Print Magazine:	DATAQUEST	Page No	72-76
Published Date:	December 18, 2023		
Headline:	The future of lending—Information (not physical) collateral		

Skip tracing, signals of stress, and behaviour patterns – to improve loan collections! These are just a few ways in which technology can help lenders.

Abhishek Sharma, Chief Digital Officer, L&T Finance unpacks how investing in paperless loan on-boarding,loan servicing, AI-driven underwriting, AI credit scores and other areas can be a wise and profitable bet for both the company and its customers. And how alternate data sources, UPI and ONDC will redefine lending in the new age.

Has the role of technology changed significantly during and after the pandemic—in your industry, and at L&T Finance?

During the pandemic, not just in the BFSI industry, but across all industries, the business models which could adapt themselves to minimise/eliminate the need for face-to-face interaction succeeded in ensuring business continuity. This led to faster adoption of new technology.

In the lending industry, the pandemic necessitated minimising customers' branch visits through onlineservicing of requests, minimising staff visits to customer's premises through submission of digital documents and evolution of paperless processes, replacing physical signature requirements with OTP-based authorisation, innovative ways of KYC within a regulatory framework such as video KYC, selfie match, etc. In the post-pandemic era, lenders have realised that these technology-led improved processes are the new normal for doing business, as they offer a number of advantages to the lenders as well as customers such as operational flexibility, lower cost, reduced processing time, reduction in manual errors, reduction in usage of paper, etc. While the role of technology has always been to complement human efforts, I think the pandemic has prompted us to embrace the technology faster.

How is technology used in your organisation for better CX, KYC, operational efficiency, and other business areas?

At L&T Finance, as we move towards becoming a retail organisation, the necessity of leveraging new technologies to provide best-in-class customer experience becomes indispensable. To achieve this, we have established a technology-agnostic Software Development & Innovation Centre to ensure robust & scalable software development.

Further, we have collaborated with many renowned FinTech partners, which has helped us to provide competitive TAT and superior customer experience and build robust mechanisms for customer identification and verification. To enhance our direct connection with the customers, we have launched our own D2C application PLANET for the acquisition of new customers and servicing of existing loans. Our loan on-boarding journeys are for the most part paperless, which is also in line with our ESG goals.

How can technology help in areas like managing distressed assets, tracking NPAs, collections, and Loan management?

The technology is enabling lenders to provide multiple options to the customers for making their EMI payments such as e-NACH mandate, UPI mandate, payment on App, payment on partner platforms, and third-party apps using BBPS. Digital payments are increasing collection efficiency and reducing costs and risks associated with cash EMI collection. Our Loan Onboarding System is based on a SaaS platform which helps us to integrate seamlessly into various applications for servicing, collection, and receipting. Behavioral scorecards are being developed to identify behavior patterns of customers and prospects to manage collections. We have also tied up with various FinTechs providing services in areas of collections and litigation management. Further, today, the technology has advanced to an extent where lenders can use digital tools that collect macro level (e.g. weather updates, crop patterns, agri-market prices, etc.) and customer level data to provide earlywarning signals even before the account shows signs of stress. The lenders can then take timely corrective action. Moreover, tools like skip tracing are enabling lenders to locate defaulted customers and follow up with them for clearance of dues.

Can Blockchain and AI solve any pressing issues in your industry? Have you considered anything?

BFSI as an industry is presently at a nascent stage in adoption of technologies such as AI and blockchain. The use cases in the banking industry are being assessed by us as well as our peers, and the cost-benefit analysis of the same is also being explored. As a real-time, open source, and trusted platform that securely transmits data, blockchain technology has the potential to help lenders in reducing costs, minimising the risk of fraud, and increase operational efficiency. Smart contracts can automatically process the transactions and make them more transparent. However, we expect a significant waiting period to get regulatory clarity and achieve technological maturity.

What about AI?

AI can improve the credit underwriting ability of lenders and give them a competitive advantage by converting rules-driven credit decisions to alternate credit underwriting mechanism. AI can use hundreds of data points related to customer behavior, digital footprint, financial history, consumption and investment patterns, etc. to derive a credit risk score for a customer. A lender, with developed AI capabilities, can utilise such alternate data points more effectively to get a key differentiator over the competition. Further, AI also has the potential to smart-automate certain aspects of customer servicing and offer customised products through hyper-personalisation. We are working on all these fronts as a part of our fintech strategy.

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In what way—and how much—can digital India strides like UPI and open APIs help in transforming the finance landscape?

Today, the entire nation has already witnessed the positive impact of UPI on the digital transformation in the banking industry. Steps such as account aggregators are helping in democratizing and transforming the financial landscape in India. UPI has surpassed the milestone of 11 billion transactions in the month of October 2023. The RBI has facilitated the growth of UPI transactions by granting commercial banks the ability to increase credit lines through UPI. The NPCI has introduced new products and features to further stimulate UPI adoption such as voice-enabled payments, UPI123Pay, UPI Lite, and the Bharat Bill Pay System. With UPI available on feature phones, it has the potential to reach more than 50 crore Indians. With UPI users getting access to native credit products like BNPL, consumer credit can be further democratised. All this will benefit lenders by expanding lending opportunities to hitherto untapped customers.

How will ONDC help?

ONDC's inclusive approach shall unlock opportunities for SMEs, kiranas, small shopkeepers, etc. to participate in the digital commerce revolution. Currently, only five per cent of India's 100 million MSMEs sell on e-commerce platforms. With ONDC, the rules of the game shall change, allowing small businesses to compete with established e-aggregators due to lower commissions. As banks and NBFCs embrace ONDC, credit products like personal loans, small business loans, BNPL, etc. shall get integrated with checkout journeys. This will allow lenders to lend to consumers and businessmen without first acquiring them. Thus, access to credit is set to democratise with the growth of ONDC.

We at L&T Finance look at regulatory compliance, not as a bureaucratic requirement or barrier but as a business enabler that brings transparency and clarity to our processes and reduces the risk of fraud.

Are financial inclusion, democratisation, privacy (especially with credit assessments and ratings), and security being addressed well in your industry?

So far, lenders have been used to extending credit based on physical collateral, thus restricting credit access to the top echelon of society. Due to the JAM trinity of Jan Dhan accounts, Aadhaar, and Mobile; the future of lending will now be powered by information collateral instead of physical collateral, thus democratising credit access and enabling financial inclusion. Nearly half of the country's working population is credit active now, having at least one loan or a credit card, enabling lending institutions to make informed decisions based upon the customers' credit bureau records. Alternate data sources like investment and consumption patterns, mobile device/ telecom signals, etc. are also being used based upon customer consent to improve understanding of their creditworthiness. All these technological advances will help in ensuring the availability of credit to the wider population.

How much change will come after the DPDP regulation?

We consider DPDP regulation as a very positive development for the industry since it gives the customer control over their own personal data. The regulation is expected to clearly specify the rules of the game and remove ambiguity regarding customer privacy and the use of their data. The regulatory clarity will promote better adoption of technology by lenders.

Is it easy to ensure compliance with the speed of fast KYC and loan approvals that you promise?

We at L&T Finance look at regulatory compliance, not as a bureaucratic requirement or barrier but as a business enabler that brings transparency and clarity to our processes and reduces the risk of fraud. We ensure superior customer experience while meeting compliance requirements by making KYC processes fully digital using technological tools like biometric Aadhaarbased e-KYC, Digilocker, video-based authentication, etc. We think of the KYC process as a journey that is iterative spanning the customer lifecycle, designed to keep pace with changing regulations and growing cybersecurity threats and fraud risks while providing a smooth customer experience. This includes building simple, secure tools such as those mentioned above that allow the customers to manage their information themselves, rather than asking them for sensitive personal data.

Can you share the genesis and progress of initiatives like the Digital Sakhi project, Planet app, and Sachet Kumar?

PLANET, the D2C app of L&T Finance, was introduced to provide a seamless customer experience while catering to the customers' new financing and servicing needs. This application is available in 10 regional languages besides English and Hindi. In just 18 months, it has evolved into a one-stop solution for all finance needs, witnessing high adoption among urban and rural customers. The digital journey to avail of Personal and Two-wheeler Loans has enabled over Rs. 2500 Crore of disbursements on PLANET.

What role do LTF and other adjacent efforts play?

While on its path to achieving retailisation, LTF has been working to strengthen risk governance practices. In line with this objective, LTF has launched its risk awareness mascot Sachet Kumar to educate customers and employees on fraud trends and build a culture of promoting vigilance. While we are taking significant strides towards digital transformation it becomes necessary to cascade this literacy among all sections of the society. LTF acknowledges the efforts of hundreds of Digital Sakhis, our agents of change, who are championing financial literacy in their communities to bring social change.

How serious is digital fraud and how much is being done to fix it—especially when we see that banks have witnessed a maximum number of frauds in digital payment category during the fiscal ended 2023-24, (according to the RBI annual report 2022-23); and when even UPI-transactions (55 percent) and Internet (12 percent) contribute to digital payment fraud in India (as per a Praxis report).

In this rapidly evolving digital landscape, digital frauds have become more prevalent, often preying on the trust exhibited by unsuspecting customers. The responsibility not to fall prey to such scams lies with both – lenders and the customers. Lenders on their part should adhere to certain basic vigilance principles while designing their loan on-boarding and servicing systems. This includes promoting two-factor authentication to minimise the risk of fraud due to stolen information by fraudsters, preventing identity theft through facial recognition technology that verifies selfie match and liveliness, cross-referencing customer's inputs with databases such as KYC and Aadhaar, fetching data directly from the source rather than through manual data upload, bank account verification through penny drop and name fuzzy match and use of device/telecom signals for detection of anomalies. Further, tools like Video KYC are today available with lenders to strengthen the process of KYC verification without a physical visit, which helps prevent cases of identity fraud. The customers to protect themselves should shop online only from trusted apps and websites, scan QR codes only from trusted sources, regularly inspect SMS, bank statements, and credit card statements for unauthorised transactions, not share OTPs, use strong passwords, not click on doubtful links or download attachments from unsolicited emails, secure their laptops and mobile phones and report suspicious incidents.

What else is on your radar or tech roadmap ahead?

Traditionally, lenders including L&T Finance are underwriting using data points such as asset data, bureau behavior, and demographic data. Technological advances have now made it possible to use alternate data sources with the customer's consent such as device data, banking data, lifestyle data, etc. We look forward to exploring such alternate data sources to achieve better segmentation of customers and provide customised offerings. While doing this, we shall continue to leverage our existing strengths like utilisation of traditional data sources, building analytical scorecards, and continuous improvement in our digital journeys to provide quality customer experience.