NEWSLETTER

CREDIT RISK MODEL FOR THE UNBANKED – LAST-MILE LENDING

#1

Around the world, there are billions of people without access to structured and formal lending services. This category also includes those micro, small, and medium enterprises that struggle to stay afloat without timely financing.

Fintech has identified these segments to be on the brink of a financial revolution, but there is a tiny hitch. For instance, lending institutions need to regroup their position on mastering the tech, utilizing data in identifying potential borrowers. Nevertheless, some lenders have made headway in adopting alternative data models resulting in a cutback of credit losses and doubled application approvals.

Post-COVID Credit Assessment for Unbanked Segment

The impact of lending and borrowing towards small and medium businesses and informal segments like single structures, migrant populations & the unbanked segment is now seen as "**Too risky.**"

This scenario gives rise to crucial problem statements that need to be addressed by various players in the formal financial ecosystem as below

- Lack of structured and verifiable financial behavior data for MSMEs, small retailers, and even single entrepreneur set-ups
- Physical KYC verification challenges, especially if the borrower name details, address, or any other criteria are a mismatch against available sources
- The financial inability for MSMEs to service and repay existing Loans (in effect) to avail any of the fresh or emergency credit
- The prevalence of manual processes in risks and credit assessment of lenders and banks increases the chances of fraud, errors, omission, loan data exception, and oversight.

FINTECH FACTS

The fintech market in India is expected to reach INR 6207 billion by the year 2025

- Specifically, in the current scenario, as COVID 19 can be classified as an "ACT OF GOD," this presents a rare loop-hole challenge for existing borrower data to be improperly / insufficiently benchmarked against existing lending product standards
- One of the most ignored segments is the unbanked and under-banked segment (who can be classified as without an active bank account or a transaction presence for a minimum of 6 months)

Credit Assessment Opportunities – Ecosystem Participation

- Alternate scoring entities and solution providers need to capture and capitalize individual data through Telecom, Utilities, Taxation & GST, Payments, E-commerce, and Location data

Post COVID, recovery will necessitate the need for digital solution in fraud and risk prediction through financial and social behavior as a must-have in ALL financial services entities in the business of Lending and Credit, leading to set standards and regulatory acceptance best practices for NPA pre-emption

Post COVID, may encourage new opportunities for disseminating & sharing of risks through emerging technologies like Blockchain & Machine Learning.

Post COVID, all lenders should look at availing credit to all segments of society, especially the rural & Tier 2 + below & design purpose based credit products accordingly.

Post COVID, there is an urgent need for Regulatory guidelines for greater risk assessment models – these may be specific to each borrower segment (across financial services industry)

- Account aggregators will be a qualitative and quantitative complement disruptor for the credit assessment and provide holistic financial behavior data across participating Financial Information Providers (FIPs) and Financial Information Users (FIUs)

- Credit repair entities will have an essential role in ensuring the impacted segments have access and transparent understanding to repair appropriate credit damaged due to COVID.

FINTECH FACTS

AI

Almost half of the fintech companies across the globe consider AI as a must-have technology

So far, these pioneering efforts have sparked the unbanked credit assessment. They have brought forth massive opportunities for the sector, and the future looks promising.

Written By :
- Abhishek Mody (VP - Business Development)

Finin

TECH NEWS OF THE MONTH:

This month at YAP, we powered the first-ever Neo- bank consumer account. We are thrilled to have partnered with Finin and bring about an innovation in the banking and finance sector

GDPR IN A NUTSHELL #2

Sam was tired of getting promotional emails in his inbox. He kept deleting them every day, but the next day the cycle repeated, and the inbox was full. He had no idea why he kept getting these emails, even though he doesn't remember subscribing to them. Furthermore, they didn't stop even after choosing the unsubscribing option. Sounds familiar, doesn't it?

Well, we get these emails whenever we sign-up for a new online service or website. We would come across these familiar messages but never take heed of them as our primary intent would be signing up for their services. Below are some lines that are permanent fixture when signing up online:

- I would like to receive marketing emails on discounts, promotions, offers, and other information about the product
- Do not like our emailers? Click here to unsubscribe
- We may share your data with our third-party partners to bring you personalized offers

- I agree to receive monthly newsletters, blogs, or latest stories
- Understand our usage of cookie data and how we partner with analytics service providers and social media

Now, if you are wondering why they are a permanent fixture, it's because they are mandatory by the GDPR guidelines.

GDPR is the General Data Protection Regulation that came into practice to protect the individual's privacy online. In simple terms, it is a list of data privacy rules and guidelines to safeguard customer data.

It aims to provide consumers significant control over their data. At the same time, it serves as a valuable framework for organizations when processing customer data like name, address, photos, IP address, genetic or biometric information.

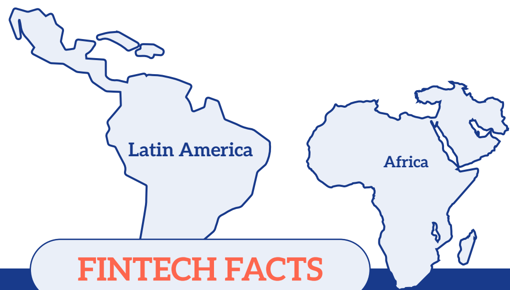
The Beginning

The European Union (EU) implemented the General Data Protection Regulation (GDPR) on 25th May 2018. The regulation attempted to limit data exploitation and to gain people's trust in the digital economy.

If a Non-EU area engages in transactions or data exchanges with an EU region, the former needs to follow GDPR. To elaborate, all the Indian companies working in IT, international e-commerce, and outsourcing also fall under GDPR since they deal with data processing. These regulations can even change the ways these companies do business with customers. Organizations should be aware of the GDPR's laws, including the increased costs of managing and protecting customer information. For a successful implementation of data security measures, organizations must reflect the interest the customer has about his/her data in their sophisticated data collection methods.

When can a company record a customer's information?

- The customer consents to store information for as long as it is necessary
- The customer can access and rectify the information at any given time
- Companies store information on a commonly used format like CSV
- They explain to customers how their data is processed and used, for how long, and for whom
- They can delete customer information when the userthinks it is not necessary
- They inform customers of data breaches within 72 hours of the breach detection
- They notify customers if their data is vulnerable to a data breach



FINTECH FACTS

Fintech deal counts see an uptick in venture capital markets like Africa and Latin America

Why the need for this regulation?

Imagine knowing that all your personal information can be found with a single click. All your details can be traced, documented, and used for a third party's gain. For instance, all the information you share online isn't entirely safe, and the internet still hosts some confidential information.

So, GDPR offers organizations a clear pathway of dealing with sensitive customer information while at the same time protecting the customer's right to privacy.

INSURTECH - THE CHANGING FACETS OF THE INSURANCE INDUSTRY

#3

Traditional insurance firms are yet to touch the foreign shores of technology adoption or disruption. Nevertheless, this pandemic has Insurance players considering their strategies and adopting technology to retain its customer base.

So far, many insurers or insurance companies have adopted a technology-based process only on a cellular level. But, given the wave of innovation, Insurance companies are yet to arm themselves for the upcoming digital transformation. That is where InsurTech comes in to save the day.

InsurTech - Overview

InsurTech is a component of Fintech dedicated to delivering a complete set of digital insurance solutions and services. When FinTech started, it mostly worked with banks as partners and improved user experience through online/mobile banking or digital payments.

As a striking contrast, InsurTech focuses on the consumer segment than the commercial one. The reason is that digital-savvy individuals consider insurance products like any other consumer goods and are willing to try or switch new insurance policies. They are incredibly comfortable in submitting an insurance claim online or browsing for insurance policies online.

Product Strategy and Value Chain

Today, most InsurTech applications cover consumer insurance product lines like Property & Casualty (P&C), Non-Life Insurance, and Health Insurance. And so far, P&C has been a significant contributor to InsurTech's revenue.

FINTECH FACTS

Fintech lenders are increasingly focusing on developing solutions for the unbanked segment

Moreover, with extensive real-time data collection and analysis, InsurTech minimizes the number of false insurance claims considerably compared to legacy systems. It's interesting to see that the same P&C insurance product's value proposition differs between incumbents (existing insurance providers) and new entrants (tech-based insurance companies).

Currently, InsurTech is targeting the sales, pricing, and distribution areas predominantly in the overall value chain. For higher growth, it should expand across the entire value system, including new product development, and start offering more commercial or retail and life insurance services.

Technology Triangle and Benefits

Most of the tech adoption has improved the method of delivering and buying claims and paying and billing. For instance, streamlining the claim disbursement user journey is of utmost importance to InsurTech.

Technology	Benefits
Big Data (Analytics)	Effective Claim Disbursements
Artificial Intelligence (AI)	Lower operational costs
Internet of Things (IoT)	Accurate Reconciliation

Today, they include as many digital touchpoints as websites, apps, smart devices, wearables, and much more. Additionally, they are keen on instantly issuing claims right away when the customer faces damage. Many InsurTech have already accepted digital card payments instead of checks from customers to disburse and process claims at lightning speed.

Today, they include as many digital touchpoints as websites, apps, smart devices, wearables, and much more. Additionally, they are keen on instantly issuing claims right away when the customer faces damage. Many InsurTech have already accepted digital card payments instead of checks from customers to disburse and process claims at lightning speed.

The Findings

Therefore, the existing programs in InsurTech revolve around providing a better customer experience, lowering acquisition costs, minimizing risks, increasing upsell, and cross-sell.

FINTECH FACTS

Compliance, risk, & identity management are some regulation categories getting highly digitized

7 Snippets for InsurTech

- Focus on agility, culture, and business process
- Ensure privacy, security, and business models
- Alliance with Fintech and incumbent insurers
- Integrate with existing systems of traditional insurers
- Achieve personalization through technology triangle
- Offer beyond underwriting and policy issuance
- Provide all solutions including life and retail Insurance

> Data privacy is not a privilege, that's basic right for every living being.

\- Muthukumar A - (CTO)