Accounting in the age of fintech: A guide for Indian financial innovators

Unpacking financial reporting challenges in India's fintech sector

April 2025

The better the question. The better the answer. The better the world works.

Shape the future with confidence

Foreword

The Indian fintech landscape has emerged as one of the most dynamic and innovative sectors in the global financial ecosystem. Fueled by rapid technological advancements, regulatory support, and a burgeoning digital user base, Indian fintech companies are revolutionizing how financial services are delivered and consumed. From digital payments and peer-to-peer lending to broking and wealth management, these companies are addressing the diverse needs of consumers and businesses alike, driving financial inclusion and economic growth.

As this sector expands, it faces a unique set of challenges, including evolving regulatory frameworks and the need for robust risk management. Understanding the key accounting considerations is crucial for these companies to ensure transparency, compliance, and sustainability.

Purpose of this publication

The Indian fintech landscape has rapidly transformed, particularly in the lending sector, where technology-driven solutions are reshaping traditional practices. With an increasing number of startups entering the market, the need for a thorough evaluation of accounting considerations and their impact has become even more crucial. This publication explores the critical accounting considerations under Indian Accounting Standards (Ind AS) that fintech companies in the lending sector must address, ensuring compliance and sustainable growth in a competitive environment.

The publication is divided into the following sections:

- Section 1: Key accounting considerations
- Section 2: Key considerations for financial reporting and compliance

Hope you all find the publication useful. Happy reading!

Adarsh Ranka
Financial Accounting Advisory Services (FAAS) Leader,
Partner with an Indian member firm of EY Global

Table of contents

Section 1

Key accounting considerations

1 Revenue recognition

Fintech companies, which initially focused on providing payment services, have evolved, and diversified their revenue streams beyond just payments. They provide a multitude of services which can include sourcing of customers for other regulated entities, providing loan management and collection services, facilitating payments through their applications, etc. It is essential for fintech companies to carefully analyze each arrangement and apply the principles of Ind AS 109 ‘Financial instruments’ and Ind AS 115 ‘Revenue from contract with customers’ to ensure proper revenue recognition and financial reporting compliance.

Identifying the customer in complex arrangements: In complex arrangements involving multiple counterparties such as regulated entities (Banks or Non-Banking Financial Companies (NBFCs)), merchants, co-lending partners and end-consumers/borrowers, it is essential for fintech companies to clearly identify their customer within the value chain. For instance, when a fintech company provides personal lines of credit (for example, credit cards for bill payments, cash withdrawals, and online or offline purchases, loans, etc.) in partnership with financial institutions or lenders to fund the lines of credit or loans. Fintech platforms typically collect payments from users who utilize these financial products and then transfer the corresponding proceeds to the lending partners. In return, it receives certain percentage of the revenue generated from the fees or interest charged on the utilization of credit cards or loans.

In such arrangements, it is crucial for fintech companies to evaluate who their customer is and determine whether they are acting as a principal or an agent. This principal-agent assessment is significant because it impacts revenue recognition (gross versus net), which in turn affects the top-line presentation in the financial statements.

Standalone versus consolidated financial statements reporting: A common structure is where the fintech parent entity sources the borrower for its NBFC subsidiary.

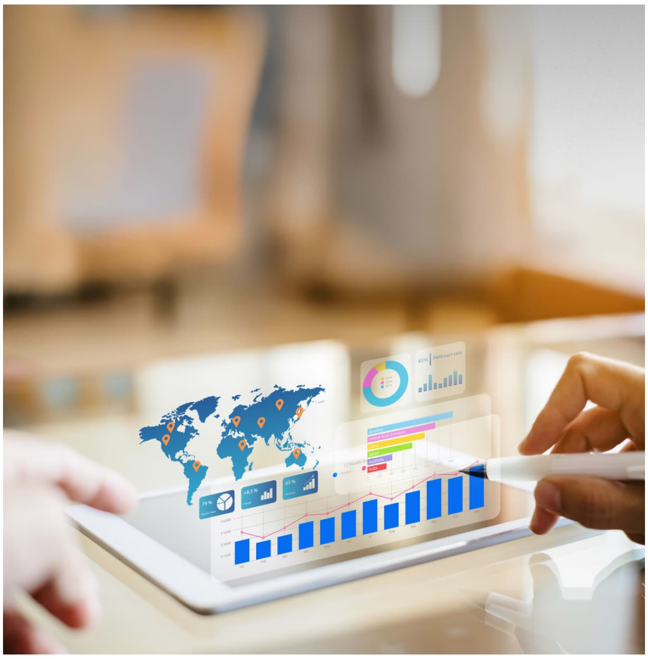
Typically, in the standalone financial statements of the subsidiary, the sourcing fees paid to the parent and the processing fees received from the borrower are included in Effective Interest Rate (EIR) computation. However, in consolidated financial statements, the elimination of intercompany transactions poses a scenario which may result in the group expenses towards sourcing (incurred by parent) being recognized upfront whereas the processing fees income (received by subsidiary) is included in EIR, leading to a significant difference in the timing of expense and income recognition at the group level. Such issues create challenges in aligning financial reporting across both standalone and consolidated statements and need careful evaluation.

Cashback and incentives: Fintech companies often employ strategies such as discounts, cashbacks, credits, and incentives to drive platform usage, including applications, digital wallets, or payment services. These promotional initiatives are aimed at encouraging customer adoption and increased transaction frequency. Key evaluation areas include assessing whether the cashback and incentives offered should be categorized as variable consideration, consideration payable to customers or general advertising/promotional expenses. If promotional incentives (for example, cashbacks, discounts) are provided to the customers that purchases entity’s goods or services, they may need to be treated as a reduction of revenue rather than an upfront expense, depending on the facts and circumstances.

In some arrangements, the consideration paid to a customer may exceed what the entity expects to receive for the promised goods or services. In these situations, recognition of payments to the customer as a reduction of revenue could result in negative revenue. The entity needs to carefully evaluate all its historical contractual arrangements with the customer before reclassifying any cumulative shortfall in revenue to expense. In addition, when making this evaluation, an entity needs to incorporate revenue from any current or anticipated contracts with the customer to transfer goods or services in the future.

On the other hand, cashback or discount incentives provided to users who are not yet customers may be recorded as an expense, as they may not meet the criteria for revenue reduction or cost to fulfil the contract. In such cases, the treatment of these incentives could depend on various factors, such as the nature of the promotion and its expected impact on future customer acquisition or retention.

When offering bundled services, fintech companies should consider identifying distinct performance obligations and accordingly allocate the transaction price, considering whether services are distinct or highly integrated. The treatment of cashbacks, incentives, discounts, and other promotional expenses may require judgment to ensure revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur. This judgment impacts whether the incentives reduce the transaction price or represent separate payables, affecting both the timing and the amount of recognized revenue. Clear identification of the customer– whether a Bank/NBFC, merchant, or end-consumer–is crucial for determining who is contracting for and paying for the services.



2 Financial instruments

Fintech companies often rely on frequent investor funding rounds, and there are various investment options available to these fintech companies. Equity shares and convertible preference shares are two of the most prevalent choices when it comes to fundraising by fintech companies. Convertible preference shares, in particular, offer flexibility as they allow investors to convert their shares into equity at a predetermined ratio or formula in the future. These investment instruments offer a dynamic and potentially rewarding way for investors to participate in the growth and success of fintech companies, aligning their interests with the company's performance and future milestones.

Fintech companies are aware that investors often require an exit strategy within a specific time frame. To cater to these needs, fintech companies offer various exit options for their investors. Some of these options include:

- Sale of investor securities to third party: Fintech companies may allow their investors to exit their investments by facilitating the sale of their securities to third-party buyers. This provides investors with an opportunity to realize their gains and exit their investment positions.
- Exit via Initial Public Offering (IPO): Fintech companies may choose to go public through an IPO, which allows existing investors to sell their shares on the public market. This provides a potential exit route for early investors, allowing them to monetize their investments.

The availability of multiple exit options reflects the fintech company’s understanding of investor needs and their commitment to ensuring a smooth and efficient process for investors to exit their investments when the time is right.

Accounting for such instruments, particularly from a classification perspective, under Ind AS 32, Financial Instruments: Presentation can be quite complex. Features such as put options or buyback arrangements further add to the complexity. The measurement of such instruments depends on their classification as either equity instrument or liability or potentially an embedded derivative. Fintech companies should carefully assess detailed terms of each agreement relating to transactions with shareholders to evaluate the appropriate classifications and measurement.

The table below outlines a few illustrative conversion features provided by fintech companies and key considerations while evaluating such financial instruments under Ind AS:

Conversion feature	Illustrative terms of the financial instrument	Key considerations
Optionally convertible preference shares (OCPS)	The company issued preference shares with a five-year term, which are redeemable at the end of five years. It has a 6% annual discretionary, non-cumulative dividend. The shares are optionally convertible into five ordinary shares at any time before maturity at a predetermined price at the option of the investor.	The OCPS are redeemable at the end of its five-year term, indicating a liability component. The discretionary, non-cumulative dividend and the option to convert into fixed number of ordinary shares at any time until maturity suggest the presence of an equity component. Therefore, the OCPS contains both liability and equity components, requiring separate analysis for measurement.
Contingent conversion rights	The company issued convertible preference shares to a private equity investor. The shares automatically convert into 15 equity shares of INR10 each for every INR100 preference share if the company conducts an IPO within three years. If the IPO does not occur within three years, the company is obligated to redeem the preference shares in cash, along with a 15% internal rate of return on the investment.	The contingent settlement feature in the convertible preference shares triggers redemption if the IPO does not occur within three years. This feature is considered genuine under Ind AS 32, as it provides a defined return to the investor if the IPO fails. It has economic substance, ensuring the investor's exit strategy is protected in the absence of the IPO. Therefore, the convertible preference shares contain a liability, regardless of the likelihood of cash settlement.
Buyback arrangements/put options	Options that give investors the right to sell their shares back to the company or create an obligation on the company to execute buyback to provide exit to investors.	Will be classified as liabilities as there is an obligation to buy back the shares.

The actual classification under Ind AS 32, Financial Instruments: Presentation, will depend on the detailed terms and conditions of the instrument. Entities must carefully evaluate the specific features and contingencies associated with each instrument to determine the appropriate classification. It is crucial to evaluate the substance of the instrument, including the existence of any obligations for settlement in cash or through equity conversion, as well as the impact of contingent settlement provisions.

Some of the key considerations for evaluating financial instruments with contingent settlement provisions include:

- Contingent trigger events: Assess if the settlement obligation depends on uncertain future events beyond the issuer's and holder's control, such as changes in market indices, interest rates, or the issuer's key performance indicators (revenue, net income, etc.). Whether or not the contingency is within the control of the issuer is an important consideration when classifying financial instruments with contingent settlement provisions as either financial liabilities or equity
- Genuine contingencies: Evaluate whether the contingent settlement provision is genuine. If the settlement event is extremely rare, highly abnormal, and very unlikely to occur, the contingent settlement provisions are not taken into account in the instrument’s classification. While the specific facts and circumstances relevant to an instrument will need to be assessed, it would be unusual to include settlement terms in a contract that are not genuine.

By carefully analyzing the nature of the instrument and the contingencies involved, companies can ensure accurate classification as either liabilities or equity, which is essential for proper financial reporting and compliance.

The above factors are illustrative and actual terms of the instrument may be far more complex. Fintech companies must carefully assess the terms of each financial instrument, particularly convertible instruments, put options, buyback arrangements, etc., to determine their appropriate classification under Ind AS 32. The classification as either equity or liability depends on specific features such as the company’s obligations and the nature of conversion rights or options. A detailed evaluation is necessary at the contracting stage, to ensure accurate financial reporting and avoiding unintended consequences, especially when dealing with complex instruments that may involve embedded derivatives or contingent conditions.

3 First loss default guarantee (FLDG)

FLDG is a contractual arrangement where a third party, typically a fintech company involved in sourcing loans for another regulated entity (RE), guarantees compensation to the RE for losses incurred due to defaults in a specified loan portfolio by the borrower. Subsequently, Reserve Bank of India (RBI) guidelines on Default Loss Guarantee (DLG) in Digital Lending have clarified that FLDG arrangements conforming to these guidelines are no longer treated as synthetic securitization, providing more flexibility for fintech partnerships with regulated lenders. When a fintech company enters into a FLDG arrangement, it needs to consider the following accounting implications under Ind AS:

As per Ind AS 109, Financial instrument, a financial guarantee contract involves an issuer compensating the holder for losses due to a debtor's failure to meet payment obligations. In the case of FLDG, the fintech company's guarantee to cover losses from defaults in a specified loan portfolio qualifies as a financial guarantee contract under this definition.

Fintech entities need to consider following aspects to arrive at the appropriate accounting conclusion:

- Whether guarantee premium is received upfront or receivable over the period
- Whether the financial guarantee obligation and receivable toward future premium are two separate units of account or not
- Whether all future premiums are payable even in the event of a default on the underlying loan giving rise to a claim on the guarantee
- Whether the guarantee continues even in the event of a failure to pay the premiums.

Expected Credit Loss (ECL) refers to the anticipated loss arising from credit default events on financial instruments, as defined under Ind AS 109. ECL models require entities to analyze their loan portfolios and estimate potential losses over a specified time frame, reflecting both historical data and forward-looking information. For ECL purposes, it would make sense for the issuer of an FLDG to exclude future premium receipts due from the holder from the ECL measurement.

When a fintech company enters into an arrangement with an NBFC to provide customer sourcing, collections, and other ancillary services, with a FLDG component, it typically means that the fintech company will assume a portion of the risk related to the performance of the loans. The fintech company must periodically assess credit risk to measure the FLDG at the higher of its initial recognition value (less cumulative amortization) and the ECL. The ECL model requires regular reassessment of credit risk based on factors such as macroeconomic trends, borrower performance, and industry conditions. This ensures that the FLDG's value reflects both the initial recognition and any changes in credit risk over time, providing an accurate provision for potential defaults and capturing any fluctuations in the underlying loan portfolio's credit quality.

It must be noted that the above analysis focuses on the accounting implications of FLDG from a financial guarantee perspective. The classification of these arrangements in terms of recognition and derecognition–particularly concerning loan receivables and borrowings–has not been considered here, as it would depend on specific facts, circumstances, and regulatory interpretations.

4 Intangible assets

Fintech companies invest significantly in creating a digital infrastructure, with a substantial portion of their expenditure directed towards development of technology resources, rather than in physical assets. Software and algorithms are at the core of fintech operations, enabling the development of innovative applications and platforms that offer seamless, secure, and efficient financial services.

To stay ahead in this fast-paced landscape, fintech companies allocate substantial resources to recruit and retain skilled software developers, code designers, and technology experts. Moreover, the online platforms utilized by fintech companies to deliver their services require frequent testing across various operating systems, resulting in additional expenses.

The process of generating an intangible asset is generally divided into a research phase and a development phase. Expenditure incurred during the research phase of an internal project is expensed off as and when it is incurred, as by their nature these costs are aimed at acquiring new knowledge rather than developing a practical application capable of generating future economic benefits. Accordingly, the recognition criteria are not met.

The accounting treatment of costs related to the development and maintenance of online platforms and applications poses significant challenges for fintech companies, as it has a direct and profound impact on their financial statements. These decisions are critical as they determine whether such costs are treated as assets or expenses, influencing how the company's financial health is presented and perceived by stakeholders. Whether to capitalize or expense these costs needs to be carefully evaluated under the principles of Ind AS 38, Intangible assets.

During the development phase, fintech companies are able to identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. However, to recognize an intangible asset, fintech companies need to evaluate whether there is technical feasibility of completing the asset, intention to use or sell the asset, ability to generate future economic benefit and other criteria provided under Ind AS 38. These tests create a balance, ensuring the entity does not recognize unrecoverable costs as assets.

An intangible asset arising from the development phase is required to be recognized if an entity can demonstrate all the following criteria provided under Ind AS 38:

Criteria	Evaluation	Key considerations
a. Technical feasibility	Assess the feasibility of completing the software for use or sale.	It is challenging to establish a single guideline. A suitable point might be when the entity has finalized all planning, design, and testing activities required to confirm that the asset can be produced in accordance with its design specifications, including functionality, features, and technical performance requirements.
b. Intention to complete and use or sell the intangible asset	Confirm the commitment to finish and utilize/sell the software.	It may be challenging to obtain the evidence as it depends on the management's intentions. Some of the considerations can be clearly documented project plans, roadmaps, and statements indicating the intent to complete and commercialize the software.
c. Ability to use or sell the intangible asset	Evaluate the capacity to deploy or sell the developed software.	Demonstrating a sales strategy or deployment plan outlining how the software will be utilized or made available to end-users.
d. Generation of probable future economic benefits	Analyze how the software will provide economic benefits.	Projections of revenue generation, cost savings, or increased efficiency resulting from the implementation of the software.
e. Existence of a market or internal usefulness	Confirm a market for the software or its internal utility.	Market research indicating demand for similar fintech solutions or internal use cases highlighting the usefulness of the developed software. Further, the entity may also look at the cash flow projections based on the estimated useful life of the asset. The projections should be reasonable and supportable assumptions with greater weight given to external evidence.
f. Availability of resources for development and usage	Assess the availability of technical and financial resources.	Budgets, resource allocation plans, and financial forecasts ensuring there are adequate resources for the development and utilization of the software. Further, if the financial resources are fulfilled through borrowings, then lenders' willingness to fund the asset should also be considered.
g. Ability to measure development expenditure reliably	Ensure reliable measurement of expenses during development.	Implementing a project accounting system or using established financial metrics to accurately track and measure expenses related to software development (including, for example, a time keeping system if the entity's human resources are being used in the asset's development).

Referring to the above criteria, if an entity cannot distinguish the research phase from the development phase, it should treat the expenditure on that project as if it were incurred in the research phase only and recognize an expense accordingly. Fintech companies are required to use judgment based on facts and circumstances of each project whether they satisfy the above criteria's and can be recognized as an intangible asset.

Subsequent expenditure

Often, fintech companies incur expenditure on the internally generated intangible assets post its recognition. It becomes important to evaluate whether those expenses pertain to routine upkeep and maintenance or meet the definition of an intangible asset and the recognition criteria for capitalizing the development cost under Ind AS 38.

Most of the expenditure incurred on an internally generated intangible asset after completion is to maintain the benefits expected from the asset. Therefore, it may not meet the recognition criteria set out above. Additionally, expenditure incurred on intangible assets can be difficult to differentiate from expenditure related to the business as a whole. Therefore, Ind AS 38 concludes that subsequent expenditure on an intangible asset should only rarely be recognized in the carrying amount of the asset.

Instances where the subsequent expenditure incurred will not meet the recognition criteria and will be expensed as incurred include:

- Expenditure incurred for further research on the existing intangible asset
- Expenditure identified clearly due to inefficiencies and initial operating losses incurred before the asset achieves planned performance
- Expenditure incurred for regular maintenance and repair expenses to keep the software functional and up to date. This could include fixing bugs, addressing security vulnerabilities, or ensuring compatibility with new operating systems.
- Expenditure incurred for costs related to training users on the software's usage or providing ongoing technical support as these costs are indistinguishable from the costs of developing the business as a whole.

Agile methodology for software development

Agile methodology is a commonly adopted approach of software development where using iterative processes, the software is delivered in small but functional increments. This is in contrast to traditional software development where the sequence of the phases in which the software is developed is linear and focuses on the delivery of a fully functioning complete software product in accordance with the original plans and specifications.

The agile software development approach has further complexities that must be carefully considered, for example:

- It is difficult to determine a relevant unit of account (i.e., the unit of account could be the entire suite of software applications, individual applications, functional elements, or lines of code).
- An entity may not have clear budgets for its agile software development, so there is an increased risk of incorrectly recognizing inefficiencies and cost overruns as part of the resulting intangible asset.
- It can be difficult to maintain the appropriate balance between capitalizing new development costs, derecognizing past development costs, and determining the amortization period of the asset.
- Some of the steps in the continuous update process applied in agile software development are more akin to maintenance and should therefore be expensed as incurred.
- Identifying the unit of account is crucial for assessing impairment or abandonment, especially in agile environments where iterative sprints may lead to software recalibration or render it obsolete.

It is essential for fintech companies to have a clear understanding of the applicable accounting standards to appropriately classify these expenses. Capitalizing costs, when allowed, helps to spread the expenditure over time, reflecting the asset's value over its useful life. On the other hand, timely expense recognition ensures accurate financial reporting and transparency, enabling stakeholders to assess the company's financial health and performance accurately

5 Employee stock option plan

Fintech companies issue employee stock options to incentivize and retain skilled employees. Stock options offer a sense of ownership and align employees' interests with company success. Offering stock options can attract top talent, as it provides the potential for significant financial gains if the company's value increases over time.

Key accounting considerations

- Grant date determination: The fair value of the share options is measured at the grant date. In situations where employee services are received before the grant date, or where the grant date is subject to certain approvals, the entity needs to carefully assess the appropriate grant date
- Fair value determination: Determining the fair value of the stock options at the grant date can be challenging, especially for early-stage fintech companies without an active market for their shares. This often involves complex valuation models like the Black-Scholes or Binomial Model.
- Assessment of vesting and non-vesting conditions: Common conditions in ESOPs, such as employment conditions or performance-related targets, or trigger events like achieving a certain equity valuation, must be assessed to determine whether they are vesting or non-vesting conditions. The company needs to evaluate these conditions to decide whether they will impact the grant date fair value of the equity instruments. Both performance-based market conditions and non-vesting conditions are considered in determining the grant date fair value of the equity instruments granted.
- Determining the classification of share-based payment transactions: These can be classified as either equity-settled or cash-settled, depending on the terms of the arrangement. The classification determines the accounting for the arrangement under Ind AS 102, Share-based payments.
- Contingent settlement provisions: Assessment of awards with contingent cash or contingent equity settlement means whether such an award should be accounted for as equity-settled or cash-settled and whether this should be re-assessed on an ongoing basis during the vesting period.
- Amount to be recognized in each reporting period: In case of staged vesting (also known as graded vesting) it might result in front loading of expenses.
- Determine the number of options expected to vest: This may undergo changes due to employees leaving or failing to meet performance targets
- Accounting for modifications: If the ESOP terms are modified (for example, vesting period is extended or exercise price is altered), the company must reassess the fair value and recognize the change in expense, which may be complex in some situations.

When assessing employee stock options under Ind AS 102, fintech companies should ensure accurate fair value determination at the grant date, using appropriate models like Black-Scholes or Binomial. It is crucial to assess the classification of the arrangement (equity-settled or cash-settled), as this impacts the accounting treatment. The fair value of the liability for cash-settled transactions is re-measured at each reporting date and at the date of settlement, whereas equity-settled awards are not re-measured after the grant date.

6 Acquisition accounting and post-acquisition considerations

In the rapidly evolving landscape of Indian fintech, growth and expansion are often pursued through strategic acquisitions of other businesses. Fintech companies are leveraging these acquisitions to diversify their offerings, access new customer segments, enhance technological capabilities, and strengthen their market position.

These business acquisitions require fintech companies to comply with Ind AS 103,Business combinations as it impacts the way companies plan and execute their acquisition strategies.

The adoption of Ind AS has significantly increased the focus on the principle of Fair Value Measurement (FVM), distinguishing it from the erstwhile Indian GAAP. Accounting for business combinations calls for assets and liabilities (including intangible assets and contingent liabilities which did not exist on the balance sheet of target entities/businesses) acquired in a deal to be measured at fair value by applying appropriate valuation methods and the residual value allocated to goodwill or capital reserve.

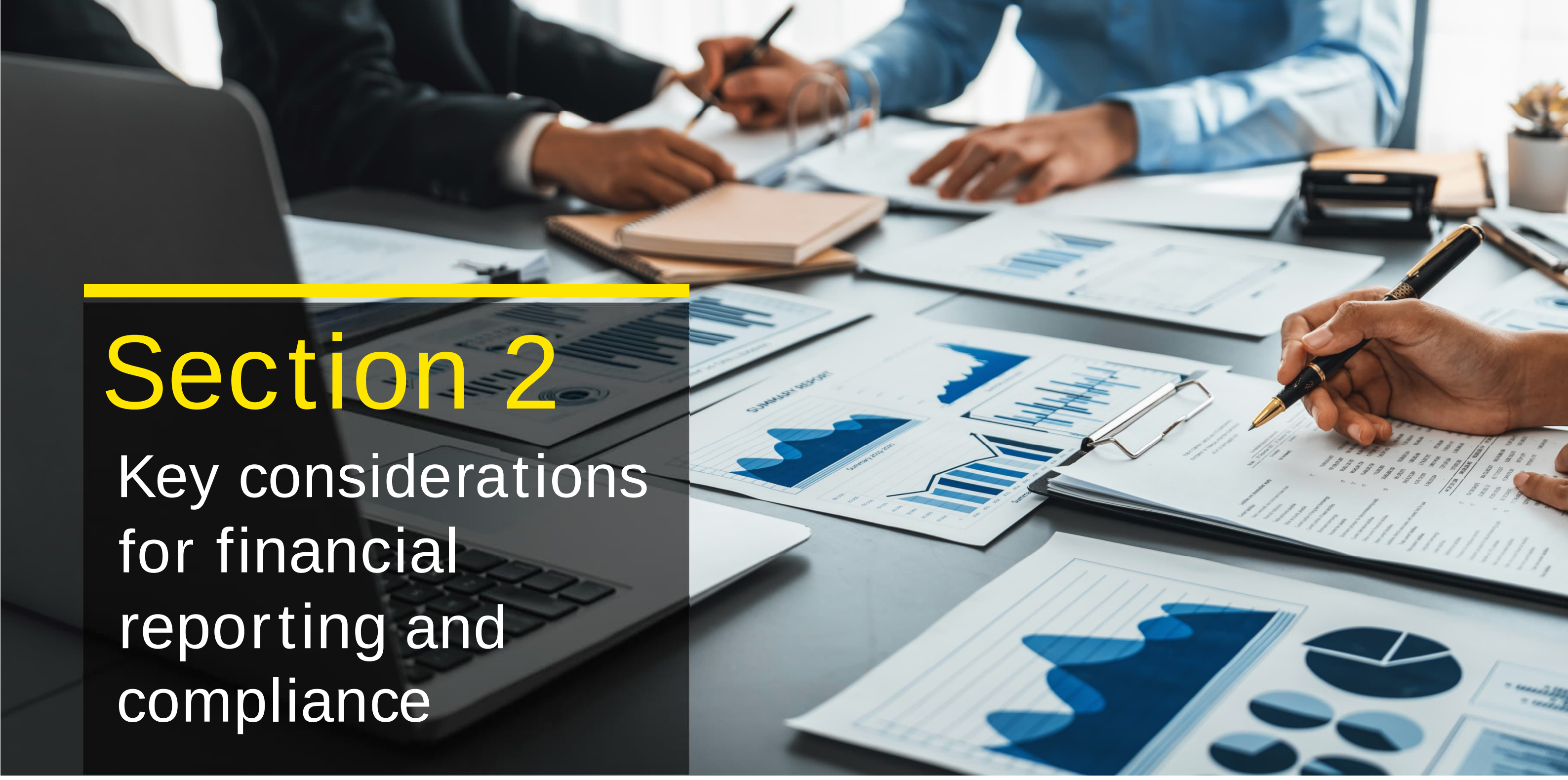
Understanding the implications of Ind AS 103 is important since they not only affect future earnings and the balance sheet of a company but may also have tax implications and questions from shareholders, etc. Fintech companies would also need to provide detailed information about the nature and financial impact of acquired businesses, which could enhance transparency but might also add complexity to post-acquisition financial reporting.

Key considerations for acquisition and post-acquisition accounting are:

- Evaluating acquisition structure and timing: Determining the acquisition date and whether an acquisition is a business combination or an asset acquisition.
- Performing purchase price allocation: Recognizing and measuring the identifiable assets acquired, liabilities assumed, contingent considerations and noncontrolling interests, if any.

- Recognition of intangible assets: Specific intangible assets such as customer contracts, customer relationships, brand, software, technology and platform must be recognized separately from goodwill at fair value if they meet the criteria of being identifiable.
- Recognition of goodwill or capital reserve: Allocating the remaining difference between the fair value of assets and liabilities vis-à-vis the consideration paid as goodwill or capital reserve.
- Evaluating the nature of contingent consideration: Accounting for contingent consideration payable to selling shareholder should be assessed to determine whether they are part of the business combination or compensation for post-combination employee services, based on the nature of the arrangement.
- Chart of accounts (COA) alignment: The acquiring and acquired entities must harmonize their COA to ensure consistent transaction classification and reporting.
- Financial statement close process (FSCP): Integrating the acquiree in the standardized group reporting and consolidation processes
- Goodwill impairment testing: Goodwill acquired in a business combination should be allocated, from the acquisition date, to each of the acquirer's cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination. Goodwill must undergo annual impairment testing, assessing whether expected synergies are materializing.
- Amortization of intangible assets: Intangible assets acquired (for example, software, customer contracts) must be recognized at fair value and amortized over their useful life.

Fintech companies must carefully assess the assets acquired in a business combination under Ind AS 103, particularly when dealing with intangible assets such as customer relationships. These assets, even if not separable, need to be recognized separately from goodwill if they meet the contractual-legal criterion. This distinction ensures accurate Fair Value Measurement and enhances transparency. Business combinations also introduce complexity in financial reporting with respect to mapping of Chart of accounts of merged entity, harmonizing accounting policies, and aligning FSCP for the entities as well as subsequent amortization and impairment testing.



Section 2

Key considerations for financial reporting and compliance

In recent years, fintech companies have become a pivotal part of India's financial ecosystem, experiencing rapid growth driven by regulatory reforms, innovation, and the ability to serve previously underserved markets. As these companies scale, the demands for enhanced compliance, faster and more accurate reporting, and improved operational efficiency have grown significantly. In this section, we explore key considerations for fintech companies to address these evolving challenges effectively.

1 Enhancing financial reporting and reconciliation through automation

Financial reporting

Fintech companies face key challenges in manual financial reporting, including error-prone spreadsheets, fragmented data, and inconsistent processes across divisions. Additionally, the absence of an audit trail complicates tracking changes and transparency, ultimately delaying reporting, driving up costs, and affecting the accuracy in financial statements.

The complexity of financial reporting and compliance has intensified, particularly with increasing scrutiny from regulators like the RBI and the National Financial Reporting Authority (NFRA).

Key challenges:

- Manual spreadsheets: Time-consuming, error-prone, and inefficient for standalone and consolidated financials.
- Disparate and time-intensive data: Data spread across systems, dependent on individual effort.
- Legacy systems: Non-compliant with Ind AS or applicable accounting standards, adding complexity.
- Inconsistent processes: Varied financial close procedures across divisions.
- Lack of audit trail: Difficult to track changes for compliance and audit purposes.

To address these issues, fintech companies require:

- Process automation: A solution to automate financial statement preparation and reduce manual effort.
- Structured organization: Clear roles and responsibilities in the reporting process.
- Timely and accurate reporting: A streamlined reporting structure for leadership and stakeholders.
- Audit trail: Implement Enterprise Resource Planning or financial reporting platforms that log all changes made to financial statements in real-time, detailing who made the change and when, ensuring transparency, traceability, and compliance with regulations.

Implementing an automated financial reporting tool can significantly reduce production time, improve data accuracy, and enhance compliance, making financial reporting more efficient and reliable.

Reconciliations

Fintech companies face significant challenges when reconciling vast and complex transaction volumes. The diversity and scale of transactions, often across multiple systems and currencies, make it difficult to ensure accuracy and consistency. Manual reconciliation is time-consuming, prone to errors and heavily reliant on skilled resources, which can drive up operational costs. Additionally, the month-end close process can become prolonged, delaying financial reporting and potentially increasing the risk of inaccuracies. To address these challenges, advanced automation solutions can streamline and simplify the reconciliation process. Automating transaction matching would enable fintech companies to accelerate the month-end close, reduce human errors, and enable more reliable financial reporting

2 Strengthening internal controls over financial reporting

As fintech companies scale and diversify, maintaining robust Internal Controls over Financial Reporting (ICFR) becomes increasingly critical. Internal controls are designed to ensure the accuracy, reliability, and compliance of financial statements, which is especially important in a highly regulated and fast-evolving industry. However, many fintech companies face significant challenges in implementing and maintaining effective controls as they navigate complex financial operations, regulatory requirements, and growth pressures

Key challenges

- Complex and disparate systems: Fintech companies often rely on multiple, disparate systems for financial data ranging from core banking platforms to third-party payment processors and accounting systems which can lead to gaps in control and errors in financial reporting.
- Scalability of controls: As operations grow, existing controls may become insufficient, making it difficult to manage larger volumes and more complex transactions
- Regulatory compliance: With the constant evolution of accounting and regulatory frameworks like Ind AS, RBI guidelines, etc., fintech companies should ensure that their internal controls align with changing regulations, which can be a resource-intensive and technically complex task.
- Lack of transparency and auditability: A lack of an automated and integrated control framework can result in limited visibility into the financial reporting process, making it difficult to track changes, identify discrepancies, and comply with audit requirements.

What is needed:

- System integration: By integrating financial data across systems, these companies can create a unified control framework that minimizes errors and improves accuracy.
- Improving processes and controls: Continuously improving internal controls through regular assessments and updates ensures that the organization remains aligned with regulatory requirements and industry best practices. Implementing a feedback loop for process improvement fosters an agile approach to financial reporting and compliance.
- Risk management and mitigation: An effective internal control system should include robust risk management strategies to identify, assess, and mitigate potential risks related to financial reporting. By integrating risk management into financial processes, fintech companies can proactively manage regulatory compliance, data accuracy, and fraud prevention.

3 Regulatory reporting

Regulatory reporting consumes a significant amount of time, effort, and cost. Across fintech companies, there is an increase in organizational responsibilities due to additional reporting and data requirements from the regulator. The key challenges in regulatory reporting include:

Key challenges

- Unstructured working templates: Inconsistent and manual reporting templates lead to inefficiencies and errors.
- Automation gaps: Relying on manual processes for regulatory reporting consumes significant time and increases the risk of errors.
- Interpreting regulatory changes: Difficulty keeping up with frequent updates to circulars and notifications.
- Dependency on multiple stakeholders: Delays occur due to the need for coordination across various teams and departments.
- Responding to queries: Providing accurate, timely responses to management and regulators can be challenging without streamlined processes.

What is needed:

- Standardize and automate: Streamline reporting templates and automate processes to reduce errors and save time.
- Integrate systems: Automate systems to enhance data accuracy and efficiency.
- Regular training: Keep teams updated on regulatory changes to ensure correct interpretation.
- Improve coordination: Use collaborative tools to enhance stakeholder communication and meet deadlines.
- Efficient query responses: Implement structured processes for managing regulatory queries efficiently.

We acknowledge contributions from:

Adarsh Ranka
Partner and Leader, Financial Accounting Advisory Services (FAAS),
EY India

Jigar Parikh
Partner, Financial Accounting Advisory Services (FAAS),
EY India

Manan Lakhani
Partner, Financial Accounting Advisory Services (FAAS),
EY India

Yash Mantri
Senior Manager, Financial Accounting Advisory Services (FAAS),
EY India

Hemina Maheshwari
Manager, Financial Accounting Advisory Services (FAAS),
EY India

Preeti Poojary
Assistant Manager, Financial Accounting Advisory Services (FAAS),
EY India

Priya Jadon
Assistant Manager, Financial Accounting Advisory Services (FAAS),
EY India

Offices

Ahmedabad
22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon Temple
Off SG Highway, Ahmedabad - 380 059
Tel: + 91 79 6608 3800

8th Floor, Building No. 14A
Block 14, Zone 1
Brigade International Financial Centre
GIFT City SEZ
Gandhinagar – 382 355, Gujarat
Tel + 91 79 6608 3800

Bengaluru
12th & 13th Floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground & 1st Floor
11, 'A' wing
Divyasree Chambers
Langford Town
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield, Bengaluru - 560 048
Tel: + 91 80 6727 5000

Bhubaneswar
8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar
Odisha – 751024
Tel: + 91 674 274 4490

Chandigarh
Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai
6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Aikyam
Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Haryana
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad
THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur
9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur, Rajasthan – 302018

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

6th floor, Sector V,
Building Omega, Bengal Intelligent Park,
Salt Lake Electronics Complex, Bidhan
Nagar
Kolkata - 700 091
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No.301
Building No.1, Mindspace-Gigaplex
IT Park, MIDC, Plot No. IT-5
Airoli Knowledge Park
Airoli West, Navi Mumbai - 400 708
Tel: + 91 22 6192 0003

18th Floor, Altimus
Pandurang Budhkar Marg
Worli, Mumbai - 400 018
Tel: + 91 22 6192 0503

Pune
C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Pune - 411 045
Tel: + 91 20 4912 6800

Ernst & Young Associates LLP

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

Ernst & Young Associates LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 6th Floor, Worldmark-1, Asset Area 11, Hospitality District, Indira Gandhi International Airport,
New Delhi-110037, India.

EYIN2504-019
ED None

JG

ey.com/en_in

@EY_India EY EY India EY Careers India @ey_indiacareers