

# A PARTNERSHIP TO SUPPORT FINANCIAL INCLUSION THROUGH EXPANDED PAYMENTS ACCEPTANCE

LEARNING DOCUMENT

CASE STUDY OF THE ALTERNATIVE LENDING PROJECT

*Final*

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# EXECUTIVE SUMMARY

**About this note.** This note captures the learnings from a pilot conducted by Yes Bank and Lendingkart over the period Sep, 2015 – Mar, 2016. The project was carried out under the ambit of the recently launched partnership between The Government of India's Ministry of Finance and USAID, and involved bringing together a data provider (Yes Bank) with a specialized lending agency (Lendingkart). The objective of this project was to test if remittance data is a viable source for credit appraisal and loan provision to the financially excluded. Over the course of the study, Yes Bank shared a 6-month remittance data history for 639 of its remittance agents (carrying out remittance transactions of a minimum total value of INR 5 lakhs per month) with Lendingkart. This data included the details of the transactions they carried out with the Yes money wallet (specific data points included frequency of deposits made, amount transferred and number of transactions completed).

Lendingkart used this remittance data to assess the credit worthiness of these agents, and reached out to the identified agents to enquire of their credit need. Agents who expressed interest, and met the pre-defined criteria were offered working capital loans (of tenure as short as 3 months), and of ticket sizes as low as INR 25,000 based on their business turnover and financial discipline. Lendingkart disbursed a total of 7 loans over the course of this project.

**Learnings/ key messages.** The following were the key takeaways from the project:

- Remittance data alone was helpful in identifying a new potential set of borrowers, but not sufficient for Lendingkart to take a lending decision. Supplemental data, such as bank statements facilitated the loan underwriting process, enabling the actual lending as they reflect borrowers' financial discipline more accurately. Using remittance data, Lendingkart was successful in unlocking a different segment of merchants – i.e. small and medium offline merchants with lower annual revenue, as opposed to the online and large offline merchants that they typically lend to;
- Merchants who received loans from Lendingkart varied in terms of their income bracket, banking behavior, prior experience with credit, and their intensity of need for credit. The Lendingkart loan contributed to financial inclusion of these merchants by providing them with first-time access to a more relevant, hassle-free working capital loan
- While merchants recognized that they were getting the loan based on their transaction history, they were not quite able to establish a causal relationship between digital payments and their ability to access the loan (i.e. the role played by digital payments in creating data trails, which formed the fundamental basis for lending)
- The interest received from the loan was large enough to cover the cost of lending (cost of the physical agreement, verification costs, logistics etc.), making the initiative financially sustainable.

**Questions for further research.** The pilot spotlighted the value of alternative lending and how a brand new segment of low to mid income merchants could potentially get introduced to the formal financial ecosystem and see value in their digital data trails. Going forward, questions for deeper analysis include those across 2 broad categories – (i) consumer awareness and outreach strategy to establish a clear case for digital payment systems as means to access to finance, and (ii) reducing the cost and friction in the lending process so that a broader portfolio of customized financial products are made available to this segment of merchants

# 1. PURPOSE OF THE DOCUMENT

A critical missing link in India’s financial inclusion journey is the large gap in funding for small and medium enterprises in India. Estimates suggest that the micro, small, medium enterprise (MSME) sector has a total financing requirement of ~USD 650 billion (debt and equity), of which 75% (or USD 510 billion) is either self-financed or financed from informal sources (e.g. friends and family, informal money lenders)<sup>1</sup>. A large part of this segment typically does not have a credit history, they are unable to meet banks’ standardized lending criteria,<sup>2</sup> and as such, are not considered an attractive segment by traditional lenders. Moreover, the credit terms defined by the traditional banks are often not in sync with the working capital needs of merchants in this segment, for whom small amounts of credit over varying durations of time is a more critical financing need.

With the emergence of digital payments, the creation of digital data trails (e.g., transaction histories of their sales) provides a unique new source of information to provide credit to this segment. Lenders can use transaction history/ data trail as a basis to provide first-time credit to this segment, and build on it with more sophisticated offerings over time. However, a pre-requisite for this model to work is the availability of user level transaction data trails, which require the use of digital payments. Enabling and accelerating the uptake of digital payments requires innovative system design and co-ordination among different actors, such as data providers, and specialized lenders. This requirement fits directly within the scope of the recently launched partnership between The Government of India’s Ministry of Finance and USAID. The partnership comprises 35+ partners, and aims to expand the acceptance of digital payments among financially excluded communities. Its core mission is to bring to market sustainable business models that accelerate the use of digital payments, and in turn, lead to financial inclusion.

Recently, there has been a growth in the number of specialized lending agencies in India that provide loans to small merchants based on their transaction data, including sources such as e-commerce sales, and sales recorded through POS terminal. These agencies have curated business models that are able to cater to demographics which may be unable to access loans from traditional lenders. The current “Alternative lending” pilot is based on this very concept. The proposed project aligns directly with the Partnership’s agenda – the Partnership seeks to enhance the adoption of digital payments among the “financially excluded”, and the project seeks to demonstrate the impact potential of digital payments on

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<sup>1</sup> IFC. “Micro, Small and Medium Enterprises in India: A Research Study on Needs, Gaps and Way Forward.” November 2012

<sup>2</sup> Traditional lenders require borrowers to submit proof of asset ownership (business, home, etc.). Most loans offered by them are collateralized

financial inclusion. The proposed alternative lending project was carried out with Lendingkart and Yes Bank under the ambit of the Partnership.

**Yes Bank** runs a remittance service business called Yes Money, which commissions a network of agents (referred to as “merchants” in the document) to provide remittance services. As part of the pilot, Yes Bank shared merchants’ remittance data with **Lendingkart**, who in turn, assessed their credit worthiness, and offered them working capital loans. The objective of the pilot was to understand:

- I. The viability of providing working capital loans on the basis of remittance data
- II. Whether this loan contributes to greater financial inclusion<sup>3</sup> of these merchants (in terms of providing merchants with the right access (channel), the right product, and the right user experience), and if the concept could lead to increased adoption of digital payments among the financially excluded
- III. The long-term profitability and sustainability of the pilot for both Yes Bank and Lendingkart

## 2. BACKGROUND ON THE PARTNERS

### 2.1 LENDINGKART

Lendingkart (Lendingkart Technologies Private Limited) is a fin-tech startup, which provides short-term working capital loans based on businesses’ cash flows and their growth potential. They mainly target e-commerce sellers and large offline businesses, providing a short term revolving credit line, which can be used by merchants to pay suppliers, employees, taxes and other liabilities.

With this pilot, Lendingkart’s objective was to increase their outreach and tap into a segment of merchants they did not have prior access to, i.e. low to middle income offline merchants.

### 2.2 YES BANK

Yes Bank, is India's fifth largest private sector bank. It provides corporate banking, investment banking, retail banking, and commercial banking services along with allied financial services like corporate finance advisory. As a part of its financial inclusion agenda, Yes Bank also operates a domestic remittance service called Yes Money. Yes money involves commissioning a large network of agents/ BCs and leveraging their existing stores and other businesses to extend remittance services to those with limited or no access to brick-and-mortar bank outlets.

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<sup>3</sup> The term “financial inclusion” in this context is more than just making the populace banked- here the definition is more nuanced and includes access to a larger offering of financial services and products (short term credit in this case)

With this pilot, Yes Bank wanted to help their agents avail an extra line of credit that they could use towards the remittance business (to fund their Yes money wallet and carry out remittances in real time) or towards their other core business (including travel agencies and online advertising businesses). Yes Bank was looking to partner with multiple specialized lenders, and create a wide portfolio of credit offerings that they can leverage to incentivize agents to remain invested in the bank and in the remittance business. The pilot with Lendingkart was a step in this direction.

### 3. PROJECT DESCRIPTION

As a starting point, Yes Bank shared a 6-month remittance data history for 639 of its agents with Lendingkart. This data included the details of the transactions they carried out with the Yes money wallet (specific data points included frequency of deposits made, amount transferred and number of transactions completed)<sup>4</sup>. The list was restricted to agents who had carried out remittance transactions of a minimum total value of INR 5 lakhs per month (both Lendingkart and Yes Bank agreed that a INR 5 lakhs cap indicated a fairly active remittance business, the data from which could be used to draw more robust conclusions on credit worthiness).

Lendingkart used this remittance data to assess the credit worthiness of these agents, and disburse short term working capital loans (of tenure as short as 3 months), and of ticket sizes as low as INR 25,000. Lendingkart reached out (by phone) to the identified agents to enquire of their credit need (agents were told that the current loan was designed only to meet a working capital need). Agents who expressed interest, and met the pre-defined criteria<sup>5</sup> were offered working capital loans based on their business turnover and financial discipline.

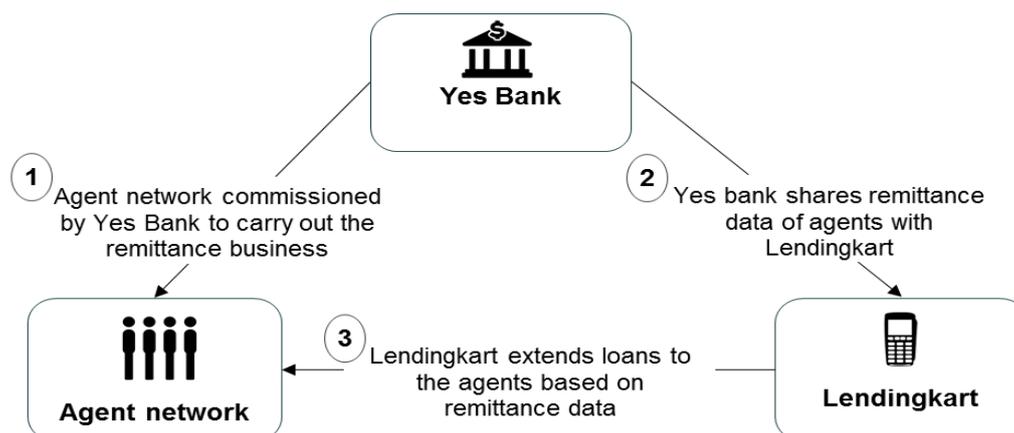
The exhibit below (Figure 1) explains the roles of each stakeholder involved in the project:

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<sup>4</sup> Frequency of deposits indicates the number of times (monthly) that the remittance agent deposits money in the Yes money wallet; amount transferred is the value of each remittance transaction carried out by the agent; number of transactions completed is the volume remittance transactions successfully carried out by the agent,

<sup>5</sup> Lendingkart would lend loans only for the purpose of working capital and not consumption. Further merchants would have to provide evidence of business authenticity and bank statements

Figure 1: Role of stakeholders in the Alternative lending pilot



## 4. PROJECT TIMELINE

### 4.1 OVERVIEW OF THE PROGRESS OF THE PILOT

The overall progress of pilot can be explained across three phases<sup>6</sup>:

**Prelaunch (Sep '15 – Dec '15):** In this phase, Dalberg conducted several meetings with Lendingkart and Yes Bank to discuss pilot opportunities and to conceptualize the current project. The two partners agreed on the data sharing arrangement (3 months' remittance data from Yes Bank, which was then revised to 6 months' remittance data for more granular insights). Subsequently, Lendingkart designed the working capital product they were willing to offer the agents. The product note was shared with the Dalberg and Yes bank teams for feedback and comments. The product was finalized after incorporating relevant inputs (particularly on lowering ticket size and loan tenure).

**Launch (Jan '16 – Mar '16):** At the beginning of this phase, Yes Bank shared the discussed remittance data for 639 agents with Lendingkart. Lendingkart initially contacted these agents by phone. Agents who expressed interest in availing credit were sent an email with an online link to fill out an application form and directions to upload their bank account statements, PAN card copies and VAT registration (if applicable). These documents were analyzed by the credit team at Lendingkart and agents who cleared the credit worthiness criteria<sup>7</sup> were contacted by Lendingkart. The team then shared the loan terms that these agents were eligible for, and on mutual agreement, a loan was disbursed digitally within a maximum of 7 working days. The amount was deposited in the Yes money wallet that agents used for their remittance business, and repayments were made through direct debits (ECS). Repayment terms varied with loans and the loan EMI was debited at monthly or biweekly intervals.

<sup>6</sup> Timelines enunciated in Figure 2

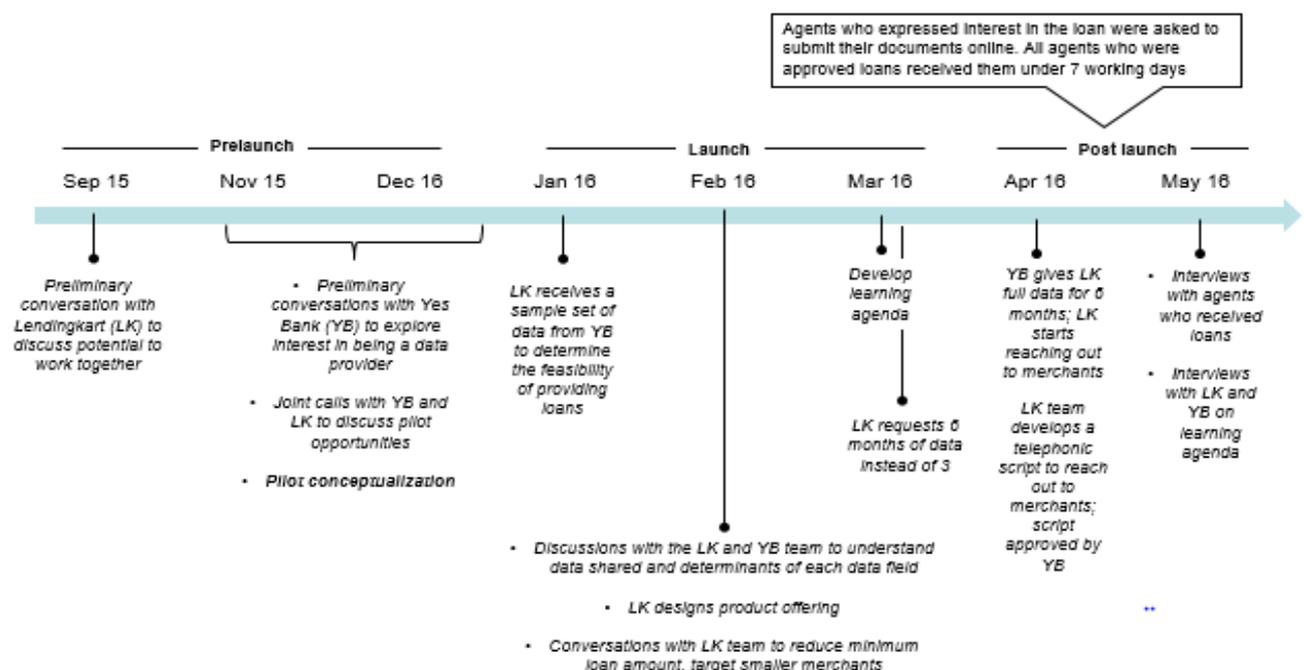
<sup>7</sup> Internal tool designed by the credit team at Lendingkart which uses 2200+ variables to compute the overall credit score

**Post launch (Apr '16 – May '16):** A month after the first loan was disbursed, Dalberg conducted key stakeholder interviews to understand where the pilot stood in terms of the learning objectives defined at project outset. These conversations included -

- 1) **Interviews with merchants:** The team spoke with four of the seven merchants (Yes bank agents) who received a loan. These interviews primarily focused on capturing their general financial behavior and banking habits, their prior experience in accessing credit, their experience with Lending Kart and whether the idea of credit would incentivize them to adopt digital payments going forward
- 2) **Interview with Lending Kart:** The interview with Lending Kart primarily focused on capturing details of their business model and understanding ways in which the pilot was beneficial to them, the overall lending process (document collected, verification checks etc.), and their overall experience from the pilot
- 3) **Interview with Yes Bank:** Interviews with the Yes Bank team primarily focused on capturing details of their remittance business, the value they seek from the pilot, and their long-term plan for the project

The project timeline from conceptualization to loan disbursement has been illustrated in Figure 2 below:

**Figure 2: Project timeline for the alternative lending pilot**



As of June 20 2016, 7 loans had been disbursed and another 9 applications were in process. Details on the status of the 639 agents are captured in Table 1 below.

**Table 1: Status update on agent outreach**

Status	Number of agents
Unreachable	101
Asked to be contacted later	84
Refused a loan	335
Expressed interest – intro mail sent	103
Application in process	9
Loans disbursed	7
<b>Total</b>	<b>639</b>

## 4.2 RESULTS

The 7 loans disbursed were geographically dispersed across Mumbai, Delhi, Bangalore and Pune. Details of these loans are described in Table II below. The detailed profiles of the merchants interviewed have been further explained in Section 5.2 (Table III) of this document.

**Table II: Details of the loans disbursed**

	Skylark solutions (Delhi)	Square media solution (Mumbai)	Vishwakarma promoters and realtors (Pune)	Royale enterprises (Mumbai)	Appu cyber enterprises (Bangalore)	Precious enterprises (Mumbai)	Sri Samurth Krupa (Mumbai)
<b>Ticket size (INR)</b>	50,000	60,000	50,000	25,000	50,000	7,00,000	25000
<b>Interest (monthly)</b>	2%	2.5%	2.1%	2.4%	2.1%	1.5%	2.1%
<b>Duration (months)</b>	3	3	3	3	3	9	3
<b>Repayment terms</b>	Monthly	Bi-weekly	Monthly	Monthly	Bi-weekly	Monthly	Biweekly

## 5. KEY LEARNINGS

### 5.1 ON THE VIABILITY OF PROVIDING WORKING CAPITAL LOANS ON THE BASIS OF REMITTANCE DATA

- I. Traditionally, Lendingkart provides working capital and short term business loans in the range of INR 50,000 to INR 1 crore to online merchants and large offline merchants with annual turnovers of INR 18 to 24 lakhs. With this pilot, Lendingkart was successful in reaching out to a different segment of merchants – i.e. small and medium offline merchants with lower annual revenues (i.e. INR 10 to INR12 lakhs per annum).
- II. Merchants covered under the scope of the project had smaller working capital requirements, which traditional lenders usually do not cater to. With their specialized working capital offering (low ticket size loans for 3 to 9 months), Lendingkart was able to meet this hitherto unmet need. For example, 6 merchants borrowed loans in the range of INR 25,000 to INR 60,000 (while one agent received INR 7 lakhs). In addition, 6 merchants received loans for a short tenure of 3 months (the tenure for the INR 7 lakhs loan was 9 months).
- III. Remittance data alone was **helpful** in identifying a new potential set of borrowers, but **not sufficient** for Lendingkart to take a lending decision. For many Yes bank agents, remittances are a fraction of their income (10-20% for 2 merchants interviewed)<sup>8</sup> as the margin on remittance transactions is a mere 0.8%. Most merchants also run other parallel businesses which generate a significant share of their total income. Yes Bank/ Lendingkart did not have this information a priori, before they reached out to pitch credit offerings. Therefore, they needed additional information before taking the actual lending decision, such as 12-month bank statements, PAN, and VAT registration details. The ticket size of the loan and repayment terms were decided once the credit team at Lendingkart analyzed these documents to assess: (i) merchants' ability to pay (cash flow, income, profit) and (ii) their willingness to pay (financial discipline, cheque bounced, etc.).

In essence, remittance data proved to be a good source to reach out to a new segment of merchants but was not sufficient to influence product design. Supplemental data, such as bank statements facilitated the loan underwriting process, enabling the actual lending.

### 5.2 WHETHER THIS LOAN CONTRIBUTES TO THE FINANCIAL INCLUSION OF THESE MERCHANTS

- I. Merchants who received loans from Lendingkart varied in terms of their income bracket, banking behavior, prior experience with credit, and their intensity of need for credit (profiles of merchants included in the project have been provided in Table III of

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<sup>8</sup> As per interviews carried out with agents

this document). The Lendingkart loan contributed to financial inclusion of these merchants by providing them with first-time access to a more relevant, hassle-free working capital loan.

- a. One of the four merchants we interviewed, was from a relatively low income background, (SEC B1)<sup>9</sup> and had recently launched his business. This merchant had limited access to formal personal credit and no access to business credit (for lack of a credit history and low turnover). The Lendingkart loan provided him with first-time access to formal working capital credit. Previously, his access to credit was restricted to the half-day credit extended by the Yes Money distributor.

*“It is difficult for me to get any credit from big banks because (he believes) I live in a bad area and my turnover is not as high. This loan (current loan) is very helpful for me”*

– Mumbai based merchant

- b. The remaining merchants were relatively richer (SEC A2)<sup>10</sup> and had access to personal credit, but not business or working capital loans. However, the loan provided by Lendingkart was different from other conventional credit offerings both in terms of product and experience:

- i. It was a working capital loan with a smaller ticket size, and shorter tenure than traditional bank loans. This made it more suitable to meeting their working capital needs (for example, having the flexibility to pay back the loan within weeks as opposed to in years given the nature of their business and current requirements). It was also positioned as working capital as opposed to a “loan” which may have been viewed negatively by a certain segment of merchants.

*“I don’t want “karza”, I have never taken “karza”, they told me this is working capital and I realise this will help me maintain my balance in the wallet for remittance business, so I took it”*

– Delhi based merchant

- ii. The Lendingkart loan took a fraction of the time for processing, and required far less documentation than loans from traditional lenders. The loans offered by Lendingkart took under 7 days to process, agents were asked to submit basic documents like (1) PAN card (2) VAT registration (if applicable) and (3) Bank statement. No collaterals or other paperwork in the form of house ownership documents, business ownership documents, insurance policies etc. were needed to approve the loan. All the merchants were very happy with the speed and efficiency of the experience. On the net promoter score scale of 0 to 10, the agents gave Lendingkart an average of about 8.5<sup>11</sup>.

*“The experience was great – I completed the documents at 5pm, and I got the money by 6:30pm. That was amazing, and very different. When people are*

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<sup>9</sup> Shop owner with no employees but reasonable access to living consumer durables (no college education)

<sup>10</sup> Second from the highest in the economy hierarchy, shop owner with 1 or 2 employees and complete access to consumer durables (may have a college education)

<sup>11</sup> 8.5 (considered 9 for convenience) is a significantly high score representing respondents who are promoters. Promoters are loyal enthusiasts who will keep buying and refer others, fueling growth.

*struggling, this is so important. Despite the 2.1%, I took it, I knew I can make it back. I will give Lendingkart 10/10- and recommend to all my friends who need these type of business loans”*

*– Pune based merchant*

*“I am happy with the experience, I got the loan in 4-5 days after the application was submitted.”*

*– Delhi based merchant*

*“April is done now, and so much time has gone by since I applied for a loan from co-operative bank. Main jo business kar raha hoon (in the business I do), I am losing clients, whether they come back who knows”*

*– Pune based merchant*

- c. Despite needing a higher amount, merchants were satisfied to settle for the terms offered by Lendingkart so they could forge a relationship and access credit in the future. They also mentioned that would pro-actively recommend Lendingkart to others. For instance, a Pune based merchant asked for INR 5 lakhs but received INR 50,000. However, merchants believed that the ticket size was justified as it was the first time they were receiving loans from Lendingkart. They also believed that if they are able to repay this loan successfully without any delays, they will be eligible for a bigger loan in the future

*“I had a much larger requirement. International flight ticket costs 1.25 lakh. Some of the amount I have, but I have to share the margin with other agents. Now that I have the money (from this loan), I can rotate this money “*

*– Pune based merchant*

*“I wanted 1 lakh, but I got 25000 this time, I am taking this loan so that I have a relationship with Lendingkart, next time I will be able to get better loan”*

*– Mumbai based merchant*

- d. One merchant also mentioned his satisfaction with the discussion he had with the credit analyst at Lendingkart. He thought that the loan decision/ credit terms were explained to him thoroughly and was convinced that the due-diligence and analysis done by Lendingkart was full-proof and justified

*“After they (Lendingkart) saw my documents, they called me and talked to me for 45 minutes and explained to me why they cannot give me 5 lakhs but 50000 this time. They also told me that next time I will be considered for higher ticket loan”*

*– Pune based agent*

II. However, merchants who received loans were not quite able to establish a causal relationship between digital payments and their ability to access the Lendingkart loan (i.e. the role played by digital payments in creating data trails, which formed the fundamental basis for lending)

a) All the Yes Bank merchants interviewed were online banking users and used their debit cards for online shopping. Some of these merchants also ran web based businesses such as online advertising and online ticketing as a part of their parallel income streams. However, when asked about their general preference toward digital payments, they all preferred cash for small expenses.

b) Merchants were not able to establish a clear connection between transacting digitally on a regular basis to the creation of digital trails that will eventually benefit them. They were aware that the loan being offered to them was partly because of their remittance based relationship with Yes Bank, but the full import of how this data was being processed to arrive at information on their credit worthiness was lost on them.

Going forward, this points to an important lesson for the broader ecosystem – the causal link between digital payments and financial inclusion (e.g. through access to financial products) would likely not be as evident to a large part of the financially excluded segment. To this end, investments in targeted messaging/ awareness around this subject are needed to help drive this point.

**Table III: Merchant profiles**

	<b>Merchant 1</b>	<b>Merchant 2</b>	<b>Merchant 3</b>	<b>Merchant 4</b>
<b>SEC / Income<sup>12</sup></b>	B1	A2	A2	A2
<b>Nature of business</b>	Runs primarily a remittance business; remittance contributes to 90% of his total income	Runs a travel agency along with the remittance business; income from remittance contributes to about 20% of his total income	Runs an online advertising business along with the remittance business; income from remittances contribute to about 50% of his total profit	Runs an online advertising business along with remittances; income from remittances contributes to about 10% of his total profit
<b>Level of banking</b>	Online and in-person banking: Yes Phone banking: No Savings account and current account: Yes Credit card: No	Online and in-person banking: Yes Phone banking: Yes Savings account and current account: Yes Credit card: No	Online and in-person banking: Yes Phone banking: No Savings account and current account: Yes Credit card: Yes (limit of INR180,000)	Online and in-person banking: Yes Phone banking: No Savings account and current account: Yes Credit card: Yes (2)

<sup>12</sup> The SEC classification is the classification of Indian consumers on the basis of 2 main parameters (education of the chief earner and number of consumer durables earned by the family). There are 12 grades in this system (from A1 to E3). Upper most segment of the consuming class-A1,A2 and B1;Middle segment- B2 and C; The lower most segment—D, E1, and E2

<p><b>Demand for credit</b></p>	<p>Needs credit to maintain the balance in his Yes Money wallet so that he can carry out the remittance transactions in real time. Would like to maintain INR50,000 at all times, currently manages only INR25,000</p>	<p>Needs credit especially for the tour and travels business which requires him to book international flights which are expensive (About INR100,000 per booking). The loan will also help him maintain balance in his Yes money wallet (Would like to maintain atleast INR100,000). Strong need for short term working capital</p>	<p>Has never taken a loan before nor has he experienced the need for credit. He views the current loan strictly as working capital, to maintain a higher balance in his Yes Bank money wallet (Would like to maintain at least INR100,000, currently manages about INR50,000) for remittance transactions</p>	<p>Has taken two personal loans from Axis (2 lakhs) and HDFC (INR 1 lakh + 60000 top up) in the past. Constantly perceives a need for credit to grow his business. Uses 2 credit cards with limit of ~INR60,000.</p>
<p><b>Access to credit</b></p>	<p>No access to formal credit (personal loans in the past have been rejected, credit card application has been denied). The current loan is the first business loan he has been able to access</p>	<p>Has applied for a loan with the regional co-operative bank, which is still under process from the last three months due to documentation requirements (e.g. LIC policy details).</p>	<p>Has not tried to access credit or applied for loans. Details on business, annual income indicate that he would probably be able to access formal credit if he chooses to</p>	<p>Has a fair amount of access to credit (has accessed personal loans, used credit cards)</p>

## 5.3 THE SUSTAINABILITY OF THE PILOT FOR BOTH YES BANK AND LENDINGKART

- I. The remittance data helped Lendingkart gain access to a new segment of merchants they can lend to. The remittance data could also be a good dip-stick test to get a preliminary view of the financial health of merchants, and serve as a basis for a longer term relationship. Combined with supplemental data, it can be used as a basis for credit provision
- II. The interest received from the loan was large enough to cover the cost of lending (cost of the physical agreement, verification costs, logistics etc.), making the initiative scalable. The cost of a physical agreement is INR 800 and including logistics the total cost of lending was approximated at INR 1,000 for Lendingkart
- III. For Yes Bank, the credit offered by Lendingkart helped agents grow their Yes Money businesses. Agents could maintain a higher balance in the wallet and carry out remittance transactions real-time, which is critical to their customer experience. Previously, agents complained of losing customers if they were not able to make a transaction immediately. Yes bank intended for this loan to open a line of credit for their agent network which would enable them to grow their remittance business or other parallel businesses. Another long-term objective was to earn good will and loyalty of the agent
- IV. However, the conversion rate<sup>13</sup> of the loans remained low (lower than that expected by Yes Bank based on the assessment of their agent network's credit need). As of June 20, 2016, only 7 of the 639 agents received a loan which may impact long-term sustainability of the model. This may be because in the pilot stage, the list of agents did not undergo any preliminary screenings based on their credit needs. Moreover, the agents were contacted by Lendingkart, which did not have an existing relationship with the agent. Yes bank or the BC network partners who enjoy the agent's trust, are probably in a better position to understand the need of the agent and convince them to take the loan.

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<sup>13</sup> The number of loans disbursed as a ratio of the number of people who were offered the service

## 6. QUESTIONS FOR FURTHER RESEARCH

The above pilot provided insights into the viability of using non-traditional data to offer customized financial products (working capital loans). The pilot spotlighted the value of alternative lending and how a brand new segment of low to mid income merchants could potentially get introduced to the formal financial ecosystem and see value in their digital data trails.

- I. **What would be effective instruments/ tools to educate beneficiaries (e.g. merchants in this project) on the role of digital payments and data trail creation to incentivize them to transact digitally?**
- II. **How to further reduce the cost and friction in the lending process so that products are made available to merchants at better terms?** Lowering the interest rate may also make the product more appealing to a broader set of merchants.
- III. **How to offer this customer segment with a larger variety of products that are more customized and meet their credit needs more accurately?** Integrating the available data with other merchant details could help derive more value from the digital trail and allow lenders to offer more relevant products to these merchants (for example, an intra-day overdraft facility)
- IV. **Would introducing the product more formally via an email or circular lead to better hit rates?** A large number of agents (over 50%) refused a loan over the first call made by Lendingkart. Introducing the product before approaching agents through phone calls will ensure that agents have more time to assess their credit need and take a more thought out decision about the loan.
- V. **Would presenting the product strictly as “working capital” attract the more conservative merchants?** Marketing the product as “working capital” and not just credit or term loan may dispel any negative notions associated with credit. It was observed that while agents may have a few negative perceptions around the term “credit” or “loan”, “working capital” is perceived more positively by agents as a requirement to bridge a business related gap.
- VI. **Will reaching out to the agents via Yes Bank or the BC managers who they have an existing relationship with garner more interest from agents?** Agents are more likely to invest time in a conversation with an institution they have a prior relationship with as opposed to a brand new organization offering them a loan.