

PSBs must set up independent entity to screen and monitor loan seekers: Chief Economic Adviser

K Ram Kumar Mumbai | Updated on August 16, 2019 Published on August 16, 2019

0



Led by tech, the PSB Network will be able to exploit market-positioning and provide credit to a growing market: K Subramanian

Public sector banks (PSBs) could establish an independent entity on the lines of the Goods and Services Tax Network (GSTN) to use technology for screening borrowers and monitoring them carefully, according to K Subramanian, Chief Economic Adviser (CEA) to the government.

PSB Network

In the context of the evolution of digital lending, the CEA observed that PSBs are in a better position to have a single-solution interface, the PSB Network (PSBN), to exploit market-positioning and provide credit to a growing market

PSBN can utilise data from all PSBs, government sources, and service providers to develop ratings models for rating corporates, especially those that are repeated defaulters. The ratings models would not only be employed when screening the borrower for a fresh loan, but also for constantly monitoring the borrower.

As the government is the owner of all PSBs, it can mandate them to share this data so that economies of scale could be utilised to make the necessary investments in undertaking analytics using Artificial Intelligence and Machine Learning, according to Subramanian's recommendations, which form part of the document, 'PSBs to take reforms to the branch level', put together by the Finance Ministry.

GSTN is a Section 8 (not-for-profit), non-government, private limited company, which has been set up primarily to provide IT infrastructure and services to Central and State governments, tax payers, and other stakeholders for implementation of the Goods and Services Tax (GST).

The government of India holds 24.5 per cent equity in GSTN and all States of the Indian Union, including NCT of Delhi and Puducherry, and the Empowered Committee of State Finance Ministers, together hold another 24.5 per cent.

The balance 51 per cent equity rests with non-government financial institutions.

The solution architecture that has been envisaged for PSBN is that when a customer approaches a bank and indicates the amount and type of loan he wishes to take, the bank will transfer this information to the PSBN engine, which will complete the KYC (know-your-customer) verification; the engine will further collate customer data from various data sources – account aggregators, government data sources (such as GSTN and IT returns), credit information bureau, and alternate data (from telecom providers and mobile data).

According to the CEA's submission, the PSBN engine will have complete credit underwriting capability (refers to generating credit profile of the customer after analysing all available data) built into it.

Different underwriting models will be built for different types of customers (SMEs, individuals, large corporations). Based on KYC and underwriting, the PSBN engine will assess customer eligibility of loans and transfer the information to banks.

On the basis of the information provided, banks can take decision on the amount and the rate at which the loan is to be given.

“So, we need a platform that not only informs banks about the credit worthiness of the applicant, but also gives information to the customers on different loan products that different banks might be willing to offer based on KYC information and credit underwriting. The entity will have an online portal where customers can come and apply for loans,” said Subramanian.

PSBN may act as an accelerator for PSBs, enabling them to take quick and better decisions on credit underwriting and, hence, can reduce the burden of bad loans/frauds and manage costs by automating the end-to-end process.

Published on August 16, 2019

public sector banks

0

COMMENTS