Leaders' Lens

In conversation with

Manish Daswani

Chief Business Officer
Converj

How have you seen the credit industry evolve in India over the course of your career? How has the credit card market evolved in India?

Manish: Following the financial crisis of 2008, the Indian economy witnessed a bank credit boom from 2007-08 to 2013-14, with non-food credit registering a CAGR of 16.8%. This slowed sharply in subsequent years; from 2014-15 to 2020-21, credit growth decelerated, registering a CAGR of 8.3%, primarily due to a reversal in credit growth in the industrial sector. Despite the sharp variations, there are a few themes that have characterised credit and the credit card market in general over the last two decades:

Digital Transformation – As with other areas of banking and finance, there has been a significant shift towards digitisation in credit. Banks in India have embraced technology to streamline and automate processes across the lending life cycle, from credit application and approval to digital disbursal of funds. Digitisation of the economy and availability of data, led by the adoption of Digital Public Infrastructure in the Indian market, has made credit assessment more objective and has been a key contributor to lending to both individuals and businesses.

Increasing relevance of Non-Banking Financial Companies (NBFCs) - NBFCs continue to play a crucial role in expanding credit access in India. In particular, NBFCs have emerged as a critical source of credit for micro, small and medium-sized enterprises (MSMEs), a sector that traditional banks have stayed away from due to the perceived risk. Lenders like Godrej Capital, Indifi, Clix Capital and Lendingkart exclusively target lending to MSMEs in India.

Credit Card Penetration - The credit card market in India witnessed substantial growth, with an increasing number of individuals using cards for various transactions. Banks have been actively promoting cards, and there has been a focus on enhancing rewards and benefits to attract customers. India has nearly 10 crore credit cards in force, up from around 2 crore in 2015. While that represents significant growth, penetration remains well below 10%.

Increased Focus on Compliance - While the regulator has always been keeping a close eye on credit, the advent of fintech players in the credit space has resulted in a flurry of regulatory activity in the last few years. The Reserve Bank of India (RBI) released a comprehensive set of guidelines on digital lending in September 2022, which was followed by guidelines on Default Loss Guarantee (DLG) arrangements in June 2023. The RBI then tightened norms for personal loans and credit cards in the form of higher capital requirements in November 2023.

These guidelines came with wide-reaching changes to lending arrangements and prima facie will lead to increased compliance costs across the industry. However, there is a significant and longer-term upside in the form of greater transparency and protection for customers, which should also lead to higher credit demand and growth in credit penetration, especially for underserved segments.

In your opinion, are there any specific innovations that are driving change or may drive change in the credit card sectors in the future?

Manish: India is leading innovation in payments, leveraging its robust digital public infrastructure. UPI is the cornerstone of payment innovation in India, and enabling credit transactions on UPI is expected to drive small ticket credit. Equally, QR code-based acceptance for UPI makes merchant acceptance of credit-based payments more pervasive across tier-2 and tier-3 cities. With over 30 crore monthly active UPI users and 50 crore merchants accepting UPI, it is set to revolutionise consumer payments and, with it, consumer credit.

The commercial payments space is ripe for disruption. Just like the consumer payments sector, incumbents in the commercial card payments area have the opportunity to work with digital-native fintech organisations that have established themselves over the last few years. Commercial, or B2B payments, encompass a broad range of payments, from a corporate's transaction banking account to trade finance. I believe that over the next few years, the most successful commercial payment ventures will emerge from partnerships between fintech organisations and incumbent balance sheet providers.

Finally, it's impossible to ignore the emergence of Artificial Intelligence (AI) as a leading business driver for card businesses. AI is being used to address many business opportunities—from sales forecasting and customer service to fraud mitigation. Card payment business leaders now have access to unprecedented analytics, and the opportunity for them to use it to achieve their business goals.

According to you, what challenges exist in extending credit to underbanked or unbanked populations?

Manish: I believe the need for providing timely and seamless credit to the MSME sector remains a challenge in India. For a sector that supports over 120 million jobs and contributes to nearly a third of the country's GDP, there continue to be significant gaps in the credit available vs. the credit need of Indian MSMEs.

Traditional lending relies on analysing company balance sheets and collateralising borrowers' assets. Small businesses typically lack structured documentation and data and, hence, are generally offered higher interest rates and stricter repayment schedules. These impediments make it difficult for banks to provide small-ticket loans to MSMEs, and most MSMEs are forced to work with informal moneylenders, making it costly and inefficient.

The emergence of initiatives such as the Open Credit Enablement Network (OCEN) can help bridge the credit gap and boost the MSME sector. Built on the India Stack, OCEN is an innovative platform that aims to democratise access to credit for MSMEs.

Another source of working capital for MSMEs is supply chain finance (SCF). SCF allows suppliers of a corporate to avail financing against their invoices by getting paid earlier than the due date on the invoice. Fintech players such as Converj are innovating in this space by providing an early payments platform to corporate anchors, which in turn enables MSME suppliers to gain access to working capital at lower costs.

Are there any global trends that you think will significantly impact the Indian credit card market?

Manish: **Embedded payments** - Globally, successful payment providers are focused on developing payment experiences that aren't just frictionless but also invisible. This is achieved through models that integrate payments seamlessly into non-payment platforms. By integrating payment processing directly into daily apps, businesses can provide a more streamlined, frictionless customer experience. Credit card providers, both Indian and global, are focused on creating these seamless, embedded finance experiences for customers.

Advances in commercial payments - Pressure to digitise payments also extends to commercial payments. Commercial card issuing banks have a unique opportunity to partner with digital native fintech organisations to extend automation and digitisation services to the office of the CFO, bringing their underwriting expertise and balance sheet access to the table. We are seeing green shoots of these partnerships emerge in the Indian market as well.

Contactless cards - Contactless card penetration has seen significant growth globally. The COVID pandemic accelerated adoption; cardholders became conscious of the health impacts of physical payment methods. In India as well, the RBI increased the permissible transaction limit for contactless transactions from Rs. 2,000 to Rs. 5,000 in 2021, encouraging the use of contactless transactions.

In the modern payment landscape, how does a credit card as a payment option fare compared to UPI?

Manish: At the outset, let us differentiate UPI and credit card – UPI is a payment rail that enables funds to be transferred from one source of funds to another. On the other hand, a credit card is a source of funds by itself; as discussed earlier in this piece, the UPI payment rail can now get linked to credit cards as a source of funds. Hence, the more appropriate comparison is between UPI and payment networks like Visa, MasterCard, etc., as payment rails.

There are customer experiences where a credit card payment, especially using a contactless card, can be better than UPI. Unlike UPI, where the buyer has to input their PIN into their app to complete the payment, contactless card payments are a "tap to pay" experience, where the payment is made without entering the PIN or inserting a card. Payment through card rails often also accrue rewards to cardholders that help them earn reward points that can be encashed later. Finally, contactless credit cards can also be used with mobile payment systems and wearable devices, making it easier for users to make payments from their devices.

On the other hand, UPI is significantly easier to implement from a merchant acceptance standpoint. UPI simplifies the payment acceptance process by allowing cardholders to transact using a unique UPI ID or scanning a QR code. UPI transactions typically have lower costs than traditional card transactions, making UPI feasible for even small peer-to-merchant (P2M) transactions.[7]

One of the findings of the research paper is that profit-based underwriting focuses on borrowers with large enough credit limits, long enough loan lives, and enough revolvers to accumulate finance charges that the borrowers subsequently pay back. Do you see a possibility of the adoption of profit-based underwriting in India? In your view, has any player attempted profit-based underwriting in India or on a global scale?

Manish: Integrating alternative data sources in lending transforms how credit is assessed, empowering lenders to enhance decision-making. In practice, credit underwriting teams in lenders score customers based on multiple data sources and produce an outcome in the form of a numeric score that represents the applicant's creditworthiness.

While credit decisioning for a majority of applications is done in an objective manner through this process, there are a set of cases that fall in a bracket that needs further due diligence. It is only for these sets of cases that business teams may then overlay profit metrics and make a business decision to lend or not.

Regulators tend to encourage banks to maintain prudent policies and practices for managing the risks of their credit card business. While we do not see profit-based underwriting being widely adopted at this stage, banks that are able to adopt it in a judicious manner without deteriorating portfolio risk may be in a position to adopt it to their benefit. Needless to say, this will need technology that gives the credit team a comprehensive 360-degree customer view, which can provide an understanding of the potential revenue, loss and expenses associated with each lending decision.