FinBox

Whitepaper

Partnership Lending 2.0

Integrating Technology, Strategy, and Scale in India's Credit Ecosystem



Introduction

"It’s not who I am underneath but what I do that defines me,” growls Batman in his famed baritone. Financial sector players too, will be forced to unleash their Batman in 2025 if they are to thrive.

After all, the label on the hoarding, the mission statement boiler plate, and even the website descriptions won’t matter – 2025 will be the year of credit and no matter what your core offering is, credit will either be an enabler for the business or a contributor to the top and bottom line itself. There's just no way around this.

Consider Paytm, a company that once did mobile recharges which later morphed into an everything store including e-commerce, flight ticketing, digital gold and what not. It then went one step further and became a regulated banking entity. In its latest avatar, Paytm is a lot of things but most of all – it's one of the biggest digital credit platforms in the country even though it doesn’t disburse a penny from its own balance sheet.

In 2024, Paytm disbursed Rs 54,000 crore of credit – all financed by its lending partners – a 48% jump year-on-year. Who are its lending partners? Paytm’s lending partners include a gamut of top banks and NBFCs in the country who are utilizing the company’s wide reach into the merchant ecosystem to find ready borrowers to serve them with hassle-free digital credit



This is the era of partnership lending

Retail lending is going through a revolution. The newest era of digital lending is all about partnering with large platforms and cross-ecosystem pollination where lenders, platforms and technological providers work in lockstep to create value and innovate newer forms of credit – across product construct, sizing, distribution, and even underwriting

As Figure 1 shows, the 5th generation era of lending is all about partnering with high-volume platforms and enterprises to drive growth and scale across lending programs. The key problems lenders – both banks and NBFCs- face are in increasing scale for their existing products across the retail spectrum – personal loans, business loans, cards, working capital and other business loans.

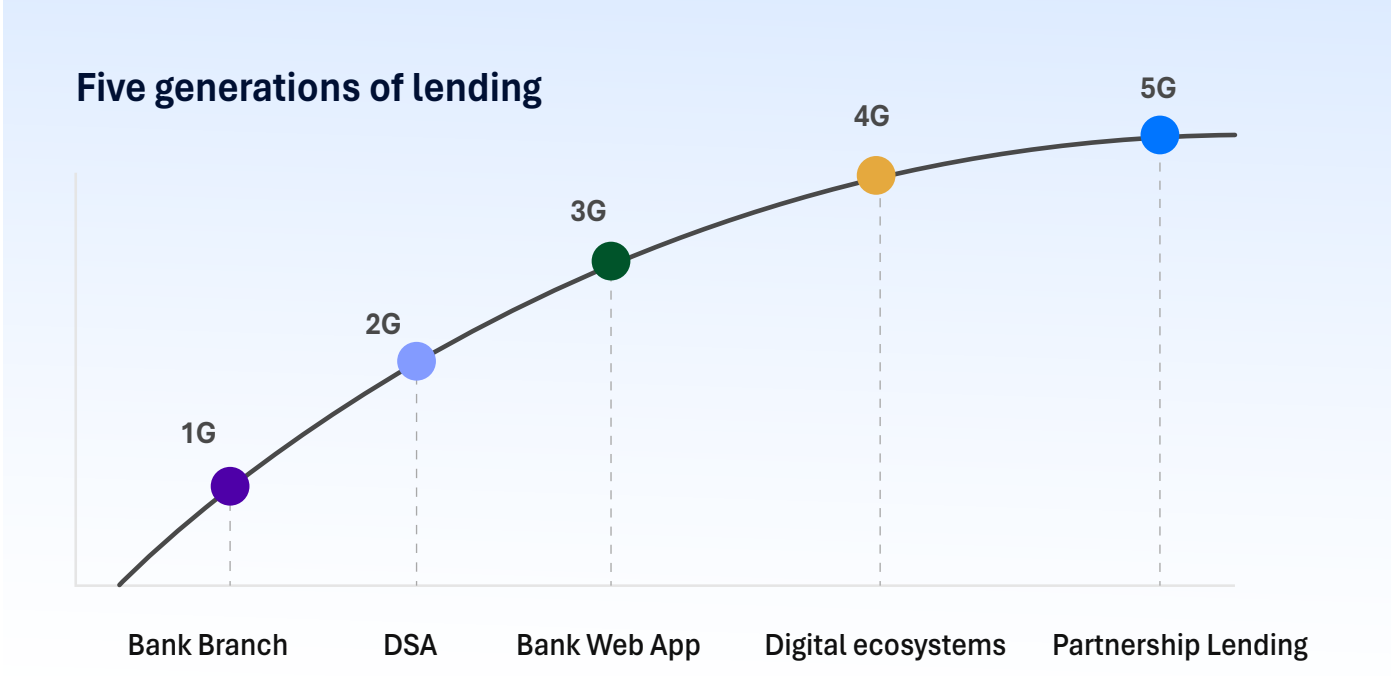


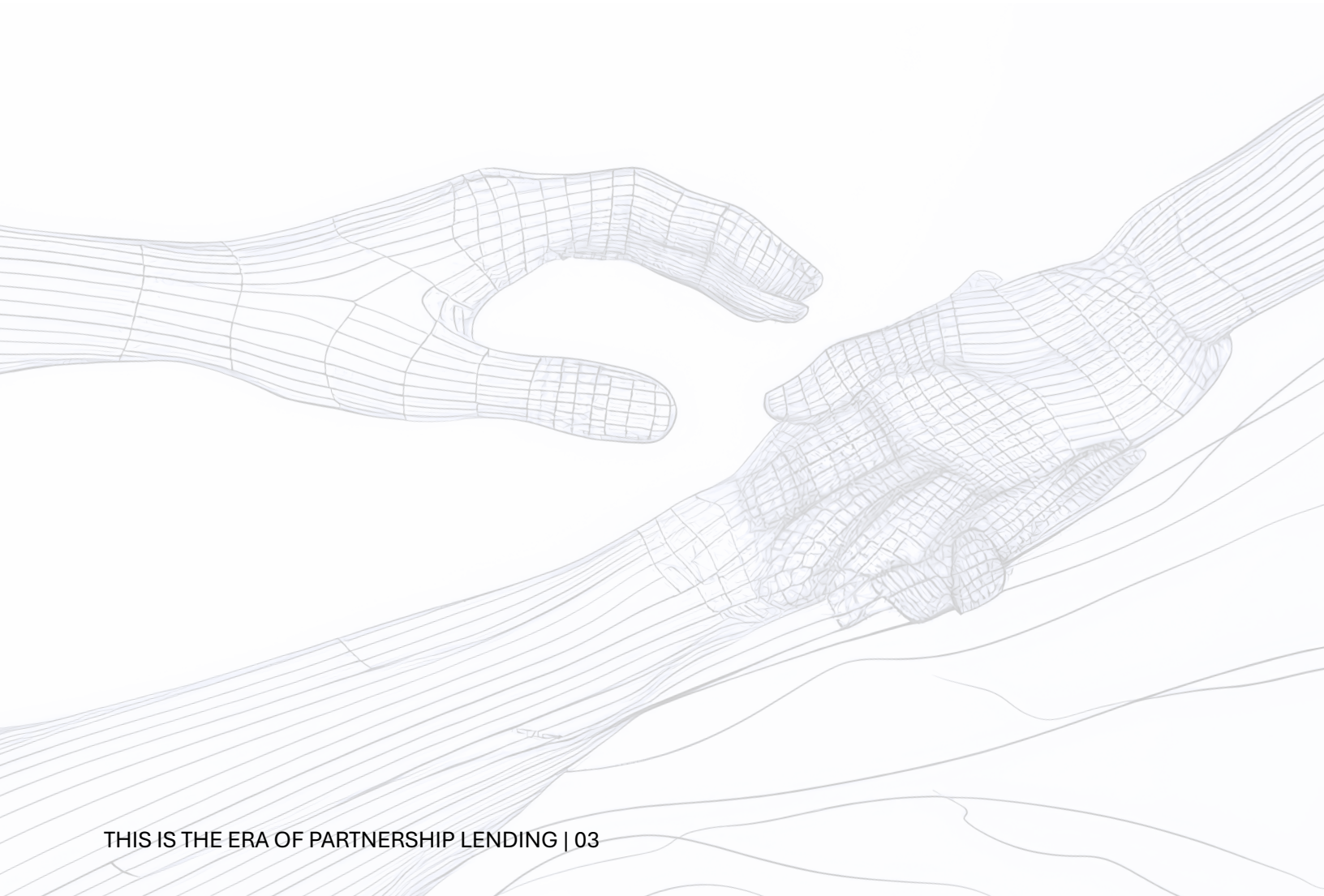
Figure 1

- 1G- Customer going to the branch
- 2G- Solving the distribution problem- Reach X Economics
- 3G- Bank going the the customer
- 4G- First wave if partnerships and digital originations
- 5G- Partnerships with platforms and marketplaces

Across industry, partnership lending is becoming the crucible for birthing new products and increasing the reach of existing products. Salient examples include new-age programs such as loans with Equated Daily Instalments instead of monthly repayments.

These programs work well for retail merchants with a visible cash flow through payment terminals such as QRs. Platforms like Paytm, PhonePe and Pine Labs are fertile grounds for lenders to tap into this market and build a healthy book.

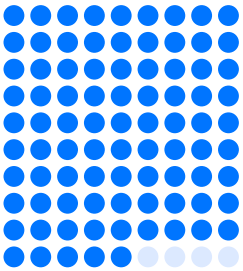
Partnership lending in India is born out of a crucial need for lenders to expand their footprint beyond the conventional sources of borrowers. This, in effect, has led to an expansion of large platforms as fertile crucibles for borrower acquisition. The idea is for lenders to increase their total lending books without necessarily taking on more risk. Here, large platforms with vintage customers shine.



Partnerships are becoming a critical priority for banks and NBFCs

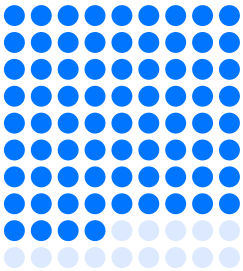
In a EY Parthenon survey, 55% of banks expect partnerships to play "very important" roles in their strategies by 2025, compared with 32% of banks today. Another 36% said working with FinTech firms would be "important" within three years.

Some specific areas where banks already see tangible benefits from FinTech partnerships or are intrigued by potential use cases.



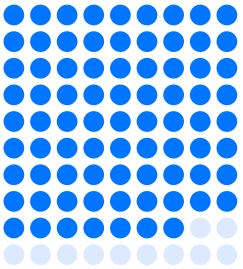
95%

use partnerships to enhance their digital products and reach



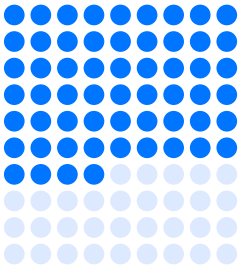
87%

use a partner to manage critical processes



86%

use partners to save money and accelerate implementation times



64%

view digital banking and data analytics as areas ripe for future partnerships

Introducing the partnership lending ecosystem

Partnership lending and embedded credit is likely to hit the $124 billion mark globally this year. In India, more than 30% of customers surveyed by VISA reported having used embedded credit services in the past three months.

Strategic Partners	
QR code/payment aggregators	Paytm, BharatPe, PhonePe
Food-techs	Swiggy, zomato
Superapps	super.money, moneycontrol, TATA NEU
E-commerce	amazon, Flipkart, meesho
New age digital platforms	CRED, CheQ, wallets etc.

Marketplaces/Digital DSAs and Aggregators

bankbazaar.com | paisabazaar.com | RULOANS® much more than money

New Channels

ONDC	OCEN	RBI rails for lending

Long tail

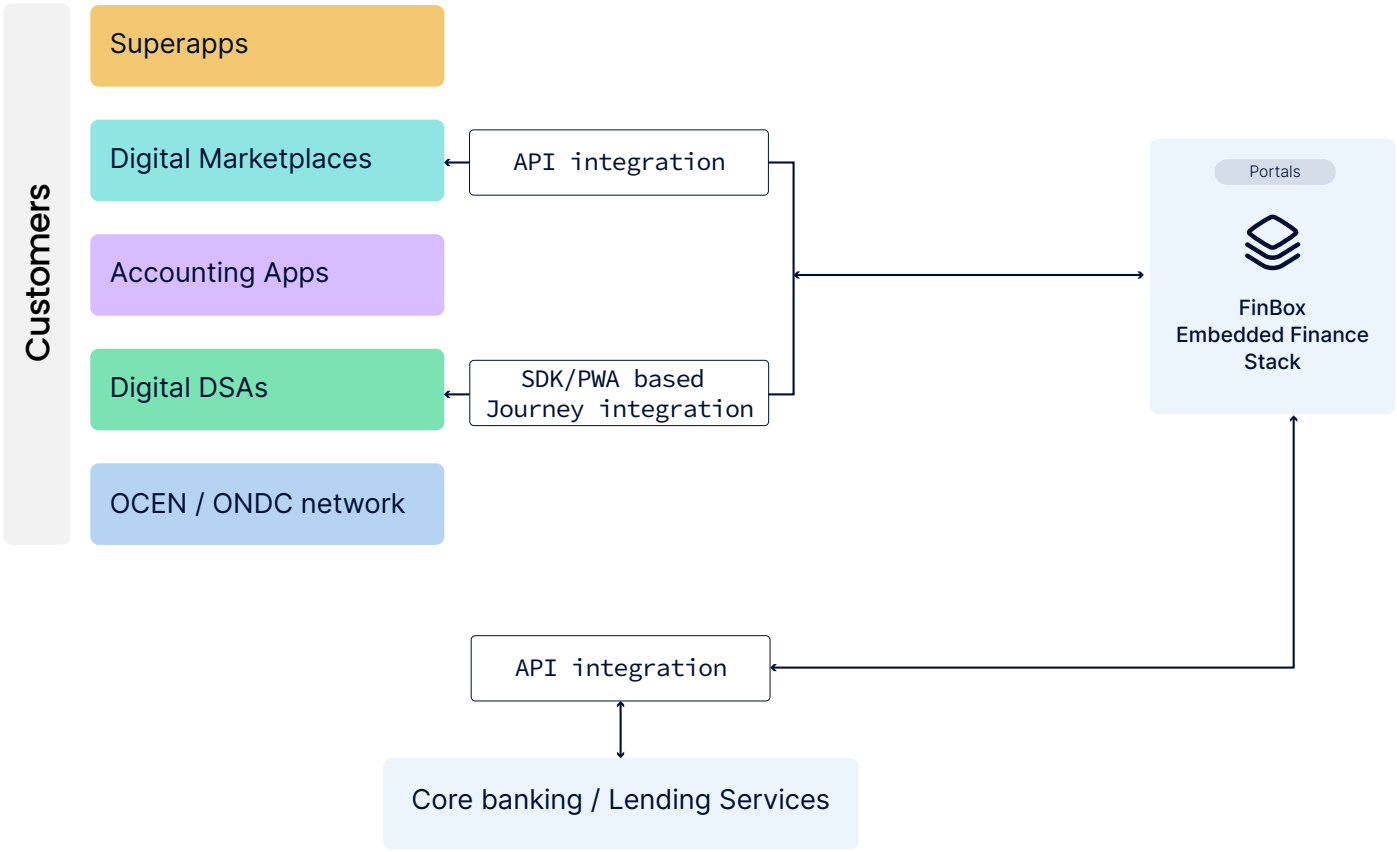
DSAs – Andromeda, My Mudra, Loanstreet etc.
Lead-gen
Rejected leads passing
Small digital platforms

Introducing FinBox Partnership Lending Stack 2.0

Partnership lending and embedded credit is likely to hit the $124 billion mark globally this year. In India, more than 30% of customers surveyed by VISA reported having used embedde credit services in the past three months.

The partnership lending ecosystem is composed of a wide gamut of service providers, e commerce platforms, super apps, neobanks, BaaS platforms and other financial services apps and websites that will seek to embed financial products in their ecosystem.

Discover and unlock new growth opportunities with FinBox's Partnership Lending Stack. It's your gateway to faster onboarding, smarter integrations, and scalable lending programs. The Partnership Lending Stack unifies partner discovery, onboarding, and management on a single platform. It delivers automated workflows and real-time insights to scale lending partnerships efficiently. Cut partner onboarding time by 50% with pre-configured workflows and templates. At the same time, streamline your lending partnerships with automated onboarding and customizable integrations. Scale your ecosystem while maintaining complete control and compliance.



How to find the right partner

Well begun is half done, they say. And when it comes to partnership lending, finding the right set of partners – both for lenders and platforms – is the biggest indicator of success. Hence, it's also one of the crucial challenges because everything right can go wrong with a misfit partnership while a great partner can fuel even middling programs to become innovative and cutting-edge as partners work in lockstep to match each other's standards.



Platform and borrower profile

- Credit profile - Prime, near-prime, subprime
- Activity - Vintage, recurrence, other touchpoints
- Serviceability – Location, funding demanded, repayment modes etc.

Scaling potential

- New customers/acquisition loop
- Repeat visits
- Ability to do progressive lending – upsell/cross sell

Strategic and technological alignment

- End use control/monitoring of funds
- Existing partnership framework/APIs integration
- Reporting and compliance velocity
- Repayment help – field agents, cash flow control, cash flow visibility (QRs)
- In-house risk and customer support teams

Banks should anticipate risks that could arise from problems with customer service, product delivery, technology failures, inadequate business continuity, and data security breaches.

Partnership ecosystem in Indian fintech is evolving fast

There are multiple levers on which lenders and FinTechs can evaluate their fit for a partnership-based lending program.

Embedders

Brands embedding FS in their CX acting as user touchpoints

Enablers

Tech companies providing apps to link embedders-providers for exchange of data and services

(BaaS, credit, money movement, data security, complliance, data verification and data insights)

Customers

The end users of embedded services

Providers

Banks and FIs providing the financial products/services and hold licenses for the same

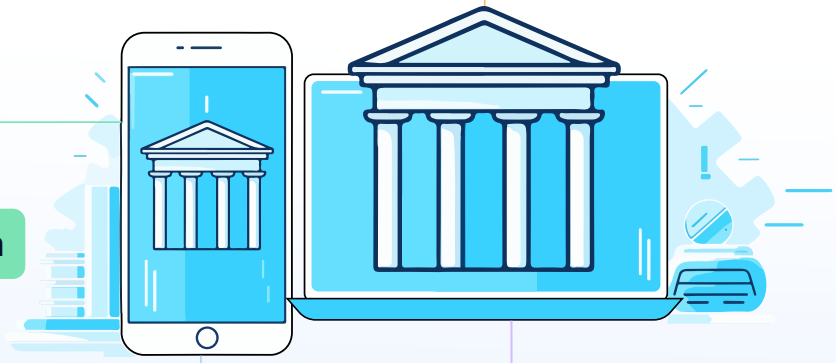
(BNPL, lending, investing, payment, banking and insurance)

Federal Bank

- Jupiter
- DigiVriddhi Tech
- OneCard
- BharatPe
- Rupeek
- Fi Money

SBM Bank India

- Open
- ZestMoney
- Niyo
- OneCard
- LazyPay
- PostPe
- Uni
- StashFin



Equitas SFBs

- Niyo
- Neokred
- Groww

RBL Bank

- Uni
- Tide

Onboarding and optimisation

Once you have found the right partner, it's crucial to be able to onboard them and launch the program quickly. Speed is of the essence because lending programs often need time and patience to mature and start showing results – hence, the opportunity cost of a delayed go-live is quite high.

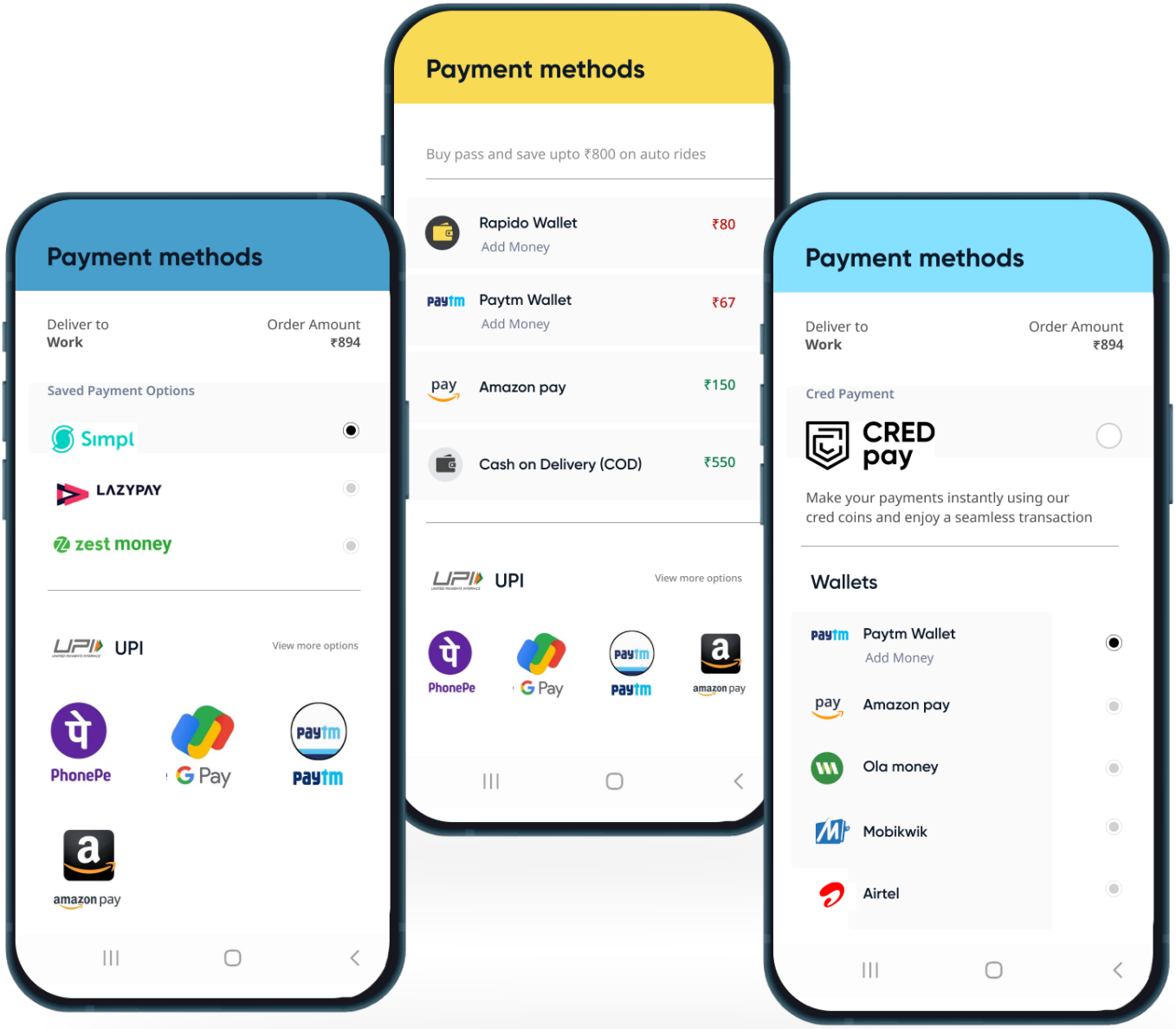
Quick onboarding of partners requires a technological heavylift in terms of API integration, merging lender systems with that of partners, integrating third-party APIs for services like KYC etc as well as a whole host of business systems including MIS, compliance, product journeys and more.

> Typically for BaaS, API & white label services (Seamless embedding of customer journeys within the partner's platform using flexible APIs) are widely used as mode of integration. In addition to these, HDFC bank also relies on 'Redirection mode, where users are redirected to HDFC Bank platform, with partners' credentials securely embedded in the process to facilitate authentication & transactions. This ensures seamless user experience & minimal system development at partner's end as well as bank's end.

Abhijit Singh, Group Head
Banking as a Service(BaaS), International Banking and Digital Ecosystem Banking,
HDFC BANK
We understand your world



At FinBox, our stack allows a swift go-live by integrating partners in a week or less with minimal bandwidth required at both the lender and the partner's end. This is made possible through our full-stack approach along with a modular stack that's infinitely scalable and customisable. Hence, it reduces iteration time and moves a program out of the sandbox and into the real world super quickly.



After onboarding comes the hard part of product, program and policy customisation. We call it the 3 P framework. Essentially, it's the step where the product is customized, policy tweaked, underwriting flows set up as well as the entire ecosystem around the program is built.

For instance, if a lending NBFC is partnering with a second-hand car platform to provide vehicle financing loans – it might need to tweak its existing auto loans to take advantage of the existing customer data on the platform. Additionally, it could tweak its loan product itself to match the platform's core propositions i.e. a car loan could be given with instant approval to customers who have purchased a vehicle on loan from the platform in the past.

In some cases, this kind of tweaking can also be coded inside the policy engine (such as FinBox Sentinel) to build dynamic workflows depending on the customer persona. For instance, a lender utilizes Sentinel to reduce the fraud checks for users affiliated with the same company as the platform.

1. **Custom policy configuration**
2. **Custom fraud checks**
3. **Partner ecosystem data**
4. **Configuring the product construct across size, tenure, repayments**
5. **Drop-off management through timely nudges, custom communications and field agents can do manual/physical follow ups**

Stages of nurturing a lending partnership

1 Set up

Build a personal loans journey utilizing core system functionality, set up a partnership team to drive operations and product, integrate the first partner using an API sack. Set up risk, fraud and underwriting workflows segregated by channel, segment or profile of partners

2 Show up

Go live and scale partnership while building robust monitoring and compliance. Build configurability into the stack to discover and onboard new partners quickly to grasp budding opportunities

3 Scale up

While scaling up, ensure that your stack is flexible and responsive to market and demand flows. This means ensuring configurability at a policy level, partner level, and funnel-level to tighten or relax the flow of applications to ensure seamless balancing of risk with distribution.

Acquisiton

- Digital-only interaction with minimal effort
- Digital identity verification removes key drop-off points in traditional journey

Underwriting

- Alternative credit decisioning models, improve model efficiency and remove dependency on physical documentation, thus crunching TAT

Disbursal, servicing & engagement

- Digital engagement through mobile apps
- Seamless real-time repayment and foreclosure through digital channels

Recovery

- Advanced analytics and AI/ML solutions for comprehensive portfolio monitoring, EWS and collections

HDFC Bank's BaaS Playbook



Abhijit Singh, Group Head -

Banking as a Service(BaaS), International Banking and Digital Ecosystem Banking, HDFC BANK

We understand your world

What are the primary hurdles in continually optimizing the partnership lending journey?

Integration with partners is a complex process for banks. Key Challenges include:

- Regulatory complexities due to frequent changes & multi-jurisdiction compliance from RBI on various fronts like data privacy laws, DLG, KYC, AML etc.

- Tech integration can be challenging due to legacy systems or a lack of interoperability between the bank's and the partner's systems. Real-time data sharing and decision-making depend on robust APIs and infrastructure, which may not always be available. Additionally, siloed data often hinders the ability to gain a comprehensive view of the overall state of affairs.

- Data Security risk in sharing sensitive customer information. It needs establishing clear protocols for data ownership, usage & data sharing.

- Customer experience to ensure seamless processing across all partners to avoid friction at multiple levels of interaction, while maintaining consistent offerings and experience across all partnerships

HDFC Bank's BaaS Playbook

Monitoring & handling change management needs to be done at multiple levels

Integration with partners is a complex process for banks. Key Challenges include:

- Key Performance Indicators (KPIs): Tracking system updates, API response time, customer onboarding TAT & Transaction processing TATs needs to be carried out. Any deviation in the same attracts immediate action

- Feedback Loops: Inputs from stakeholders, partners & customer needs be recorded & actions regularly. Development feedback mechanism with various stakeholders is an absolute necessity. It helps with real time insights to identify bottlenecks & pain points

- Performance Dashboards: Dashboards to be developed to monitor real time system & change impact. It will be good tool to monitor business as well as system level performance

- Periodic Reviews: We have periodic reviews to monitor all change parameters & to measure the impacts of changes implemented. Frequency of review may vary basis the intensity. Reviews are also done to reassess the strategies

- Training & Communication: Changes implementation will result in failure if not communicated correctly to the last person in the chain. Hence, HDFC Bank follows periodic training calendar.

The challenges

Why bank-platforms partnerships face a rocky road

Despite the significant potential, the partnership-based lending space has encountered setbacks, as one partner bank after another hit regulatory snags, leading to the suspension or scaling back of operations over the past year.

For example, Kotak Mahindra Bank, which relies heavily on partnerships—having onboarded 312 partners across lending and payment products—was hit with a regulatory embargo due to IT infrastructure issues. This forced the bank that does 95% sales online to scale back its partnership-driven initiatives and shift its focus back to expanding its physical branch network to offset curbs on digital operations.

This issue is not one-sided. Multiple fintech partners, such as PhonePe, which leveraged Yes Bank’s API banking, felt the impact when the Reserve Bank of India (RBI) intervened in the bank's operations back in 2020.

However, the challenges extend far beyond regulatory scrutiny. In fact, looking at a more mature BaaS market like the U.S., about 40% of bank partnerships fail to operationalise, primarily due to ineffective strategies, scalability issues, and poor organisational alignment, according to the EY-Parthenon 2022 U.S. Banking Strategic Partnership survey. Below are the key challenges that continue to impact the partnership-based lending ecosystem.

Discovery & collaboration barriers

Despite having the resources to identify, vet, and enter partnerships, large financial institutions suffer a combination of structural, cultural, and technological challenges that makes identifying, mapping, operationalising and scaling partnerships difficult. Conversely, non-banks might find it difficult to navigate the regulatory complexities and scale required for partnering with larger financial institutions, leading to missed opportunities on both sides.

Often, after dedicating time and resources to integration, lenders discover a significant lack of customer overlap, revealing the need to build an entirely new market, which leads to stagnation and conflicts in revenue sharing arrangements.

Mismatch in risk appetite

Banks are traditionally risk-averse and prioritise asset quality, while FinTechs and non-banks often focus on speed, innovation, and expanding credit access to underserved segments. These conflicting approaches can lead to disagreements on credit risk frameworks.

Customer journey conflicts

Non-banks often prioritise customer-centric digital experiences, while banks may insist on additional checks that elongate the process, leading to friction in the end-to-end customer journey design

Regulatory and compliance complexity

Banks operate in a highly regulated environment unlike non-banks. Bridging this gap requires careful compliance alignment, especially around data sharing, underwriting standards, and KYC norms. Differences in regulatory scrutiny can create friction, as banks are wary of partnering with LSPs or other third-party players—who might expose them to non-compliance risks.

Operational Challenges

Banks face operational challenges in managing partnerships and aligning them with strategic goals. These include a lack of a centralised system for tracking relationships, limited opportunities for workflow optimisation, and insufficient analytics for informed decision-making. Additionally, complexities in data management & compliance documentation and inconsistent UI/UX across partner platforms further hinder partnerships.

Scalability challenges

The lack of standardized processes for key partnership frameworks—such as underwriting models and API integrations—hinders scalability. Financial institutions struggle with everything from onboarding new partners, aligning operational & commercial needs, to adapting policies & journeys as the ecosystem evolves.

Integration Challenges

Embedded credit requires seamless integration between the bank's core systems and the non-bank's technology stack, which is often a complex and time-consuming process.
A smooth developer experience—involving clear documentation, access to an API sandbox, ready-to-use SDKs, and code samples — are crucial to enable efficient integration and reduce time-to-market for embedded credit solutions. This is a major challenge, which explains why the average timeline for onboarding a new partner range between seven and 18 months.

BaaS platforms:
The backbone of embedded credit ecosystems

While the embedded credit ecosystem holds immense potential, its success and scalability largely depend on strong partnerships between lenders and LSPs.

Lenders contribute capital, underwriting expertise, and regulatory knowledge, while LSPs excel in customer engagement, utilizing data to personalize credit offerings for end-users.

Despite their complementary roles, differences in operating models, technical infrastructures, and priorities can complicate collaboration.

To overcome these challenges and drive successful partnerships, a middle layer—typically provided by Banking-as-a-Service (BaaS) platforms or LSP Marketplaces—becomes essential.

This layer serves as the connector, ensuring three key outcomes:

A seamless borrower experience that does not compromise on risk.

Full control for regulated entities through a control plane that makes operations visualisable, synthesisable, and debuggable, enabling real-time oversight and adaptability.

A secure, efficient, and scalable credit infrastructure.

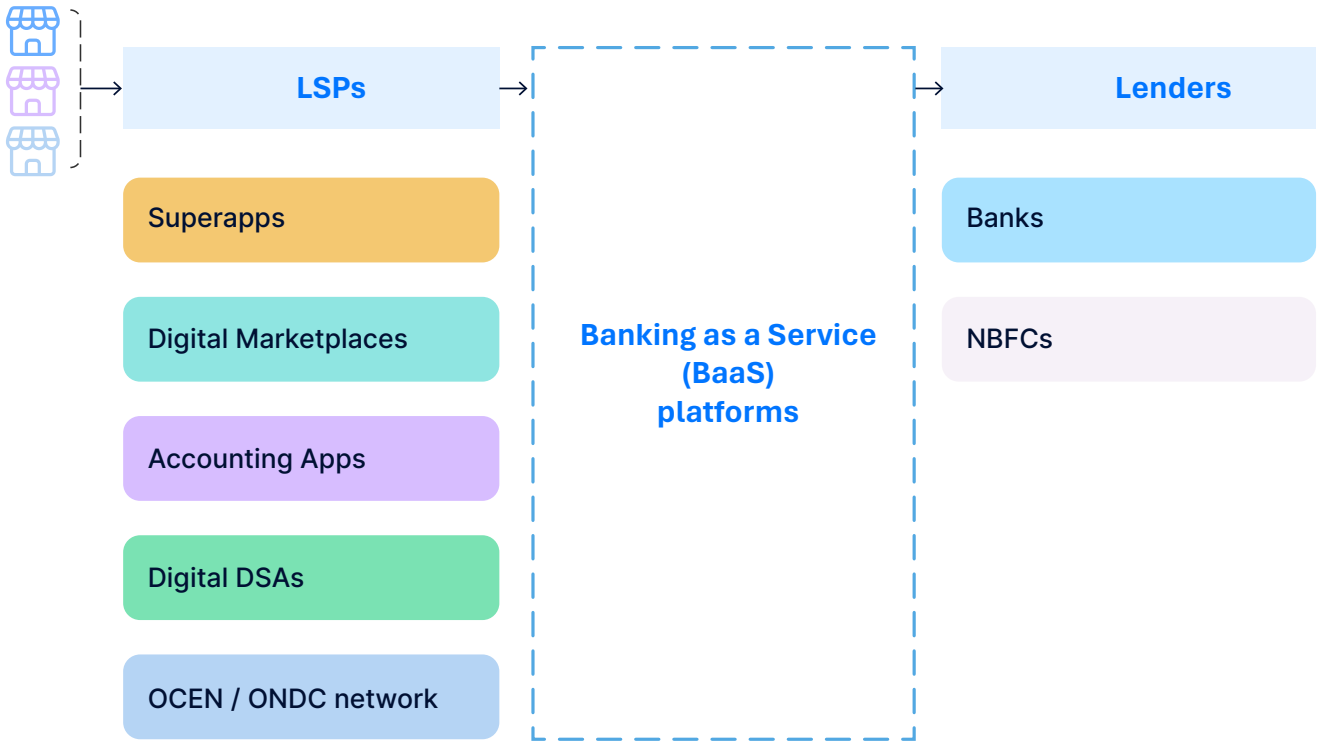
Streamlining discovery, evaluation, and onboarding processes

BaaS platforms act as marketplaces or aggregators, helping banks and LSPs discover partners that align with their business goals, technical capabilities, and compliance requirements. By facilitating this matchmaking, these platforms reduce the friction of forming partnerships in a crowded ecosystem. Here's how:

Diverse network

BaaS platforms provide lenders access to a wide variety of LSPs, from those following a Direct Selling Agent-driven model to large-scale marketplaces. This diversity offers flexibility for lenders to choose partners based on their specific needs—whether they require niche service providers or broader, established platforms with a large user base.

For LSPs, being part of such a network offers access to multiple lenders, enhancing business continuity, especially when regulatory actions impact individual banks/NBFCs. oviders or broader, established platforms with a large user base.



Reliability

For LSPs, being listed on these marketplaces enhances credibility and provides access to a broad network of lenders. For lenders, these platforms offer the advantage of leveraging existing integrations, proven use cases, and market-tested solutions from established partners, reducing the time and risk associated with forming new partnerships.

Mapping and testing capability

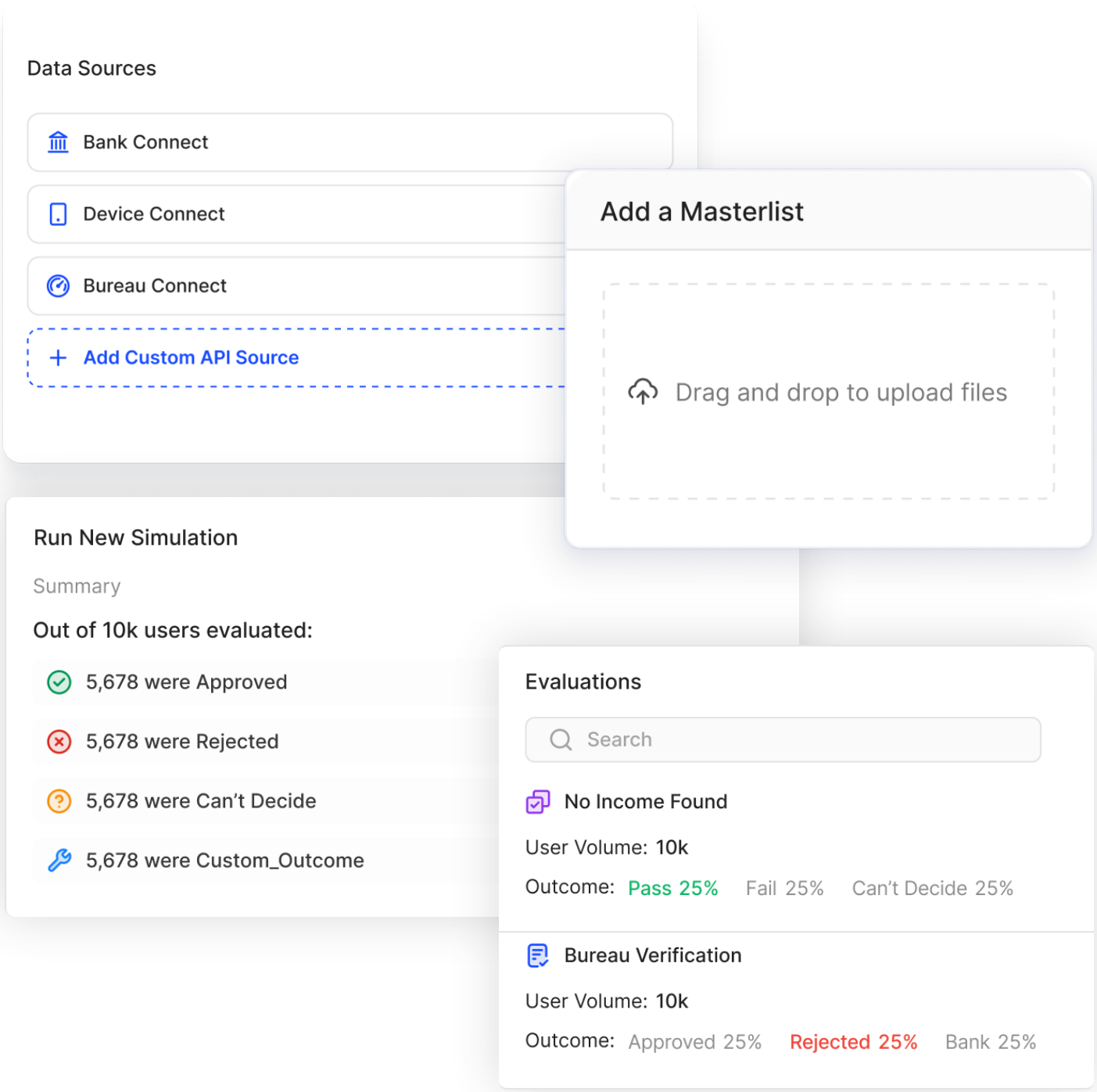
Modern BaaS platforms offer a sandbox environment that helps both lenders and LSPs simulate real-world scenarios before committing significant resources to integration. This pre-integration preparation ensures that both parties can make informed decisions and streamline their collaboration.

For example:

Test API Functionality:
Both parties can validate how how the APIs perform and interact with their systems

Assess Customer Overlaps:
Lenders and LSPs can evaluate whether their respective customer bases align, enabling better targeting and market segmentation

Model new product opportunities:
Together, they can experiment with potential offerings and identify whether new products or services are needed to meet customer demands, helping both parties identify growth areas



Ease of Integration

By offering plug-and-play APIs and developer-friendly tools (comprehensive documentation, API sandbox, SDKs and code samples), BaaS platforms eliminate much of the technical complexity involved in integrating diverse systems, accelerating the discovery-to-onboarding timeline

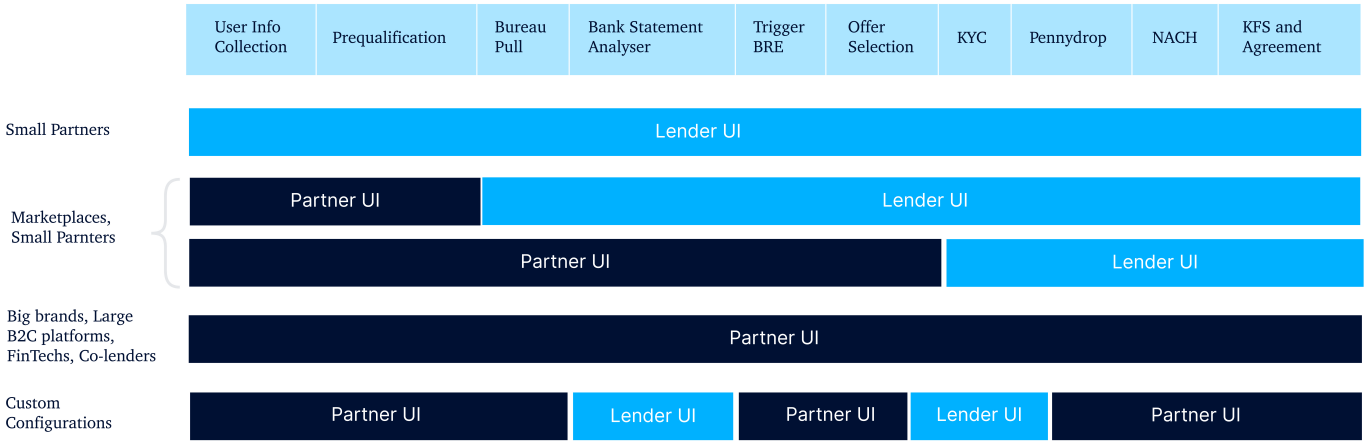
The great balancing act: risk management vs borrower experience

Banks' risk concerns and LSPs' focus on customer experience often create friction in embedded credit ecosystems. Banks require extensive validation checks that add friction to the borrower journey, raising concerns for LSPs.

BaaS platforms can bridge this gap by delivering solutions that equip lenders to easily integrate a range of data sources into streamlined, plug-and-play workflows. For example, to verify employment for salaried borrowers, only two inputs, say a phone number and business email can trigger a series of checks—UAN validation, MCA company verification, EPFO status check, domain authentication, and email validation—all without adding extra steps for the borrower.

This approach alleviates lenders' risk concerns while maintaining a smooth customer experience, enabling both parties to collaborate effectively.

Flavors of Partnership



Enabling lender oversight through operational visibility

For sustainable embedded credit partnerships, lenders need to go from being only the back-end rails to actively owning the borrower experience. BaaS platforms can make this happen by equipping lenders with a robust control plane that make lending operations visualisable, synthesisable, and debuggable. Here are the key elements that could enable this:

- An integrated, end-to-end view, streamlining partner management and enabling efficient coordination between sales, operations, RCU, and credit teams throughout he lending process
- Real-time visibility into partner performance, compliance, and funnel efficiency, enabling them to derive detailed insights into key operational metrics
- Real-time alerts that notify lenders of anomalies such as funnel drop-offs, ompliance discrepancies, or API downtimes, allowing for prompt corrective action to maintain operational integrity
- Programme controls within the platform allowing lenders to seamlessly activate or deactivate programs directly from the dashboard
- Actionable insights to enhance loan programme performance and facilitate segmentation and personalisation of borrower journeys
- Ability to adjust journeys and policies dynamically—without the need for coding—enabling rapid alignment with partner expectations.
- Ability to implement flexible pricing models across partners, customised to individual terms of agreements

Characteristics of a successful partnership implementation

Super Quick Go Live

Digital Partnership platforms like FinBox PL Stack 2.0 enable going live with the business in weeks rather than months. It comes pre-packaged with loan journeys for multiple loan products, built-in credit underwriting frameworks, and deep-dive operational dashboards. The only things to iron out are agreeing on the contract and financials.

Going live without a hitch is hence, super quick and crucial to even quicker iterations that ultimately lead to success.

Lower Risk

Partners bring along rich data about the borrowers, for instance payroll providers bring data such as tenure of an employee, employee performance rating, leaves in the last 30-90 days, incentive earned.

Combined with alternative data, this additional information helps build highly effective credit scores which reduce risks up-to 50% compared to similar loan portfolios.

Quick Scale-up

Partners use their tried and tested communication and marketing channels to market your credit products leading to quick scale up of operations. In addition, prior existing data of the partners powers creation of pre-qualified loan offers which are easy to convert.

Higher Cross Sell and CLV

Pre-existing customer information, high engagement combined with multiple available touch points on the partner's digital platform boosts cross sell rate by upto 50-80%. This leads to an appreciable increase in the lifetime value of the customer.

Defining success metrics that are objective and clear is most critical for any successful lending partnership. It must be determined right at the beginning of the collaboration, reviewed periodically, and be fully aligned by lending institutions and fintech at all times. For banks, compliance comes first and then risk and here there is no scope for compromise and we expect the same from our Fintech partners. There can be no success in partnership if there is any issue pertaining to compliance and compromise on predefined risk parameters.



Vijayendra Sharma,
Head of Digital Banking (Retail) & Marketing,

Ensuring success in partnership

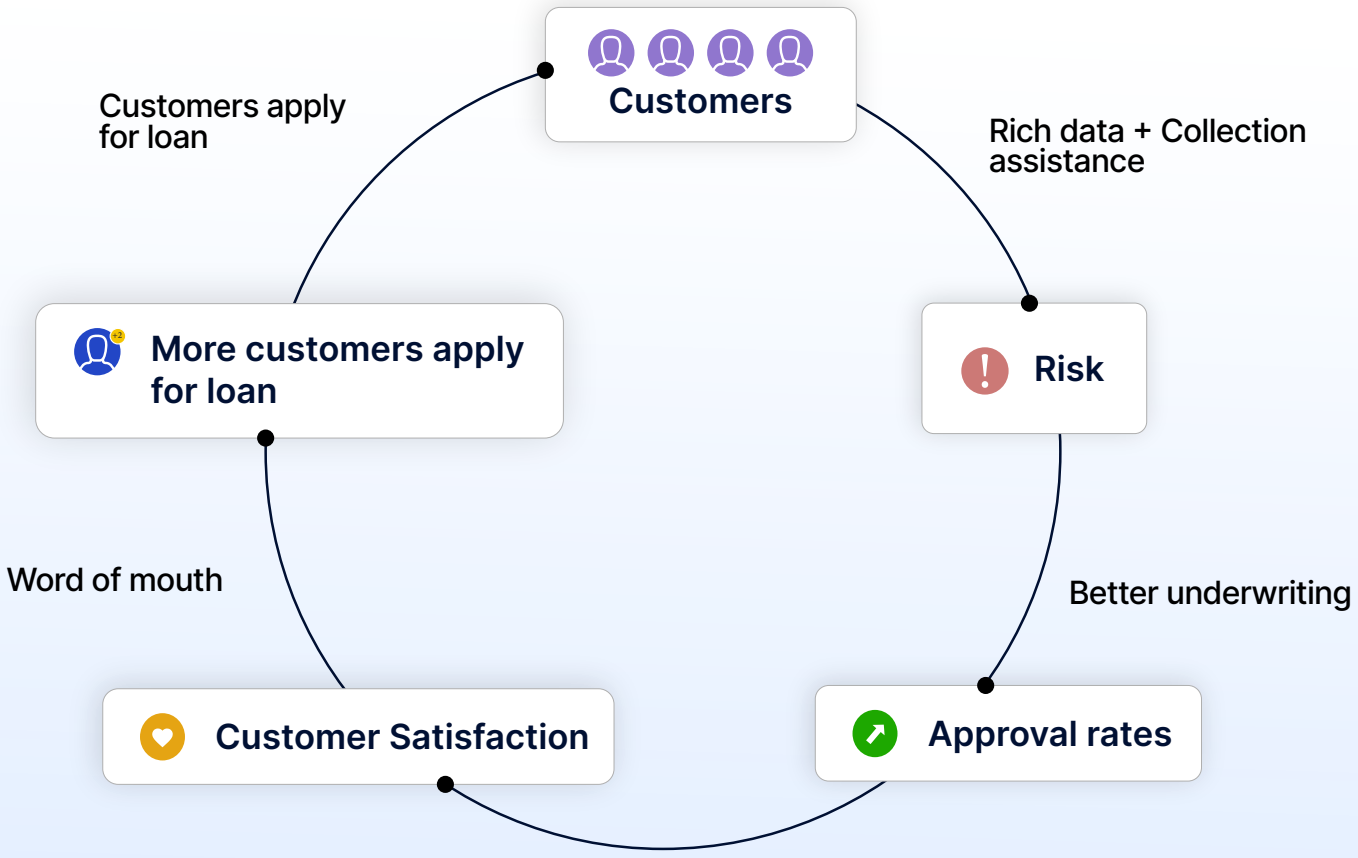
Understanding Partner's Success Metrics

While most lenders go for a partnership-driven strategy to boost their total book size and spread the reach of their credit programs, it's important to keep in mind that with scale comes in additional vulnerability since borrower pools on each platform might be very different in terms of intent and ability to pay.

The partnership platform can help align these expectations and works to smooth out every hitch on priority – be it technological or business-related.

Experience in the Partner's Market

While partnership management platforms can help understand the parameters of the portfolio built from a particular partner's population, it always helps to understand the partner's market from prior experience. For example, the mechanics of working capital loans to self-employed retailers are personal loans to blue-collar workers



Reinforcing effect of a successful partnership

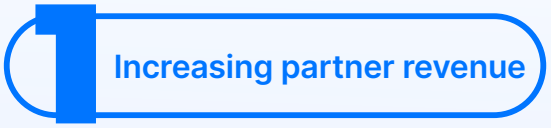
Understanding the importance of cooperation

It's called a partnership for a reason! A smoothly running partnership has a self-reinforcing flywheel effect, i.e. when approval rates are rising and borrowers are getting best in market products and unbeatable convenience, the partner platform benefits tremendously, it captures market share thereby bringing more and better-quality borrowers further reinforcing the partnership. It is important for both partners to work well operationally and set up check-ins from time to time, to discover and address any problems, pain points or issues.

Offering value to your partners

A key tenet of partnership-based endeavors is ensuring mutual benefit and growth for both the lender and the partner platform. While we've delved deeply into the benefits lenders can reap by forging high-quality partnerships, it's extremely crucial that partners also derive medium and long-term benefits from doing the legwork of these partnerships.

There are certain ways in which lenders can ensure that partner platforms derive equal value from such alliances. This is necessary to ensure that partnerships are meaningful, sustainable and don't go through the fear of ceasing every time something goes off-track.



Partners in a lending alliance do it to introduce credit as an offering and meaningfully become a more significant bottom-line business. Lenders can help them get there by ensuring that they offer customized products that help wider adoption with the platform's audience. They can also offer top-up loans or end-use-based credit, which can increase transactions on the platform itself, thus assisting the partner in growing their core business, too.

2 Collaborate on margins and pricing

One of the more effective ways to ensure partnership sustainability is to give more than you can take. This means that lenders that win in this game are often the ones that work in sync with their partners to customise rates, margins and other charges. It can sometimes look like waiving off certain minimum guarantees or reducing margin on one product if the platform is ripe for scale in the same.

3 Co-marketing and customization at scale

Be it co-branded cards, working capital loans or even personal loans on a FinTech, a lot of success in partnership-driven lending comes from aligning marketing efforts and customizing the same for each platform.

Lenders should individually pay attention to partner platforms and understand their customer persona, profile, and pull. This can help customize messaging, offerings as well as acquisition. Built this way, the new customer relationships generated turn out to have higher retention, customer lifetime value, and expand more meaningfully over time.



Data protection and consumer privacy in API banking

As data sharing between organizations intensifies, APIs are facing a higher risk of data breaches. The rapid expansion of APIs has given rise to shadow and dormant APIs, which significantly increase the risk of unauthorized access to sensitive data. This growing vulnerability has made APIs a prime target for cyberattacks, especially public APIs that expose private consumer information to external parties.

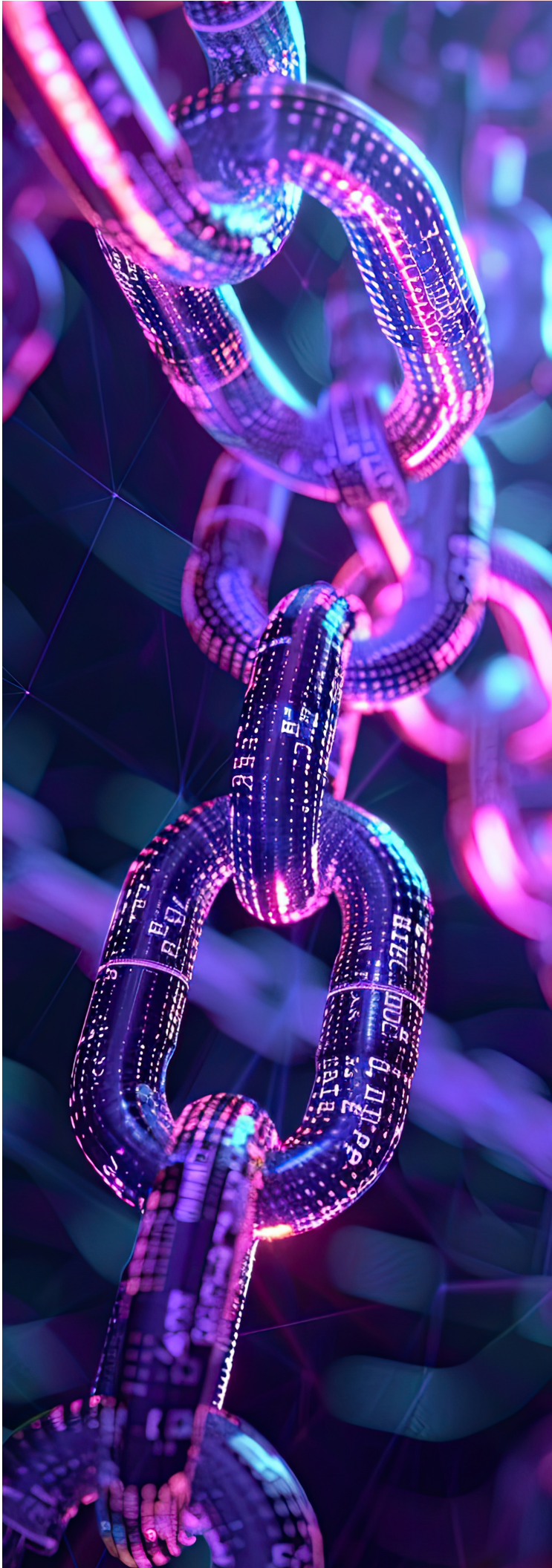
Despite regulations like the Digital Personal Data Protection (DPDP) Act 2023, RBI's Master Guidelines on IT Outsourcing and Digital Lending, and its Cybersecurity Framework for Banks, the risk of private data leakage through public APIs remains significant. This is because there's a gap between the requirements of privacy law and capabilities of data systems.

To effectively integrate data protection principles into technical architectures, organisations need to adopt specific systems and practices. A key challenge is the absence of comprehensive governance tools, which makes it difficult for lenders to assess whether systems are handling data according to policy requirements. For partnerships to sustain and scale, BaaS providers must find ways to equip regulated entities with data control, provenance, lifecycle oversight, and accountability tools for managing personal data according to legal frameworks and institutional commitments.

A critical cybersecurity practice for protecting sensitive data is Data Leakage Prevention (DLP). This strategy focuses not only on identifying data leaks but also on preventing unauthorised access to consumer information, ensuring compliance with privacy regulations.

To implement DLP effectively, one approach is to scan API traffic in transit without adding latency. BaaS platforms can either integrate DLP tools that bundle with other API security features or build in-house solutions to detect data leakage. Another effective technique is API drift detection, which continuously monitors API operational states, identifying any deviations from expected behaviour and pinpointing areas where data leakage might occur.

Furthermore, BaaS providers can play a pivotal role in driving the adoption of consent frameworks, such as the Account Aggregator (AA). For example, we have seen adoption rates of AA increase to 70%, significantly surpassing industry benchmarks, by enabling rapid iterations to optimise the borrower journey. Scaling the adoption of AA ensures that sensitive data is shared securely and responsibly, fostering greater trust between consumers and service providers.



How partnerships power loan product innovation:

The curious case of Equated Daily Installments (EDI)-based credit

One of the biggest challenges in providing timely funds to MSMEs is the lack of reliable and consolidated data for underwriting. With over 70% of these enterprises being unincorporated, they cannot be traced to formal data sources like GST or income tax records. QR code payment platforms, however, offer a unique solution to bridge this data gap.

These platforms—used by small businesses such as kirana stores and street vendors—hold a treasure trove of transaction data, giving lenders access to a ready user base that needs credit. This partnership not only solves the high origination and under-writing costs but also addresses a previously unsolved problem—collections.

Strategic control over collections

Payment providers are uniquely positioned to maintain control over collections. Money transacted via QR codes sits in virtual accounts, allowing lenders to automatically debit overdue amounts from borrowers' accounts before reconciliation at the end of day, once sufficient funds are available.

The advantage of the virtual account system is its seamless integration with automated debt recovery, which drastically reduces collection costs. For example, if lenders were to use eNACH instead, the cost of collections would be **7.5X higher due to interchange fees and penalties for failed transfers.**

Catch delinquency early on

The daily repayment structure inherent in EDI-based loans helps lenders identify defaulters early on. Early warning signals can be detected well in advance, as lenders don’t have to wait an entire month to know whether a borrower will renege on the payment. This significantly improves risk management, making EDI a more predictable and reliable form of lending.

Key insights from the Muthoot FinCorp ONE experience

Overview

- Muthoot Fincorp wanted to diversify its offerings into the MSME space
- It wanted to partner with QR based payment platforms such as PhonePe PayTM, and BharatPe to launch EDI loans
- Muthoot Fincorp built smart underwriting policies and needed the technology capability to lend to 100 million merchants

Overview

Muthoot Fincorp needed a technology stack that could:

- Enable it to onboard customers for EDI loans
- Allow it to scale across the top payment platforms
- Provide control to manage collections easily

Solution

Muthoot Fincorp adopted FinBox EDI Stack and FinBox Partnerships Stack that helped it to :

- Launch STP customer onboarding journeys across top QR payment platforms
- Manage and scale the EDI program, including drop-offs management, reporting, compliance, etc.

Impact

(2024-2025)

User acquisition

Median growth ranging from 30.4% to 52.4% across platforms

Third-party certifications

Daily settlement helped Muthoot achieve significantly lower NPA

Privacy-preserving technology

Growth ranges from 120% to 300% across platforms

Faster GTM

Launched STP journey in less than 6 weeks

Approval rates

Median growth in approval rates ranged between 60-85% across platforms. This indicates how high-quality data such as transaction data can help with targeted marketing — better segmentation and ensure timely delivery of credit products as per need.

Quick policy iterations

Deployed a total of 31 policies across 3 partners in one year

Lower CAC

Median growth ranging from 30.4% to 52.4% across platforms

Conclusion

Through our experience working with multiple lenders and LSPs, we've identified that the biggest obstacle in bank-LSP partnerships is the BaaS infrastructure. The first crucial step is the productisation of integrations. Additionally, a BaaS provider plays a vital role in solving challenges around partner management and optimization. While these infrastructure-related solutions are critical, it's equally important to address pre-integration challenges. Although these might seem secondary compared to the larger infrastructure hurdles, enabling access to the right partners and aligning synergies before integration ensures that you're laying a strong foundation rather than rushing ahead prematurely. Hence, there's a need for BaaS providers to double up as LSP aggregators.

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Abbreviations

- BaaS: Banking-as-a-Service
- API: Application Programming Interface
- NBFC: Non-Banking Financial Company
- LSP: Loan Service Providers
- AOV: Average Order Value
- CLTV: Customer Lifetime Value
- CAGR: Compound Annual Growth Rate
- PSB: Public Sector Bank
- SFB: Small Finance Bank
- DRE: Data Room Exercise
- DSA: Direct Selling Agent
- GST: Goods and Services Tax
- B2B: Business-to-business
- B2C: Business-to-consumer
- SME: Small and Medium Enterprises
- RBI: Reserve Bank of India
- KYC: Know Your Customer
- AML: Anti-Money Laundering
- SDK: Software Development Kit
- UI/UX: User Interface/User Experience
- UAN: Universal Account Number
- MCA: Ministry of Corporate Affairs
- EPFO: Employees' Provident Fund Organisation
- RCU: Risk Containment Unit
- DPDP: Digital Personal Data Protection
- DLP: Data Leakage Prevention
- AA: Account Aggregator
- EDI: Equated Daily Installments
- QR code: Quick Response Code
- eNACH: Electronic National Automated Clearing House
- STP: Straight-Through Processing
- NPA: Non-Performing Asset
- GTM: Go-to-Market

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