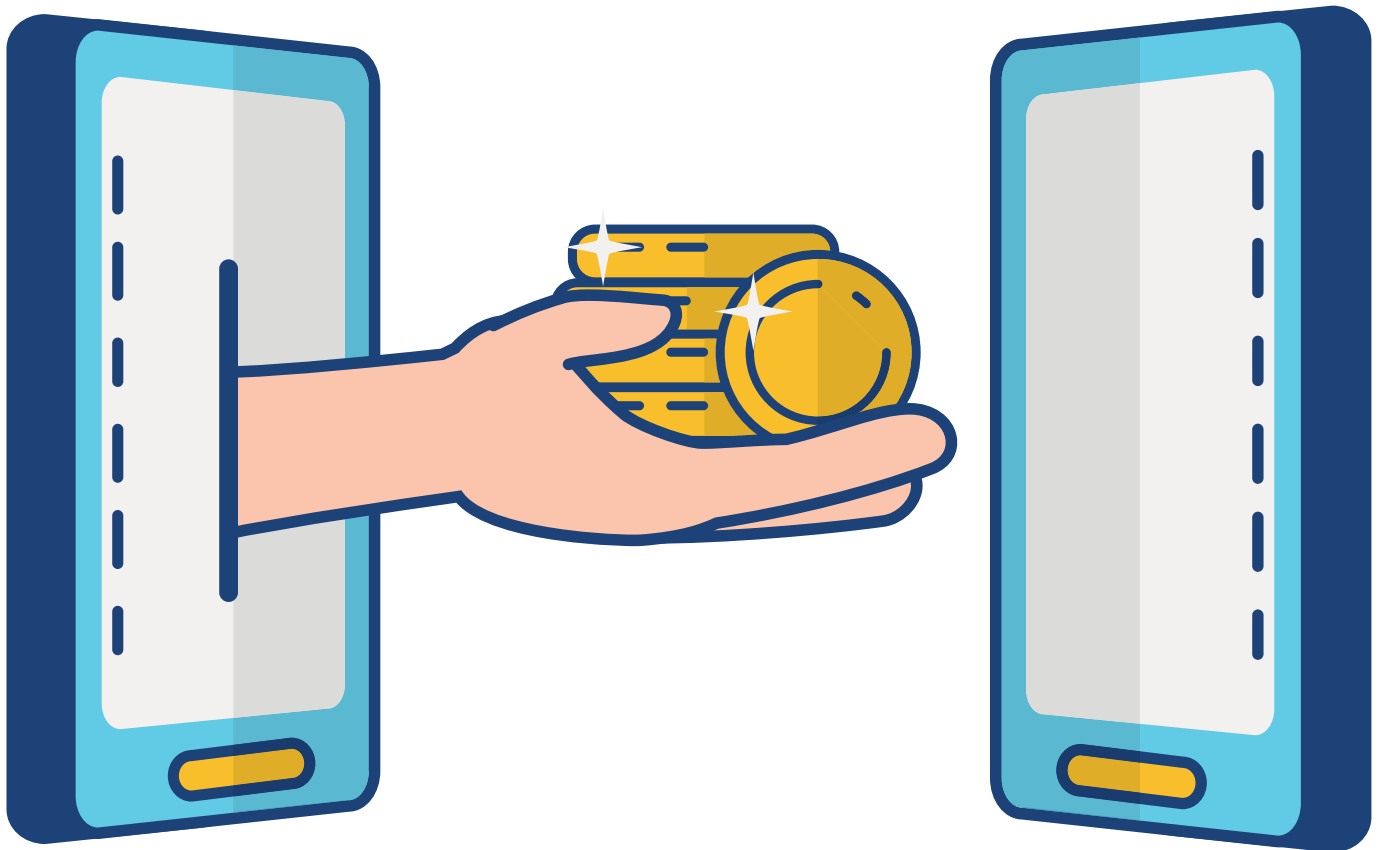


Digital Lending in India

Changing the Outlook of Loans & Credits in India
with Pega and LTI



Authored by Preshit Mendhekar & Venkatesh Sakkaji

Executive Summary

Mortgage has always played a significant role in an Indian household for years. Banks and Financial Institutions have been key to this important event in the life of Indian customers. Hence, the loan origination process is not restricted to just a transactional affair but builds a life-long relationship with the customer. By life-long, we mean, banks also have to think of customer's future needs.

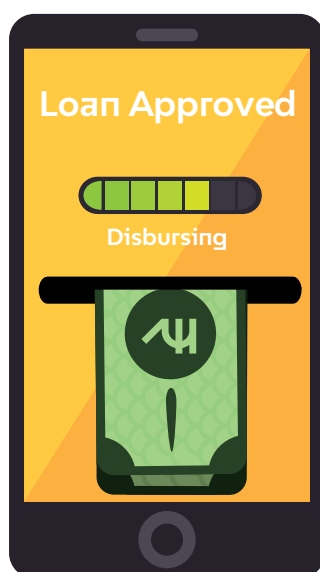
In this technology driven world, Digital Lending or Digital credit has emerged a critical product for banks and FinTech companies. With more than 500 million internet enabled population in the country, there are opportunities for majority of the country's population to access affordable credit like never before.

Online access, less or almost nil paperwork and flexibility are the driving factors in Digital lending market. Customers who are looking for instant credits, can register and sign in on an online lending platform, fill out the necessary information and share the necessary documents over email or just upload them and submit the application in a matter for minutes.

Digital lending platforms have technology to easily assess a borrower's creditworthiness within minutes based on the data given by the customer. The algorithms and predictive models, which the lending platforms use can predict the borrower's ability to repay the loan.

Introduction of Aadhar based E-KYC, video KYC, PAN Details and CIBIL Score etc., is helping the lenders to reduce the cycle time immensely while processing the loan application.

To achieve the above, lenders have to wisely choose a digital lending solution which will not only boost the customer experience but also help the lenders to maximise their output.



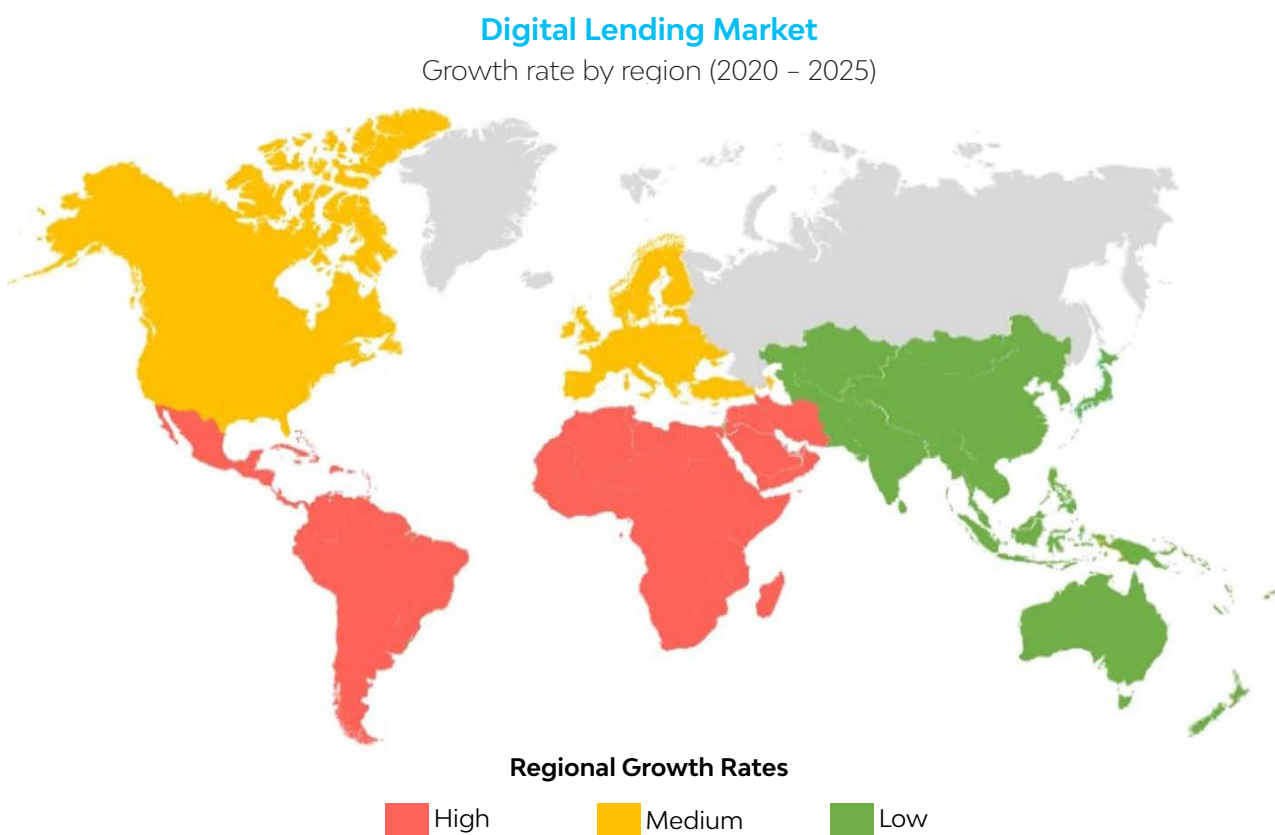
Digital Lending Market Trends

Global Scenario

According to the ABA (America Bankers Association), 50% of large banks in the North America are already using digital platforms to deliver their lending services to customers.

According to the Allied Market research, the global digital lending platform market is anticipated to grow at a CAGR of 19.6% and garner \$19.88 billion by year 2025-26.

The below chart depicts the Growth rate by region for a period of 5 years from year 2020 to year 2025.

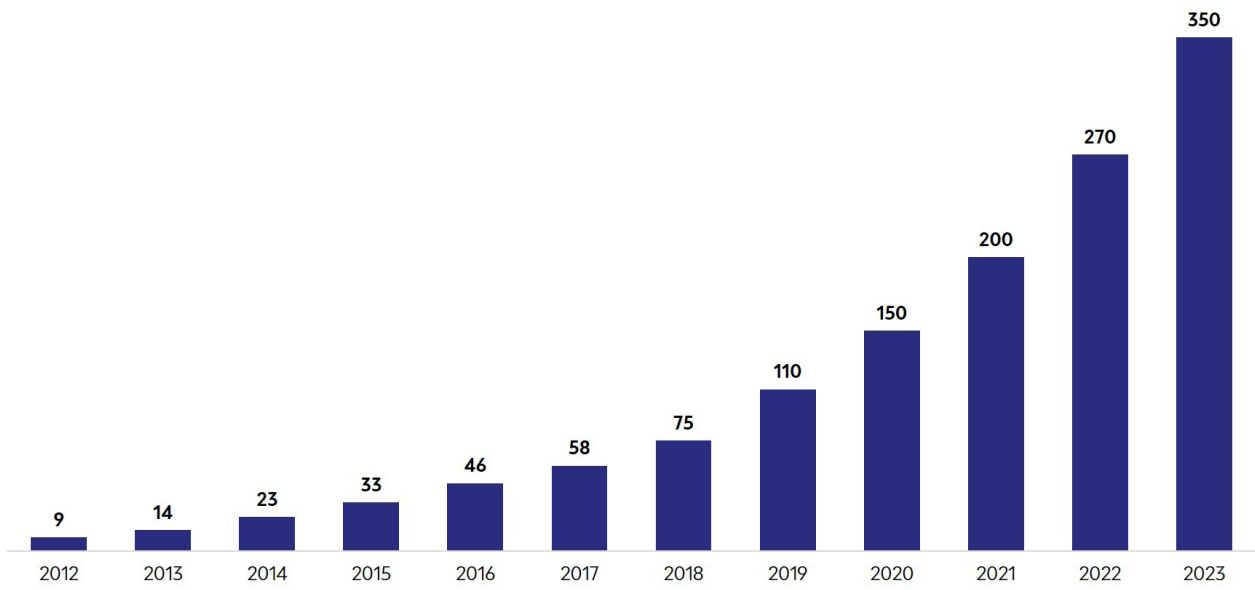


Source: Mordor Intelligence

Indian Scenario

In the last few years, there is an upsurge in credit lending activities in India primarily due to – Tech Savvy millennials, increased use of mobile banking, big data & technology advancements, conducive regulatory environment, and advanced operating models.

For e.g., Consumers are largely using digital lending to avail loans for buying mobile phones, automobiles etc. These loans have minimal documentation, very quick turnaround time and process is relatively very transparent when compared to traditional lending.



Growth of digital lending in India (in USD billion)
Source: CIBIL, BCG Google 2018 Digital Lending Survey

Key Facts



Digital Lending Market share to reach 48% by 2023

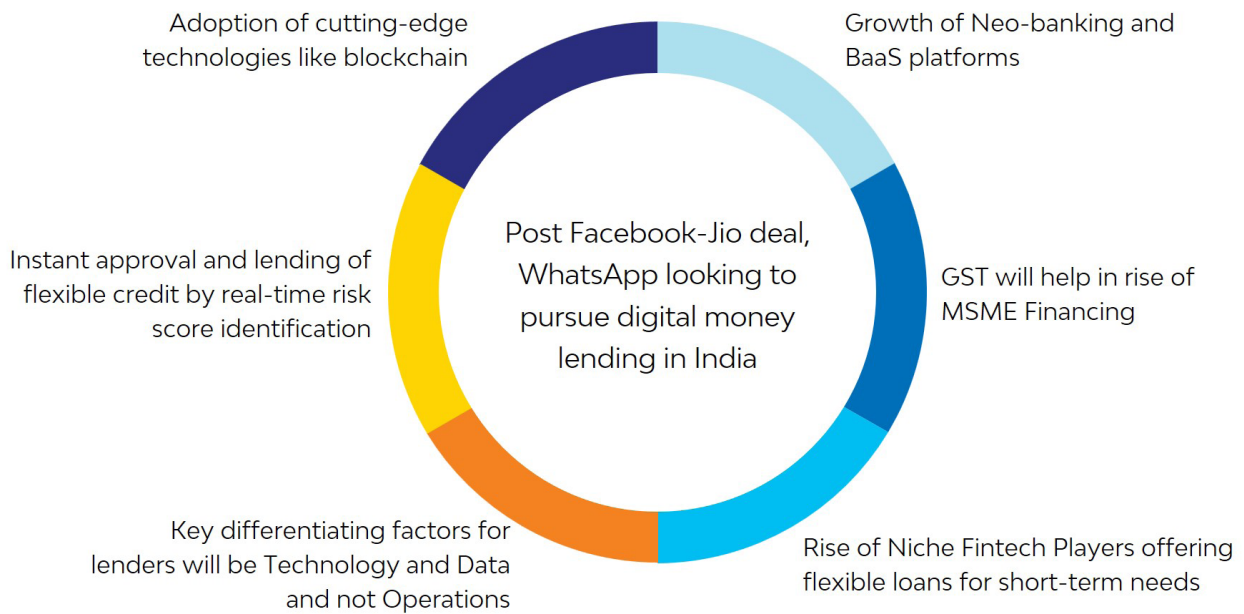


India's digital lending market growth to reach USD350 billion in 2023



85% of Indian banking customers use digital banking services

Key Trends in Indian Digital Lending Market



Primary Target Population

Traditionally, Indian lending process involved rigorous documentation like income proof, payslips, credit bureau records, references etc. This meant that certain groups like low-income groups, non-salaried individuals such as SME owners and self-employed population found it challenging to get access to formal credit.

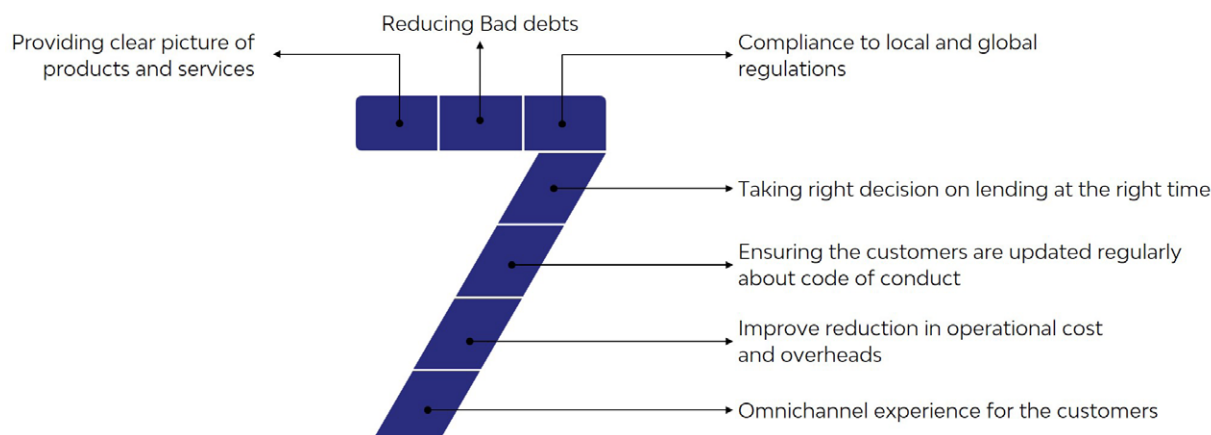
However, with the technological advances, it has become easy to use alternate data generated from sources such as telecom, media, social media etc. This data coupled with psychometric analysis helps to determine the ability and the intention to repay the loan. This means a majority chunk of credit worthy thin-file individuals and businesses can procure credit from established institutions.

Key challenges for the Indian FinTechs

The rapid shift from traditional lending to digital lending has created a surge in need of reduced loan management time among customers. This means technology must act as the enabler for innovation and risk mitigation at the same time.

There have been cases of frauds and violations of company's rules and regulations in the race to grant quick credit.

Below infographic helps in understanding the current key challenges for Indian digital lenders:



The COVID Impact

One of the major requirements of any lending process is ensuring the seamless onboarding of the customer while ensuring all location regulations are adhered to while performing KYC. With the withdrawal of eKYC to NBFCs, the process of customer onboarding has become a concern. The business impact of Covid means the operation costs must be kept at minimum. This means modifying the business model to onboard an ever-increasing customer base who is preferring contactless financial services.

In addition, recent RBI actions like loan restructuring will mean either there will be a reduction of the interest rates on loans or an extension of its repayment tenure, or both. Such decisions require lenders to be agile enough to accept and incorporate these changes in the system to pass on the benefits to borrowers.

How Technology can shape the Indian Digital Lending Market?

Decisions in Digital Lending

Advanced Analytics and Artificial Intelligence helps in enabling quick decisions on credit and approval, with reduced cost in underwriting. For customers, the loans are also disbursed in very less time.

Digital lending platform assimilates various data points gathered from advanced technologies like AI/ML, SMS records, traditional credit history as well as social media (using NLP) to filter out the worthy customers.

E-signature, biometric-enabled authentication, video KYC etc. help enable zero human touch monitoring leading to efficient monetary tractions.

Data from PoS machines are used by Fintech companies to calculate related credit risk and decide on approval amount and loan tenure. The above stated technologies also back the credit decisions made.

PoS based digital lending system is estimated to grow to cover one -fourth of the entire digital lending market. (More than 25% of the entire market).

For e.g., a leading NBFC company, NeoGrowth, has raised over \$90 million from investors by developing a lending platform that uses PoS machine data of merchants.

Customer Service

The use of technology cannot be restricted to only the onboarding and disbursement process. AI driven customer service will hold a key in the coming days as more and more customers opt for digital lending. The use of speech and text processing will ensure that service can be offered through voice-enabled platform as well.

What it takes to be a 'Best' in class Digital Lending Solution

A good technological solution for any digital lending process should assimilate the customer experience, organizations' business rules, compliance to regulations and have an efficient document management. It should support a unified process while being a rules-based platform that is easy to administer, flexible enough to change rapidly and quick to deploy.

The below factors need to be considered while selecting any digital lending solution:

Automating Collaboration & Processes

Automation of credit processes ensuring seamless collaboration and enabling more parallel processing across RMs, Credit Analysts, Decision Makers, Onboarding and Admin to improve efficiency and experience. Ensuring all the processes are harmonised across all business entities.

Orchestrating Across Systems with Transparency

Simplified credit journeys that complement existing systems and provide greater transparency to improve customer and team experience, increase STP and maximize revenue potential.

Maintaining Data Integrity:

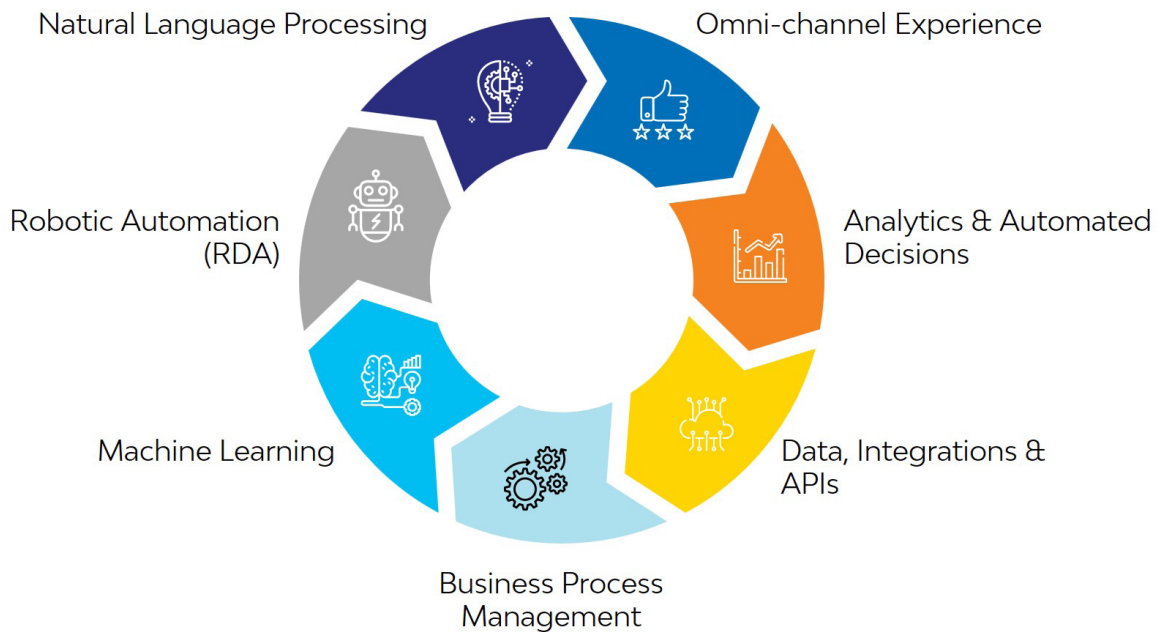
Many Lenders may still prefer to use data stored in their legacy systems. This data must be compared to the data in the documentation submitted by the customers. The digital lending solution must bridge this gap by not only providing cross document validation, but also automatically guiding the process to ensure that data in the documents is consistent with data in the system of record.

Intelligent Decisioning

Leveraging available data for assessing risk appetite and enabling more accurate pricing to increase conversion, with better visibility into the origination and fulfilment stages.

Agile and Flexible

Easy to modify, able to adapt to the changing the changes in market and regulatory requirements



The qualities of a desirable digital lending solution

Pega – Enriches the Lending Operational Quality

Pega provides an End-to-end case management with parallel processing and real-time status transparency. It also offers process orchestration across internal & external systems from credit origination to disbursement. It simplifies the rules management across multiple products and banking entities. By including, credit scoring and risk assessment with flexible risk-based pricing, Collateral management and Automated decision, Pega addresses numerous challenges faced by Banks and FinTechs in digital lending.

Pega provides accelerators to deliver a lending solution that is tailored to the needs of digital lending.

Some of the key features which makes Pega a leading digital lending solution:

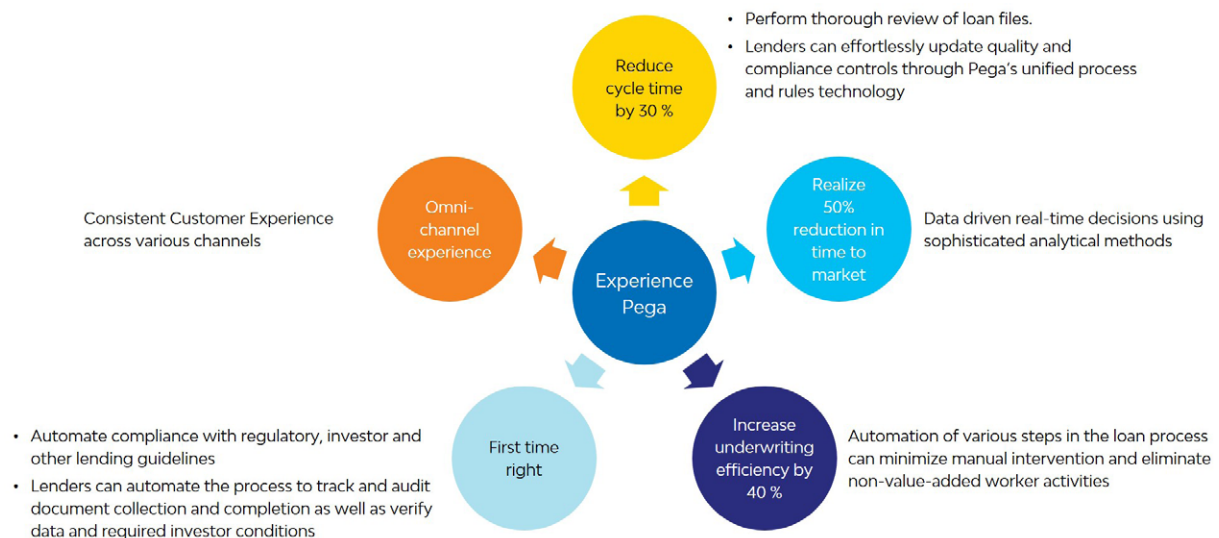
- Pre-defined data model, rules, workflows, UIs and decision tables help in identifying key elements and entity relationships used in typical loan origination processes
- Model-driven development (NO CODING!) that enables organizations to turn business objectives into applications that deliver measurable business advantage with speed and agility

- Sample retail and commercial lending journeys with predefined case types, process flows, and decision points
- Real time scoring engine to manage and incorporate credit risk models, pricing models and decision strategies
- Sample integrations of core lending, credit risk systems and 3rd party data
- Sample UI/UX components with demos showing how these can be embedded into web and mobile apps
- AI/ML and NLP make the customer onboarding quicker and effortless than ever
- Rules driven agile and flexible engine with business-level control on the over the loan process
- 1:1 customer engagement providing 'Contextual' and 'Relevant' Loan offer and products
- Guidance on best practices for customers and customer facing teams to ensure the most appropriate conversations

Pega's integrated platform is used by a leading Australian insurance company Suncorp group for automated mortgage, personal loan, and credit card issuance. The solution is deployed across multiple channels, which enables improved customer service, faster approval times and an increased capacity for handling new business.



100% Automation with Pega
A typical loan original process in Pega



Pega has also launched a Crisis Small Business Lending reference application to help financial institutions manage emergency loan applications coming from businesses seeking financial relief in relation to the coronavirus pandemic.

Conclusion

Banks and Fintech corporations can focus on leveraging the digital lending market by delivering excellent customer experience and making each customer interaction count.

Digital lending solutions powered by Pega bring together processes, data, and systems to deliver an efficient lending journey and regulatory compliant process with a customer-focused approach.

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