
ALTERNATE LENDING MODELS IN INDIA

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Traditional Lending

- Traditional Lending
 - Conventional method
 - Lending through established institutions like banks, NBFCs and other credit unions
 - Often stated as backbone of financial system
 - Competitive rates for borrowers with healthy credit history
 - Time tested and has provided facilitated economic growth for many years.
 - eligibility criteria are stringent, often necessitating a solid credit history, stable employment, and collateral for securing loan
 - Loan application process is tedious, cumbersome and time consuming involving a lot of documentation, verification, and extensive paperwork.
 - Weaker on the financial inclusion part

Why Alternate?

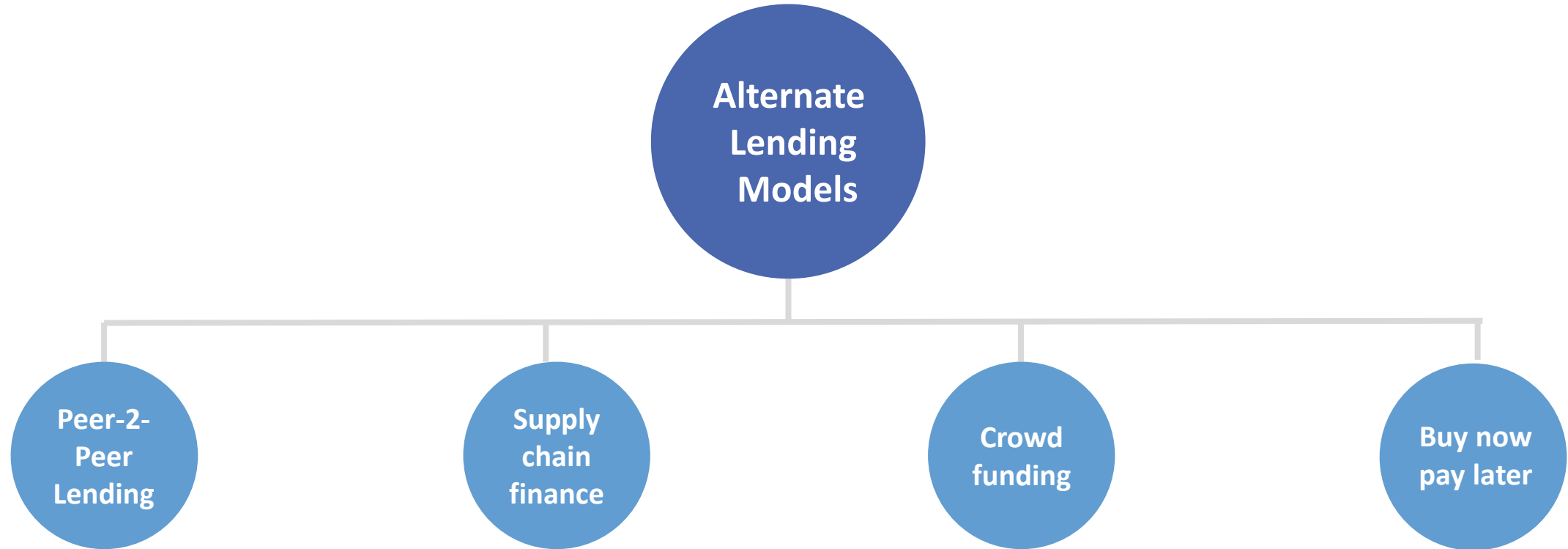
- What makes Alternate Lending 'Alternate'?
 - Technology-driven approach
 - Digital platform in most cases
 - Speedy approval & disbursements
 - Enhanced geographical presence
 - Diverse borrower profiles
 - Data-driven decision making
 - Financial inclusions

In nutshell, It leverages technology and innovative methods to offer faster, more accessible, and flexible financial solutions that cater to a wider range of borrowing needs and profiles.

Basis of Comparison	Traditional Lending	Alternate Lending
Eligibility	Borrower requires strong credit history and collateral (in case of secured loans).	Manner of credit assessment is technology and ML driven
Application procedure	Lengthy time consuming and included physical paperwork and verification	Online application with quick approvals(except micro finance) (at times pre-approved loans are also available)
Flexibility	Loans cant be customised for every profiles of borrower	Offers tailored solutions for specific needs and profiles
Innovation	No technological back up	Leverages new age tools like AI, ML for better assessment of borrower and risks associated with lending
Access to credit	Excludes many without established credit history or collateral. (say even Me).	Widens access to credit for underserved and unconventional borrowers.
Disbursal speed	Takes more time (owning to physical verification and paper work etc)	Lightening quick disbursals (as fast as 10 mins)
Interest rate	Competitive rates only for well reputed borrowers	Rates here can be altered borrower to borrower and based on risk and lending model, from competitive to higher
Credit building	Mandatory reporting to credit bureaus	May or may not report to bureaus
Regulatory aspect	Stringent regulations and monitoring by RBI	Regulated*
Financial inclusion	Excludes marginalized communities and unconventional earners.	Aims for greater financial inclusion and serves diverse borrower profiles
Geographical reach	Restricted to places with a branch	Anyone with a mobile and internet connection can gain access

ALTERNATE LENDING MODELS

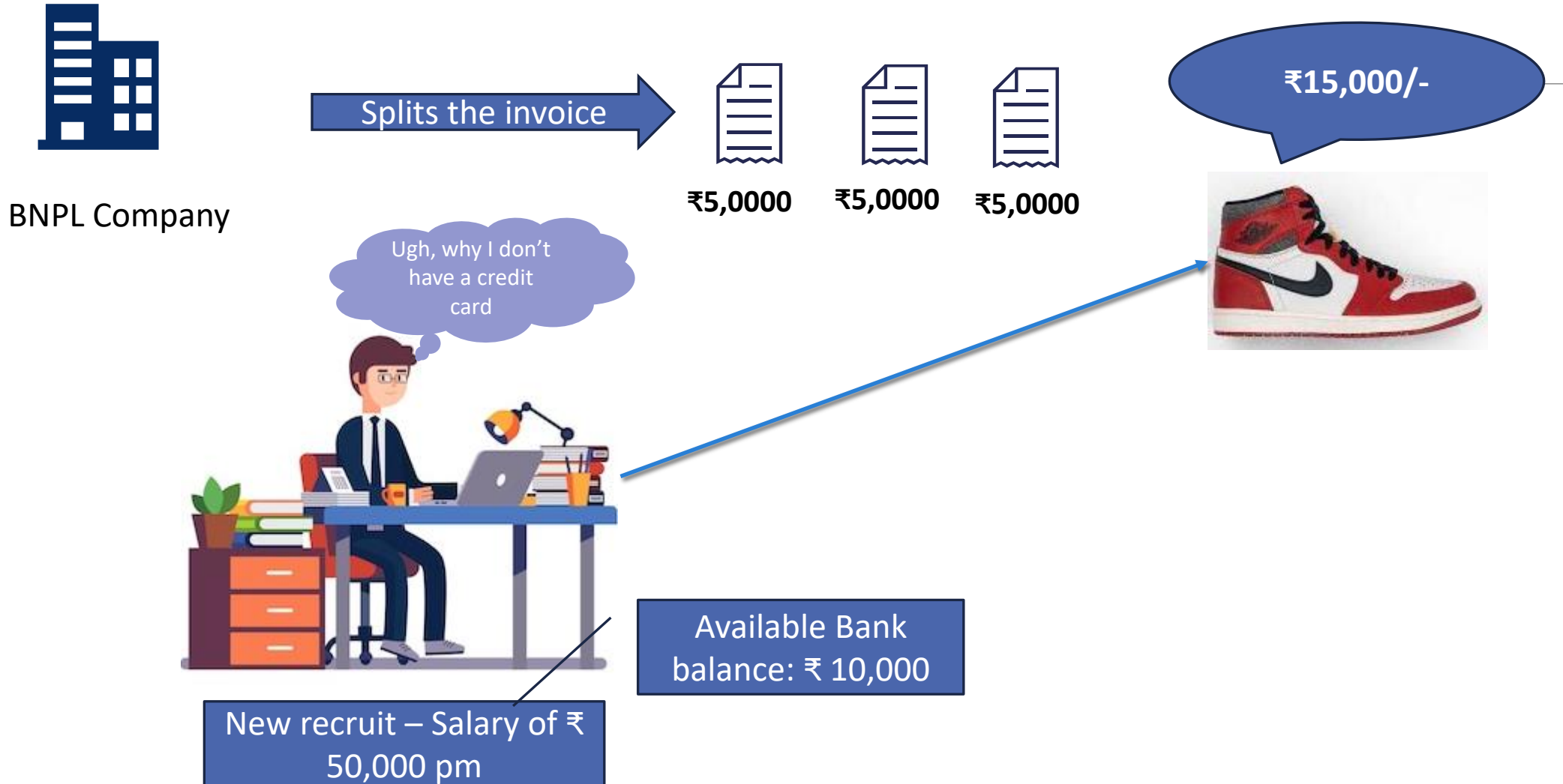
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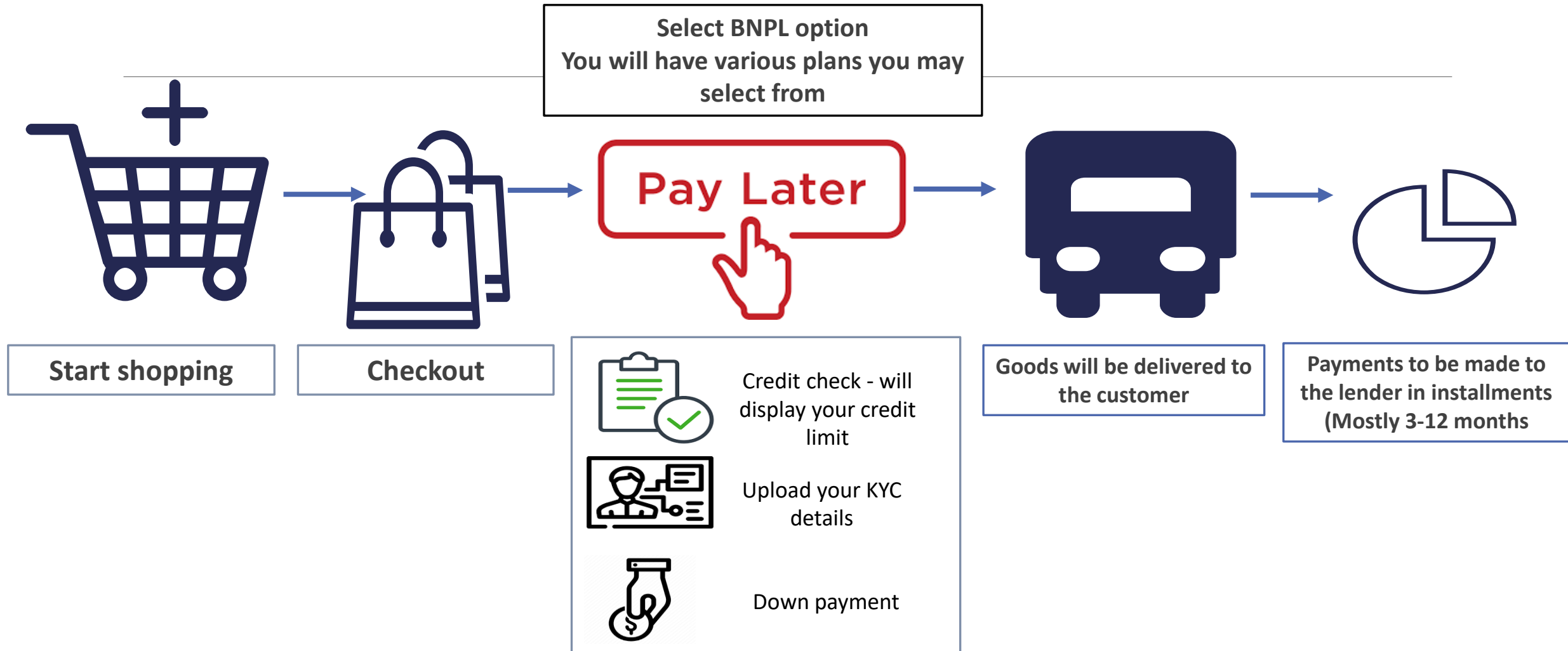
Buy now Pay Later

'SPLURGE TODAY, PAY TOMORROW'

How does BNPL work?



How does BNPL work?



Features of BNPL

- Embedded Finance
- Point-of-sale loans
- Real-time and fully digital origination process of credit,
 - In a few seconds the BNPL credit can be opened.
- Only limited information is to be provided
- upfront payment (typically 25% of the overall purchase amount) at the time of purchase + predetermined (fixed schedule) small number of installments at future dates to reimburse the remainder.
- A form of short-term financing that enables customers to spread their purchase payments over time, often with negligible interest
- Instant credit access
- Effortless approval and quick disbursement
- Flexible repayment options; 0% interest till 4 or fewer installments
- Ability to divide customer bills into manageable portions with minimal or no charges
- BNPL providers primarily earn revenue from merchants, rather than customers
- Tied to the acquisition of goods or services
- Instant gratification for the buyer and Immediate receipt of funds for seller
- Designed for smaller loan amounts



- Customer would traditionally use cash, or debit card or credit card
 - No immediate outflow of funds, plus a cost spread over months in small amounts
 - Many Consumers don't have a credit card to pay with
 - Didn't qualify
 - Don't have a long credit history
 - They are too young & hence no credit history
 - BNPL loans are interest-free, so even consumers that have access to alternative credit sources may use.
 - Consumers feel a sense of being empowered and do not realize this will cost them in the longer run
- Increases affordability of high ticket products
 - Quick stock movement
 - Credit card companies charge hefty merchant fees as compared to BNPL players
 - Traditionally, merchant would have to undertake 100% risk on supplies made by him on credit
 - BNPL causes the customers to spend more, as they feel empowered
- Earns income by
 - a commission from merchant
 - Late fees & interest penalty on missed installments by borrower
 - The difference between the amount paid to merchant and collected from the borrower is the earning of the BNPL service provider.

Why BNPL?

Advantages to the parties involved

Advantages	Borrower	Easy credit access, Instant gratification from buying goods of their choice, Cheaper cost of funds.
	Merchant	Higher conversion of customers, Quick movement of stock, Increases prospective customer base, Immediate cash requirements met.
	Bank / NBFC	Can onboard new merchants, Levy late fee/ penalty on the customers if they default in repayments.

Risks & Concerns

- Borrowers can find themselves in huge debt traps due to irrational borrowing
 - Reason- no scrutiny of decision making or considering what if I am not able to pay back?
- BNPL players have no recourse, as all loans are unsecured.
- Being portrayed as a mode of payment and not a loan.
- Absence of proper checks and evaluation of creditworthiness
- Rash or Hasty debt decisions
- Before DL guidelines – Opaqueness of the lenders use to often misguide and trick the borrowers by charging exorbitant fees and interest rates
 - For example: Terms and condition of Leading BNPL player:
 - Late fee for an O/s. amount between 251 to 500 ranges from 20% to 10%
- Late payment fees, defaults and collection practices
 - Impact on wider credit market
 - Lack of transparency means regulated credit providers like Banks/NBFCs may not have a complete view of a consumer's financial position when assessing credit worthiness
 - Lead to consumers being approved for credit which they in reality can't afford

Late Payment Fee (this is over and above the applicable interest rate)

Amount Due (INR)	Monthly Late Fee (INR)
0-250	0
251-500	50
501-1000	75
1001-2500	100
2501-5000	250
5000+	500

Growing parameters



According to the research [report](#), BNPL payments in the country are expected to grow by 22.9% on an annual basis to reach US\$14,289.4 million in 2023.

Payment Vision 2025 of June 2022

- *BNPL services have developed into a new payment mode alongside the existing payment modes like cards, UPI, and net banking. This channel, facilitated by a few payment aggregators, leverages the existing nodal account (escrow account after authorisation) to route payments between BNPL customer and a merchant. This novel method shall be examined, and issuance of appropriate guidelines on payments involving BNPL shall be explored.*

Impact of Digital Lending Guidelines on BNPL

- Introduction of DL guidelines –
 - BNPL to be considered as Digital lending
 - RE to ensure compliance with the guidelines
 - BNPL platform will be a Lending Service Provider (LSP) & RBI Outsourcing guidelines too will be applicable
 - Credit bureaus will have to be informed

Future of BNPL :

- Foraying into MSME sector
 - According to the World Bank, the credit gap for MSMEs in India stands at \$380 Bn. BNPL aimed at small businesses has played a major role in narrowing this gap — and will continue to do so in the coming year.
- Tapping the B2B sector
 - Up until now the BNPL players have provided services only in the B2C sector, B2B largely remains untapped and could prove a good area of expansion for BNPL.
- Change in perception
 - Initially perceived as resembling a loan, Buy Now, Pay Later (BNPL) services were predominantly associated with facilitating single substantial purchases. However, the landscape has evolved to encompass even everyday items like groceries. In this context, it becomes imperative for service providers to ensure comprehensive and transparent disclosures during the customer onboarding process, particularly for individuals with limited educational backgrounds.
 - Furthermore, while service providers bear the responsibility of providing accurate information, borrowers also play a pivotal role in their financial decisions. Borrowers, irrespective of their educational background, should proactively engage in understanding the terms, repayment schedules, and potential implications of BNPL transactions. This shared responsibility between service providers and borrowers is pivotal in fostering a fair and informed financial ecosystem within the evolving realm of BNPL services.

Save Now Pay Later

- Fintechs have come up with the mechanism of Invest to spend. Lets use an illustration to understand this;

- Say you and your friends are planning a trip, your monthly income is ₹50,000/- , the SNPL model will



Trip cost : ₹2,50,000

- Based on your income, gives you a target investment amount
- Many of them are registered IAs with SEBI, so they provide you an investment advise
- Many merchants offer reward points to such users as well.



Confusion!

- Say for example you visit a grocery store in the vicinity you reside in and buy biscuits and cold drinks and tell the shopkeeper, “*Bhaiya khaate me likh do*”
 - *Can this be also termed as BNPL ?*
 - *What would be the difference in the risk underwriting here?*

Crowdfunding



Crowdfunding

- Refers to the practice of raising funds from a large number of individuals, often through online platforms, to support various projects, causes, or ventures.
- It has gained traction as an alternative financing method that allows entrepreneurs, artists, social initiatives, and individuals to access capital from a diverse group of backers.
- Crowdfunding can be broadly classified in three categories

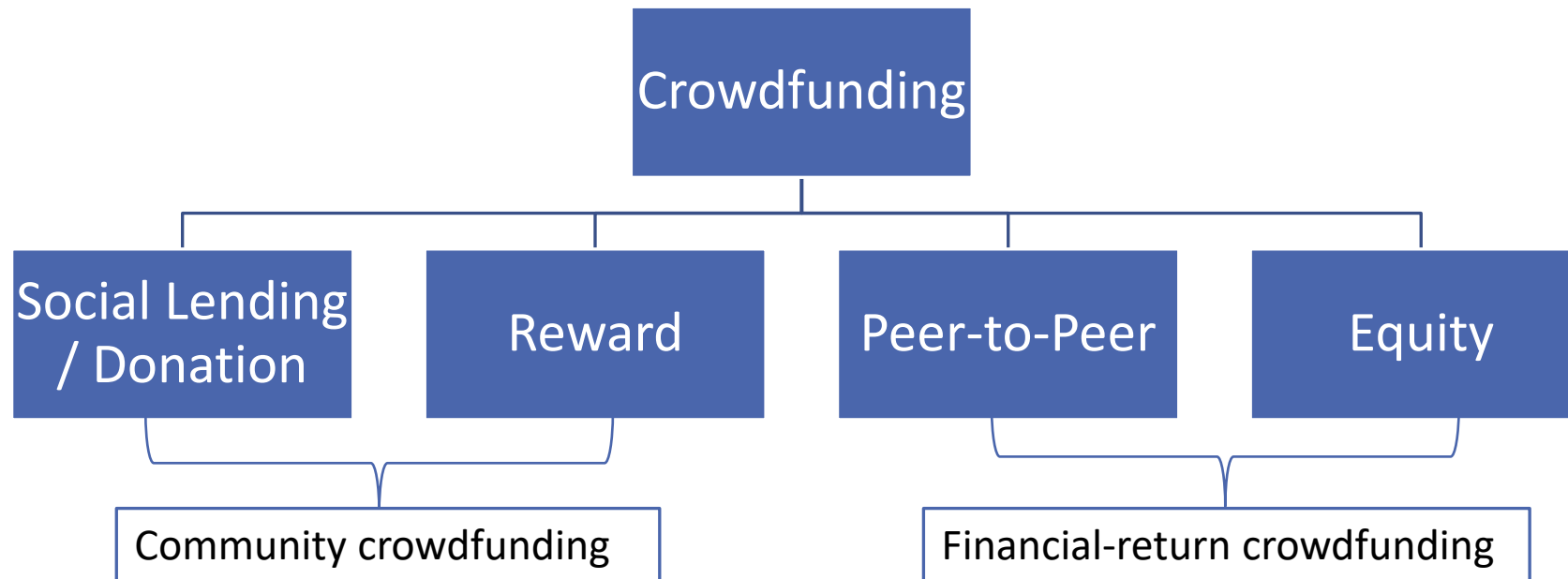
Equity-Based

Reward-Based

Donation-Based

SEBI's take on Crowdfunding

SEBI has bifurcated crowdfunding in the following manner:



Crowdfunding at a glance





Confusion!

- Difference between Peer-to-Peer Lending and Crowdfunding
 - P2P lending and crowdfunding is that P2P lending is a subset of crowdfunding focused on facilitating loans between individuals
 - While crowdfunding encompasses a broader spectrum of funding models, including reward-based, equity, donation-based, and others.
 - **P2P lending specifically deals with loan transactions, whereas crowdfunding covers a wider array of financial transactions and project funding mechanisms.**

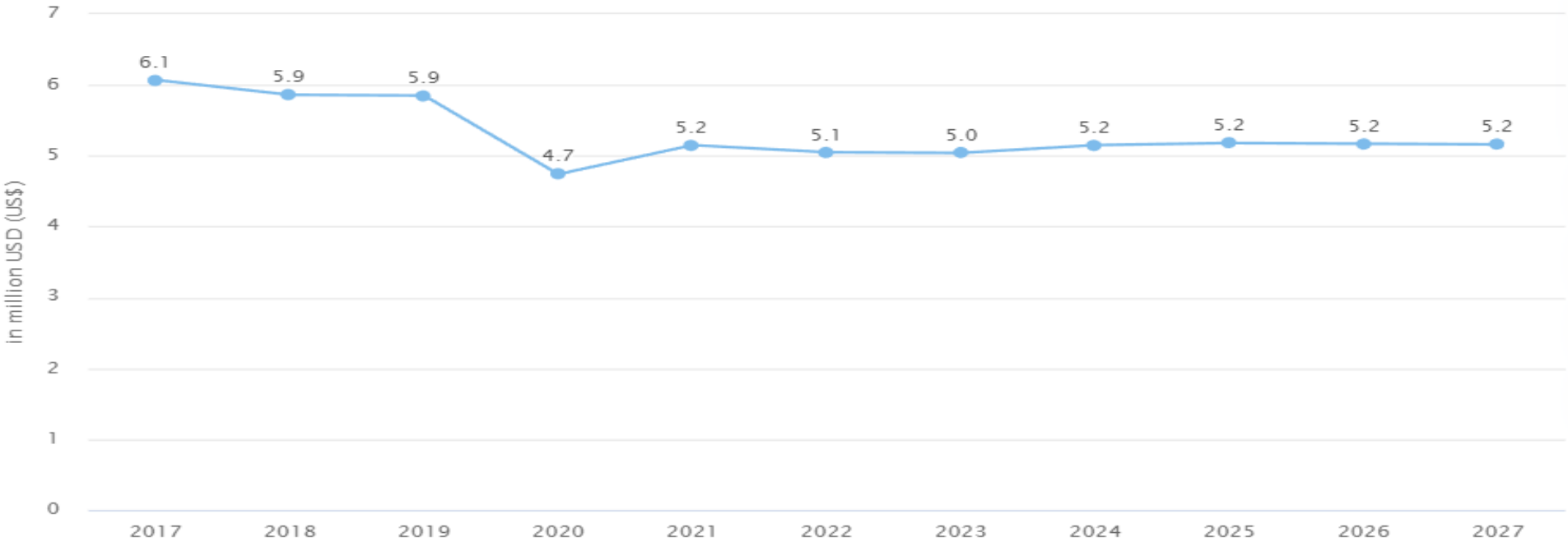
Platforms in India



Future of Crowdfunding in India (1/2)

- The MCA order ([March 2023](#)) makes it clear that companies cannot use crowdfunding platforms to issue securities in violation of Section 42 of the Companies Act.
- With SEBI restricting Equity based crowdfunding and RBI requiring P2P Lenders to be registered as NBFCs
- In order to avoid more such instances, government authorities can also provide a clear set of rules or regulations on the functioning of such crowdfunding platform and legalise them properly.

Future of Crowdfunding in India (2/2)



Notes: Data shown is using current exchange rates and reflects market impacts of the Russia-Ukraine war.

Most recent update: Apr 2023

Source [Statista](#)

Thank you!

FOR LENDING ME YOUR EARS