated entities to integrate climate risk assessment into core lending frameworks. This regulatory shift is not just about compliance it is about positioning institutions to capture the next wave of green finance through robust ESG reporting and impact measurement.
- 5. Financial Inclusion and Social Protection: Finance for Resilience:** Sustainability in finance extends beyond environmental goals it includes protecting vulnerable communities. India's digital-led insurance schemes like PMJJBY, PMSBY, and Atal Pension Yojana have shown that sachet-sized products can achieve mass-scale coverage⁴², Kerala has achieved near-universal coverage, with cooperative banks and SHGs delivering bundled financial products for fisherfolk, migrant workers, and informal laborers—strengthening last-mile resilience.



38. SEBI Green Bond and Sustainability Debt Market Reports (2024)

39. Government of Kerala Kudumbashree Mission Annual Report and Economic Review (2024)

40. Ministry of New and Renewable Energy (MNRE) Rooftop Solar Capacity Data (2024)

41. RBI Draft Guidelines on Climate-Related Financial Disclosures and Green Deposits (2024)

42. Government of India Department of Financial Services Progress Reports on PMJJBY, PMSBY, and Atal Pension Yojana (2024)

7. Final Reflections: Architecting the Future of BFSI

BFSI sector today stands at a defining juncture where its trajectory is shaped not only by economic expansion but by its evolving role in nation-building. The sector has matured from being a facilitator of financial transactions to becoming a cornerstone of inclusive development, technological advancement, and institutional resilience. This transformation is not incidental; it is the result of deliberate policy direction, infrastructure innovation, and a growing recognition that financial services must serve broader societal goals.

Kerala exemplifies this future. Its gold-loan NBFC leadership, cooperative banking reforms, fintech acceleration, and ESG-linked finance showcase how regional innovation can influence national priorities. From NRI banking dominance to community finance and Mission 1000 for MSMEs, Kerala demonstrates that localized strategies can scale impact.

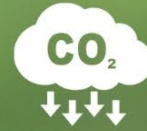
The sector's future is expected to be shaped by how institutions internalize the following imperatives:

1. **Reposition Finance as a Platform for Societal Value:** BFSI firms must move beyond transactional roles and embrace finance as a lever for inclusive development, climate resilience, and community empowerment. Products and services must be designed with impact in mind serving not just customers, but broader national priorities.
2. **Build on India's Digital Infrastructure to Scale Access:** With foundational platforms like UPI, Aadhaar, and Account Aggregator now mature, BFSI players must leverage these rails to deliver interoperable, low-cost, and real-time services. The opportunity lies in expanding reach while maintaining simplicity and trust.
3. **Institutionalize Technology as Core Capability:** AI, blockchain, and cloud-native systems are no longer experimental they are essential. BFSI firms must invest in intelligent automation, data-driven underwriting, and composable architectures to remain agile and competitive.
4. **Treat Regulation as a Strategic Enabler:** Regulatory shifts are increasingly focused on transparency, consumer protection, and systemic resilience. Institutions that proactively align with these expectations through better disclosures, governance, and risk frameworks could gain reputational and operational advantage.
5. **Reimagine MSME Engagement Models:** MSMEs represent both a growth engine and a policy priority. BFSI companies must innovate in credit scoring, receivables financing, and guarantee-backed lending to close the credit gap and support enterprise sustainability.
6. **Embed ESG into Core Financial Strategy:** Sustainability-linked finance is gaining traction. Institutions must integrate ESG metrics into lending, investment, and risk assessment processes, positioning themselves to attract green capital and meet evolving stakeholder expectations.



- 7. Strengthen Cybersecurity and Operational Resilience:** As digital exposure grows, BFSI firms must elevate cybersecurity to a board-level priority. Quantum-resilient encryption, zero-trust frameworks, and real-time threat detection will be critical to safeguarding trust and continuity.
- 8. Leverage Regional Models for Scalable Innovation:** Kerala's BFSI ecosystem demonstrates how localized innovation across cooperative banking, fintech, and ESG finance can inform national strategy. Institutions should study and replicate such models to accelerate inclusive transformation.
- 9. Prioritize Customer-Centric Design and Literacy:** Simplified products, hybrid delivery models, and vernacular financial literacy initiatives are essential to deepen engagement. BFSI firms must design for usability, not just functionality.
- 10. Institutionalize Strategic Foresight:** The pace of change demands structured scenario planning and regulatory engagement. BFSI boards must embed foresight capabilities to anticipate shifts, mitigate risks, and seize emerging opportunities.

Kerala's BFSI sector is not just adapting it is **leading with purpose**. By combining digital innovation with social equity, regulatory foresight with grassroots engagement, and sustainability with profitability, the state is architecting a future-ready financial ecosystem. The journey ahead is one of **inclusive growth**, and Kerala is well-positioned to be a model for regional BFSI transformation



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