



FRONTIERS OF DIGITAL FINANCE

**ROUND TABLE
CONFERENCE
2022, MUMBAI**




Biz2X – the leading Digital Lending SaaS platform, hosted Frontier Digital Finance Roundtable, 2022 in Mumbai. The agenda of the FDF discussion was to understand the challenges and the friction faced by the SMEs and Aggregators to partner with financial institutions in providing credit to their ecosystem.

Purpose:

SMEs today are one of the largest job providers in the country, dispensing more than 30% of the GDP to our nation, but they struggle to enable credit for themselves. With the advent of technology, a lot of these SMEs have partnered with Aggregators to create larger business opportunities and other focused areas. The FDF Round Table Conference was arranged with the objective to bring Aggregators across industries together, to discuss the data and credit gap in MSME lending leading to practical solutions to thrive the SME ecosystem.

The industry aggregators shared their experiences and challenges in creating a financial ecosystem for the SMEs and lenders supported them with practical solutions to address these barriers with a view to reduce the massive SME credit gap in India.



Panelists:

The FDF Round Table Conference – 2022, Mumbai was graced by leaders from across the industry, including Health, Travel, Trading & more.

We had Akshay Deshmukh, VP - Financial Product & Credit Strategy – PharmEasy | Aditya Shankar, Vice President, Vertical Head – Lending – Trade India | Rahul Jain, CFO – NTT Data Payment Services | Saif Hasan, Director & Co-Founder – KreditServe | Saurabh Agarwal, Founder, Trumac | Shruti Mehrotra, Founder & CEO, Mihuru | Sanjeev Goel, Founder, Trade UNO | Sangram Baviskar, Founder Member & MD, Yantralive |.

And, the conference was moderated by Sameer Singh Jaini, Founder and CEO, The Digital Fifth. Sameer comes with 20+ years of experience in the Indian Banking and Financial industry. He is currently working with financial institutions to establish the right digital strategy in the overall business strategy.

Challenges shared by the Participants:

The Aggregators shared that the SME lending faces several challenges in India from lack of financing opportunities to unavoidable hindrances in the loan procedure, thereby resulting in not getting timely credit.

Here are a few challenges chalked out by that the panelists:

Lack of Data availability:

- Most of these SMEs are new to credit and hence they do not have credit scores, which is a primary tool to underwrite these SMEs.
- Some of these SMEs have been guarantors to other SMEs who in turn have defaulted and hence their credit scores have been sub-par.

Incomplete Digitalization:

- Digital India is moving at a fast pace, but lenders still have legacy platforms where they struggle to make better underwriting models and are unable to benefit from commerce/transaction data.
- Lenders have not been able to move with time and offer innovative products to support smaller ticket sizes and high volume-based loans like those to be provided to Kirana stores and small retailers.

Market Barriers:

- The informal market in India is the next big challenge – despite a drastic change in the last 5 years, small-scale businesses still prefer to work with 10+ accounts, keeping the tab under 20 lacs to save money on GST.

- With the fraud threat and non-payment issues in the industry, the lending rate for SMEs is to be kept at 31% with a risk of 11%, leaving the lender with a profit margin as low as 9% for small ticket loan accounts.

Clamp down on First loss Default Guarantee:

- FLDG which looked like a lucrative option to manage the small loan portfolio, has led to even bigger problems arising from counter party risks.
- RBI's new Digital lending guidelines will ensure that the FinTech's who created massive loan portfolios using FLDG will eventually need to become NBFCs and come under full RBI regulations, thereby eventually put a stop to all innovative lending activities.

Probable Solutions:

The Aggregators discussed that lending to SMEs can be simplified by creating awareness and bridging the knowledge gap. The panel of leaders discussed what could be the probable solutions to the challenges.

Reforming the lending behavior:

- Lenders face a problem with traditional behavior, so launching new initiatives like 0-1st EMI schemes can help reduce the churn rate.

- Create in-house credit lines with a real-time tracker to gauge the behavior and trends for lenders.
- Revenue drives the credit ecosystem; therefore, have flexible abilities in the loan products to be able to channel the requirements as and when they arise.
- SMEs should work with small lenders, NBFCs, and Fintech rather than the big ones, to be able to get fruitful lender-borrower connections.

Restructuring the credit ecosystem:

- Recasting the loan product to leverage the credit ecosystem for disbursement & creating the ability to understand credit data and credit assessment.
- Using alternate data such as the cash transactions done by the SMEs for business loans, personal loans, etc.

Drawing a parallel between US & India:

- In India, to avoid the GST payment & use cash as the primary mode of payment, small-scale entities are doing business with multiple partners, keeping the ticket size less than Rs. 20 lakhs, while in the US market, the vendors or SMEs don't rely on bank statements or tax records and utilize nonlinear data for business partnerships.

Biz2X and Maadhyam as an asset:

- **Biz2X** provides an automated underwriting system, customized to the needs of each industry. The system is a result of learnings derived from the US lending market to enhance and leverage the existing process with cross-learning.
- **Maadhyam** powered by Biz2X solve the challenges of industry aggregators – by bringing the lenders on board. It ensures discovery, matchmaking, product definition, engagement, and understanding of credit assessment. It creates value by helping the aggregator manage data for every lender they are working with. Thus, for an aggregator, data becomes a value-added benefit.

Panelists POV:

Akshay Deshmukh, VP – Financial Product & Credit Strategy, PharmEasy, commented, “While aggregation sounds very simple, as in you are aggregating a buyer and a seller but in different industries and in different markets, the ballgame is different altogether. Solving the problem of credit in each of the aggregation markets is in itself a problem. The biggest takeaway for me was how we can collaborate and partner to create an ecosystem where I can aggregate all the aggregators. Create a lending ecosystem for the aggregation business and then it's a win-win for everybody. I win for myself; I win for everybody.”

Shruti Mehrotra, Founder and CEO, Mihuru, “The roundtable conference helped on multiple aspects such as which lenders to approach at which stage of the business to also sharing knowledge and spreading awareness about the kind of product we are developing”.

Aditya Shankar, Vice President – Vertical Head – Lending, Trade India, “There are a lot of challenges that aggregators are facing like funding for their customers. This problem we identified a long ago and we have built a product around it. This is very exciting, and we felt really confident that we are working in the right direction.”

Saurabh Agarwal, Founder, Trumac, “The event has been fantastic with FDF because we have been talking with lot more aggregators regarding how finance works, how fintech companies are getting into it, how RBI is playing a major role in this. We are trying to solve the whole credit problem in this MSME industry.”

Vineet Tyagi, Global CTO at Biz2X and Biz2Credit “For Small & Mid-Size businesses, lack of finance or loan options, credit processing time, and inadequate knowledge, can be the utmost drawback to moving forward. So, we with Maadhyam are aiming to provide a comprehensive platform that will facilitate faster disbursement of loans among SMEs by bringing together the aggregators and lenders. As Maadhyam is making India's SMEs Aatmanirbhar.”

To sum up, small-scale businesses must initiate business lending propositions with NBFCs and lending institutions, rather than jumping on the bigger entities like banks. As they might not prove beneficial due to the higher risks involved, big-ticket loan portfolio and nonpayment issues. Moreover, a Give-and-Take model, where SMEs & Aggregators together help each other make money with the proposed solutions via lenders can lead to a profitable credit ecosystem.

Catch the glimpse of the FDF Round Table Conference Mumbai



Snapshot of the event



Watch the event video

Know more about Frontier of Digital Finance
www.frontiersofdigitalfinance.com