

Changing face of lending business driven by digital and evolving customer behaviours

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Key takeaways:

- ***Time for 'lending as an end to end service' has come:*** Increasingly vibrant and evolving digital ecosystem and digital infrastructure has enabled FIs to offer 'digital lending' as a service and create innovative use cases around this.

The lending business, in recent years, has been disrupted by digital. The disruption is driven by the need for superior customer experience, emerging business models, faster turn-around time, and adoption of contemporary technology like cloud, Artificial Intelligence (AI) and Machine Learning (ML). Emergence of the digital eco-system that enables verification of data at source like Central Registry of Securitisation Asset Reconstruction and Security Interest (CERSAI) and Aadhaar based e-KYC along with e-sign, e-mandate, and e-stamping have enabled end-to-end digital journey facilitating the disruption.

Changing consumer behaviour - driving adoption of digital lending products

Customers are adopting digital avenues as a result of the rise in smartphone usage and internet penetration. Digital channels influence 40– 60 per cent of loan purchase transactions across loan types.³ Online research is the dominant discovery enabler for credit products. Around 55 per cent of buyers use online tool/recommendation for credit products. Mobile is expected to influence ~6 out of 10 transactions for personal loans and ~7 out of 10 transactions for other retail loans by 2022.³

Moreover, the face of consumers who are new to credit is also getting increasingly diversified-nearly 49 per cent of consumers are under 30 years of age, 71 per cent are from non-tier 1 cities and 24 per cent are female borrowers.²

COVID-19 has further accelerated the shift to digital

This shift to digital accelerated by COVID-19 is further expected to push the digital lending market growth. This digital route to secure instant credit has also helped the MSME loan book of digital platforms to swell from last year. For instance, digital lending platforms worked in partnership with banks to enable MSMEs to sign up for the government's Emergency Credit Line Guarantee Scheme (ECLGS) that was launched last year post-COVID-19.

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The digital lending sector is forecasted to be the highest penetration sector by digital channels in India by 2023 with a growth rate of 48 per cent and a valuation of USD350 billion from its valuation of USD110 billion in 2019.¹

Financial Institutions (FIs) need to consider six key themes to enable sustainable digital lending growth

- 1. Re-imagine customer experience:** This is an important differentiating factor. With the rise of more FIs switching to digital lending, the simplification of the process while ensuring all the risk formalities is critical and will set each FI apart from the other
- 2. Treatment of 'data as currency':** Developing data-driven and data-backed surrogate lending programmes leveraging behavioural data of customers through ecosystem partnerships contributes to growth
- 3. Automated decisioning:** Gone are the days of customer personal discussions (PDs) where the credit manager would have the luxury of time to make a credit decision. In the world where loans are to be disbursed in minutes, credit decisioning has to be on-the-go. However, that does not mean FIs need to do away with robust underwriting standards. Usage of alternate data powered by ML algorithms can make the process faster as well as unbiased. The key design principle behind intelligent underwriting is access to customer's behavioural as well as financial data, verifiable at source. Usage of geospatial analytics, mobile metadata, customer's intent to pay are some of the critical elements in making credit decisions in the digital journey
- 4. Intelligent automation:** Smart AI/ ML-led operations for originations, underwriting and servicing is important for robust digital growth
- 5. Elastic infrastructure:** Cloud-first technology strategy is critical to address resilience required to support the scale of digital lending especially during the seasonal events in the country where disproportionate growth is expected
- 6. Intelligent AI-led monitoring and collections:-** To support robust digital lending growth, FIs should increasingly focus on AI/ML-led predictive monitoring and collections model, leveraging customers' application score, behavioural score and ecosystem score to ensure sustainable growth of digital lending book at scale.

Emerging models to look out for in digital lending:

With the growing pie of digital lending, some emerging models are taking shape beyond the Proof of Concept (PoC) stage:

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- a. **Neo-banks** – largely focused on MSME lending comprising small ticket business loans
- b. **Fintechs** – Focussing on niche products and customer personas, particularly, bottom of the pyramid with micro-personal loans
- c. **Digital Small and Medium enterprises (SME) lending** – specific use cases around invoice discounting leveraging account aggregator architecture
- d. **Digital lending beyond unsecured products** – with increasing percentage of land record digitisation, FIs can look to build specific use cases for secured lending especially through tie-ups with Agritechs for providing small ticket secured lending products digitally
- e. **Ecosystem based model:** open architecture to distribute third-party lending products

The new age companies with their focus on niche products and personas are chipping away at the traditional lending business. Thereby, the digital lending journeys are re-shaping the operating models and are, in particular, impacting functions like Lead Management and Origination, Credit Underwriting, Operations and Risk, etc.

With business under threat, traditional lenders are undertaking rapid transformation of their operating models to infuse agility and speed to market, to match the ‘new age’ players.

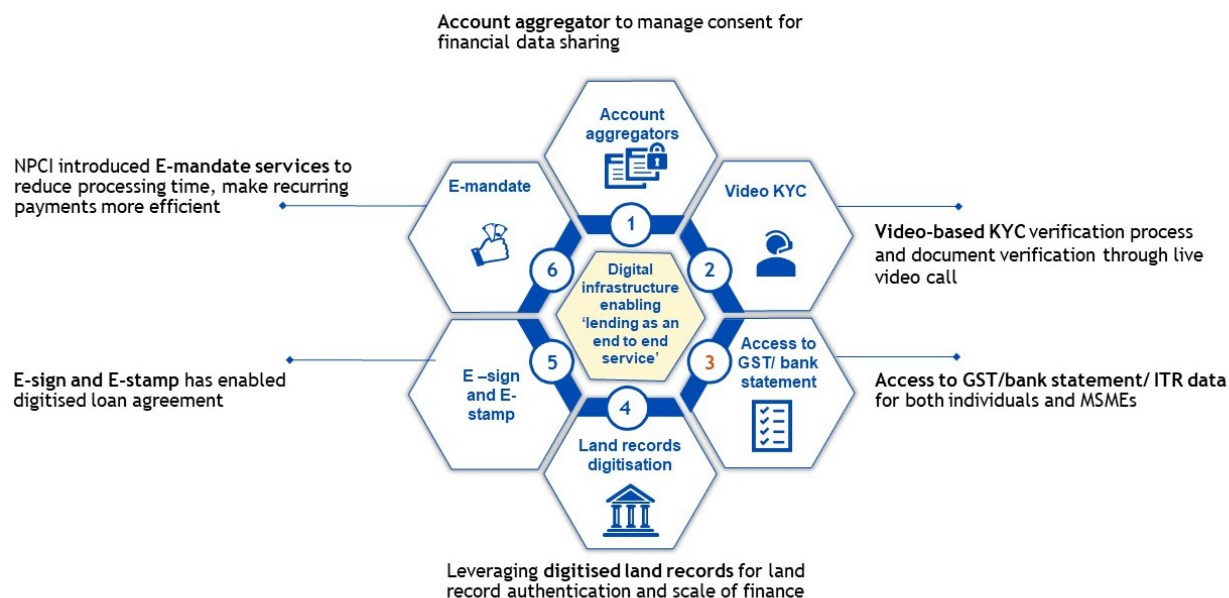
Hence time for ‘lending as an end to end service’ has come:

Increasingly vibrant and evolving digital ecosystem and infrastructure has enabled FIs to offer “digital lending” as a service and create innovative use cases around this.

Moreover, digital lending being offered as a service through digital infrastructure is going to be a futuristic business model for banks, NBFCs and fintechs thereby enabling them to plug into the wider ecosystem to meet customers’ everyday needs and life goals. By being omnipresent in the ecosystem, financial services firms will look to transition into an “ecosystem-based model” for its customers, thereby playing a critical role in helping its customers satisfy their needs.

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Adapt or perish

Financial institutions in India are at a critical decision point – they need to cross the Rubicon and adapt to the digital way of life. This means changes in the way things were done since ages, and bigger institutions have tougher row to hoe, but hoe they must. A complex web of multiple upstream and downstream systems needs to be simplified into a robust architecture and most importantly, the institutions will need a cultural reboot. Any digital transformation programme without the involvement of all stakeholders is bound to fail. The good part is that there is a directional as well as structural push by the Government of India to make financial institutions embark on the digital journey. With more and more banks and NBFCs taking the plunge and ensuing digital disruption, one can confidently say that our financial ecosystem will become digitally native in the coming years.

Sources: TransUnion- Google report, Eliminating Friction in Financial Services Path to purchase Report, KPMG in India, Google Digital lending Survey, IMAI Report

¹ The Business Loan Apps Market in India, 2021 - Rise of NBFCs and Digital Lending Platforms due to Business Opportunities, Intrado Global Newswire, 18 March 2021

² TransUnion- Google report, Eliminating Friction in Financial Services Path to purchase Report

³ KPMG, Google Digital lending Survey, IMAI Report

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