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UNIFIED LENDING INTERFACE – TRANSFORMING THE LENDING FRAMEWORK

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ABSTRACT:

In August 2024, the then RBI Governor Shri Shaktikanta Das, during his address at the RBI@90 Global Conference on “Digital Public Infrastructure and Emerging Technologies,” mentioned how in line with the Unified Payment Interface (UPI), they launched a pilot for a technology platform, the Public Tech Platform for Frictionless Credit, later renamed the Unified Lending Interface (ULI) to facilitate seamless and consent-based digital lending access in the country. Keeping the aim of financial inclusion at the core, it integrates financial and non-financial data. It uses common and standard APIs for easy integration, aims to reduce documentation requirements, and increases turnaround time. The platform is expected to transform the lending landscape in a similar way UPI has transformed the payment framework, becoming a new trinity of JAM, UPI, and ULI, continuing India’s digital infrastructure success. The article examines the possible impact of ULI on the Indian financial sector, with a special focus on the impact on credit access, offering a comprehensive analysis of its structure, benefits, and concerns such as data privacy.

KEYWORD: ULI, OCEN, Financial Inclusion, DPI, Digital Lending, UPI.

INTRODUCTION:

Driven by a digital adoption push and later success of digital public infrastructure, India’s financial sector has witnessed a monumental shift towards digitalization. The rise and success of UPI have transformed the digital payment landscape in India, and now India is partnering with other countries for UPI. The success of UPI has paved the way for the idea of a digital lending platform. Digital lending is not a new concept; the evolution of

fintech companies has brought the wave of many small companies offering digital financial services, including digital lending. Many private sector lenders have entered into partnerships with such small platforms. According to a report published by Sandhya Keelery on Statista, digital lending is the fastest growing fintech segment, and the value of digital loans was expected to reach USD 350 billion in 2023, from USD 9 billion in 2012.

As per the MSME Pulse February 2024 edition, out of about 630 lacs MSME units in India, only around 250 lacs are in the formal credit ecosystem. By this statistic, about 60% of MSME units are not able to access the formal credit system, which is a very monumental gap. MSME units play a key role in the growth of India's economy by contributing significantly to manufacturing (~36%) and exports (~45%). And in order for India to attain its Vikasit Bharat Vision and become the USD 5 trillion economy, it is necessary to bridge the credit gap for MSME units, for enhancing domestic manufacturing sector reducing reliance on imports, and boosting employment.

The primary issue with smaller business units is the non-availability of documents or data, which makes it difficult for banks and NBFCs to bring them under the umbrella of the formal credit system. These MSME units, then avail informal credits from friends or unregistered money lenders, on very high rates of interest, that sometimes becomes challenging for their existence. There is a huge demand for credit, and NBFCs and fintechs are trying to exploit that gap; however, the mainstream banking players cannot afford to sit and watch, and they need to find ways to integrate the digital lending process with their existing systems.

The absence of a uniform platform in aiding digital lending for all stakeholders can be filled by Unified Lending Interface. However, the MSMEs borrowers will not be the only potential benefactors of ULI, as it focuses on improving the credit access for borrowers from all other segments, such as agriculture, individuals, and other smaller and unregistered businesses.

WHAT IS UNIFIED LENDING INTERFACE?

India's lending ecosystem has been very robust, but it has also struggled due to reliance on formal data points. Most banks still follow the traditional credit underwriting methods, which require intensive paperwork and are inaccessible to a larger population of the country, especially in rural or semi-urban areas of the country. Even if data is available, it is scattered across various different public platforms, such as the income tax portal, GST portal, banks, credit bureaus, UIDAI, utility service providers, etc. This disintegration of required data delays the overall credit appraisal process and thus makes it difficult for smaller business units to access the required credit.

The origin of ULI can be traced back to an RBI initiative launched in September 2022, which introduced a pilot program for a tech platform aimed at the frictionless delivery of Kisan Credit Cards (KCC) for loans up to ₹1.6

lakh. Encouraged by the success of this pilot, the RBI sought to streamline credit delivery across other borrower segments, such as dairy loans, personal loans, and collateral-free MSME loans. To achieve this, it launched another pilot in August 2023, named the “Public Tech Platform for Frictionless Credit,” leveraging a digital platform designed to automate the integration of data from various sources.

The Public Tech Platform for Frictionless Credit was later branded as Unified Lending Interface. ULI uses open Application Programming Interfaces (APIs) to create a “plug and play” framework, enabling banks and other financial players to access the financial and non-financial data of the prospective borrowers with their consent.

In short, Unified Lending Interface aims to bridge the gap between data providers and lenders in order to enable seamless credit for borrowers who do not possess credit history and proper documentation. It aims to convert the fragmented data into actionable insights for lenders to assess the borrowers more efficiently by measures of both turnaround time and cost. By solving the problem of asymmetry of information in the Indian lending ecosystem, the platform aims to democratize credit for better reach. The following image shows a possible model of how ULI would connect the lenders with various data sources.



Image Source: Reserve Bank Innovation Hub (RBIH).

For instance, a dairy farmer wants to apply for a loan and may not have all the documents or required credit history, which would make the traditional credit underwriting method challenging. With ULI, the bank can access the required information from multiple sources, like the milk cooperative society for cash flow, state records for verification of land ownership, and farming patterns to assess the operational stability. This data integration enables automated decision-making and approval of loans with reduced cost and TAT.

KEY FEATURES OF ULI:

- i) **Consent Based Data Sharing:** The first and foremost key concern of any digital platform is addressing privacy and security-related issues. The ULI platform is designed to operate on a borrower consent model, which ensures data privacy while efficiently disseminating the required information, like land records, GST data, income tax data, or other key information required for the credit assessment of the borrower.
- ii) **Standardized APIs:** Standardized APIs promote interoperability between different systems and allow easier integration with existing applications. The ULI platform is designed on a standardized API, which would work like a plug-and-play model, which would be useful in faster development and easier implementation. This would also reduce technical complexities for banks and other financial institutions.
- iii) **Seamless Credit Delivery:** This is one of the main features and an objective of ULI. By consolidating the required data on a digital platform, ULI focuses on minimizing the paperwork and accelerating the overall credit underwriting process, especially for small borrowers situated in rural and semi-urban areas of the country.
- iv) **Focus on Financial Inclusion:** The idea behind the origin of ULI is to make credit access easier for the unserved and underserved population of the country. The focus of ULI will be to include the aforementioned segments of the population and address the unmet credit demand, with a focus on MSME and other borrowers. As such, ULI's success will add another feather in the success of India's financial inclusion journey.

These features collectively aim to improve credit delivery and credit access, reduce cost, improve TAT, and promote scalability in order to enable an efficient lending framework. ULI will most probably work like an app of alternate data sources for banks and other categories of lenders.

HOW WILL ULI TRANSFORM THE LENDING FRAMEWORK?

We have already touched upon the potential benefits of ULI. From seamless credit delivery to reducing costs to promoting financial inclusion, ULI has the potential to change the credit delivery framework for the better. The following points focus on possible impacts of ULI:

- I. **Alternate Data points and Financial Inclusion:** One of the most important and significant aspects of ULI is its potential to bridge the credit gap for the unserved population. *ULI has the potential to revolutionize financial inclusion by expanding credit access by exploring alternative data sources, robust security, and common APIs (Sathyanarayana S S, 2024).* The thing that makes ULI a unique proposition for pushing financial inclusion and improving credit access is its usage of alternate data points for credit underwriting and decision-making, which are expected to improve the credit availability for the people without established credit history. The NBFCs will play an important role in enhancing financial inclusion, as traditional banks usually depend upon the branch network for their business. With the ULI platform and additional data in their hands, NBFCs and fintechs can expand their reach and serve a broader customer base, thus touching even the remotest population.
- II. **Streamlining the credit process and reducing operational cost:** ULI promotes automating the credit process, thus reducing paperwork and human intervention. From loan application to data collection to credit appraisal to sanction and disbursement of the loan, it will be automated through ULI, which would significantly reduce the operational cost for all stakeholders. The automation is also supposed to streamline the overall credit process and reduce the TAT for loans. In addition to this, ULI will also provide an expanded customer base for the banks and FIs, thus reducing the customer acquisition cost as well.
- III. **Fintech Innovation:** ULI is not going to be a standalone platform, as it aims to integrate with different financial and non-financial sources. ULI is going to work on open APIs and it has already developed 54 APIs, which gives an open platform for fintech companies to innovate within the lending ecosystem in India. A common platform like ULI can be exploited by fintech companies to offer tailored loan products, with the ease of access to various alternate data sources. *In a Business Today story (27 August 2024), the CEO of mPokket, Mr. Gaurav Jalan, stated that ULI provides an opportunity to leverage streamlined data access and spur greater innovation while expanding their reach.*

RISK AND CHALLENGES:

While ULI holds immense potential to revolutionize the credit ecosystem of the country, it is not without risks and challenges. We have witnessed the rise of digital fraud with the rise of digital payments. We have also seen the rise of fake loan apps, with the promise of minimal paperwork and ease of lending. ULI will need to address the challenge of trust, because with the rise of digital frauds, customers have become very cautious in sharing their personal details. Also, the rapid expansion of digital loans would pose the risk of loan recovery, especially in

economic downturns, when small borrowers are most impacted, as seen during the COVID-19 pandemic. The challenges span from data privacy and security, NPA recovery, algorithmic biases, integration with legacy systems, regulatory compliance, data quality, etc. These challenges and risks would adversely impact the potential of ULI. Some of the key challenges are as follows:

- I. **Data Privacy and Security Issues:** While ULI holds promising potential to improve the accessibility and efficiency of the credit delivery system, the concentration of so much personal and sensitive data on a single digital platform would raise security and privacy concerns. The risk of data breach, data theft, and unauthorized access would require top-notch encryption technologies with stringent regulation to tackle this challenge.
- II. **Digital Divide:** There is a great divide between the availability and subscription of internet in urban and rural areas of the country. As per the performance indicator report (July-September 2024) by the Telecom Regulatory Authority of India, only 44.85% of every 100 subscribers have access to the internet in rural areas, which is a sign of worry if the Unified Lending Interface has to succeed. Therefore, to ensure that the benefit of ULI reaches a greater public, it is necessary to address this challenge of the digital divide.
- III. **Integration with legacy systems:** This is one of the very common challenges for banks, as they will have to integrate an all-new platform with their legacy systems. This could limit or delay the implementation of ULI to its full potential. The integration with old technologies or the need for updating to newer technologies would require substantial capital investment, which would also be challenging for many smaller institutions.
- IV. **Algorithmic Biases:** It is inevitable that Unified Lending Interface would be without any integration with artificial intelligence or any of its subset technologies; therefore, the cases of data biases in input and output will need to be monitored very carefully. Because there are chances that an algorithm trained on a biased set of information may continue the same or similar bias in its results, thus impacting the fairness of the credit decision-making process. Therefore, mitigation of such biases will ensure that every potential borrower under ULI gets the same treatment.
- V. **Data Quality Challenge:** Data is at the heart of the ULI platform; therefore, the accuracy and reliability of the data become very crucial to the whole credit underwriting process. Any inaccurate or incomplete information might ruin the whole process or may end up giving erroneous output; therefore, it would be extremely necessary that data quality is never compromised.

CURRENT SCENARIO:

ULI is still in its early stage of development and is yet to be launched. As per a report from PwC, the current pilot version of ULI has been adopted by 27 bank and non-bank entities until October 2024. These entities will cater to 12 unique loan journeys across different categories of loans. Till October 2024, 54 APIs were developed for robust data exchange capabilities, and 5 Account Aggregators (AAs) were also onboarded on the current ULI platform to enable access to borrowers' financial and non-financial information. In the future we may see more AAs or other entities joining the ecosystem. As the adoption and the participation increase, we may witness ULI truly transforming the credit delivery process, with a greater focus on financial inclusion.

THE WAY FORWARD:

ULI has been developed with a focus on meeting the credit demand of the MSME and agricultural segments of borrowers; however, it can be easily expanded for other segments as well. Since ULI provides an alternative credit assessment model, without relying on previous credit history, in the future, it may pose a challenge to the business of credit information companies, due to the availability of vast amounts of reliable data. ULI will host lenders, borrowers, and AAs, which makes it a potential financial marketplace that will go beyond just making credit access simpler. The success of India's DPI is very well known, and platforms like the Open Credit Enablement Network (OCEN) and Trade Receivables Discounting System (TReDS) have made credit access somewhat better, and in the foreseeable future it may be possible that these platforms are integrated with ULI to enhance the reach and performance.

As discussed, ULI is designed for MSMEs, agriculture, and other such segments; however, if it is expanded for bigger ticket size customers for automation of credit assessment, then banks may also use this platform for real-time exchange of borrower information and NPA reporting. With ULI, the possibilities are endless, and it is expected to become better with time and has the potential to repeat the success of UPI.

CONCLUSION:

In a 2021 study, "The Poster Child," Boston Consulting Group discussed how AI, Blockchain, and OpenStack can transform the Indian banking sector. The report discusses the need for a UPI-like platform for lending, which is now becoming a reality, in the form of ULI. With advanced technologies at hand, ULI can become a powerhouse of credit process automation. ULI has the potential to bring a paradigm shift in India's lending framework. With a focus on financial inclusion and economic resilience, ULI can empower millions of borrowers and help in driving economic growth. ULI is not just a technology platform; it can prove to be a stimulant for the

country's lending ecosystem. Its capabilities to democratize credit are immense, and with the timely and right amount of cooperation from all stakeholders, it can truly transform the lending framework and set a benchmark in innovation for other global players.

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