Show us the money!

Digital recovery of retail loans is set to surge, since deploying field agents is costly, reports **Raghu Mohan**

Anshuman Panwar, co-founder of Creditas Solutions, claims his firm "has been able to help over half a million retail customers settle ₹9,329 crore in dues to banks and other lenders." The firm works in the emerging digital collections space that cuts out field recovery agents and offers its services to ICICI Bank, HDFC Bank, Axis Bank and Citibank.

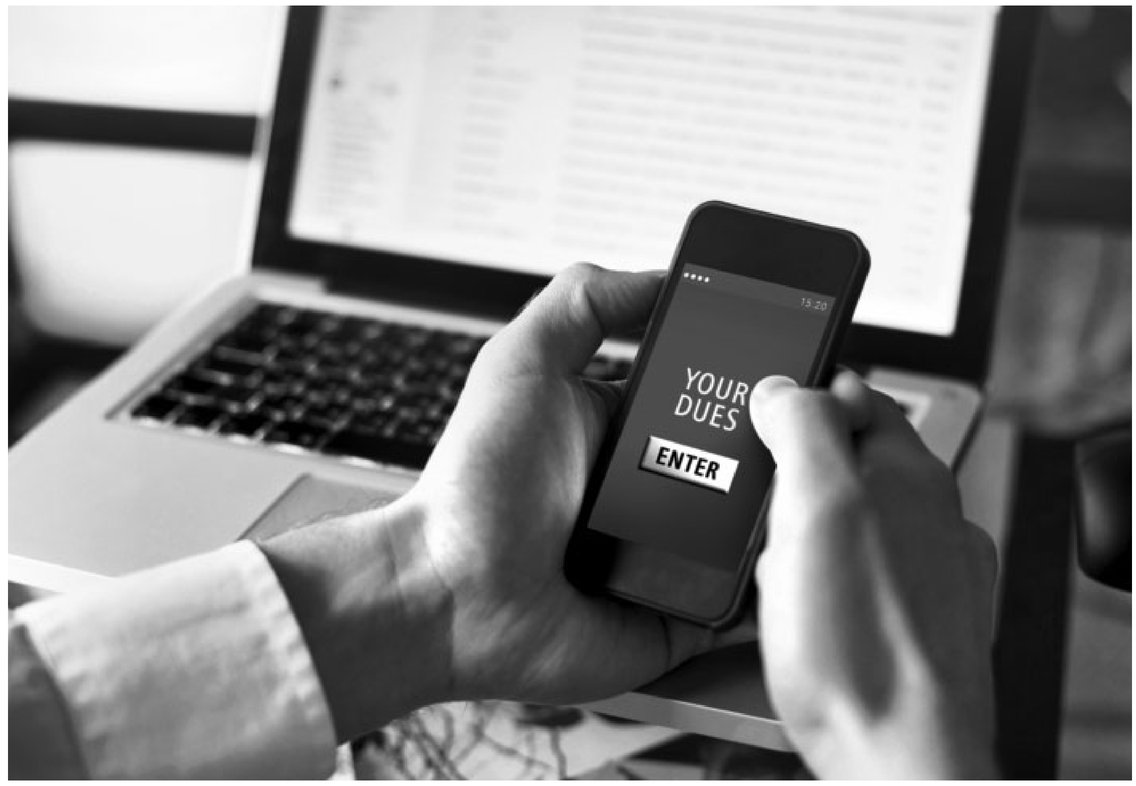
Digital collections help cut the huge costs lenders have to incur when they send recovery agents to check out on borrowers. A single field visit to a customer costs ₹250-500, and there's no surety that this will lead to a settlement, even after a few attempts. Multiply this with millions of retail customers under stress, who have to be called on, and it's a mountainous problem.

Worse still, the incentives offered by lenders to recovery agencies are directly linked to their strike rate — how many recoveries they close out. This, in turn, leads to other headaches: it puts lenders in the position of violating the Reserve Bank of India's (RBI's) strict norms aimed at preventing customer harassment; and by extension, entails legal consequences and reputational risks, given the huge investments in financial brands.

DEFAULTS IN CONSUMER CREDIT ACROSS LENDERS

(in %)	PSB	PVB	NBFC/ HFC	Fintech
Sep-20	5.48	1.56	2.53	1.82
Oct-20	5.38	1.55	2.45	1.94
Nov-20	5.10	1.93	2.90	2.87
Dec-20	4.94	2.49	3.39	5.88
Jan-21	4.87	2.66	3.76	6.60
Feb-21	4.54	2.61	3.43	6.22
Mar-21	4.89	2.01	3.04	3.14
Apr-21	4.92	2.03	3.95	3.56
May-21	5.69	2.48	5.09	4.69
Jun-21	5.88	2.67	4.59	3.70
Jul-21	5.60	2.80	4.58	4.74
Aug-21	5.54	2.66	4.21	4.93
Sep-21	5.03	2.23	3.77	4.56

Source: RBI Financial Stability Report, Dec 2021



Pain in the new world

Let's situate retail credit as it stands. For well over a decade, retail has been the go-to segment, given the stress in corporate lending. Most top-line banks, for instance, now have almost a 50:50 split between retail and corporate loans on their books (a few tilt in excess of 50 toward retail). And, unlike corporate loans, retail has never been seriously tested for a down-cycle, a point highlighted by Moody's Ratings as far back as 2003.

Even after the global financial meltdown of 2008, retail credit in India was chugging along nicely. But the pandemic has busted the good times. According to CRISIL Ratings, retail and lending to small businesses together make up 40 per cent of bank credit. Within this, the share of retail non-performing assets (NPAs) is 4-5 per cent.

Says Rishab Goel, co-founder and chief executive officer (CEO) of Credgenics: "Delinquencies had spiked even before the pandemic, and after it, have made door-to-door collections a big challenge. 2020 saw the judiciary and RBI take a closer look at recovery practices. In early 2021, negativity and collection harassments soared, leading to loss of lives and ever-increasing scrutiny."

So, how different can the digital route to collections be? The RBI's *Financial Stability Report* of December 2021 says fintechs' delinquency levels shot up by 274 basis points (bps) to 4.56 per cent in the year to September 21 (see Table). State-run banks did report the highest figure for the end of this period on this front at 5.03 per cent, but this was an improvement of 45 bps. The short point: those who claim to be smart with technology are not so when it comes to lending. How can collections be any better?

Nitin Purswani, co-founder and CEO of Medius, reckons that there are basically four types of folk in the stressed category. "The destitute; those who won't pay at all and willfully so; the lethargic; and those who are in situational stress — those who have lost a job recently, or are living with a pay cut".

He fleshes out the new way: The difference, he says, "is that human interface tends to be one-size-fits-all. But with voice and chat-box, you can have predictive communications, even as it tries to achieve whatever was sought to by human interface in the past."

A report by McKinsey and Company (May 21, 2020) pointed to the strategic and operational reasons to modernise customer assistance, which can lead to significant bottom-line value. Customers are more comfortable than ever using digital channels. Some lenders have seen reductions in NPAs of 20-25 per cent, alongside huge cost take-outs (and related increases in productivity), lower conduct risk, and more than a 25 per cent boost to customer engagement. It says that "one lender shortened its average repayment time by as much as five times."

Fine-tuning on the cards?

The report of the Working Group on Digital Lending, chaired by Jayant Kumar Dash, RBI executive director, notes that with no field collection teams, some digital lenders reportedly misuse signed agreements to access the mobile phone data and contacts of the borrower, to enable them to adopt strong-arm inducements to repay.

The threat of real or make-believe police complaints and legal notices against borrowers has been used for recovery. Few digital lenders are understood to have invested in a hybrid collections infrastructure to use softer modes of follow-up. The report mentioned that separate guidelines have been set out for recovery agents employed by banks, which are more comprehensive than the directions issued for shadow banks (currently a part of the Fair Practices Code).

But change may in the air, as the group's report said: "The distinction may need to be reviewed to ensure similar standards are employed for agents employed by banks and non-banking financial companies." Besides, on-field collection teams and optimum-sized call centres would also make the lender understand the challenges faced by customers in repaying.

Measures such as debt moratoria, light-touch communications, and tailored messaging have become basic requirements in many markets. The RBI appears to mirror McKinsey's observation that "regulators such as the European Central Bank and the US Consumer Financial Protection Bureau have provided clear guidance on how institutions should pursue these kinds of goals."

If digital collections are to aid lenders, you also have the emergence of FREED — the country's first, comprehensive debt relief platform with over 5,500 customers and ₹300 crore in retail debt enrolled in just over 12 months. Ritesh Srivastava, its founder and CEO, claims to bat for borrowers, and acts as both a credit and legal counselor. "We help the debt-burdened to resolve with creditors and handhold them through this difficult journey. We also help consumers against abusive collection practices."

This business is seen gaining traction, given that Gen Z and the early millennials have a massive debt problem. "With the growth in retail credit, mounting NPAs and low recovery rates on late-stage delinquencies, our proposition is a win-win for both borrowers and lenders," says Srivastava.

We do live in interesting times.

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