

Non-banking financial companies (NBFCs) have been at the forefront of providing financial support to businesses that have been underserved previously by the behemoth financial institutions. These companies are non-banking branches serving credit, loans, and other facilities through technology-driven systems. As per [Statista](#) 2022, over 9,680 NBFCs have been registered with the Reserve Bank of India. Given the value generated by these companies, there is a need to empower their functional and operational efficiencies by incorporating technology.

Furthermore, to build fintech technology-driven solutions, relevant data access has been a boon. As the use of AI and ML increases, cloud solutions can be built with data about customer journey and cut down time on manual customer updates. For example, in cloud computing, system administrators can remotely assemble, install, configure, and deploy virtual resources to run the business solutions. The availability of relevant data about customer interests, journey, and demand has led to various technology solutions. Fintechs can manipulate this data to enhance NBFCs capabilities and services.

Impact of Technology on NBFCs' Growth

While **NBFCs'** roots trace back to the 1960s (Nelito, 2019), the meteoric rise in recent years can be attributed to different factors like credit facilities, government-supported schemes, and technology.

Given below are some of the implications of technology implementation for NBFCs:



Reduced manual work

Manual tasks often lead to clutter, ambiguity, and delays. However, NBFCs operating on integrated platforms can weed out process disarray and create conducive solutions, thereby attracting more customers, increasing lending power, and reduce operational costs.



Better security

Data security has been the primary cause for concern of NBFCs. These companies store sensitive data vulnerable to hackers with malicious intent. They can protect data from unauthorized access by switching to digital cloud-based technology and using encryption and biometric passwords.



Operational complexity

Complex processes and the lack of hierarchy makes it difficult for NBFCs to track multiple processes. However, NBFCs can create a low-code or no-code structural workflow based on algorithms. They can also establish a data warehouse that organizes the disbursed amount, accruals, advances, and applications for different services.

Overall technology implementation can produce the following outcomes. First, by cutting manual tasks, NBFCs can reduce operational expenses and expand their capacity for risk profiling and credit appraisal. Second, by opting for secured and password-protected databases, NBFCs can reduce data breaches and leaks. When faced with a ransomware attack, they can retrieve the data from cloud, which is protected with firewalls and encryptions. Third, NBFCs implementing the **no-code** or **low-code** structural flows for operational flexibility can map customer journeys and create more omnichannel offerings for their target customers. (Times of India, August 2022).

Improving Operations With Financial Technologies

Building Application Programming Interface

NBFCs should focus on creating application programming interface (API) frameworks for the digital ecosystem, especially for automating anti-money laundering (AML) solutions. Concerning AML, these frameworks can contribute toward identity verification, document verification, global watchlists, and business verification. Banking APIs can also facilitate easy electronic know your customer (eKYC) onboarding processes, virtual account verification, validation of invoices, and the announcement of new products. These features can reduce the need to verify identity for every transaction and eventually enhance customer trust and platform engagement ([PWC, 2022](#)).

According to a [Research and Market report](#), by the end of 2024, the global API management market is expected to reach \$6.2 billion. This will enable NBFCs to integrate with more third-party applications and utilize software to provide improved services to customers. The use of APIs can enhance the accessibility of financial databases across an NBFC's network and make it easier for them to acquire and process information. These solutions will strengthen NBFCs' decision-making and enhance the efficiency of their loan disbursement process.

Blockchain

Blockchain integration can help NBFCs to allow different parties from varying geographical locations to have unhindered access to digital ledgers, which cannot be changed or modified. Blockchains are decentralized—each transaction has a timestamp and links to blocks with previous transactions. This can provide better tracking insights to NBFCs to track outstanding loans, last withdrawals, and instalments and to create customer retention strategies based on their behavior. ([BFSI, 2018](#))

Blockchain will also help NBFCs reduce the cost of sending payments and the need for verification by third parties. The processing time will come down to a minimum owing to a digitally independent process. Coins like Ethereum or Bitcoin will take approximately 30 minutes for settlement ([BFSI, 2019](#)), as opposed to the 3-4 days verification process via bank staff.

Artificial Intelligence and Machine Learning

NBFCs should employ artificial intelligence (AI) and machine learning (ML) to automate, streamline, and scale processes. With AI-driven analytics, NBFCs can use segment-based on region, interest, demographic, or use cases to define a custom underwriting process. They can use this approach to implement scorecard and point-based credit decisions and expand their customer base by offering interest-based products to different demographics.








To streamline the underwriting process, NBFCs work with AI-based SaaS tools. The AI channels algorithms and use cases to facilitate customer segmentation, customer support automation, and personalization. This contributes toward scouting the right customer base. The AI-based model reduces manual dependency, improves credit quality-quantity, expedites credit checks, and reduces the turnaround time. Furthermore, robotic process automation (RPA) ensures there are no backlogs in credit disbursement.

Specifically, RPA auto-captures data and checks prospects' eligibility, and thereby facilitates smooth sorting of loan eligibility criteria.

AI and ML also help NBFCs create risk analysis models, and thereby contribute toward the elimination of obsolete and manual underwriting processes and aid on-spot decision-making.

With the ever-expanding credit demands, NBFCs must create wider data sets and manipulate them to derive actionable insights. This can lead to the elimination of insolvent or delinquent accounts. A uniform structure of credit disbursements and policies will help them adapt to dynamic changes.

Some functions NBFCs can automate with AI and ML integration are as follows:

-  Track installments through automated customer updates
-  Perform credit checks
-  Automate customer application process
-  Evaluate credit scores
-  Manage loan eligibility and approval
-  Solve support tickets
-  Develop Chatbots (24/7 support without human intervention)

Automated Analysis

of account information and biased analysis. However, with the help of analytics, they can run different assessments to verify the creditworthiness of an applicant.

In this context, data analytics provide practical insights into the behavior of potential customers. They provide key metrics that aid the decision-making process of NBFCs. Different types of data analytics that NBFCs ([Amvion Labs, 2020](#)) can use are as follows:



Diagnostic data analysis

This helps in analyzing components of an event, behaviour, or pattern and, in turn, identifies the reason for its existence and impact. For example, NBFCs can use diagnostic analysis to understand the root cause of bank rates interest hikes and adjust their rates accordingly.



Descriptive analysis

Descriptive analysis combines the results from different analyses and tests and yields a comprehensive statement of insights. This enables NBFCs to create reports and custom infographics based on an understanding of customer behaviour, which contributes toward better onboarding and customer scouting systems.



Predictive analysis

Forecasting is crucial for the volatile world. With rising inflation, interest rates, customer demand, and the impact of new policies, it has become important for NBFCs to conduct predictive analysis. It helps NBFCs to forecast future challenges and create realistic solutions for risk analysis, prospect filters, understanding market trends, and credit demand.



Pursuing Fintech Collaboration

The Indian **fintech** industry was valued at \$50 bn in 2021, and it is estimated to grow to \$150 bn by 2025. The industry has been driving financial technological innovation in both banking and nonbanking domains.

Several fintech solutions have enhanced NBFCs' lending cycles, pre-sales processes, loan applications, disbursement, and collection.

With the employment of fintech, NBFCs and banks can do better lead generation, improve operational efficiency, provide better risk analysis, and better understand customer expectations. Banks can also create branch-specific processes with the cloud that'll automatically update customer transactions and keep the system updated while saving time. NBFCs can collaborate with fintech companies to gain access to diverse technological solutions and achieve the aforementioned outcomes. NBFCs can choose from one of the following three models to collaborate with fintech companies:



First loan default guarantee model

Under the first loan default guarantee (FLDG) model, if any borrower becomes a defaulter, the fintech company will compensate the bank or NBFC to a fixed percent of the aggregate amount.



Co-lending model

Under this model, fintech companies deliver the tools to accelerate loan processing by NBFCs. This model also works on the FLDG principle, where funding limits for the fintech company and NBFC.



Lead-based model

Under this model, fintech companies share the risk assessment software with NBFCs and source them leads. In return, NBFCs pay them 1-3% commission.



Conclusion

The white paper provides evidence that the adoption of technology across processes can help NBFCs analyze their target audience, and thereby allow them to perform criteria-based selection on the bases of credit score, past loans, collateral capacity, income tax returns, and current financial status.

While NBFCs can develop their own technological capabilities, they can also collaborate with fintech companies to gain access to their payment collection system, payment collection process, and easy onboarding solutions. Fintech companies can transform NBFC operations by introducing innovative solutions for easing the loan application and credit disbursement process.

The strategic collaboration can help NBFCs to leverage on fintech's funding sources and large customer bases. Overall, these partnerships and technological investments can equip NBFCs to lower costs of customer acquisition and retention and portfolio risks. Eventually, these solutions can empower NBFCs to tap opportunities in an economy characterized by increased formal credit penetration.

Case Study

Client Challenges

They needed help with CFO's office, help with building LOS and MOS, treasury management, MIS implementation, and streamlined procedures and policies for their finance department.

Role of Practus

We helped them with API end-to-end automation, created a framework that is ready to use for surprises, helped with multi-lever business plans, and real-time dashboard management to bring more clarity to finance teams' roles.

Result Delivered

We designed and delivered an LMS with finance-related data and ensured optimum returns on capital employed. We also designed 3-year and 5-year business plans for them.



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