Journey of Digital Transformation - Indian Lending space

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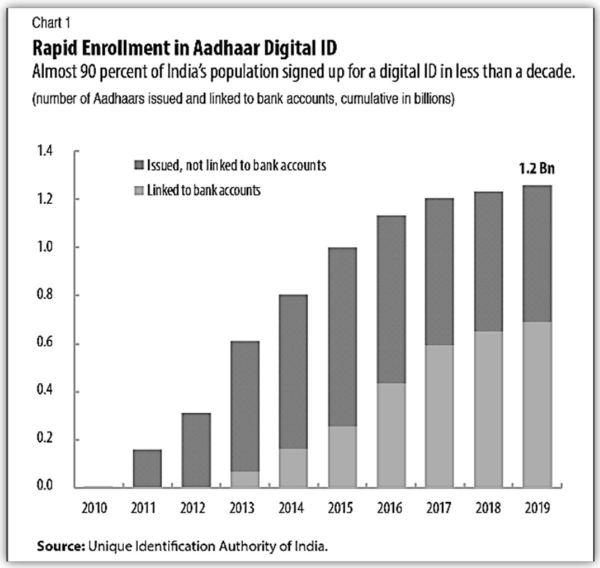
Today's consumers are coddled with choice with an array of desired services just a few swipes away. The fall of transactional barriers has led to a dramatic increase in impulse purchases. New apps now allow them to order lunch, book tickets, plan holidays, buy gadgets and an array of other things using a smart phone. These observations are seen globally with a phenomenal increase in the number of transactions even at odd hours.

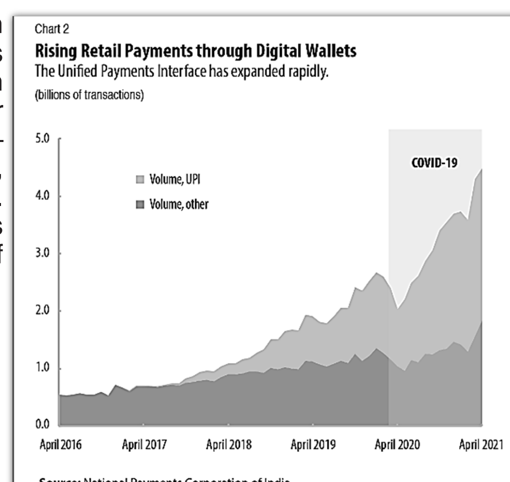
This stark change in consumer behaviour, increased opportunities with technological advancements, and constructive frameworks drafted by governments, compelled businesses to change their operating models and lending industry was no different. Pre COVID, fin-techs harbingered the digital transformation in lending space, followed by the large players who are contributing equally.



The pandemic had a significant impact on digital transformation, thus creating an immediate need for banks to communicate with their customers through digital channels i.e. websites, WhatsApp messages & Mobile Applications. This article intends to capture the transformation in the lending space – from the point of inception to what can we expect in the near future.

Indians on a voyage for finding a new identity:

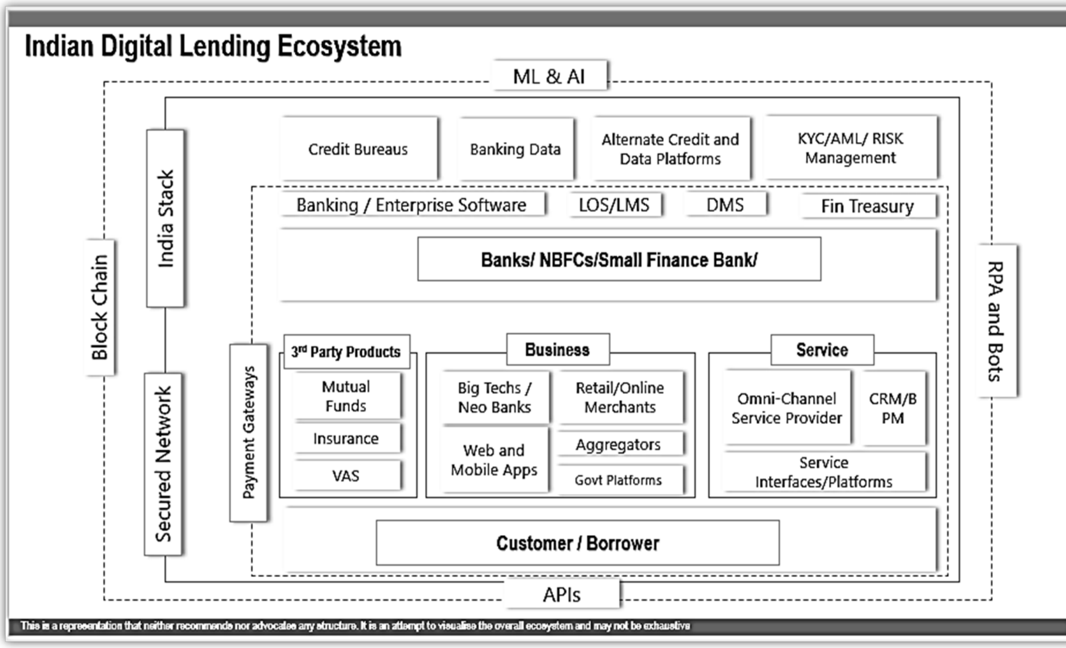
A decade ago, vibrant Indian markets were flooded by transactions in well-worn notes when Indians decided to take their first step towards today's digital transformation. The government initiated a campaign encouraging people to have their photographs, fingerprints, and other biometric details taken at enrolment centres across the country – providing them a 12-digit identification number – their new "Aadhaar", an access card for a range of services and government initiatives. Remarkable in its way, 1.2 billion people almost 90 percent of India's population signed up for a digital ID in less than a decade, about half of them linking their new ID to their bank account.



Aligned Market Forces bolstering the foundation of Digital Lending

The bedrock got established and simultaneous changes like 1) Widening telecom network and affordable faster 4G speed, 2) Proliferation of smartphones in urban and rural markets (from 34 million smartphone users in 2010 to 750 million smartphone users in 2021), 3) Emerging fintech players offering digital wallets and mobile money services; the Govt creating a new layer of UPI in India Stack that further enhanced the interoperability,4) Rapid enhancement in technology like AI/ML, Data Analytics coupled with quick adoption of digitalization by banks, and 5) Evolving new service providers across the end-to-end spectrum of financial services laid the foundation for the way ahead.

This synchronized effort has created the digital banking system, which is holistic with seamless intercommunication capabilities.



"Indisputably, technology is the core that drives transformation, but digitalization is much more than the mere adoption of new-age technology. It is about reshaping the business canvas envisaging the new customer journey, exchange of information, processes and timely adoption of right technology."

Hence, to understand how the key proponents, especially the financial institutions, are driving the digital transformation, it is significant to understand the essence of the lending business. The lending business is about identifying an apt borrower, offering credit post due diligence, with an ability to get the money back. All of this must happen under the scope of compliance, with controlled costs, improved scale, and enhanced customer delight.

Digital Lending: Reaching the last mile

Digital Lending is a simpler track. Its growing popularity among new-age lenders can be attributed to the expansion of smartphones, credit range flexibility and faster online transactions with minimum human engagement.

This has multi-fold advantages.

1) Increased access to customers loans, 2) Reduced cost of acquiring new customers for lenders, 3) Simplified data recording, 4) Better cross-sell opportunity 5) Reduced risk of document management. 6) Faster processing.

With this broader outreach and easy exchange of information, NBFCs' share in the digital lending space has jumped multiple folds in last couple of years.

So, can anybody seek a loan in the digital market?

The answer is Yes, provided this "anybody" fits in the scope of the credit policy of the lender. At Tata Capital, we are highly conscious of responsible lending. Using the digital KYC stack, we accurately determine the customer's identity and absorb alternate data like customers' history with other lenders, psychographic details, geographical details, and umpteen other parameters to determine customers' eligibility for loans.

Upon introspection, we realise how tiresome and error prone it would have been to manually execute the above technological and digital processes. An executive would be awaiting a customer report from a fellow colleague who could be otherwise engaged, unwell, overwhelmed by data overload, or simply unavailable at that moment, thus leading to a delay in the information extraction procedure.

Such concerns get addressed by the APIs, and scorecards – they take customer details as input, run the rules (like spending pattern, bureau scores, FOIR, etc.) defined by the underwriting and risk team, and give the specific output. Basis this report and additional diligence, "anybody" may get the requested credit, a revised offer, or a declined message.

Digitalization has also expanded its coverage to legal documentation, wherein, contracts are being signed digitally. Further, wherever digital signatures are not available for certain types of documentation, SMSs and emails containing confidential consent codes are shared with customers which are then input by the customers and considered as their signoff.

With so many checks in place, will all the money come back?

All money coming back would be a true paradise for the lenders as well as economy. However, just like every other business, the lending space comes with its own set of risks. To minimise the risk of delinquency, lenders use predictive modelling basis inputs from the bureau reports, internal repayment pattern, and customers demographic data and spend pattern to determine the probability of default. Systems then classify such cases into different cohorts of high to low risks and allocate these cases to the collection agencies and system bots.

Companies sensitize customers through IVR calling, use bots to send them the due reminders, and provide an array of convenient repayment options – through auto debit, mobile app, website, UPI etc. reducing the hassles of travel and cash management for the customer as well as company executives.

Enhanced Technology is Enhanced Productivity and Customer Delight

Various tools like RPAs empower the employees by automating repetitive tasks like – data capturing, categorization, reporting, publishing, accounting, etc. These reduce manual intervention on mundane tasks, improve employees' productivity, reduce the scope of error, and get the work done faster.

The overall customer experience is delivered when we deliver superior quality service that is faster and more seamless. This is possible only when you provide easy access to customers and create multiple touchpoints of interaction. Such an omnichannel presence gives lenders the ability to listen the unstated needs of your customer and use technology to increase the value proposition.

For example, in addition to data like customer rating for a product, feedback for a process, reviews on a social media platform, incoming queries over emails and regular customer meetings, combined with the internal behaviour of similar customer segments, there exists a gamut of data that, if processed judiciously and ethically, unearths a pool of opportunities.

In today's era, the world resides in different time zones but demands service in real-time. Chatbots come in extremely handy in automating real-time service for routine tasks like – Bank statements, reports on utilization, Next EMI amount, and important dates, allowing the customer service team to attend to more complex issues.

Voice-based chatbots use advanced features and eliminate the linguistic barrier by communicating with the regional dialects.

Advancements in Natural Language Processing are an added boon. Using AI, Robo-advisors basis semantic analysis helps lenders effectively manage the large volumes of customer queries over emails. For example, the words used in an email, the tone, and the frequency of communications to analyse the sentiment and the matter of concern and classify them into various categories and then trigger emails to respective teams in the company.

With effective data management, lenders can establish various touchpoints like sending communications of pre-approved offers to customers, launching new services on existing loans, etc., thus ensuring constant customers engagement.

Advanced Data Analytics and AI are used to find certain connections and patterns. These patterns make it easier to spot untapped sales and cross-sell opportunities or operational data variables, directly impacting revenue.

Future Outlook and Potential Threats

If past performance is key to predicting the future, it is undisputed that digital lending is the way forward. In the not-so-distant future, lending in general and especially retail and MSME lending through physical mode may be rendered obsolete. With services such as video-KYC, Aadhaar-based KYC, and websites and applications with cutting-edge functionalities, loan application procedures will become more efficient and less cumbersome.

Additionally, using AI/ ML, and big data analytics to collect and evaluate data from multiple sources to evaluate an applicant's creditworthiness more quickly and efficiently. Public Credit Registry is a repository initiative by RBI that will put together the new credit and existing credit (individual and corporate). It will maintain the credit history, outstanding loans, repayments history of the borrowers, and ancillary data around taxation in a single extensive database. Reducing the asymmetry will give the lender a 360-degree view of the customer's credit history. Moreover, with the technology that enables alternative credit scoring, lenders can extend credit to a more significant number of individuals, thereby advancing the cause of financial inclusion.

Open Banking facilities coming up through Account Aggregators (AA), which seek customers' consent to share their data digitally, would gradually make the BFSI industry rely entirely on this service. In addition, Open Credit Enablement Network (OCEN) will further democratize the access to credit by putting the borrower in the proximity of not just one but a network of lenders.

Data Security must not pose any threat; therefore, the government is working on the Data Empowerment and Protection Architecture (DEPA) which aims to bring democracy to consumer space databases by involving standardized architecture and open APIs. Additionally, lenders are equally accountable for ensuring the safety of customers' data. With fraud detection rising in the Lending space, it is essential to have a multi-layered IT system with robust access controls. Banks and NBFCs must also ensure to do business with registered bodies.

With so much in place, Indian Lending Infrastructure still has much more to strengthen and develop. To state a few, well defined jurisdiction against cybercrime, data privacy, frauds across international borders, and data management by regulated entities need further clarity.

Reports by industry bodies project that the Indian FinTech market will be at ₹8.35 lakh crore by 2026, thus expanding at a compounded annual growth rate of ~24.56 percent.

The digital lending revolution will continue to disrupt the extant processes and will help the Indian economy achieve higher Financial Inclusion. However, to leverage the opportunities traditional lenders must keep up with the pace of technology to stay relevant and competitive. In this rapidly evolving market, it’s time to innovate, integrate and accelerate into the future with complete integrity.

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