Sattva Knowledge Institute SKI perspective

DECODING IMPACT PRESENTS

DECODING THE OPEN CREDIT ENABLEMENT NETWORK WITH HRUSHIKESH MEHTA

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Acknowledgements

Contributors

This podcast was arranged by the **Digital Platforms Team** in Sattva Knowledge Institute and was hosted by **Rathish Balakrishnan.**

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Disclaimer

About Sattva Knowledge Institute

Sattva Knowledge Institute (SKI), established in 2022, is our official knowledge platform at **Sattva.** The **SKI** platform aims to guide investment decisions for impact, shedding light on urgent problems and high potential solutions, so that stakeholders can build greater awareness and a bias towards concerted action. Our focus is on offering solutions over symptoms, carefully curating strong evidence-based research, and engaging decision-makers actively with our insights. Overall, SKI aims to shift intent and action toward greater impact by influencing leaders with knowledge. All of our content proactively leverages the capabilities, experience and proprietary data from across **Sattva**.

Introduction: *From Sattva Knowledge Institute. This is Decoding Impact, the podcast where we apply systems thinking in conversation with extraordinary experts to understand what it truly takes to scale solutions in the social sector. Decoding Impact is hosted by Rathish Balakrishnan, a co-founder and managing partner at Sattva. Welcome to today's episode.*

Rathish Balakrishnan (RB): [00:00:37] According to official data, there are 6.3 crore MSMEs in this country. 99% of these MSMEs are micro-enterprises which typically employ less than ten people. These MSMEs are creating 11.1 crore jobs, which is only next to the agriculture sector in India. However, the MSMEs in India are plagued by acute shortage and access to formal credit. According to a 2018 IFC report, the total addressable demand for MSME credit is at ₹36.7 trillion, with a total supply of about ₹10.9 trillion. There is a potential addressable credit gap of about ₹25.8 trillion in India today. The answer to this problem of this scale is not going to be more boots on the ground.

In this podcast, we will explore how technology solutions such as the Open Credit Enablement Network (OCEN) addresses and enables access to credit for MSMEs in India at national scale. We speak about OCEN itself, the engagement with the lenders, the credit products, the distribution engine, and finally the role of philanthropy in accelerating its adoption. To have this conversation with us. We have Mr Hrushi Mehta. He comes with over 20 years of experience in finance and credit and is currently the Chief Evangelist of Credall and a volunteer with iSPIRT. Hrushi, thank you so much for joining us today.

Hrushikesh Mehta (HM): [00:01:59] Hi, everyone. Thanks for having me.

RB: [00:02:00] Before we get into, you know, open credit enablement network, I'd love to hear about your journey and also what is CredAll all about.

HM: [00:02:16] We've always tried to solve this problem of getting credit to the underserved. And MSMEs in India are particularly underserved because of the ticket size. It's very easy to solve larger ticket sizes because you can have a lot of manual intervention, but it doesn't become economically viable to do that with smaller ticket sizes. Typically, when it's three lakhs and less so, we have to solve that problem with technology. And throughout my career, that's what I've been trying to do and I think OCEN finally solves the problem, so know taking a keen interest in trying to roll that out across the ecosystem and finally, you know, put an end to that problem of getting credit to the MSMEs.

CredAll is a non-profit foundation that manages the OCEN protocol, which is a set of APIs that enable lenders and loan service providers and loan service providers are the platforms where the consumers sit and transact. They could be like food delivery apps, they could be agri trading platforms, they could be implementations like the government e-marketplace, where all e-commerce platforms where a lot of trade happens.

What CredAll does is manage these APIs and then co-ops the ecosystem and at least the initial role is to evangelise it across the ecosystem and get people to start participating. What participation means is getting lenders to adopt the APIs, and consume the data that comes from the LSP and the account aggregator, which is another India Stack platform to enable the transfer of consent-based bank statements and GST data. What we do is we coop the lenders to adopt us, we help them give out the first few loans by framing the credit policy and on the other hand, we also create the first reference app. So, we've done *GeM Sahay* in partnership with the government DD marketplace and we are currently in the process of testing *GST Sahay*, which is invoice financing with SIDBIand these are like the first reference apps like BHIM was to UPI and eventually, we'll also include private market apps. Our role as credible is also then once we've co-opted these guys also to create ecosystem-like rules of engagement to make sure that it's fair for everyone in the ecosystem. It's not over-balance to one side of the player. So, we also do that and we have we'll eventually have a governing council where we bring the market players on to help frame how the ecosystem will evolve in the future.

RB: [00:04:49] I want to unpack a lot of the things that you said but before we do that, what is OCEN which is the open credit enablement network for me is part of a larger journey that India is taking, you know, started with other than UPI as you talked about, account aggregator, etc. And it's not just different tools. This is a different way or a paradigm to solve financial inclusion in India. A lot of people who are listening to this podcast may not be aware of the entire journey that we have taken. If you can just step back and talk about what that overall big picture is and how that comes together, and then if you could get into it OCEN, that would be much better.

HM: [00:05:26] The genesis of all this is the U.K. Sinha Committee report. Now, that sounds, you know, obviously quite boring to most people, to a bunch of people who came together to frame how to get credit to MSMEs. And this happened, you know, five-seven years ago. So, you know, while it might not seem apparent, you know, because these changes have happened over almost the better part of a decade and we just see the result of it.

But the three things we had to solve before we could implement OCEN. One of the major challenges is manually verifying in person because anything manual is a cost. So, Aadhaar, KYC solved that because you could remotely now and reliably address the KYC as well. You know, it's not completely solved, but it solves a large part of the KYC problem. The second piece is UPI. So, it is cost-free transfer of money between two parties. And this is particularly important because we have this hypothesis of trying to facilitate an intra-day loan, which is about ₹500, and that was our end goal. And to do it in real-time and completely paperless and presence loosely. Now the challenge is if 0.5% or 1% is charged each way, transferring the money, that is more than the interest cost on the loan, right? UPI was the next layer that was put in place. The third layer was the account aggregator, which launched in September 2021.

And what this facilitates is consent-based data sharing which is usually a bank, and you can share your bank statements to a financial information user, which is the bank that you're applying for a loan. Now, this is consent-based, and its purpose is limited. So, you know, there's privacy involved as well. And we'll soon be adding, you know, GST data and other sources of data like even asset data over the next few years. And this becomes the foundation because to underwrite for MSMEs particularly, you need three pieces of data, GST data, which is like a proxy for your turnover and your business inflows and outflows. You need bank statement data which gives you cash flows and these cash flows are an indication of whether that turnover materialised into cash. And then the third piece is repayment information, which is sourced from like if you've taken credit previously and whether you've repaid it and what your current leverages and that is sourced from the credit bureaus. That data layer is very important because if you want to give unsecured credit. MSMEs are being served collateralised credit because people were so risk-averse and there was no other way to assess their creditworthiness and hence collateral was asked for. So, what we are saying is that data becomes collateral and your reputation, what you've done in the past enables you to get credit in the future. So those are the three layers that we needed.

And then finally, one of the major problems was you have MSMEs. Now we've become a digital India where you're transacting on Amazon and Gem on Swiggy Zomato, Ninja card wherever. But you're not really if you want credit, you have to go elsewhere, right? You'd have to go to another app or you have to go to your bank or NBFC to raise credit. So, the hypothesis here is what can we serve credit to at a place where the user is transacting, which is that word embedded credit and they can like just how they checkout on payment. Can you check out with credit very quickly in under 10 minutes? What we developed and there was a massive other challenge is that when these loan service providers, these platforms, the users transact integrated with the lenders or vice versa, there was always bilateral integrations and there was always customisation which slowed the process down or limited it because some would be willing, some would not. So, what we've done is we've standardised that, and that's become the open credit enablement network. What you're doing is creating a standard language, a standard process that a lender and LSP can communicate with. And then they have to integrate with this only once and they don't have to do it multiple times. So drastically reduces the cost of integration, and it makes everyone interoperable. And basically, we hypothesise that it will serve credit to multiple places more quickly than people engaging bilaterally.

RB: [00:10:08] Brilliant. I want to in my words summarise three things that you said, each of which I think is very important.

The first thing that I understood from you is, which is a very, very first principles way of looking at credit for thousands of years, credit has worked in the following way, which is, Do I know you? What is your reputation? How can I give you the money? In informal networks, it's people giving cash because they're a social trust. Today what you're saying is that all of these three can be done digitally. Do I know you? Yes, I know you. Because of KYC and Aadhar. What is your reputation? This is really where an account aggregator comes from where a financial information provider can for a particular context, give that information to another financial information useful to know that this person is creditworthy and transfer. The money can also happen digitally with UPI and the fund. And again, this is super simplified, but at a fundamental level. These are the three big pieces of credit which I think over the last ten years we've started putting in place, which gives us the environment to be able to move forward.

I'm sure you're going to tell us in reality how there are still Chinks, etc., and we'll come to that. But the second thing that you said, which is very important, and I would like you to build on that, is this idea that bilateral connections have already been made. And, you know, just to give you my background, I used to work at SAP, and a lot of what we used to do is to say, how can I work with banks? How can I work with people, and large companies, to create these networks more effectively? But they were all very proprietary networks, our protocols, our own definitions and so on, and the cost of integration is very, very high because a lot of times people come. And our thing is OCEN platform like Amazon, you know what? OCEN it's not a platform, it's not a technology. But you use the word protocol in the beginning. Maybe you want to tell us a little bit more about that. If it's not a physical platform, what is it and how does that create an unlock value?

HM: [00:12:00] So it is and isn't a platform, right? So, I'll explain what that means. So, one is creating the language that the LSP and the lender talk about. So, standardising that. The second is the ease of integration and that we are creating what we call an OCEB gateway, which sits in between the LSP and the lender. And it is what they both have to integrate with once and then they don't need to integrate with anybody else. Right? So, the protocol is the language and the platform is the gateway. So, it's both like we don't like it's not a platform like where people like an Amazon or a GeM, where it's like a complete you can do multiple things. Our role is just to route lending, applicant requests to the lenders, send back offers, and then the lender takes over once an offer is accepted. There's a distinct difference between the two and both are required to make the successful because if we just had the protocol, then people would still have to have bilateral integrations, which is what we want to avoid.

RB: [00:13:06] Absolutely, and when there are 6.4 million or 4 crores MSMEs that we are talking about, they are going to be distributed across multiple places. You named some of them in the beginning. There are people associated with Zomato, with, you know, a Ninja Cart, etc. So, finding that common language or protocol is helpful, but the gateway is actually still the infrastructure that we need to actually transact.

HM: [00:13:27] There are software service providers that sit in the middle of this space and lenders today. Now, the thing is, they will still have to customise to lenders, to LSP to make this real. As a public body, we are able to study this and then sometimes convince, sometimes cajole and push people towards the standardisation which may be private players are not able to do. Say you're trying to build an expressway between two cities, right? Right. If private players built those expressways, they would charge a massive premium for people to use them, which would crowd out some users who couldn't afford them. Right. It would promote the deep pocket. But if, like the government went and built it and charge a charge, a very, very low toll gate to use it, it suddenly becomes usable by everyone and that traffic then creates economic activity. Right. So, it's the thinking is no different than that. It's just that, you know, people think of digital like infrastructure, something you can touch and feel. But this is the digital infrastructure that enables the same outcomes that physical infrastructure sometimes does.

RB: [00:14:38] In some senses, these are the rails on which all the trains run but establishing the rails is very, very important.

And the third thing that you touched upon, which I think is also a very important part, which is the fact that today there is business happening online, which leaves a digital trail like a Zomato with restaurants and Ninja Cart with the providers. That digital trail is extremely helpful for us to build on because you know that this person is getting orders, not getting orders who this person is.

Is that something that you're seeing? And you talked about GeM as well, which is, of course, the, you know, the marketplace that's set up by the government for B2B procurement. How important are these digital marketplaces to the story of OCEN and how are they enabling this entire journey?

HM: [00:15:19] One of the two main players, right? So, one side is lenders, and the other side is these LSPs. So, if you think about it as an upstream-downstream thing, first the transaction happens, then it is likely to show up on GST. Then that transmits into your bank statements. So, it's like an upstream to downstream flow. Now what you're doing is if you're able to tap the data upstream, it becomes that much easier for a lender to be able to lend. We call it benchmark data. One is data to be able to underwrite and the other is benchmark data which sits with these platforms. And what that means, that let's take a food delivery app. So, they know which restaurants are in which quartile in terms of business, how many orders they get, who is more heavy traffic than others and that sort of thing. That information becomes very, very important to a lender because they get a sense of when there's a cash flow crunch, and what kind of product to create. For example, if, say, restaurants are running out of money by the 10th of a month and they need money for ten days, you know, because on the 10th is typically when restaurants pay their staff as an industry practice, so it's a big outflow, but they need maybe ten days bridge capital till their business starts, till the regular flow of business replenishes that cash flow. Maybe then that's the product you do and what you can also do is enable daily collections because sometimes, you know, cash flows through the platform that is providing the service. You could create an escrow mechanism, so it actually provides additional safety for the lender. You're giving safety to the lender to underwrite and you're giving credit a bridge capital to the restaurant to be able to survive till the cash comes in without having to do it. The money lender rate, you're doing it at bank rates, which is a lot more complicated.

RB: [00:17:09] Then there is disbursement that comes in, but your business need might have changed in the meantime. And then you probably have a very different problem. With OCEN we are saying that the product can be big, small, whatever because it's suited to the needs of the restaurant, number one. And it's built ground up based on what the restaurant actually needs. Two you don't have to submit a lot of documents, or go to a ton of places, ideally because the data around your behaviour is already there with the LSP three, the value of the loan can be fairly quickly delivered. Depending on these checks and balances being ok so much more relevant product, much less hassle, and faster delivery, would that be a fair thing to say?

HM: [00:17:50] See, in this completely manual mode you described, the costs of doing all these things cost anywhere from ₹3000 to ₹5000. What if I wanted a ₹5000 or ₹10,000 would be a loan? This would not be possible because when you say a restaurant, it's not always like a big franchise or whatever. Right. It also could be your like literally chai wala. Now, if he wants a ₹10,000 loan, this becomes unviable even if he takes his bank statements. Now, you know, a guy making maybe ₹20,000 a month or even ₹30,000 a month will not be filing GST. There will be nothing to file there. But even if he takes his bank statements and goes, the challenge is the first step is can I trust these? So other than the fact that even the ₹10,000 is not viable because I can do so much manual work. The second piece is, can I trust these documents because anyone can manufacture them, right? They need to be verified. They've not come straight from the source. They might be stamped by the bank, but there's some assessment that needs to be done.

There's a fraud risk then, you know, it's not viable to give, so there's no interest usually. And like, you know, the other thing is when bankers want to hit targets, incentivise behaviour, right? I want larger ticket loans. Why should I do these? Like they have to be automated. So basically, one is the costs are too high. There are incidents of fraud because it's submitted by the user and not directly from the source. And third, if it's not automated, it just again, it just doesn't make sense to do right now. What OCEN does person that is interacting with the technology is the user themselves who are looking for a loan? Everything else happens automatically at the banks and so suddenly these become viable to do. I don't have to talk to anyone. I just submit all my documents. The data comes straight from the source digitally signed. So, there's no real need to worry about fraud. And you know, the dispersals also happened to post the various steps of setting up repayments, signing the agreement which is signed by an OTP or e-sign, and then finally disbursing the loan. So, if it's all automated, you've got the sunk cost checked and then the few costs, you know, the low cost of sourcing the data or whatever other things that you are doing and it becomes suddenly viable to do, right? So, automation is the key. Getting data from trusted sources is the key to being able to make this work.

RB: [00:20:01] This sounds like a great idea. Why don't you give us a sense of where you are today, it'll be great to break it down. Where are you with the lenders? Where are you with the products and where are you with the actual customers and the distribution?

HM: [00:20:13] We started last year, so18 months ago it was still an idea and we were working towards making it real. So, it launched in May 2021 and we started with one lender. There were obviously Chinks in the tech and we are in that out now. So, with GeM Sahay, which is purchase order financing, we, have six lenders, so two large banks for NBFCs, we have given about ten crores in loans, about 2500 loans by volume. So, it's about ₹40,000 in ticket size. The smallest ticket size is ₹160. Incidentally, the largest ticket size is about five and a half lakhs and the NPA is about three the 3% range, which is actually not bad at all for this segment. And you know, particularly because it's going through that learning phase currently, we also have eight banks in the pipeline. We ran the pilot. So, we have will have and maybe like four months, about 14 banks. And we'll also have a couple of public sector banks shortly. So so, you know, the first step was to build out the supply side because first, the lenders have challenges with tech because there is no manual work.

So, everyone has to build the tech to be able to do that. Secondly, the issue is the credit policy, right? Because this is not a mature product like, say, retail loans, which have been being done for 15, 20 years. That is sort of figured out by lenders, but this needs to be figured out. They are initially very cautious, sometimes don't give loans for weeks, then they ease up the credit policy, then a few loans go through, then they see if they come back, then they slowly ease it out. So, this is that learning phase and GeM is like a smaller first pilot use case, right? And even when I say small, it's almost 25 to 30000 crores of GMV. So, you know, when you're talking to country level, even a pilot is quite large for a country like ours. And we've catered to only 10% of the GeM sole proprietor. The sole proprietor is sitting on the gem platform and we now soon expand that to a larger base because we want to run a pilot to a very small section.

RB: [00:22:30] Maybe I'll just try and make sure that I understood the first one correctly in GeM Sahay where GeM, as everyone knows, is a government e-marketplace, when you said invoice financing, what you're saying is that a particular government department places an order to one of the proprietors whose registered himself in the gem platform. And when they make or place an order against that order, you can provide this person credit to satisfy that order.

HM: [00:22:54] The stated challenge on GeM was that MSMEs are not able to take on large orders because they don't have the liquidity to finance the fulfilment of those orders. So, I have heard a few of them say now that this facility is there, I will start accepting large orders, which is exactly the point. Right, because if we can generate more business for them, that means more economic activity, which means the credit has to be solved for what we were trying to do with that credit being disbursed. So, it's a purchase or sale, right? It's the government entity that is buying something. They put out a bid. These they put out a tender. These guys bid for it. You know, once the bid is won, then they go and finance the purchase order to be able to fulfil it.

RB: [00:23:41] And given that is a short play on the other side, the credit risk here is very, very low because you're paying against something that is assured to pay as soon as the delivery is done.

HM: [00:23:49] That's right. Because, you know, we managed to trap the cash in these cases. The major part of this is a delivery risk. You know, we have an escrow mechanism to trap the cash when it's paid. The risk is will the person deliver? So that is where the GeM data helped in the past. If you've delivered on time and in high quality, you haven't had too many rejections. That is actually a signal to the lender to take that, okay, I can find this guy, whether he's large or small, because they are delivering on time.

RB: [00:24:15] Absolutely. This goes back to the point of reputation that you made earlier, that the reputation is assured based on past behaviour, which shows a certain level of consistency. Brilliant. Yeah. Now you're talking about the second reference implementation.

HM: [00:24:26] The first reference implementation was this purchase or the financing. The second one is invoice financing and this is particularly e-invoices on the GSD platform to the challenges. Currently, the supply chain financing happens from invoices on ERPs or the other version is TreDS, which has been quite successful. But even with those, one is ERP invoices, you know, can become fraudulent if people just manufacture data.

The other issue, I mean, with TReDS, the issue is it's a two-sided like both guys have to say that the invoice is really like with they accept that the invoice is real and then credit is disbursed and the person who's on the hook for payment is the buyer. In our case, what we're saying is because it's a GST invoice because you've agreed to pay tax, you might even take an input credit against it. Like, why would you have done that? You know, okay, now you can argue that you'd create a web of companies and try to do fraud in that way. But like, see, we're not solving for the half per cent to defraud the system. We're solving for the 99 and one-half per cent who use it well. Basically, those invoices don't need to be verified because you're paying tax.

Otherwise, you wouldn't file that and you will lend against that. So, the power is more upstream, and the invoice is more downstream. Because you've already delivered the goods. Now you're just waiting for the payment to come, so we finance those. And that is one of the major stated issues, right? I have an invoice, but I never get paid on time. It could be anywhere from 2 to 10 months before I get paid. So, can we provide finance for that? So that's GST Sahay and that's in testing. It should be actually any day now that the first loans go out and once, they do, we've built that in conjunction with SIDBI and SIDBI is going to be the first lender and then we'll open that up to other lenders. And all those 14 lenders that are on GeM Sahayi eventually will come onto GST Sahay as well.

RB: [00:26:23] And I think the point you're making, which is very important, is the fact that we're looking at a generational change here. This is not a game that we are playing for one or two years. We're playing this for a period of time, which fundamentally changes the behaviour or the infrastructure that we have to provide loans for millions of people. And you're right that there is going to be learning along the way. I want to exemplify what you said now because for the people that are listening to this podcast, this particular use case is important and it sort of leads to the second next two questions I had for you.

So, if I am an artisan working in rural India, you know, I make these beautiful carpets, for example, and I get low. I mean, I get an order. I have to spend a significant amount of money, but I get paid like 90 days later, which always creates cash flow problems. My life is going to get better in three ways if I understand you right. The first way is I get associated with the marketplace, that's an online marketplace. The online marketplace at the time of getting an order, either on my purchase order or on my invoice, is able to give me a credit so that I have access. In this case, it's a purchase, or I'll get access to credit as I'm part of this online marketplace. So, for a lot of the rural artisans, this becomes a motivation to start integrating themselves into existing online marketplaces. B2B, B2C, B2G, etc.

The second is I find, you know, maybe an existing financier or somebody else who is able to do this, the post bank model that you talked about where I'm actually the somebody comes in is an assisted model. I'm getting access to my loan because I have a UPI, I have my bank statements and I get access to that. And through other debit models, money goes out of my window and that's then builds credit history for me to take more loans. This is the second way I can sort of getting this access. The third way and I wanted to check this with you, whether this is viable as well. There are existing, you know, NBFCs, microfinance institutions, etc. that are targeting the rural community were taking a large feet on street model today, do you see them in or either immediately or in the future moving to digital where they are? You know, the SHGs, for example, and all of those other rural communities that are banking in, you know, the microfinance model taking to this approach as well.

HM: [00:28:40] Let's just take a step back and highlight the concerns of banks and NBFC, and then I'll address the question that you're asking. Right. So NBFC have a concern that look before we could do stuff digitally, banks couldn't. Now you've standardised it and they just have to plug in. How will we compete with their cost of capital? Banks have a concern that I have this distribution, which I have spent probably millions and billions of dollars on. NBFC is done now. You've made them completely digital and they can move faster than I can, how will I compete now? Like the whole submission is first there's a whole segment out there. Like we are not only talking about the slice of the existing pie, which is a small slice, I'm saying there's a whole other cake as large as retail lending there that is unaddressed.

So, I don't think the concern should be is a piece of my slice going to get taken away. The concern should be how do I get a slice of the other pie which is lying there? Now, to answer your question, especially if you're in microloan and you're using feet on the street, why are interest rates so high? Because the costs of servicing these are high. Now, if we've digitised everything and you can give the same loans at as low as 12%, why would someone pay 24% and 36% annually? Right. So, if you don't get on this and look, you know, people might say you're really optimistic. And I'm obviously like you could also be called prejudiced because I'm sitting and doing this. But the very fact of the matter is, if digital reduces the cost, if you don't do it, you're already a dinosaur.

RB: [00:30:12] There is going to be this FOMO - fear of missing out, saying if somebody started it, then all it needs are a few pioneers and then everybody else is going to follow.

HM: [00:30:20] If one or two large NBFCs we experience this. To be honest, when life started giving loans, people didn't expect them to take this leap into this new tech. Suddenly you have five or seven NBFCs saying, now we want to participate. Incidentally, not an hour ago, Kotak gave its first loan on OCEN, that is huge. Like at 12%. Now, where would an MSME get a 12% bank loan for 90? Like it was a ₹97,000 order? That wouldn't have happened in the normal course. So, you know, this is like a huge deal and this will cause now others to want to come and participate because they've just done something which no other bank in the country yet has done.

RB: [00:31:15] So I'm going to just flip the coin now because we are talking about OCEN by itself. But you know, one of the things you mentioned which for me stuck is we are creating an ecosystem for providing credit to the poor and we are sort of building the road as we are walking on it. There are probably parts of this road that is not built yet where we have some parts we don't. So, if I had to ask you, what are some of the challenges that you see today that need to be addressed either at a policy level or otherwise? It would be great to hear that.

HM: [00:31:44] One of the challenges to drive adoption, but it's not such a hard one because people see the logic of doing this, so the execution challenges in that context are not that hard. What is harder is the credit policy challenge which is the first major challenge. What happens is, you know, this is path-dependent thinking. People are used to doing things in a certain way. We are not incentivised to take risks, especially in corporate India right? Because suddenly if you have higher NPAs, that is not compared to a mature product to invest in that to make mistakes like mistakes aren't rewarded like start-ups will reward, fail fast, innovate, but the larger players won't. So, one is creating a culture of that and I think what happens is the seniority buys in right from the CEO level. But what happens is the executions obviously are reticent sometimes about doing this, but some of them come around and what you need is one or two to be excited and push it through with support from the seniority. Then, you know, the other start participating is it follows through, but it sometimes takes months to get a credit policy right before, you know, the first loans go out. But again, so I actually keep reminding myself that, look, you're building for 30 years, so if it takes six months, don't worry about it, because once those people enter, then they'll never leave. So that is another issue. Then the final and the big one and is KYC norms. Right now, what has happened is, look, we have, I think, one of the best regulators anywhere in the world. But what is also happened is we have all these new digital tools now that are coming to life as we speak. So, the regulations tend to be static and the market is dynamic and sometimes the separation between them grows.

HM: [00:33:36] What has happened is and without getting into the nuances of what that challenge actually is, look, basically if you're trying to do a completely digital KYC, then you should have a clearly specified way to do it. Or like sometimes you need multi ministry help to make digital documents available. Very simply, see Aadhaar solve for retail like the individual. Now you have to get two additional documents to prove that the entity is linked to the individual and an activity proof. Now the challenge is a lot of these documents are not available digitally. Then that breaks the flow, right? Because one is I can't get it at all. Secondly, I might have to download and then upload it then it's not as smooth, just a few clicks flow. I can't tell you how helpful the government has been in trying to solve these problems, but they're not easy problems to solve. So, while they might take a particular amount of time to solve, I think once we do solve them, they will be solved for those 15-20 years to come. That is a major challenge to unlock credit. It's almost like a bottleneck, right? Because, you know, some banks are walking ten feet inside the lines of the regulation. So, then it's very difficult, right? Then you're limited to who you can lend. When are these documents available? So, our job is to lay the rails, say what we think would be the right thing to do, and then, you know, hopefully, we'll be able to get the right tools in place where we maintain the sanctity of the KYC but using the new digital tools that are available.

RB: [00:35:11] Let me take a step back here. You're talking about fraud where I am receiving a loan and I am I'm the person who's committing the fraud here. Let's flip it the other way around. There are there have been recent cases where online companies, in the pretext of selling a product, sign people up for a loan of which they can't get out.

HM: [00:35:31] That is an ecosystem player behaviour issue. I'll come to that, CredAll solves that. I'll come to that last. We talked about fraud, then consumer behaviour, then let's talk about ecosystem player behaviour. Right? So, the second piece is consumer behaviour. Now, the thing is, when it becomes available on tap, you also have to provide education. In 2015, I had gone on a route walk with Aarohan in Calcutta and when people were being given the first loans before the loans were disbursed, they would keep saying, *Lena hai toh Dena bhi hai Aur Dena hai toh Lena bhi hai* because a lot of people, assume that you're just giving me money or take it and I don't really have to pay it back. And then that creates all sorts of issues, right? So, I think there will be some education that we will need to do as a collective right. Whether it's the account aggregators when they are telling people that they are sharing data, it's the lenders themselves when they're lending, sending educational material, and doing that general education. Maybe we'll take on that role as well at some point where you, in conjunction with the RBI, say, look, this is all happening, but you are able to get credit easily, but remember that you have to pay it back and paying on time makes a big difference to how you can access credit in the future.

That takes effort. It's not going to happen overnight. We saw the same thing at the credit bureaus initially where no credit was being given, and then people are like, why? I didn't pay it back and I'm not getting a loan or my directorship is being affected or you know, sometimes even in some cases, employment was because employers, especially where people are in financially sensitive positions, want to make sure people are not in debt.

They don't have any reason, you know, to commit any fraud, though. So that's a behavioural thing which will take education and time to solve. And then the last piece, which is how people behave in the ecosystem and duping like, look, we are going to create and that's our role as well creates minimum guidelines like on how a product should be displayed, what information should be displayed, how it should even be ordered. We don't want to make it in an overly bureaucratic where there are too many regulations and then you choke off any innovation, but you want a minimum where the consumer at least is being able to make an educated choice. So, you know, if there are people burying it and just, you know, and then suddenly you have a loan which you didn't even want to take, you know, those like display criteria will, those will evolve. So, we've set some light criteria currently. But obviously, if you find that it's becoming a problem, you will evolve those as an ecosystem. Because, you know, the thing is, CredAll and Sahmati all are formed by public interest people first and then the market is co-opted. So hopefully we'll hold on to that ethos as we go down the timeline as well.

RB: [00:38:13] You touched upon this idea of credit policy a few times in the conversation today. In UPI, the mandate is that there is no additional charge, a 0% charge. You know, you have to sort of use it. How are you looking at this entire business of credit on top of OCEN? What sort of guidelines, and rules are you going to put in place? How much is it free will of the market, etc.? Just help us understand that better.

HM: [00:38:36] With the lenders we don't prescribe what the interest rates should be or what the processing fee should be. But what we've already seen is see, money is not free, so you can't and everyone has their own cost of capital, so you can't prescribe what they should charge, but they'll have to charge what the market accepts so they'll get no business. What we've already seen is people reducing processing fees almost to be extended in one case or the lender saying, I don't want the processing fee anymore because I have no processing costs other than the minor tech setup, which I can include by adding a few basis points to my interest rate so that we've already seen that change and it's so early. But on the lending side, you know, other than that, like let competition take care of it. But I think what your more pertinent question is, the LSP side of it, like how, do they make money, right?

So today, you know, they're paid a bounty, so it's either lead-free conversion fee or some combination of it. But that also inflates the cost of capital for the borrower because eventually, the borrower pays. It's like, you know, not like the lender's going to absorb it or the LSP because they're making that money. What we have decided to do is, you know, to change the agency where we tell the LSP, when you charge the borrower, because these are all pre-approved loans, you know, if you go to the process, you'll get it. So pre disbursal, why don't you charge them 0.5% or 1%? And it's very easy for a loan service provider to test what this fee should be for maximum throughput. You can provide it for free, like something like I don't want to charge anything because it increases my GMV, so why should I change anything? I'll just you know, my GMV increases. I make enough money anyway. And the other thing is we're not prescriptive. How you charge, you can even say I'll charge you a subscription and the loans can then happen. I'll charge you an annual subscription monthly, whatever the case, or even loan my loan. All we are saying is you are not prescriptive about that. Like how much to charge or how to charge, just charge the borrower not to lend. We are hypothesis that this will bring down the cost of lending for the borrower when this happens.

RB: [00:40:41] I want to move to the last part of the conversation that I wanted to have with you, which is this is massive. You were explaining that this is a set of people who have the right intent to be able to solve a problem where they're co-opting the market. And another stakeholder who has the right intent is philanthropy. And I recently was in a conversation that I moderated among people from the fintech space, and there was a lot of thought on what philanthropy should do or shouldn't do to make this happen because sometimes bad philanthropy can skew the market, create subversive incentives, and so on. In this case, given where we are right now, what is the role that philanthropy can play to push this forward?

HM: [00:41:17] You know, it's a very good question. So, it's we have been approached before because we are a non-profit. People expect that you know, non-profits need money to survive and that sort of thing. Now, our initial hypothesis is that we want to make this self-sustaining via membership contributions because these membership contributions will be minuscule compared to the business that it will generate over the years. The other interest is also we need a self-sustaining ecosystem where everyone is making money and they're nourishing themselves rather than needing outside oxygen, so to speak. So, I think where philanthropy could help is by providing a time-bound credit guarantee or subsidy, especially for loans that are given off the OCEN.
Because what this will do, as I was describing.

Corporate India is risk averse. It takes time. So, if we provide them with a credit guarantee and, you know, that can be worked out of what that looks like, it provides air cover, so to speak, for a time-bound fashion. It can be like one or two years where it gives them time to figure out what the credit model should be, and after that, it can be taken away. So, what you've done is it's a low-cost way to spur the adoption of these new digital credit rails. This may not even come home to roost, right, in terms of a credit guarantee. And on the flip side, for like a double squeeze what you could do is provide an interest subsidy to the borrowers themselves. Now, that is a clean subsidy where you're just like giving money away, but both are equally powerful because then there'll be an incentive for people to come and take these loans as well. And, you know, we could help facilitate this, obviously, but I think that would be very powerful to drive the adoption and let it speed up the process of adoption, both on the lender and consumers.

RB: [00:43:08] And I want to build on your credit subsidy idea and throw another idea there to see if this resonates with you and you can tell me whether this makes sense on the credit subsidy idea. One of the thoughts that, you know, as you were talking, I was thinking is there is a gender lens to this work. I mean, there is while we assume that technology does not understand gender, there's probably a high chance that men accept these take these loans more than women. You know, they are part of these value chains and so on. If we were to create a gender-specific incentive, which is to say, hey, if you're a woman entrepreneur taking a loan, I'm going to give you a credit subsidy and encourage women enterprises, which automatically then creates women jobs, then creates you know, impacts the labour market overall of women participation. Can we think about models like where these subsidies are targeted subsidies that get people who might not otherwise come by themselves, you know, because of the upper half of the market, but need some additional nudging to come in? And because there is today a significant philanthropic interest in just getting women to be better entrepreneurs, create more jobs for them and create more businesses for them. And I was wondering whether that resonates with you or do you think I'm missing something as I'm thinking of it?

HM: [00:44:20] So, look, I've had this sort of conversation before. When we build credit policies, right? It is never that if it's some men give a lower rate or don't give if it's a woman like you almost never seen that, you might see that for professions but or areas which I mean, it's debatable whether that should be the case because it should be based on our individual performance and not like a performance of a collective around you. But, you know, see, see, the thing is, as we're thinking about this, why would we understand women have been underserved, maybe that's more like a cultural thing, but that is also changed. So, if you look at credit bureau data, there are a lot more women in the last decade who ended up taking credit also because there were a lot more women in the workforce. Why in my mind would you penalise someone for their gender? And I understand the concept of wanting to encourage women's entrepreneurship, but why not offer it to everyone like they all have the same problem, not being able to get credit?

So, if like and there's a different argument of saying, okay, if I provide subsidies, maybe women will do business. But then it also gets into that murky area of like, you know, a man telling his wife that you take the loan in your name because then, you know, I get it cheaper. So, I mean, those could pan out in any number of ways, but like I would still stick to the one because it is my experience. Tells me that gender doesn't matter. I would just provide it to all because it has needed for men as it is for women because it's not like they are getting credit either.

RB: [00:45:49] You are right that more women are taking loans, but we have analysed at least the Mudra loans and where women are taking loans, they take the smallest unit loans. There's absolutely no graduation that you see of women taking higher loans even among those that are taking loans. So, it'll be good to sort of look at that trend. And I feel like there's a difference in changing the credit policy and providing a time-bound incentive on top of it, and a subsidy on top of it, whereas the CO policy does not change, which is a lot higher in the system. But there is a time-bound incentive that's provided to encourage behaviour, how it plays out, and what form it can take. If we do it like that, we don't know. And as you rightly said, the more we do it, the more we learn. But be great to see if there are positive behaviours and deviants. Does that come out of this or as you rightly said unintended consequences? Because of what we are doing, we talked about improving customer awareness and telling them what to do. You know that line that you said about, you know you said *Lena hai toh Dena bhi hai* type of conversation is usually where non-profit organisations that are already working with a set of people have been very effective, which is that they have social trust.

So, they can change behaviours and whatever form, but they're also able to do some of this work which is field-building work, which is where philanthropy is funded, awareness-related work. But a lot of their work has also been, critique where it's due in non-scalable, you know it's been too people-intensive and hence there is a lot of awareness but it doesn't result in a lot of action. I wonder if there is a way that where we can marry the two, where the field building awareness work and the community trust and the social capital they have can be combined with the ease with which technology enables acquisition to see if at least the initial hurdles of both the behaviour awareness and the onboarding can be supported by existing organisations that are working with thousands of such MSMEs or individuals who don't have access to credit.

HM: [00:47:53] So, you're right and I'll give you why I am saying this. I tested 3 to 400 GeM Sahay users as we were testing the app to make sure it was good. So, it was done virtually. But the sense that you got right is that people were afraid of the tech- how do I use this? What does it do, you know, and have questions about it to the extent that you thinking about instituting some audiovisual assistance into the app? Then there's only a certain amount we've done a quantum leap from two weeks of no credit to 10 minutes of getting credit. So, we'll leave something for the private sector to do. But you're right, because that socialisation that I felt that they wanted someone to help, because basically what we've done is build almost the best-in-class technology for the bottom of the pyramid. And sadly, they're not used to that. The more affluent usually, you know, we'll experiment with technology, try to check it out, you know, curious to find out, I think that the bottom of the pyramid is afraid of it. So, it would be very helpful if people walk them through it and talk at scale. We said in the beginning that manual intervention doesn't help, but maybe to get the ball rolling and for people to embrace. And what happens is once they use it, I started realising that my telephone number was being circulated on gem support groups on WhatsApp group because people if they wanted help they'd start calling. So, I realised that in the end that that was a mistake. But this is how they want to talk to someone, right? Initially, once it's figured out it's a self-propagating thing because you know, they need the credit. So, then why wouldn't you recommend it to someone?

RB: [00:49:38] Absolutely. And I mean, I'm sort of taking the lesson from a recent project we did where we provided ready-to-use tech solutions that are designed for people from underprivileged backgrounds. Gave it for free to about 5000 people. The activation rate was 17%, which is that they spent less than 5 minutes on the tool. When we got a non-profit organisation just to nudge them to use, it moved up to 81% and out of that 81%, people started using it for more than 2 hours a week, which is way more than what we thought kids will use ed-tech for. And what that needed was that initial jumpstart, you know, to get them to off the fear of what it takes, help them with the interface and then say, okay, this is your daily behaviour. And once that, you know, the the the hope was crossed, it was a lot easier for them to then adopt that behaviour and make that consistent, you know, and that is with education, which is not a fun thing to do for kids. And this is credit, which is very necessary. There is an inbound pool that's much harder.

HM: [00:50:36] Everyone wants the credit. It's just a question. They're not like it's almost like amazing to them that *Ye phone pe milega*? I don't have to talk to any banker and I'll get chosen because they're used to being run around, or not being treated like an affluent person would be. And here it's like, what? I'll have money in my account in 10 minutes. And sometimes it's almost like, how is that possible? Right.

RB: [00:51:00] This has been a fascinating conversation for me. I think we've covered a lot of ground, you know, and in my mind, I think as I'm bringing this to a close, you know, what I'm thinking is that over the last decade and more, we've started putting the pieces in place. The e-commerce companies, the online companies are coming in place that is bringing in a lot of Indians who might not have been online from delivery boys to restaurants. We have brought in the critical infrastructure, the digital infrastructure that we need, including how to know somebody is available, how to know somebody is credible, and how to transfer money to people. Now we're building on top of that rails like this, which are OCEN and which make possible a more specific conversation on this more foundational infrastructure around credit. And if we can solve for discussions that we talked about, some of which are, you know, the policies and the things that have to be in place and the other is trust and behaviour change. I think this provides us with a way to provide just the right amount of capital to the right people for us to spur the economic engine. And, you know, you're in a great place to be able to see this happen live. But it's fascinating to sort of put this all together to see how it all gets connected. So, thank you so much for your time. Hrushi, this has been great. I hope you enjoyed the conversation as much as I did.

HM: [00:52:14] Look, you live and breathe this, and sometimes the progress is very slow, especially when you're a private sector guy building a public good, things don't move as fast as you sometimes want, even when you're impatient. But like the result of when it happened, I mean, the feeling is like like your fulfilment is like nothing else, right? Because it's a very high-impact work. So, I'm happy to talk about it. And thanks for taking the time to listen.

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