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NBFCs are here to stay, says BCG

Says the sector is mastering use of digital surrogate data, in the absence of income proof documents, to improve credit penetration in India

BS Reporter | Mumbai
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Non-banking finance companies (NBFCs) would continue to grow in India. The sector is mastering the use of digital surrogate data, in the absence of income proof documents, to improve credit penetration in India, said the Boston Consulting Group (BCG) on Monday.

NBFCs are here to stay, the consultancy said in a report

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on the sector, released at the first annual NBFC summit by the Confederation of Indian Industry.

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"Between 2005 and 2015, their share of credit in India went up from 10 per cent to 13 per cent. The share growth is not only observed in traditional NBFC domains like commercial vehicle (CV) finance but also in products like mortgages where commercial banks are very active," the paper said, adding the success of NBFCs was attributed to "very sharp focus on product lines leading to better cost control, bad debt control, better customer

service and consequently faster growth at higher profitability as compared to banks".

However, NBFCs' credit penetration, at 13 per cent of India's GDP, is well behind economies like Thailand and Malaysia where NBFCs have a credit penetration of 25 per cent of GDP. In China, the credit penetration was 33 per cent.

"We expect the growth in NBFC credit to further accelerate over the next five-10 years," BCG said in its report.

Lack of documents could now be compensated by surrogate digital data and NBFCs have to find a way to use this data to make better credit decisions. NBFCs so far have relied mostly on a standalone business model with few partnerships, but going forward, the sector will have to heavily rely on partnerships to gain access to data and to create unique customer experiences, the report said. The future NBFCs should be diversified in different product segments and should slowly move from heavy physical model with predominantly cash transactions to a bionic model that will "synergize" human touch with digital interface and process, BCG said.

The introduction of payments banks, small finance banks, and proposed bill payment service providers would deconstruct traditional banking in the country and this would open up "very strategic opportunities for NBFCs to partner with asset management companies, and payments banks to create complete financial offerings for customers including savings, investments, transactions and borrowings," the report said.

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