GUEST COLUMN

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How shift to digital credit underwriting helps India

In an evolving financial landscape, digital transformation is no longer optional but necessary. As credit underwriting is the bedrock of lending decisions, its modernisation is crucial for financial institutions (FIs), especially in India, where the diverse market demands efficiency, digital collaboration and financial inclusion.

Digital underwriting is not just about faster decision-making through automation; the process ensures greater financial inclusion, offers high straight-through-processing (STP) rates and maintains risk control. Traditionally, credit underwriting has depended on documented financials and credit bureau scores. This approach fails to cover a large part of the market that is new-to-credit. It is estimated that more than 400 million adults in India are credit un-served and another 160 million are credit underserved. Traditional underwriting often automatically rejects or approves a limited number of applications, pushing many into the review bucket, restricting STP rates and increasing inefficiency.

Digital transformation offers a new paradigm, utilising alternative data, artificial intelligence (AI) and advanced decision-making engines to rethink underwriting. By integrating real-time data and alternative credit indicators, FIs can better assess creditworthiness, offer personalised lending and expand financial inclusion.

One of the key innovations driving this transformation is the use of alternative data.

Digital underwriting is not just about making decisions quickly through automation: It ensures greater financial inclusion and improves risk control

Traditional credit scores give an incomplete picture of a borrower's financial behaviour. With digital tools, lenders can incorporate information such as account aggregator banking data, financial transactions, GST or tax returns, e-commerce activity and even social media behaviour, providing a more holistic view of a borrower's financial standing.

This shift has proven effective. A TransUnion study found that once underserved consumers become credit-served, they are likely to apply for more credit, demonstrating how access drives greater financial engagement. By leveraging this broader data ecosystem, India can expand credit to underserved populations, including small business owners and gig workers who may not fit traditional models or have consistent income streams.

Adopting flexible, analytics-driven credit decision-making engines is perhaps the most important lever for digitising underwriting. Traditional underwriting relies on static lending strategies that struggle to adapt to changing market conditions. New decision-making engines allow risk teams to quickly identify fluctuations in customer behaviour and their impact on portfolio quality.

This dynamic approach is proving successful. Advanced decision-making engines deliver 30-45 per cent higher approval rates and a 25 per cent reduction in default rates, while increasing STP rates by 50-65 per cent, boosting efficiency and improving customer satisfaction.

AI plays a pivotal role in transforming credit underwriting. AI-powered models can analyse vast datasets in seconds, identifying patterns that humans might miss. FIs using AI have reported 25-60 per cent improvement in predicting whether an applicant will default, enabling more reliable risk assessments and reducing non-performing loans.

AI models continuously learn and improve their accuracy. This adaptability is critical in India's dynamic market, where income streams can be inconsistent, especially in the informal sector.

Credit underwriting is at the forefront of innovation in financial services. By utilising alternative data and AI-powered analytics, FIs can speed up decisions, enhance financial inclusion and risk management.

For FIs, the message is clear: The future of credit underwriting is digital and those who embrace this shift will lead the next era of financial services. By investing in technology, FIs can secure long-term success and help India's economy in a digital world.

The writer is head-APAC, Scienaptic AI

PHOTO: SHUTTERSTOCK

Boots on the ground need mending

The business correspondent channel for financial inclusion is calling for a pay raise, investments and an end to penalties, reports **RAGHU MOHAN**

Almost two decades after business correspondents (BCs) arrived on the scene, the lack of grease is evident. Poor payout for the heavy lifting they do is is making the channel – a key cog in the financial inclusion wheel – creaky. For there has been no upward revision in the pricing of BC services for years: Be it on cash withdrawals, cash deposits, money transfers, or Aadhaar-Enabled Payment System (AePS) transactions. And what nobody will go on record is that BCs and banks are ranged against each other. An interesting matter of detail is that these issues are coming to head just as the Pradhan Mantri Jan-Dhan Yojana (PMJDY) turns 10: It has been an eventful period, having helped on-board and serve more than 500 million PMJDY customers at a fraction of costs that banks would have otherwise have incurred.

Financial inclusion, please

The BC channel was imagined as a low-cost route to bolster financial inclusion: Boots on the ground for last-mile connectivity. But as Anil Kumar Gupta, partner - payments and distribution at MicroSave Consulting, puts it, "financial inclusion ought to make commercial sense for service providers to ensure long-term sustainability. Since the BC channel is a cost-effective extension to supplement brick-and-mortar bank outlets, it was never imagined to be non-commercial." It's an indirect way of saying that this is not what's on view: BCs are being milked.

The first signs that this model is ripe for overhaul was evident last year when the Business Correspondent Federation of India (BCFI) and Grameen Foundation India (GFI) made a case for "concrete capacity building". The Business Correspondent Resource Council (BCRC) sought setting up of an India Business Correspondent Equity Fund – akin to the India Microfinance Equity Fund – to the department of financial services. Both requests are a lift-off from the C Rangarajan committee report on Financial Inclusion (January 2008): It was for funds being provided to specialised institutions which provide capacity-building inputs to BCs.

Take the pricing on AePS transactions. Anand Kumar Bajaj, founder of Nearby Technologies, points to the interchange on ATMs – what a bank earns when the plastic of another is swiped on its machines. It's now sought to be upped to ₹21 from ₹17. "A BC gets 0.5 per cent of the ticket-size or ₹15 whichever is lower for AePS. On an average ticket of ₹2,000, the BC gets ₹10, but this is on paper. As you deduct the bank's share, the fee to be paid to the National Payments Corporation of India, TDS, GST, the agent gets only ₹5-7. For ₹2,000 in grocery sales, the agent would get to keep 8 per cent." The reference to groceries is because kirana stores also double as BCs. The demand: Treat AePS and ATM on the same footing.

The litany of woes is long: Banks' cost to serve customers is high at branches. The government offers incentive to them for direct benefit transfers but this is not released to the BC network. Worse, banks penalise BCs: ₹1,000 per month in case agents remain inactive for two months; and if perchance they are found operating another bank's portal or mobile app, they are to be terminated immediately with a penalty of ₹10,000.

What's playing out in full sight is that banks are not willing to foot the BC bill. Even as they claim that they save considerably on costs using this channel.

"I think it is time we have annual pricing reviews; a committee should be set up for this," says D Tripathy, chief executive officer (CEO), BCRC. "It will not only ensure the financial viability of our agents but also motivate them to continue providing high-quality services."

Sought and wooed

Jiji Mammen, CEO of Sa-Dhan, calls attention to the socio-economic aspect. "Field agents are being wooed by e-commerce firms (like Amazon, Flipkart or a Blinkit). This is also about last-mile connectivity, and is a relatively recent development." Simply put, a fight is on for talent as other parts of India Inc look to up their postal office footprints in the hinterland.

Another startling aspect is that for a channel that has so much riding on it, there's little by way of systemic studies or policy-driven interventions aimed at optimising their contribution. "Disciplines like insurance and mutual funds have benefited from such studies, leading to the development of more robust models and enhanced service delivery. It will not only help streamline the BC model but also strengthen the broader financial inclusion landscape," says Seema Prem, co-founder and CEO, FIA Global.

The big picture was summed up in BCFI-GFI's report 'Reimagining the next-generation BC Model'. It held that overdependence on CICO (the trade jargon for cash deposits and withdrawals), little training in value-added services and softer aspects like customer centricity would not help BCs develop cross-sell or the ability to hawk other services. They have to intensify capacity building to create more trainers and better field staff.

BANKING OUTREACH

	2010	2015	2020	2021	2022	2023*
Banking outlets in villages: Branches	33,378	49,571	54,561	55,112	53,287	53,802
Banking outlets in villages >2,000 BCs	8,390	90,877	149,106	850,406	1,892,462	1,348,038#
Banking outlets in villages <2,000 BCs	25,784	408,713	392,069	340,019	326,008	277,844
Total banking outlets in villages: BCs	34,174	499,590	541,175	1,190,425	2,218,470	1,625,882
Banking outlets in villages: Other modes	142	4,552	3,481	2,542	2,479	2,273
Banking outlets in villages: Total	67,694	553,713	599,217	1,248,079	2,274,236	1,681,957
Urban locations covered through BCs	447	96,847	635,046	426,745	1,295,307	415,218

* Transactions during financial year; # Significant decrease is on account of select private banks
Source: RBI Report on Trend and Progress of Banking in India, 2022-23

BASIC SAVING BANK DEPOSITS ACCOUNT (BSBDA)

	2010	2015	2020	2021	2022	2023*
BSBDA - Through branches (In mn)	60	210.3	261.6	265.9	266.1	275
BSBDA - Through branches (₹ cr)	4,400	36,498	95,831	118,392	120,464	133,661
BSBDA - Through BCs (mn)	13	187.8	338.8	379.6	401.5	410.5
BSBDA - Through BCs (₹ cr)	1,100	7,457	72,581	87,623	107,415	129,531
BSBDA - Total (In mn)	73.5	398.1	600.4	645.5	667.7	685.6
BSBDA - Total (₹ cr)	5,500	43,955	168,412	206,015	227,879	263,192
OD# facility availed in BSBDAs (mn)	0.2	7.6	6.4	6	6.8	5.1
OD facility availed in BSBDAs (₹ cr)	10	1,991	529	534	516	572

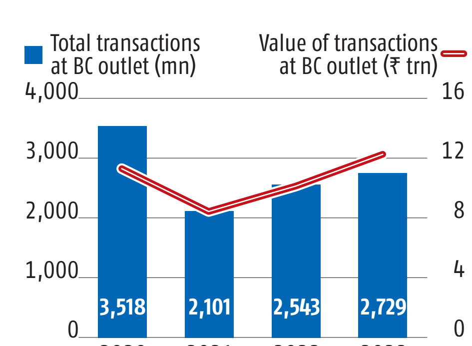
Note: Data for end March. * refers to provisional, # Overdraft
Source: RBI Report

BUSINESS CORRESPONDENTS (BC)

	2010	2015	2020	2021	2022	2023*
**ICT-A/Cs-BC-Total Transactions (In mn) #	27	477	3231.8	3055.1	2853.3	3405.5
ICT-A/Cs-BC-Total Transactions (In ₹ cr) #	700	85,980	870,643	849,771	905,252	11,39,521

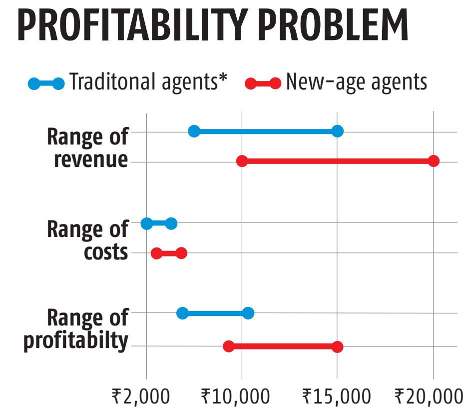
Note: Data for end March. * Provisional. # Transactions during financial year. **Information and communication technology
Source: RBI Report

*CICO AGENTS' WORTH



*Cash-in cash-out
Source: MicroSave Consulting

PROFITABILITY PROBLEM



*Traditonal agents incur higher one-time setup cost, whereas the operational expenditures remain similar for all agent types
Source: MicroSave Consulting report, 2024

WHAT ON-FIELD BANKING AGENTS DO

TRADITIONAL
Model runs as an extension of bank branches, has customer trust. It has high set-up and operational costs, requires extensive on-boarding process. Needs physical monitoring

BC SAKHI
Convenience of banking at the doorstep of self-help groups (SHG) of women, requires little investment. Low earnings, doesn't build capabilities of SHGs

NEW-AGE
Aggressive expansion with easy on-boarding. High competition to employ agents who require periodic monitoring

PAYMENTS BANK
Agile model with BC-centric operations and digital training. Requires agent support, tech-based monitoring

GRAMIN DAK SEVAKS
Have extensive experience, customer trust. Model dependent on postal dept, Sevaks have limited motivation

Source: MicroSave Consulting report, 2022

"There is a need to have systemic studies on business correspondents to streamline the model"

SEEMA PREM
Co-founder & CEO, FIA Global

"I think it is time we have annual pricing reviews (for business correspondents); a committee should be set up for this"

D TRIPATHY
CEO, BCRC

"Financial inclusion ought to make commercial sense to ensure long-term sustainability (of BC model)"

ANIL KUMAR GUPTA
Partner-Payments & Distribution, MicroSave Consulting

"A BC gets to keep 0.5 % of the ticket-size or ₹15, whichever is lower, for Aadhar-Enabled Payment System, but after deductions it is just ₹5-7"

ANAND KUMAR BAJAJ
Founder-Nearby Technologies

"Field agents are being wooed by e-commerce firms. And this is a relatively recent development"

JIJI MAMMEN
CEO, Sa-Dhan