Public Tech Platform for Frictionless Credit

Why in news?

The Reserve Bank of India (RBI) has announced a pilot programme for 'Public Tech Platform for Frictionless Credit'.

What is Public Tech Platform?

- It is a digital platform created by RBI's subsidiary — *Reserve Bank Innovation Hub* — which will enable seamless flow of necessary information to lenders.
- **Aim-** To help in disbursing 'frictionless' credit.
- **Pillars-**
  - The problem of adverse selection (that results from the asymmetry of information from either the borrower or lender),
  - Measurement of exposure risk
  - Assessment of default risk (the probability that the borrower may default in repayment).
- **Features** - It will have open architecture, open Application Programming Interfaces (APIs), and standards, to which all financial sector players can connect in a '*plug and play' model*.
- It would collect data required to sanction and disburse loans which could include Aadhaar e-KYC, Aadhaar e-signing, PAN validation, etc.
- With the participation of banks, the platform would extend its focus also towards dairy loans, MSME loans (without collateral), personal loans and home loans.

*The platform itself is **not** a lending or credit issuing facility. It will only collate or compile data from various agencies and present it to lenders operating through the platform.*

What are the advantages of the platform?

- **Simplification-** It simplifies the integration of vital financial data through open Application Program Interface.
- **Scalability**- It ensures that credit or other financial instruments are extended to a larger set of borrowers with good credit history.
  - World Bank pointed out that improved access to information provides the basis for fact-based and quick credit assessments.
- **Productive investment**- The borrowers too would benefit by the resulting lower cost of accessing capital, which would translate into productive investment spending.
- **Cost effective-** This platform reduces the multiple visits to bank to avail formal credit and costs associated with it.

    - RBI survey indicated that processing of farm loans took 2 to 4 weeks and costs about 6% of the loan's total value.
- **Improves Efficiency-** It centralizes potential borrowers information on a unified platform streamlines processes.
- **Seamless**- The participation of banks, NBFCs, fintech firms, and start-ups in this platform aligns with the dedication to seamless credit and payment solutions.
- **Foster innovation**- The 'plug and play' model encourages innovation, driving the lending sector towards greater accessibility, cost reduction and efficiency.
- **Improves credit accessibility**- It can leverage the contemporary advances in digitisation of information and ensures that small-ticket loans are made available in a timely and cost-effective manner.
    - In 2021, NABARD economist observed that 'even among well-developed regions, only a fifth of the more than 12.5 crore small and marginal farmers have access to institutional credit.

During G20 Finance Ministers and Central Bank Governors meeting, RBI showcased the Digital Kisan Credit Card and Digital Dairy Journey.

What will be the challenges in implementation?

- Not everyone may have Aadhaar or PAN.
- Property related documents may not be available, especially in tier-3 and below cities and slums.
- Compiling relevant data could also pose a challenge.

Quick facts

Reserve Bank of India
• **Launch**- It is the central bank of India, which began operations on April 1, 1935, under the *Reserve Bank of India Act, 1934.* • **Function-** It uses monetary policy to create financial stability in India. • It regulates the country's currency and credit systems. • **Ministry**- Ministry of Finance • **Reports released**- Financial Stability Report

References

1. The Hindu- What is RBI's Public Tech Platform
2. The Hindu- Easing credit flow through pilot platform of RBI
3. Economic Times- Public Tech Platform for frictionless credit



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