Unlocking Untapped Potential
Acknowledgement

This report on the Fintech Lending market in India has been developed by NASSCOM through a comprehensive research process.

The preparation of this report has been made possible with information from various sources and assistance from institutions, enterprises, and start-ups in India who have given their time and insights to the research team. We wish to sincerely thank all of them for their valuable contributions without which this report would not have been possible.

Foreword

The NASSCOM Research report titled “Fintech Lending – Unlocking Untapped Potential” aims to highlight the evolving trends in the field of Fintech Lending and intricacies involved in this business.

This study includes in-depth primary research and covers market opportunities, competitive trends, success factors, key business models, and growth stories. We hope you find this study useful, and we welcome your feedback and comments.

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<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Executive Summary</td>
</tr>
<tr>
<td>8</td>
<td>India Fintech Overview</td>
</tr>
<tr>
<td>11</td>
<td>Fintech Lending Market Overview</td>
</tr>
<tr>
<td>15</td>
<td>Fintech Lending Trends</td>
</tr>
<tr>
<td>24</td>
<td>Fintech Lending Business Opportunities</td>
</tr>
<tr>
<td>30</td>
<td>Key Risks and Challenges</td>
</tr>
<tr>
<td>32</td>
<td>NASSCOM Recommendations</td>
</tr>
<tr>
<td>34</td>
<td>Fintech Lending 2020 Outlook</td>
</tr>
</tbody>
</table>
The *Fintech Lending- Unlocking Untapped Potential* Report is a comprehensive study based on in-depth interviews with NASSCOM members that include large and small technology firms, proprietary startup database, and key government stakeholders, supported by comprehensive secondary research.

Primary research has been the major contributor to the findings and recommendations of the report. We conducted multiple interviews over a span of 4 months with key industry stakeholders to develop an understanding around the themes covered in the report. Policy thinkers and data experts have also provided their inputs to enable us to present a holistic view on the rapidly transforming industry.

As part of the secondary research process, we looked at organization and industry reports, public statements, media articles, government releases, national and global databases and previous NASSCOM reports on Fintech startups.
Executive Summary

Introduction
Over the last decade, India has emerged as a Fintech industry leader. This can be largely be attributed to the government initiatives that have led to greater investment opportunities in this sector while encouraging the consumers to shift to adoption of Fintech based products and services. Research indicates that at 87%, India has the highest Fintech adoption rate in the world, and is home to the 2nd largest Fintech start-up base in the world. Our research shows that digital lending, digital payments and wealth management are the three segments under Fintech where most of the start-ups are concentrated in India.

This report focuses entirely on Fintech lending segment under the broader Fintech umbrella. We have traced the evolution of Fintech Lending industry in India while highlighting the key drivers for growth, trends, challenges and opportunities. The report also highlights new business opportunities and key success factors for the Fintech lending industry in India, in addition to identifying bottlenecks faced by the industry, and recommend action steps to unlock the untapped potential of the industry.

Market Overview
The Fintech lending industry can be broadly classified under three major segments- SME lending, Consumer Lending and Online Lending Platforms. While start-ups started entering into this industry 2013 onwards largely to capture the untapped credit market, large tech companies seem to have recently targeted this segment. Credit demand from MSME and consumers presents an addressable opportunity of USD >1 trillion by 2023.

Most of these big tech companies, which have already been operating in other segments such as e-commerce, digital payments etc. have large consumer base, and related consumer data. By applying advanced data analytics, these companies have developed deep insights on consumer spending patterns. This has enabled them to come up with their own credit score of consumers based on recent bank history, repayment trends and other similar attributes. These companies are generally offering loan products as an add-on facility for consumers.
Executive Summary

Market Trends
Start-ups, non-banking financial companies (NBFCs) and large tech companies are competing against each other to capture a bigger market share. While start-ups have relatively lesser access to capital, they possess strong data analytics capabilities. Major Fintech companies such as Google Pay, Ola, Amazon, Truecaller, among others, have started entering into the lending business as a part of their expansion strategy. The major drivers include, easy market entry and targeted loan offerings due to large customer data insights, better margins than other Fintech business models such as payments and financial services, and prevalence of huge untapped market for unsecured loans.

While we have observed that each of the three types of competitors i.e. start-ups, NBFCs and large tech companies, have their own strengths, the Fintech lending industry at large benefits from partnership models. Fintech companies collaborating with established NBFCs or banks can reduce market entry time by 50% as compared to applying for its own NBFC license to enter the market. In addition, collaborating with NBFCs enables both partners to launch combine product based on customer portfolio. Strong data analytics, effective partnerships and low default rates are key success factors in this business.

Key Findings-
Business Opportunities
The major business opportunities prevailing in the Fintech lending industry are-
- Point-of-sale (POS) based lending which provides easy access to merchant related data which allows easy credit check.
- Peer-to-peer (P2P) based lending allows individuals to lend to another individual.
- Invoice based lending aims at financing merchants against the amount due from customer i.e. account receivables
- Short term lending gives users credit in customized manner, which allows them to make instant purchases. The ‘buy now, pay later’ model based on a similar concept is being adopted by companies to target a new set of customers. Even as new business models are being used to penetrate the market, increasing credit demand from consumers and MSME offers an addressable opportunity in the coming years.
Executive Summary

Key Risks and Challenges
The following risks/challenges with Fintech lending have been identified:
- Liquidity squeeze can cause interest rates to rise directly impacting end customers.
- Business viability is questionable as default rate increases
- There are no clear guidelines for first loan default guarantee, which can provide safety to lenders.
- Bad loan ratio of NBFCs have almost doubled in last 5 years.
- Borrowed money from NBFCs and banks for lending comes with a high interest rate.
- RBI lending regulations such as P2P lending law which caps maximum lending or borrowing by a single vendor to USD 0.014 mn (INR 10 lakhs)
- Talent is a challenge for Fintech lending companies.

Recommendations
The report lists out a four-fold action agenda to be implemented by the government, industry and NASSCOM. These include, addressing ease of digital on-boarding of customers, reducing default rates, improving access to credit, and supporting new technology and innovation in lending.

Outlook for 2020
NASSCOM Research expects the following trends in Fintech lending in India in the future:
- More focus on data analytics for more accurate credit scores.
- More collaboration among Fintech start-ups, banks and NBFCs.
- Emergence of customized solutions like credit cards and accounts based on borrower’s credit profile.
- Allowing portability of trusted data between service providers under Data Empowerment and Protection Architecture (DEPA) architecture.
- Lending companies to have in-house capability of offering loans, compliance, regulatory etc.
INDIA FINTECH
OVERVIEW
India Has Emerged As A Fintech Industry Leader

Highest Adoption Rate in the World

- India: 87%
- Global: 64%

Source: EY Global Fintech Adoption Index 2019, Yes Bank Report, Tracxn

Rapid Growth in Transactions

<table>
<thead>
<tr>
<th>Year</th>
<th>Fintech Transaction Value (in USD bn)</th>
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<tbody>
<tr>
<td>2016</td>
<td>33</td>
</tr>
<tr>
<td>2020</td>
<td>73</td>
</tr>
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</table>

CAGR: 22%

2nd largest Fintech Start-up Base in the World

- USA: 1500+
- India: 1100+

No. of Fintech Startups Founded (2015-18)

Fintech Software Market

<table>
<thead>
<tr>
<th>Year</th>
<th>Fintech Software Market in India (in USD bn)</th>
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<tbody>
<tr>
<td>2016</td>
<td>1.2</td>
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<td>2020</td>
<td>2.4</td>
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</tbody>
</table>

CAGR: ~19%

Source: EY Global Fintech Adoption Index 2019, Yes Bank Report, Tracxn
Diverse Fintech Landscape in India

**DIGITAL LENDING** 330+ Start-ups
Digital Lending allow access to loan through digital means and with minimal paperwork

**DIGITAL PAYMENTS** 370+ Start-ups
Digital Payments allows making payments through digital instruments

**WEALTH MANAGEMENT** 300+ Start-ups
Digital Wealth Management offers tools, platforms for investments advisory

Source: News Articles, Tracxn, NASSCOM

Illustrative List of Start-ups
FINTECH LENDING
MARKET OVERVIEW
Rapidly Growing Fintech Lending Landscape in India

**SME Lending**
Providing fast credit to small and medium enterprises through digital platform

**Consumer Lending**
Providing credit to individual consumers through digital platform

**Online Lending Platforms**
Provides a marketplace where individual consumers can connect with bank or lenders through online portals

Source: News Articles, Tracxn, NASSCOM
Lending Business Evolution: Industry at Inflection Point

**Entry of Lending Start-ups**
Tech start-ups found lending business to be attractive due to large untapped market.

**Rapid Business Growth for Startups**
Alternative lending funding increased from just USD 21 mn to USD 537 mn in 2018.

**Entry of Large Tech Companies**
Large companies which are into the business of e-commerce, payments etc. started entering into this market.

Source: News Articles, Tracxn, NASSCOM
Fundamental Lending Challenges In India Translating To Massive Fintech Lending Opportunities

**Low Penetration of Traditional Financial Instruments**
- ATM penetration rates 0.5X global average
- Credit card penetration at 0.01X in India compared to USA

**Unmet Needs**
- Household to debt ratio 0.1X of global average
- 300 million Unbanked households looking for credit access
- MSME unmet credit gap expected to reach ~ USD 900 bn by 2023

**Banking Sector Challenges**
- As of March 2019, Indian banks NPA stands at ~ USD 135 bn
- 6 public sector banks are still under prompt corrective action due to rising NPA and facing restriction on lending

**Traditional Customer Evaluation Methodology**
- Physical, time-consuming and non analytics based background verification
- Collateral based lending

**Addressable Opportunity**
- CAGR: ~6%
- ~ USD 900 bn
- 2017
- 2023
- MSME Credit Demand

- CAGR: ~36%
- ~ USD 350 bn
- ~ USD 75 bn
- 2018
- 2023
- India Digital Lending Market

Source: News Articles, MSME, Tracxn, NASSCOM
FINTECH LENDING TRENDS
Lending Market Attractiveness - Better Data → Better Analysis → Better Margins

**Customer Data Enabling Market Entry**
Large companies are sitting on huge volumes of customer data making it easier for them to enter.

**Advancement in Data Science**
Rapid growth in big data and analytics tools and technologies in addition to availability of quality analytics talent driving the market.

**Relative Lack of Competition**
Lending business offers large untapped customer base offering substantial growth opportunities.

**High Volume Market**
Huge untapped market of unsecured loans.

**Transactional Data**
Business transaction data help companies to understand the needs and offer them targeted and customised loans.

**Better Margins**
Lending can offer better margins compared to other Fintech business models like payments, financial services etc.

Source: News Articles, Tracxn, NASSCOM

**COMPANIES ENTERING LENDING BUSINESS AS A FINTECH BUSINESS EXPANSION**

Illustrative List
## Start-ups, Large Tech Companies And NBFCs Are Key Competitors

<table>
<thead>
<tr>
<th></th>
<th>Access to Capital</th>
<th>Customer Data</th>
<th>Analytics</th>
<th>Risk</th>
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<tr>
<td><strong>Start-ups</strong></td>
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<td><strong>Large tech Companies</strong></td>
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</tbody>
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- **Source:** News Articles, NASSCOM
Lending Success Factors - Establishing Partnerships for Market Access, Using Data to lower Default Rates

Access to the merchant / individual data can help create a credible credit score. Fintech companies need to partner with e-commerce companies like Swiggy, Amazon etc. to get such data.

Keeping the default rate low is the prime focus of every lending firm as it directly impacts the margin and business sustainability.

Partnerships help in driving mutual growth as both Fintech firms and banks / NBFCs have their own strength and weaknesses.

Source: News Articles, NASSCOM
A Partnership Approach Can Reduce Market Entry Time by 50%

**Getting own NBFC License**

1. **Ideation**
   - Combining Data and Technology

2. **Apply for NBFC License**
   - Requirement of minimum net owned fund of USD 0.29 mn (INR 2 crore)

3. **NBFC License received**
   - Lending from own balance sheet can start after receiving the license

**Working with an established partner**

1. **Ideation**
   - Combining Data and Technology

2. **Looking for the relevant partner**
   - A Bank or NBFC should be approached for partnering

3. **Product Launch**
   - Both partners to launch combine product based on customer portfolio

**Illustrative Timeline**

- **6 months**
  - Feasibility Check / Launch Pilot Project
- **12 months**
  - NBFC License received

**Use Case:**

- **SHUBH LOANS**
  - To expand in Tier 2 and Tier 3 cities

- **CARS24**
  - To offer credit and insurance to consumers and sellers

- **Ola**
  - To offer OLA credit (pay later product)

- **Amazon**
  - To offer credit and insurance to consumers and sellers

**Source:** News Articles, NASSCOM

Use Case:

- **MONEY TAP**
  - Offering a Money tap RBL Credit Card

- **PaySense**
  - To lend capital to consumers and applicants
Nelito has partnered with Sonata Finance (a USD 212bn worth of asset based NBFC providing microfinance loans)

To address challenges in typical loan issuance process, over an year was spent to deliver tailor made solutions for Sonata finance:

- Business Correspondent Management
- Securitization Loan Management
- Repayment module of securitized loan
- Funder Repayment
- Pledge, unpledged FD management

Instamojo offers byte-sized loans to help small businesses manage your cash flow and working capital requirements.

Lending Default Rate: 0.01%

Such a low default rate requires strong background analytics:

- Strong KYC approval process
- Weeding out fraudulent merchants
- Using computer vision algorithm for pattern detection and document authenticity
- Use of Natural Language Processing Algorithms to figure out merchant business
Data is the Holy Grail in Fintech Lending

**Online Spending Data**
Purchases and selling on online platforms like Amazon, Flipkart etc.  
*Avg. online retail spending at USD 224 per online buyer*

**SMS Data**
SMS has all kind of information like credit, debit in the accounts  
*210 billion messages travelled in 2018*

**Point of Sale Data**
Transactional data on POS where customer execute payment of goods or service  
*400+ million monthly debit cards transactions at POS terminals*

**Credit Bureau Data**
Bureaus Provides credit score of individuals by looking at individuals repayment behaviour

<table>
<thead>
<tr>
<th>Risk Tier</th>
<th>Borrower</th>
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<tr>
<td>Prime Plus</td>
<td>801-900</td>
</tr>
<tr>
<td>Prime</td>
<td>751-800</td>
</tr>
<tr>
<td>Near Prime</td>
<td>651-750</td>
</tr>
<tr>
<td>Subprime</td>
<td>300-650</td>
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</table>

**Social Media Activity**
Data on google maps, payments to cabs, bill payments etc.  
*Almost 40% of daily media time people spend on digital media*

Source: News Articles, NASSCOM
Cross-Referencing Multiple Credit Data Points Can Significantly Reduce Default Rates

SMEs and Individual credibility check requires referring to multiple sources to create a credible credit score.

**App Based Data**
- Expense tracker apps (like Walnut, FinArt, MoneyView, Beewise etc.)

**Bank Data**
- Past Lending Behaviour
- Debit / Credit Data

**Business Data**
- Promoters Info
- Volume of Business
- Geographical distribution of business
- Business Aging
- End Consumer of Business

**E-commerce Data**
- Merchants sales data information
- Value, number, frequency of e-money account credit / debit

**Balance Sheet Data**
- Cash Flow
- Goods & Service Tax Data

Proper Credibility Checks can reduce default rates by 1-2 %

Source: News Articles, NASSCOM
FlexiLoans is an online lending platform started with an endeavor to solve the problem that SMEs face in accessing quick, flexible and adequate funds for growing their businesses.

- **Step 1 - Customer Acquisition**: Dynamic prioritization of leads that leads to 50%+ faster onboarding and have 7 interfaces for customer acquisition.
- **Step 2 - Application Processing**: Have an Image Classifier that reduces pre-processing time by 98%. They also extract publicly available 3,000 data points to better assess customers.
- **Step 3 - Credit Appraisal**: FlexiLoans has a suite of credit scoring models that generate proprietary scores.
- **Step 4 - Collections**: Flexiloans has 1) integrated early warning system, 2) collection analytics that are looped into assessment and 3) deep integration with banks that helps in auto-escrow deductions & one-click disbursements.

Borrowing Cost

BharatPe is a payments company serving the offline retailers and businesses empowering merchants to accept UPI payments for ‘FREE’ through the BharatPe QR.

- BharatPe focus on creating a good book with risk & collections first approach which helps weed out the potential bad customers and hence build a profitable book with low NPAs. This in turn helped them to get maximum return on our equity and negotiate a better borrowing cost with our lenders.
FINTECH LENDING BUSINESS OPPORTUNITIES
POS Based Lending is the Fastest Growing Lending Solution Segment

Point of Sale based Lending
It aims at financing merchants who use swiping machine for payment acceptance

Target Segment
B2B

Key Players

Business Highlights
POS based lending provide easy access to merchant related data which allows easy credit check. Data parameters provided by POS are:
- **Merchant Profiles**: category, business address etc.
- **Transaction Data**: Time, date, debit/credit of transaction
- **Post business Data**: tracking the health of the business

Key Data Sets for Credibility Check
- Swipe Machine Transaction Data
- Sellers Data on e-commerce platform like Amazon, Flipkart etc.

Market Numbers
- POS market expected to grow at 11% till 2022 due to digitization focus
- POS industry in India can reach valuation of USD 3 bn by 2024

Source: News Articles, NASSCOM
P2P Lending Driving Consumer Based Lending in India

P2P Lending
It links unsecured personal loan borrows to the investors who want to earn higher interest

Target Segment

Business Highlights
P2P based lending is the consumer type of lending allowing an individual to lend to another individual. It has certain benefits:

**Lender**
- Better Returns: Up to 30%
- Monthly payment with interest

**Borrower**
- With no credit history once can ask for loan
- Paperless application

Key Data Sets for Credibility Check
- Credit Bureau Data
- Expense Tracker Apps

Market Numbers
*India P2P Market (in USD mn)*
- P2P lending market is expected to reach USD 4-5 billion by 2023.
- Only 30+ players in market have RBI licenses for executing P2P business.

Source: News Articles, NASSCOM
Invoice Based Lending Providing Support to Many MSMEs

**Invoice based Lending**
It aims at financing merchants against the amount due from customer which is basically account receivables

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**Target Segment**
- B2B

**Business Highlights**
- Credit history of the merchant can be checked whose invoice needs to be discounted
- NBFC credit squeeze have a direct impact on invoice based lending due to shortage of working capital

**Key Players**
- kredX
- indifi
- FLEX LOANS

**Key Data Sets for Credibility Check**
- POS Terminal Data
- Bank Transaction Data
- Merchant transaction data from e-commerce

**Market Numbers**
- Number of MSMEs in India (in mn)
  - 2007-08: 13
  - 2015-16: 63
  - CAGR ~20%

- High growth in number of SMEs in past 10 years
- SMEs are discounting bills worth more than USD 140 mn every month
- Mandatory for companies with turnover USD 70 mn to be part of TReDS (Trade Receivables Electronic Discount System)

Source: News Articles, NASSCOM
Short Term Lending is Gaining Momentum Due to Instant Credit Need

Short Term Lending
It gives users credit in customized manner which allows them to make instant purchases

Target Segment

Business Highlights
- Offer flow of money in the form of flexi EMIs
- Most of short term loans are dispersed in hours or within a day or two.

Key Data Sets for Credibility Check
- Credit Bureau Data
- Expense Tracker Apps
- Bank Transaction Data

Market Numbers

Credit under the personal finance segment (in USD bn)
- Credit under the personal finance segment at USD 144 bn
- Catering to wide market like salaried individuals, college students etc.

Source: News Articles, NASSCOM
Innovative Business Model

**ePayLater**

ePayLater is a digital payment solution that enables a "Buy Now, Pay Later" solution for frequent online purchasers.

One can start transacting with this digital credit across categories such as travel, movies, food, retail, groceries and more. It allows the users a 14-day interest-free period from the date of purchase to settle the payment.

- It also offers UPI powered credit solution. The recent launch of ePayLater UPI enables the users to transact on top merchant portals that are UPI enabled.
- It has an in-app OTP option for IRCTC users to process faster tatkal bookings.

**Lazypay**

Lazypay is the product of PayU (a fintech company that provides payment technology to online merchants introduced a lending product). Lazypay works on the principle of “Buy Now Pay Later” which addresses short-term credit needs of consumers for their purchases.

- Users need to check their unique credit limit by entering personal and KYC details about themselves.
- The customers can shop online across 100+ merchants and choose the option to pay later at checkout.
- All purchases are consolidated into a LazyPay bill, due on 3rd and 18th of each month.
- The apps sends regular reminders to its users to make quick repayments and tracks spending.
- Partners: Swiggy, BookMyShow, Croma among others

Case Studies- Buy Now, Pay Later

- Users can start transacting with this digital credit across categories such as travel, movies, food, retail, groceries and more. It allows the users a 14-day interest-free period from the date of purchase to settle the payment.
KEY RISKS AND CHALLENGES
Risks / Challenges with Fintech Lending

- First Loss Default Guarantee (FDLG): No clear guidelines for first loan default guarantee which can provide safety to lenders
- Default Rate: Business viability is questionable as default rate increases (>6%)
- Funds / Partnerships: Partnering with Banks or NBFCs a catalyst for Fintech companies
- Liquidity Squeeze: Liquidity squeeze can cause interest rates to rise directly impacting end customers
- Skill Deficit: Fintech lending companies struggle to get skilled professionals
- Credit Limit: RBI lending regulations such as P2P lending law which caps maximum lending or borrowing by a single vendor to USD 0.014 mn (INR 10 lakhs)
- Borrowing Cost: Borrowed money from NBFCs and banks for lending comes with a high interest rate
- Bad Loans: Bad loan ratio of NBFCs climbed to 6.6% from 3.6% in past 5-6 years

Source: News Articles, NASSCOM
## NASSCOM Recommendations

### Address issues pertaining to digital on-boarding of customers

**Reconsider the application process for e-KYC**
- Modifying MoF circular for the use of Aadhaar authentication services by non-banking entities
- Allowing lending companies to directly approach UIDAI for e-KYC authentication facility

**Suggest appropriate modifications to various KYC related policies**
- Making suggestions to the government on how to simplify the KYC rules

**Proactive adoption of digital KYC**
- Industry should show interest in the new process of video KYC

### Support new technology and innovation in lending

**Encourage lending products/services/technology to be tested in sandboxes**
- RBI has excluded innovations pertaining to credit information and credit registry, from the sandbox, this exclusion will foreclose innovation where we need it the most

**To act as a connect between Start-ups/Industry and Government**
- Catalyzing the whole discussion between government, industry and start-ups focused on implementing new age lending solutions

**Provide support to new age tech start-ups**
- Traditional lending companies should collaborate with new age Fintech start-ups

### Reducing default rates

**Mandatory Reporting of Default**
- Mandate lending platforms to report default to Public Credit Registry

**Create a common default reporting platform**
- Every lending company should proactively submit their defaulters list to Public Credit Registry
- Abstain from taking memberships of different credit bureaus to run a credit profile check of borrowers

### Improve access to credit

**Incentivize traditional lenders to go digital**
- Introduce a tax rebate for a significant period
- Mandate companies to collect interest and repayment of loan digitally

**Make loan application less cumbersome for consumers**
- Create awareness among consumers

**Adopt collaborative & data driven models**
- Embracing Account Aggregator model
FINTECH LENDING 2020 OUTLOOK
What To Expect in Fintech Lending In 2020

**Stronger Data Analytics**
To reach a more authentic credit score, more focus to be given to data analytics

**Collaborations**
More collaboration among Fintech start-ups, banks and NBFCs expected in near future

**Offering Customized Solutions**
Customized products like credit cards, accounts based on borrower’s credit and profile

**Full Stack Companies**
Lending companies to have in-house capability of offering loans, compliance, regulatory etc.

**Democratizing Data**
Allowing portability of trusted data between service providers under Data Empowerment and Protection Architecture (DEPA) architecture

Source: NASSCOM
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The National Association of Software and Services Companies (NASSCOM®) is the premier trade body and chamber of commerce of the Tech industry in India and comprises over 2800-member companies including both Indian and multinational organisations that have a presence in India. Our membership spans across the entire spectrum of the industry from start-ups to multinationals and from products to services, Global Service Centers to Engineering firms. Guided by India’s vision to become a leading digital economy globally, NASSCOM focuses on accelerating the pace of transformation of the industry to emerge as the preferred enablers for global digital transformation. Our strategic imperatives are to reskill and upskill India’s IT workforce to ensure that talent is future-ready in terms of new-age skills, strengthen the innovation quotient across industry verticals, create new market opportunities - both international and domestic, drive policy advocacy to advance innovation and ease of doing business, and build the Industry narrative with focus on Talent, Trust and Innovation. And, in everything we do, we will continue to champion the need for diversity and equal opportunity. NASSCOM has played a key role in not just the growth of the Industry to become a $180+Billion industry today, but we have helped establish the Tech industry in India as one of the most trusted partners, globally. NASSCOM continues to make significant efforts in contributing towards India’s GDP, exports, employment, infrastructure development and global visibility. Our membership base constitutes over 95% of the industry revenues in India and employs over 4 million professionals, and as technology blends into every aspect of the economy, we expect the industry to become key driver of growth, development and inclusion for the country. Our mission is to make India a global hub for Innovation and Talent so when the world thinks Digital, the world will think India.

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