

# Digital loans: It's a UPI moment for India's credit market

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India's credit market could soon have its UPI moment. Just as UPI transformed the digital payments market, a new digital system that facilitates lending to small firms, based on their cash flows, is on its way. And it is tipped to see business worth an estimated Rs 20 lakh crore being transacted in the next six to seven years. That's about a fifth of the total outstanding loans of banks at Rs 100 lakh crore.

The infrastructure would enable lenders of all hues — banks, NBFCs and fintechs — to disburse loans. They would be aided by the GST network, giving them reliable information on invoices filled by these MSMEs. The beauty of the system, experts say, lies in that any entity with access to a large number of MSME vendors can be loan service providers. It could be a PhonePe, an [Amazon](#) or even a SEWA; at the back-end, existing lenders like banks can do the lending. Also, the fact that loans are to be given on the basis of future cash flows — predicted from past data — rather than balance sheet data, would make it more efficient. “Lenders will price in a smaller risk premium so the cost of the loans will come down,” an expert said.

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Lenders would find it easier to appraise customers since they can study invoices uploaded on the GSTN; this way they can get a good sense of the business history of the borrower. The borrower's bank account will provide the credit history and an electronic system, bankers point out, would allow credit to be disbursed speedily.

Bankers say that while factoring as a product does exist, the volumes are insignificant since lenders don't have access to reliable information on borrowers. With the transaction history now available on the GST network, that problem would be taken care of.

The UK Sinha committee on MSMEs had observed that small businesses lack access to formal credit. This is because banks find it hard to assess credit risk in the absence of financial information and data on historical cash flows. The committee pointed out that one of the reasons for information not being available is the absence of some kind of Unique Identification Number. Finance minister Nirmala Sitharaman had said in her Budget speech that an app-based invoice financing would be launched. This would obviate the problem of delayed payments and “consequential cash flow mismatches for MSMEs”.

Experts say borrowers will be less inclined to default since the system will ensure speedy dissemination of his credit history; typically borrowers have been able to default to one lender but borrow from another. Since information on a borrower can be shared quickly between lenders — and an entity like Cibil can quickly put out default data quickly — borrowers are likely to be more disciplined.

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