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RESEARCH ARTICLE

UNIFIED LENDING INTERFACE(ULI): ENHANCING EFFICIENCY AND ACCESSIBILITY IN DIGITAL FINANCE

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Abstract

India has witnessed technological advancement and increasing adoption of artificial intelligence in the last decade. It has increased efficiency, productivity, quality, inclusivity, and competitiveness in financial services, especially in digital lending. However, there have been unforeseen repercussions as a result of increased dependency on third-party lending service providers, including misselling to financially unaware customers, concerns about compromised data security, unethical business operations, and illegal practices, while digital lending's current share of total credit in the financial system is inadequate to jeopardize financial stability, its rapid growth has significant stability implications. It is projected that increased access to digital financial services, technological advancements, and cost-effective business models would result in a parabolic rise in the share of digital lending in total credit.The bigger concern here is safeguarding customers from widespread unethical financial Activities and maintaining orderly growth. As evidenced by the pandemic-driven rise of digital lending, unrestricted extension of financial services to retail customers is vulnerable to a slew of conduct and governance challenges. The mushrooming rise of technology companies that extend and support financial services has made the regulatory function more difficult. Given the ease of scalability, anonymity, and velocity enabled by technology, it has become critical to handle existing and potential dangers in the digital lending ecosystem while not inhibiting innovation.ULI will prove a safeguard for customers who are not very aware of digital frauds and it will also protect the customers from the cobweb of higher interest rates. The Paper presents an eagle view of the digital lending landscape and the significant importance of ULI. The paper also reveals why ULI is needed despitethe presence of hundreds of financial, non-banking financial institutions in India.

The objective of the Study:

1. To examine the present status of the Digital lending market in India.
2. To examine the need for Unified lending interface (ULI) in India.

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Introduction:-

India’s financial sector has seen an array of innovations in recent times that have contributed to the rapid digitization of the sector.Digital lending is one among these innovations.Digital lending is one of India's fastest-growing fintech sectors, with revenues of 9 billion dollars in 2012 to 350 billion dollars by 2023. The key players in this industry are fintech startups and non-banking financial companies (NBFCs). A Boston Consulting Group (BCG) analysis projects that India's digital lending business will expand at a 30% compound annual growth rate (CAGR) and could reach onetrillion dollars by 2030**(INC42 2022)**.

Digital lending, through websites and applications, combines traditional banking services with technological advancements, transforming the borrowing process. This has resulted in smooth borrowing, quicker loan disbursement with less paperwork, and increased credit availability for a wider range of individuals. During the COVID-19 epidemic, digital lending increased by a factor of ten. For instance, several non-bank websites and applications provide instant loans, which are disbursed without collateral and in less than ten minutes. Additionally, "pay-later" services have made it possible for consumers to shop online without having to pay in full upfront.

Digital lending companies offer their clients relatively small loans through applications or online platforms. In contrast to bank loans, digital lending has fewer requirements, is faster, and does not require a specific bank account. Consumers are increasingly turning to digital lending startups as a way to close the credit gap. Lending firms served micro, small, and medium-sized businesses (MSMEs) in addition to individuals using their services.

In India, NBFC microfinance institutions have a 41 percent market share in the microfinance sector as of September 2023. Banks came in second with a 30% market share. Since 2020, the market share of banks has been declining while that of NBFCs has been rising. The number of instances of digital fraud and client extortion has surged in tandem with the growth in the proportion of NBFCs. To overcome all these frauds and accelerate frictionless lending.Hon. RBI Governor Shri Shaktikanta Das announced the Unified Lending Interface (ULI) at the RBI@90 Global Conference in Bengaluru on August 26, 2024. The ULI pilot program, formerly known as the Public Tech Platform for Frictionless Credit, commenced in August 2023. In his remarks, the governor emphasized that the new trinity of JAM-UPI-ULI will be a watershed moment in India's progress toward digital infrastructure. The ULI will have a similar influence on the loan sector in India as the UPI had on the payment environment(RBiH 2023).

ULI is a digital platform built by RbiH (Reserve Bank Innovation Hub) and co-designed by RBI to accelerate and streamline the loan process. Through a single interface, the platform provides lenders with access to vital financial, non-financial, and alternative data, such as satellite data, property search services, milk pouring data from milk federations, and digitalized state land records, to mention a few. Lenders do not need to do several bilateral integrations with each data and service provider; instead, they can leverage information from all of these sources with a single interface with the platform. ULI has the potential to revolutionize the nation's credit delivery as the pilot grows and integrates more varied data sources.

Review of Literature:-

1. **(Jaylaxmi R.2023).**The reports and research papers on the benefits and problems with Digital Lending have been analyzed in this paper to provide a comprehensive understanding of its implications forconsumer welfare. The discussions in the paper would provide insights on gaps prevalent in the existing system of Digital Lending and help in identifying measures to address the same and protect consumers from predatory practices.
2. **(Ravikumar T. et. al. 2019).** The study shows the importance of digital lending. Author Digital lending is thought to be time-saving and customer-friendly because it allows for speedier loan disbursement with less paperwork than traditional loans supplied by commercial banks.
3. **(Joshi J.D and Pethakar O.N,2023).** The paper covers subjects such as open banking, alternative credit scoring models, and the growth of neo-banks, giving readers a thorough knowledge of the changing nature of digital lending practices in India. Against the background of a dynamic financial landscape, the study sheds light on the main reasons fuelling the transformative momentum in India's digital lending market.
4. **(TOI, 2023).** This article explores the provisions of the Guidelines and their industry impact on ‘buy now pay later’ and first-loss default guarantee models and payment aggregators.
5. **(Durai, Tabitha & G., Stella. (2019).**The paper reveals financial inclusion is the provision of financial services and credit to vulnerable groups at an affordable cost. This includes access to banking accounts, insurance, remittance, payment services, and financial advisory services. Digital finance, delivered through mobile phones,

computers, or payment systems, offers affordable, convenient, and secure banking services. It provides greater control over personal finances, quick financial decision-making, and the ability to make and receive payments. This approach aims to achieve financial inclusion.

6. **(Vadan Vala and et.al.,2022)**The research paper explores how banks have adapted to the digitalization revolution by offering flexible lending procedures and a wider range of options. It explores consumer preference for digital lending and the factors influencing this preference, as well as customer satisfaction towards digital lending.
7. **(Ganwande N.M and Deshmukh A.V, 2018)** The digital revolution in banking is in its early stages, with traditional banks offering high-quality web and mobile sites/apps. An alternate approach involves integrating digital into a fully integrated mobile experience, eliminating physical branch visits.

Background of the Innovation:

India has adopted the idea of digital public infrastructure (DPI), which promotes banks, NBFCs, fintech firms, and start-ups to develop and offer creative solutions in payments, credit, and other financial activities, in light of the country's growing digitalization.

The information needed for credit assessment is available through a variety of organizations, including banks, account aggregators, digital identification authorities, credit information firms, and the federal and state governments, for the delivery of digital credit.

The fact that various data sets are in different systems makes it difficult to deliver rule-based lending in a timely and seamless manner. In 2022, a pilot initiative was launched to digitize Kisan Credit Card (KCC) loans under ₹1.6 lakh. The KCC pilot's first outcomes were positive since it made it possible to issue loans at the doorstep without requiring any paperwork. The ULI platform will speed up credit appraisal, particularly for smaller and rural borrowers, and provide a smooth, consent-based flow of digital information.

Integration of past innovations:ULI Is an integration of the following past innovations by RBI

1. **End-to-end Digitalisation of KCC Lending:**The Kisan credit card scheme was launched in 1998. Since its launch, it has been the predominant way of formal rural farmers' financing.RbiH conducted a survey in Tamil Nadu and found that a single KCC lending process takes 30-45 days duration and a lot of paperwork and costs around 5% of the loan amount. RBiH designedan end-to-end digital journey for a frictionless journey and it ended turnaround time (TOT) from 45 days to less than 10 minutes. It has been enabled through ULI (RBiH 2023).
2. **End-to-End Digitalisation of Cattle Financing:**The livelihoods of India's 80 million dairy farmers rely on livestock such as cattle, which they buy with loans. The current credit application procedure for purchasing cattle comprises high costs extensive physical documentation, and onerous manual verification processes, resulting in a high turnaround time of 4-6 weeks. The RBIH project streamlines the process of acquiring cattle loans through end-to-end digitization, allowing for seamless access to credit. The RBIH pilot ULI provided a process innovation by delivering milk pouring and cash flow data from milk federations such as Amul to lenders, allowing dairy farmers to obtain cattle loans in minutes. (RBiH 2023)

Key Data Sources Live on the Unified Lending Interface (ULI):

The present lending system involves a lot of documentation and verification of data from various institutions. It consumes a lot of time. ULI will use synchronized data from various platforms like financial institutions, land record institutions, Dairy federations, Protean for PAN-related data, account aggregators and UIDAI, etc. The following data source will be fetched by ULI

Source: https://rbihub.in/unified-lending-interface/

Significance of ULI:

Consent-Based Digital Access:

ULI will operate on a consent basis; it won't be used without the user's permission. Lenders will have digital access to customers' land records and other non-financial data through ULI.

Common and Standardized APIs:

ULI will have standardized Application Programming Interfaces (APIs) that enable a "plug and play" strategy, making technical integration simpler and data access easier. The term 'plug and play' describes pre-made facilities that come with necessary infrastructure, such as power and network, so that businesses can begin operations right away.

Frictionless Credit:

ULI will reduce paperwork. ULI hopes to make lending easier, especially for smaller and rural borrowers.

Decreased Appraisal Time:

Till now ULI will cut down on the amount of time needed for credit appraisal by combining data from multiple sources.

Simplification of numerous technical integrations:
By digitizing access to customers' financial and non-financial data that was previously stored in separate silos, the platform will simplify numerous technical integrations.

Fulfilling the unmet demand for loans:
It is anticipated that ULI will meet the significant unmet demand for loans in a number of industries, especially for borrowers in the MSME and agricultural sectors. Tenant farmers, who frequently struggle to obtain agricultural credit, can also obtain loans by proving their identification by the final use of the money received rather than by the amount of land they own.

New trinity:
India's road towards digital infrastructure will take a revolutionary turn with the "new trinity" of JAM-UPI-ULI. The government uses the JAM (Jan Dhan, Aadhar, and Mobile) trinity as a method to send financial benefits straight to the recipient's bank account (Drishtiias 2024).

Conclusion:-

The ULI is an important part of the RBI's overall goal to develop digital public infrastructure. As RBI Governor Shaktikanta Das stated, it is a move toward a more integrated digital ecosystem that integrates aspects such as the JAM trinity (Jan Dhan, Aadhaar, Mobile), UPI, and Central Bank Digital Currency (CBDC). Together, these projects seek to increase financial inclusion, improve credit access, and modernize India's financial system.

Currently, the ULI is in the pilot phase. Initial experiments have yielded positive results in terms of speeding up credit appraisal processes and increasing lending access for smaller and rural borrowers. Based on these results, the RBI intends to launch the platform countrywide soon, allowing more lenders and borrowers to benefit from its features. In the upcoming time, ULI will have significant importance like UPI. It will change the lending scenario in India. Just like UPI lending process will be frictionless and streamlined through ULI.

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