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INDUSTRY OUTLOOK

NBFCs AND CO-LENDING MODEL: A BOON OR A BANE?

29 April 2024

Co-Origination Model – The Origin

In a press release, dated 1st August 2018, issued by the reserve bank of India (RBI), namely, 'Statement on Developmental and Regulatory Policies', a co-origination model was introduced for banks and NBFCs. This was done to provide an edge to the credit model provided to the high-risk priority sector industries, i.e., agriculture, export credit, social infrastructure, renewable energy, housing, education and MSMEs.

"It was decided that all scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) may co-originate loans with Non-Banking Financial Companies - Non-Deposit taking- Systemically Important (NBFC-ND-SIs), for the creation of eligible priority sector assets. The co-origination arrangement should entail joint contribution of credit by both lenders at the facility level.

It should also involve sharing of risks and rewards between the banks and the NBFCs for ensuring appropriate alignment of respective business objectives, as per their mutual agreement."- RBI[1].

According to the RBI, a priority sector is any industry that is essential to the nation's growth. Banks and other financial institutions may be hesitant to lend money to companies in these industries since they aren't necessarily the most successful ventures.

To provide greater operational flexibility to the model, RBI rechristened the model as ***"Co-lending Model (CLM),"*** i.e., to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs. This was done on the lines of feedback received from various stakeholders and to better leverage the comparative advantages of the banks and NBFCs in a collaborative effort. Today, banks and NBFCs follow the latest RBI guidelines on co-lending, as published in the circular dated November 5th, 2020.[2]

Guidelines

Scope

As per the RBI mandate, banks are permitted to lend with all registered NBFCs, including Housing finance companies (HFCs) in partnership based on a prior agreement. The concept is structured as an 80:20 partnership between banks and NBFCs in sharing the risks and rewards. Both banks and NBFCs are supposed to ensure due diligence and risk credibility before providing the loan. A third party may do this know your customer (KYC)[3] - due diligence, provided that the third party is not located in a nation that is deemed to be high risk. The RBI's 2012 revision to the guidelines for securitization transactions circular[4] must be adhered to by the bank.

The minimum holding period (MHP) exemption shall be available only in cases where the prior agreement between the banks and NBFCs contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment. NBFCs belonging to the promoter's group cannot co-lend with the banks.

Customer related issues

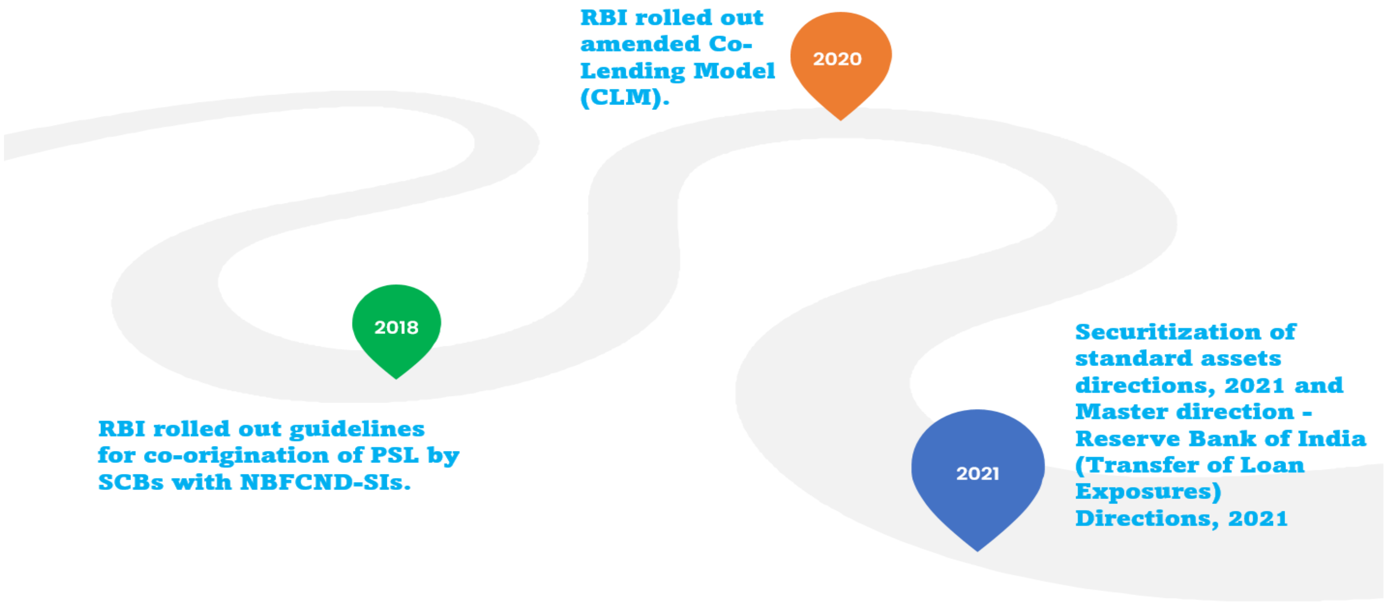
Since the NBFC serves as the only point of contact for consumers, an agreement outlining the obligations of each party is required. The ultimate borrower will be assessed at an all-inclusive interest rate that the bank and the NBFC have decided upon. For the purpose of creating the customer's account statement, the NBFC ought to possess sufficient data. The NBFC and banks may sign information-sharing agreements to do this. To address any grievances the borrower may have, the NBFC must guarantee that a grievance redressal mechanism is in place. For loans made under the agreement, the current customer service, fair practices code standards, and the duties placed upon the banks and NBFCs therein, given '*mutatis mutandis.'*

Other operational Issues

The co-lending banks and NBFCs shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and NBFCs relating to co-lending model shall be routed through an **escrow account** maintained with the banks, in order to avoid inter-mingling of funds. The structure for tracking and recovering the loan, as well as the specifics of the security and fees, will be decided between the bank and NBFC.

Any third-party involvement requires consent of both NBFC and the bank. To guarantee that borrowers get continuous service even after the co-lending arrangement between the co-lenders is terminated, the NBFC and the bank must agree on a **business continuity** strategy.

Figure 1: Timeline.

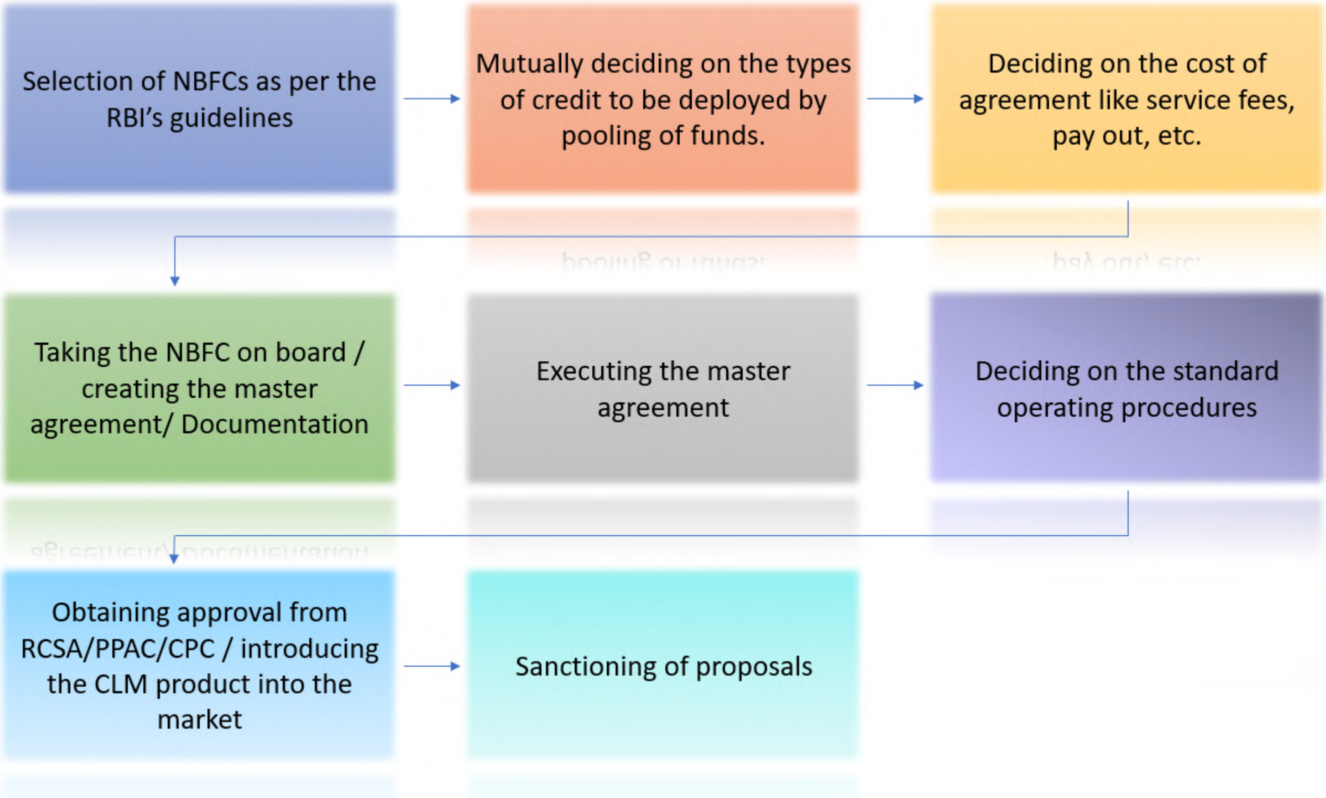


Source: Infomerics Economic Research.

This is not really new; co-lending has existed in other forms earlier as well. Banks used to lend jointly for project funding. For NBFCs, this is excellent news since it allows them to take on larger projects with the help of partner banks. The vision of co-lending is to deploy low-cost funds through NBFCs in the priority segments like MSMEs, alternative Investment funds (AIFs), and granular assets space in all geographies.

Though banks have their own challenges, combined Banks and NBFCs both have their strengths like both are good at sourcing the borrowers and maintaining an excellent asset quality. NBFCs are always in need of funds and this marriage (co-lending) between them two is a commendable step taken by the RBI. Going ahead we are going to see a lot more collaborative lending happening in the future.

Figure 2: Process of Co-lending[1]



Source: Infomerics Economic Research

The banks and NBFCs can work together in a variety of ways, including co-origination of loans, on-lending, securitization, and many more, to provide them with an advantage over their competitors. By using these methods, the banks would want to better align their interests with the NBFC's and expand market credit.

Traditionally, NBFCs and banks were mostly connected via on-lending method, where the banks give funds to the NBFCs, and the latter deliver the loans to the ultimate weaker section beneficiary. While on-lending has its own advantages and it does reduce the operational hassles as it is much easier to just borrow and lend in a single step, instead of setting up the partnerships, creating a co-lending structure, and maintaining the serviceability, it does not seem feasible for all the NBFCs as the format of on-lending is not much scalable and has its own challenges.

[1] This process is designed on basis of the bank's perspective.

BOX 1

"Effective from November 16, 2023, the Reserve Bank increased the risk weights on loans by SCBs to NBFCs by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs is below 100 per cent. Going forward, NBFCs need to diversify and look beyond banks for their funding requirements." (RBI)

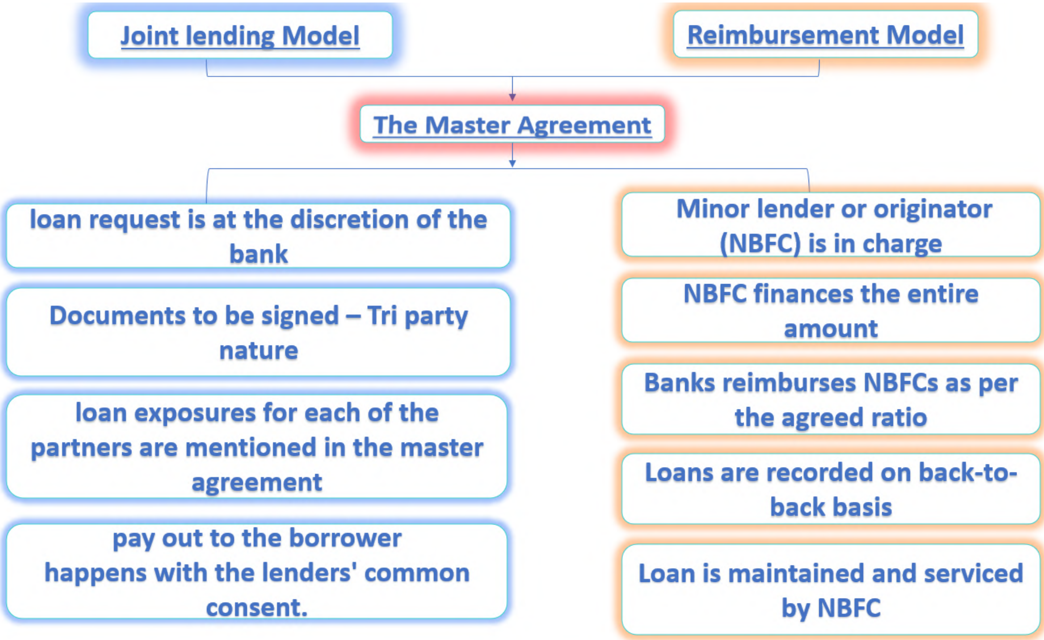
Implications:

- NBFCs giving out the unsecured loans (% exposure of NBFCs to unsecured loans) were the most affected. Reason being the higher dependence on banks than the money market.
- NBFC became more cautious in maintaining their margins and were bound to set aside more capital aside. Banks though were not much affected as they already keep much more capital adequacy than the prescribed capital by RBI.
- Consumption was to be affected making this step long overdue, as the risk weights were reduced after the pandemic to increase the public demand.
- Fin-Techs were advised to slow down on giving out loans via phones.
- Banks would put more trust in the A rated NBFCs than the AAA rated NBFCs as gap between the risks from the two types were reduced. Also, margins are higher in lending to A-rated NBFCs.

Types of Co-lending

Based on methodology, the co-lending model can be of two types as explained below:

Figure 3: Types of co-lending.



Source: Infomerics Economic Research

Under the Joint lending model, banks have the discretion to refuse loans even after they have been originated by the partner NBFC. Under the reimbursement (non-discretionary) model, the co-lending arrangement contemplates the prior and irrevocable commitment of the other co-lender to take its portion of the loan on its books, i.e., banks to take their portion of the loans originated by NBFCs onto their books.

Market size

The co-lending business is becoming increasingly popular amongst banks. The leading banks of India, i.e., State Bank of India (SBI) and Bank of Baroda (BOB) recorded the co-lending amount of more than ₹ 25000 crores in the FY23, which was just ₹ 5000 crores year before that.[5] The co-lending market is expected to grow three-fold, where banks and NBFCs could sign agreements worth ₹ 1 trillion in the current financial year.

Table 1: Gross Value of Co-lending Transactions

Financial Year	Yubi -platform	SBI + BOB (combined)
FY22	₹ 3000 cr.	₹ 5000 cr.
FY23	₹ 9000 cr.	₹ 25000 cr.
Y-o-Y (%)	200%	400%

Source: Media sources.

Not just SBI and BOB, but other public sector banks (PSBs), including Punjab National Bank (PNB), Central Bank of India, and Bank of India (BOI) have co-lending pacts with the NBFCs (as per the records of Yubi). A lot of ground has been covered in the area of co-lending specifically; from ₹ 643 crores in Q4 FY21, co-lending disbursements jumped to ₹ 2901 crores in Q4 FY22.[6]

Yubi Co. Lend has been the leading co-lending technology platform for originators and lenders since its official launch in Oct 2019. Yubi is world's first unified credit platform (as it claims) and with the assistance of banks in forming partnerships with NBFCs, FinTech, HFCs, and other financial institutions that have a wider client base, this platform has been able to facilitate the financial inclusion of the priority sector. As per this platform following is the trend:

- As of September 2022, the platform registered close to ₹ 10,000+ Crores worth of loan disbursements, 54 lakhs transactions, 55 new clints, and the co-lending loan book grew at an average of 30 per cent month on month (M-o-M).
- On the platform, the consumer sector contributed around 60 per cent (majority) as against 14.4 per cent of loan against property (LAP) and 9.4 per cent of small & medium enterprises (SME-secured), 6.5 per cent of SME-unsecured, and 6.5 per cent for two-wheelers and 3.9 per cent for credit line in the co-lending.
- With 12 per cent of the total loans disbursed throughout the year, Maharashtra led the list of states. Karnataka and Tami Nadu came in second and third, respectively, with almost 20 per cent of the total loans disbursed. Over 74 per cent of loans have been disbursed to borrowers in Tier 2 and Tier 3 cities who previously had limited access to loans.
- Total volume of transaction increased 16 times from the first half of FY23 that shows the increased popularity of the co-lending model amongst the parties concerned. The

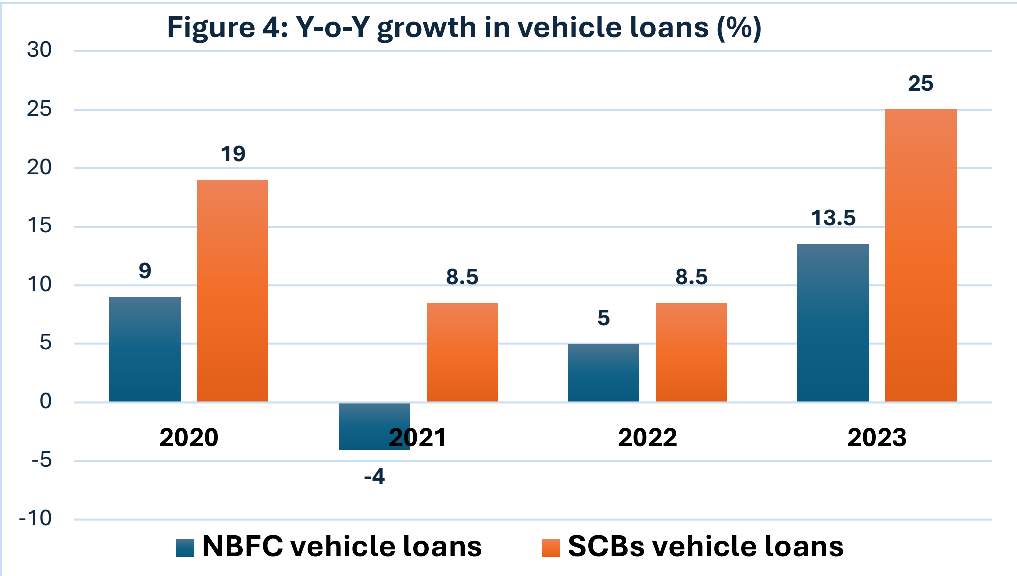
platform saw a 250 per cent growth y-o-y in terms of gross transaction volume, having recorded over 3.5 million transactions in FY23.

These numbers are just based on a single digital platform and some other recent reports/claims made in the news. We believe these numbers are just a mere representation of the actual number and her to grow at a fast clip.

Priority-sector lending (PSL) is where co-lending structures first appeared, but they quickly extended to non-PSL as well. Digital lending was the catalyst for the co-lending boom. Through the use of these platforms and models, digital lending firms were able to locate, attract, and turn over a significant number of small borrowers.

Target Segment - the priority sector lending (PSL).

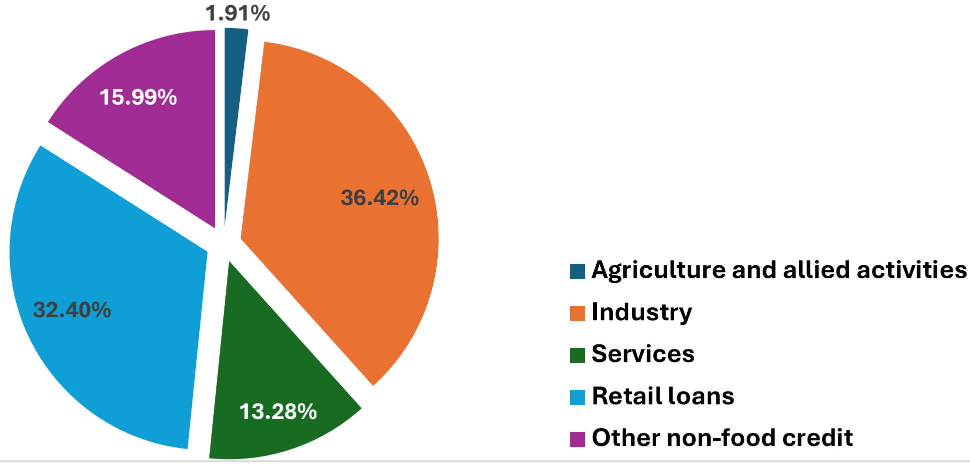
All priority sector advancements increased by 10.8 per cent in the year 2022-23, with private sector banks seeing the largest rise (15.7 per cent). By contrast, PSBs lending to the priority sector increased by 7.1 per cent. Co-lending is gaining popularity in the retail segment, specifically in home loans, two-wheeler loans, commercial vehicle loans, microfinance loans, and gold loans. In 2022-23, NBFC credit to the vehicles segment rose by double digits as it emerged from the challenges of the pandemic. Banks' vehicle credit fell for two years straight but got back up and better at 25 per cent y-o-y at the end-March 2023.



Source: CMIE database and RBI.

Banks' credit disbursements in the agriculture category procured through digital channels increased 8x in Q4 FY22 over Q4 FY21, demonstrating the tremendous growth in partnership-based sourcing.[7] In 2022-23, NBFC credit to the services sector expanded, driven by transport operators and retail trade. For agricultural & allied activities, credit growth was in double digits. Of the current overall credit book of NBFCs, Industry accounts for the highest of about 36 per cent, followed by retail loans of 32.4 per cent. The agricultural category accounts for the lowest of all the sectors.

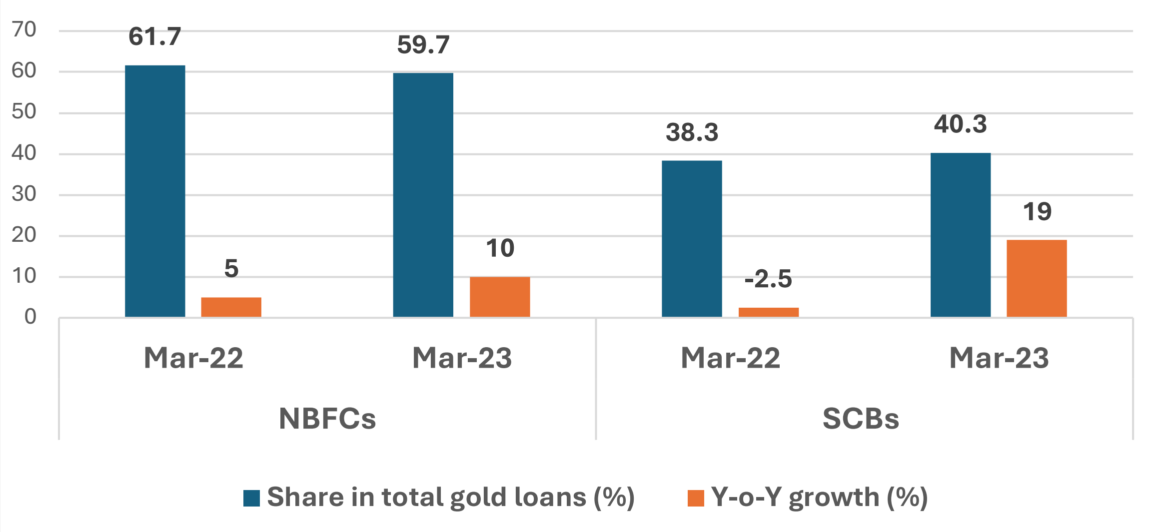
Figure 5: Share (%) credit deployment by NBFCs in India



Source: RBI

In the gold loan segment, banks and NBFCs are increasingly partnering with each other to realize the synergies from collaboration. NBFCs are still a popular choice for this segment with a share of almost 60 per cent as compared to SCBs share of almost 40 per cent in the total advances given against gold.

Figure 6: Advances against Gold by NBFCs and Banks



Source: RBI

About 69 per cent of MSMEs were unable to survive for more than three months in 2020, as their capacity fell from 75 per cent to 13 per cent. The RBI gave banks permission to co-lend with NBFCs this particular year. This case included an 80/20 distribution of cash, with banks contributing the large bulk of the funds. The lending procedure for MSMEs and emerging enterprises is made simpler by this agreement. For MSMEs to expand and thrive, timely and sufficient financial access is vital. Indian banks have been advised to increase loans to micro and small businesses by 20 per cent annually.[2] One of the major challenges faced by MSMEs was inadequate access to finance due to lack of financial information, lack of integrating digital

[2] As per the recommendations of the Prime Minister's Task Force on Micro, Small and Medium Enterprises (MSMEs) (Chairman: Shri T.K.A.Nair, Principal Secretary, Government of India) constituted by the Government of India.

platforms for smooth workflow, and non-formal business practices. Comparing Q1 FY23 to Q1 FY22, E2E[3] digital lending exhibits expansion. This is seen in the fact that 7 out of 12 banks offer E2E digital loans to MSMEs and retailers, resulting in 40x and 2x growth in the particular sector.

MSMEs' key digitized journeys include Mudra loans, MSME renewals, working capital upgrades, etc. The recent MSME Pulse Report showed that the demand for commercial loans witnessed a 33 percent growth y-o-y for the period of Jan to March 2023.

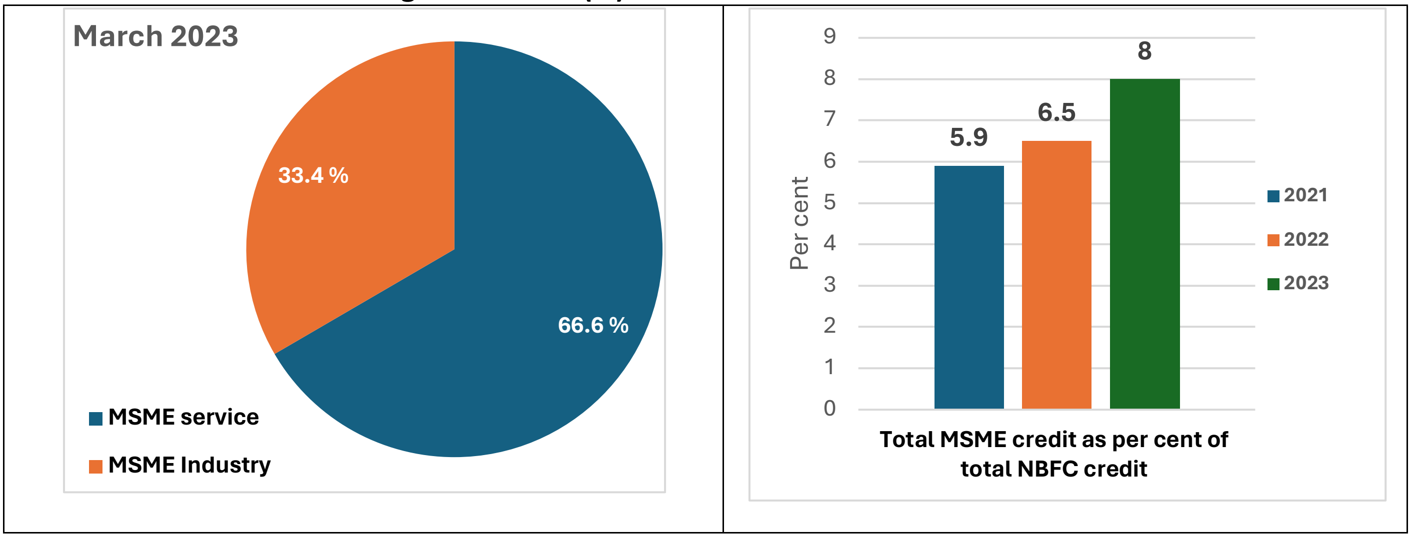
Table 2: Credit to MSME sector

Years	NBFCs credit to MSME (₹)	Banks credit to MSMEs (₹)	Y-o-Y Growth in NBFC credit (%)	Y-o-Y Growth in Banks credit (%)
2021-22	617400	8,665,880	21.20%	12.70%
2022-23	917060	9,736,908	42.40%	12.40%

Source: RBI and CMIE database.

As per the report on Trends and Progress of Banking in India by the RBI 2022-23, NBFCs' credit growth to the MSME sector was over three times that of banks, thanks to their ability to provide personalized financing solutions. The co-lending framework for priority sector lending has also expedited the flow of credit from NBFCs to the MSME sector, taking advantage of banks' low financing costs and NBFCs' wider reach. NBFC credit to MSME saw a massive growth of 42.4 per cent y-o-y as compared to a marginally decreased credit growth by banks, i.e., from 12.7 per cent y-o-y to 12.4 per cent y-o-y (see table 2). Total MSME credit as per cent of total NBFC credit increased from 6.5 per cent to 8 per cent in 2023. (see figure 7)

Figure 7: Share (%): NBFCs credit to MSME sector.



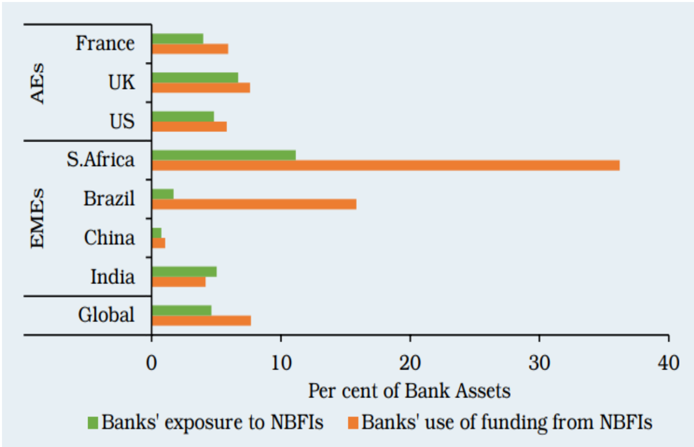
Source: RBI.

[3] With an end-to-end lending platform, the previously fragmented and partially manual processes evolve into a unified procedure. From automated loan origination and credit risk decision-making to compliance and, ultimately, disbursement, the lending process becomes fully streamlined.

Co-lending partnerships

Globally, banks remain net borrowers from NBFCs, whereas in India the situation is entirely opposite as where banks are net lenders to NBFCs. It was observed that interconnectedness has decreased in other countries vis-à-vis India.[8] The direct interconnectedness of NBFCs with banks has been rising in India due to higher borrowings from banks.

Figure 8: Banks' exposure and funding from NBFCs (at end-Dec 2021)



Source: Report on trends and progress of banking in India, non-banking financial institutions (NBFCs), dated: Dec 27th, 2023.

As per the Chief Business Officer at Yubi, there were total 18 co-lending partnerships recorded only in the second half of FY23 and Yubi recorded 8 of them, including banks, NBFCs and other financial institutions like SBI, Axis Bank, Karnataka Bank, Axio, Lendingkart, and UGro Capital, among others.[9]

The co-lending transactions got a boost after the change in the guidelines in November 2020. In the new norms, banks got autonomy.[10] Some important co-lending partnerships happened recently are as follows:

- Bank of Baroda has created an end-to-end digital platform to ink such tie-ups. It already has a tie-up with Paisalo Digital and U-Gro Capital.[11] In 2022, Clix Capital partners with Bank of Baroda to disburse loans in the healthcare equipment space.[12] In April 2023, the Bank already made four tie-ups and three were in the pipeline. Other than healthcare sector, Bank of Baroda has also disbursed loans for solar rooftop projects.
- In 2022, SBI made tie ups with five housing finance companies, namely PNB Housing Finance, IIFL Home Finance, Shriram Housing Finance, Edelweiss Housing Finance, and Capri Global Housing Finance. The co-lending agreement was made with Adani Capital to serve farmers in the purchase of tractors. In November 2023, SBI went into co-lending agreement with Mahindra Finance, part of the Mahindra Group for Mahindra finance customers and to unlock the potential of Priority Sector Lending (PSL).
- In case of MSME loan disbursals, in 2021-22, Central Bank of India and U GRO Capital have finalized an agreement to disburse MSME loans worth ₹ 1000 crore, SBI has joined hands with Adani Capital for co-lending to farmers, Capri Global Capital has partnered

with State Bank of India, for co-lending to MSMEs, while UCO Bank had entered co-lending agreement with Aadhar housing Finances.

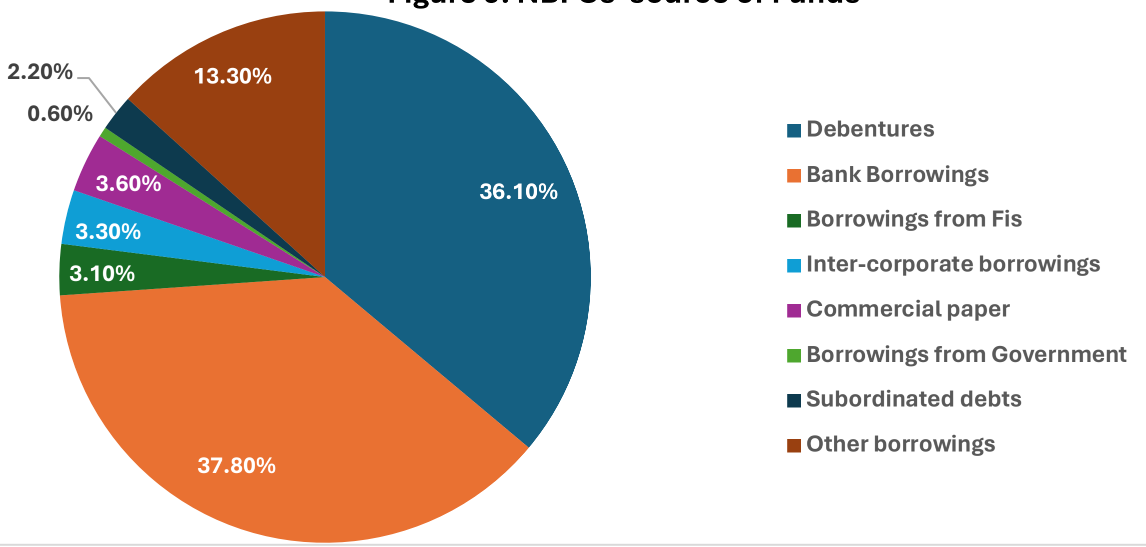
- The NBFC, namely M/s. Capri Global Capital Ltd, has entered co-lending alliances with State Bank of India (SBI)[13], Union Bank of India[14], Central Bank of India[15], and Punjab & Sind Bank[16] for MSME loans.
- Private sector banks like Axis Bank tied up with Shriram Housing, AutoTrac Finance, and ITC to grow its rural and semi-urban loan book.

Such cases can easily be increased but our thesis is that these are not one-off alliances but a part of the inexorable pattern of rising co-lending between banks and NBFCs.

The funding

Over the last five fiscals, bank loans to NBFCs logged a compound annual growth rate (CAGR) of 18 per cent and stood at ₹ 13 trillion as of March 2023, against ₹ 64 billion as of March 2023. There are four ways by which banks are connected to NBFCs, i.e., co-origination, on-lending, direct lending, and co-lending.[17] NBFCs finance their activities largely through borrowings from markets and banks. By the end of March 2023, bank borrowings had surpassed debentures as the primary source of funding for NBFCs. Bank borrowings continue to expand rapidly as of the end of September 2023.

Figure 9: NBFCs' source of Funds



Source: RBI

Role of a third party - fintech

The lenders can establish the co-lending infrastructure. Obstacles, such as operational challenges and integration problems, however, impede the system's activation and consequent scaling up. Fintechs via UPI, Digi-locker, e-KYC, e-Sign, account aggregators, and others, bridge the gap between the Banks, NBFCs and the borrowers. Improved credit profile accuracy, cheaper borrowing costs, shorter turnaround time (TAT), decreased credit risk, more operational flexibility, and more convenient repayment schedules are some factors that make co-lending a beneficial tool overall.

Some of the services provided by fintech companies to banks and NBFCs include the following[18]:

- One-time API integration to streamline data flow across numerous lending partners.
- Rich data analytics and reporting from a 360-degree perspective of the customer lifecycle journey.
- A workflow builder that allows to create extremely flexible and agile borrower's journey with just a few steps.
- Straight through processing for a completely automated paperless journey
- Partner onboarding and management for a seamless co-lending experience
- Pre-screening functionality with checks such as Aadhar, PAN, CIBIL, Experian, and many others, and
- A robust debt recovery platform to minimize loan delinquencies and maximize collections.

The market for digital lending platforms is expected to reach US$ 26.6 billion by 2028. And, with increasing innovation in the field of fintech and artificial intelligence, the expansion of finance alternatives in unanticipated ways is still to come.[19] The positive thing here is that there is both intent and interest coming from banks, fintech, NBFCs, HFCs, etc. The only issue we can find is the trust deficit between the banks and NBFCs, which limits a fintech platform to catch up with the rest of the operations. Despite RBI's reluctance, multiple fintech companies like CRED and Jupiter[20] have persuaded RBI to provide them with an NBFC license.

Finally, there is a need for alignment between the mindset of banks and NBFCs/fintech solely for enhanced customer satisfaction via technologically advanced tools. Banks need to see the customers as joint customers and ensure that they are also equally responsible for seamless service, while the NBFCs need to maintain the regulatory norms.

Co-lending between NBFCs

The fundamental concept of NBFC-to-Bank co-lending is based on the difference in funds availability and expenses between the two parties. The same is true for many types of NBFCs-large & small, both new & experienced. Expanding on more NBFC-to-NBFC co-lending partnerships will result in more efficient and significant capital flows for MSMEs. The NBFC-NBFC partnership is also gaining momentum which includes segments like:

- Those promoted by large business houses with large origination capacity;
- Those promoted by large business houses and with moderate origination capacity;
- Those promoted by large business houses having origination capacity but with room and appetite for further growth;
- Those promoted by large business houses that have limited capital and limited capacity to leverage the capital, but good quality asset origination capacity.

While RBI guidelines specify bank-NBFC partnerships, there is nothing to prevent two NBFCs from collaborating.

The Benefits

The co-lending provides cost advantages to the NBFCs as raising funds through the money market is always 20 to 50 bps more expensive. As NBFCs must also put up at least 20 per cent of the capital, banks often feel relieved about the quality of customers routed to them, and so underwriting costs for the bank get substantially reduced.

- With co-lending, banks can now venture into new product segments like underwriting and leverage NBFCs' expertise on digital cash flow algorithm-based assessments, which will remove the funding related challenges or capital constraints, and the transparent framework will facilitate healthy growth of priority sector loans originated by NBFCs.
- It enables a bank to lend more substantially and allows traditional lenders to associate with fintech firms with alternative credit scoring models and a greater digital reach.
- The core of both NBFC and Fintech business models is customer centricity. Through its efficient and straightforward operations, the modern partner of the bank in the arrangement oversees the complete customer management process of the co-lending model, assisting in future conversions and repeat loan possibilities.

The Challenges

The growing interconnectedness can also amplify systemic risks during periods of stress. When the digital lending (DL) guidelines[21] were introduced, the market was somewhat disrupted since they prohibited the use of fabricated structures, which were quite common at the time. However, the DL guidelines have enabling provisions for co-lending structures that use digital lending as a mode to co-lend.

BOX 2: Mistrust between Banks and NBFCs.

In the words of Late Pillarisetti Satish, former Executive Director of the Sa-Dhan, "***Banks have the money, NBFCs have people on the ground. A marriage makes sense. But the key question is why would a bank share a good borrower with an NBFC***?"

Banks are cautious in getting into a co-lending partnership. For example, Canara Bank still follows an approach that only engages in the secured loans and the establishing a stress-trigger threshold. There is a mismatch between policies provided by Banks and NBFCs, in terms of risk assessment and underwriting.

While NBFCs are confident of their reliable customer selection and due diligence process, banks untrust NBFCs' borrower selection and credit assessment process due to various reasons.

In February 2023, SBI conducted a study (primary research) based on stakeholder interaction and feedback. A total of sixteen (16) banks (9 PSBs & 7 PvSBs) and twenty (20) NBFCs/ HFCs/ Fintech which were into the co-lending business were surveyed for the study. The results showed that the ***Trust Deficit*** among the lending partners might be getting triggered by the asymmetric information and ultimately leading to market failure.

Source: Panda, B. (2023). ASYMMETRIC INFORMATION AND MARKET FAILURE IN BANK-NBFC CO-LENDING MODEL (Doctoral dissertation, Indian Institute of Technology, Kanpur).

The co-lending model suffers from a phenomenon known as the 'slower execution timeline'[22]. Prior to the significant debates surrounding the amount of capital to be given by banks through the co-lending model and the potential leverage that might be adopted utilizing the capital infusion from banks, banks would search for NBFCs that focused on particular credit portfolios. Once this is done, monitoring the credit risk of these on-lent portfolios is carried out on a quarterly basis, which was a time-consuming and manual process. The need to quicken this process is manifestly essential now. Some PSBs are creating their own digital platform to integrate all their co-lending transactions with the respective partners.

To date, there is no comprehensive and systematic data available regarding the model's effectiveness. Apart from newspaper articles and paid reports, there is little or no literature on the subject. Additionally, there is no publicly available statistics on co-lending in India. This absence of data leaves stakeholders like regulators, rating agencies, and financial institutions with limited information about the ***modus operandi*** of the model. We expect the RBI and co-lending platform will soon produce the appropriate amount of data for the past five or six years for a better understanding of the model and the various underlying issues.

There are operational issues including IT system integration, development of a common credit policy, reconciling repayment schedules, bureau reporting, simultaneous credit risk assessment, hypothecation, servicing, and escrow management etc., with the co-lending model.

Banks that are into co-lending have not progressed for the following reasons:

1. They assume that they are superior lenders and the NBFCs should follow them and adopt their due diligence practices.
2. In case the MSMEs are enjoying credit limits under the CGTMSE cover, Banks are reluctant to go for co-lending option because not all the NBFCs may have the guaranteed institution cover that is sharable.
3. Co-lending is often exercised as an option for working capital credit and not for either a composite loan or term lending to the manufacturing enterprises.

The co-lenders should have mutual regard for knowledge of the participating institution. The RBI has already directed the NBFCs to provide an undertaking to the banks that its contribution towards the loan amount is not funded out of borrowing from the co-originating bank or any other group company of the partner bank. This makes co-lending different from the original process of on-lending, i.e., how banks and NBFCs were majorly connected.

The Future

The Government of India has long placed financial inclusion at the top of its priority list. Therefore, the government has taken a number of steps to broaden the scope of cooperation between banks and NBFCs. The easing of domain regulations is likely to broaden banks' customer base, provide NBFCs more money, and help them overcome their ongoing liquidity issue. Co-lending is just one of them.

Also, the Indian SME market is expected to be worth US$ 300–400 billion by 2025, co-lending is the way to go in order to ensure credit access to these growing enterprises and, as a result, aim to unlock a trillion-dollar opportunity in terms of digital lending.[23]

In November 2023, the RBI Governor has nudged the banks to evaluate their exposure to NBFCs and the exposure of individual NBFCs to multiple banks and for NBFCs to focus on broad basing their funding sources and reducing over-dependence on bank funding. RBI is comfortable with co-lending because the credit underwriting is done by the bank.

Thus, the discussion clearly brings out that despite some teething issues, the potential is huge, the possibilities are limitless, and the ***future is bright***.

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