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## Public Tech Platform for Frictionless Credit

### Why in news?

The Reserve Bank of India (RBI) has announced a pilot programme for 'Public Tech Platform for Frictionless Credit'.

### What is Public Tech Platform?

- It is a digital platform created by RBI's subsidiary — Reserve Bank Innovation Hub — which will enable seamless flow of necessary information to lenders.
- **Aim-** To help in disbursing 'frictionless' credit.
- **Pillars-**
  - The problem of adverse selection (that results from the asymmetry of information from either the borrower or lender),
  - Measurement of exposure risk
  - Assessment of default risk (the probability that the borrower may default in repayment).
- **Features** - It will have open architecture, open Application Programming Interfaces (APIs), and standards, to which all financial sector players can connect in a 'plug and play' model.
- It would collect data required to sanction and disburse loans which could include Aadhaar e-KYC, Aadhaar e-signing, PAN validation, etc.
- With the participation of banks, the platform would extend its focus also towards dairy loans, MSME loans (without collateral), personal loans and home loans.

*The platform itself is **not** a lending or credit issuing facility. It will only collate or compile data from various agencies and present it to lenders operating through the platform.*

### What are the advantages of the platform?

- **Simplification-** It simplifies the integration of vital financial data through open Application Program Interface.
- **Scalability-** It ensures that credit or other financial instruments are extended to a larger set of borrowers with good credit history.
  - World Bank pointed out that improved access to information provides the basis for fact-based and quick credit assessments.

- **Productive investment**- The borrowers too would benefit by the resulting lower cost of accessing capital, which would translate into productive investment spending.
- **Cost effective**- This platform reduces the multiple visits to bank to avail formal credit and costs associated with it.
  - RBI survey indicated that processing of farm loans took 2 to 4 weeks and costs about 6% of the loan's total value.
- **Improves Efficiency**- It centralizes potential borrowers information on a unified platform streamlines processes.
- **Seamless**- The participation of banks, NBFCs, fintech firms, and start-ups in this platform aligns with the dedication to seamless credit and payment solutions.
- **Foster innovation**- The 'plug and play' model encourages innovation, driving the lending sector towards greater accessibility, cost reduction and efficiency.
- **Improves credit accessibility**- It can leverage the contemporary advances in digitisation of information and ensures that small-ticket loans are made available in a timely and cost-effective manner.
  - In 2021, NABARD economist observed that 'even among well-developed regions, only a fifth of the more than 12.5 crore small and marginal farmers have access to institutional credit.

*During G20 Finance Ministers and Central Bank Governors meeting, RBI showcased the Digital Kisan Credit Card and Digital Dairy Journey.*

### What will be the challenges in implementation?

- Not everyone may have Aadhaar or PAN.
- Property related documents may not be available, especially in tier-3 and below cities and slums.
- Compiling relevant data could also pose a challenge.

### Quick facts

Reserve Bank of India
<ul style="list-style-type: none"> <li>• <b>Launch</b>- It is the central bank of India, which began operations on April 1, 1935, under the <i>Reserve Bank of India Act, 1934</i>.</li> <li>• <b>Function</b>- It uses monetary policy to create financial stability in India.</li> <li>• It regulates the country's currency and credit systems.</li> <li>• <b>Ministry</b>- Ministry of Finance</li> <li>• <b>Reports released</b>- Financial Stability Report</li> </ul>

### References

1. [The Hindu- What is RBI's Public Tech Platform](#)
2. [The Hindu- Easing credit flow through pilot platform of RBI](#)
3. [Economic Times- Public Tech Platform for frictionless credit](#)



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