



MSME Finance:

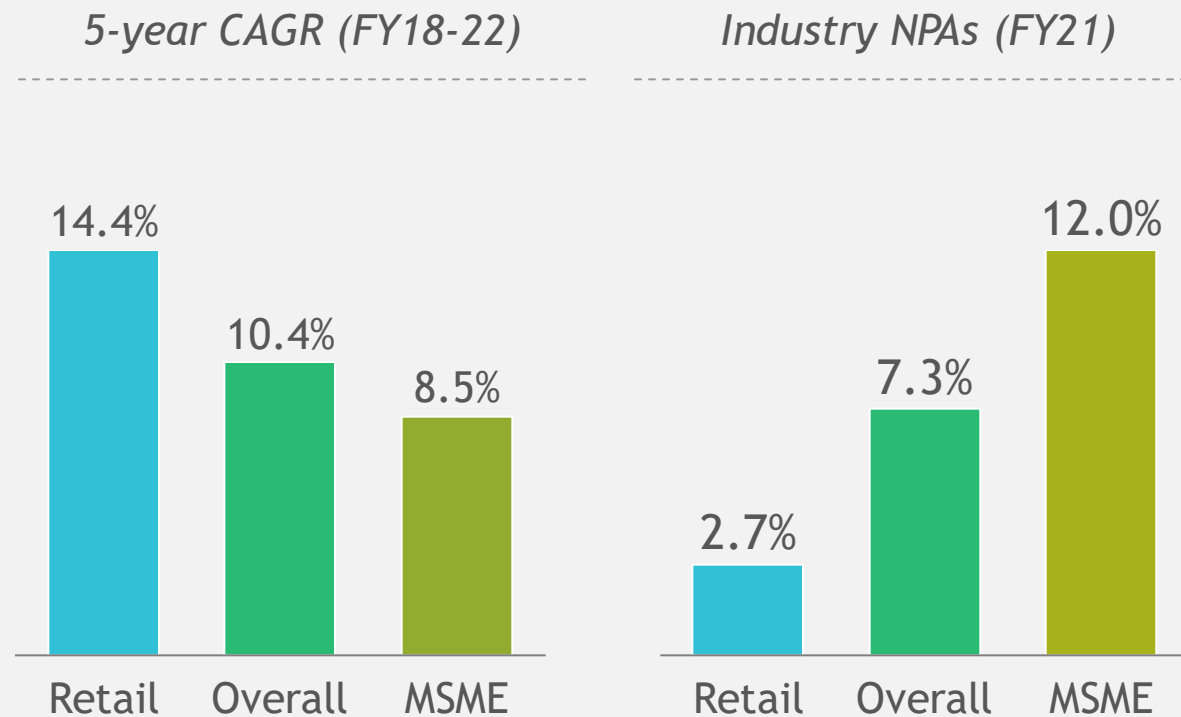
How the banking industry can enable small enterprises to create a big impact on the economy

FIBAC Presentation

NOVEMBER 3, 2022

MSME credit remains under-penetrated

MSME credit has been challenging



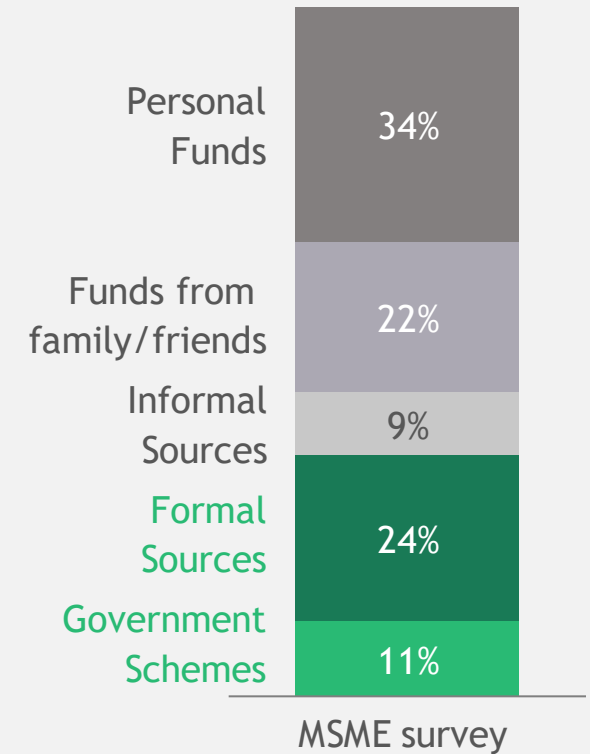
High reliance on informal funding

of MSMEs in India

60Mn+

MSMEs with Formal credit

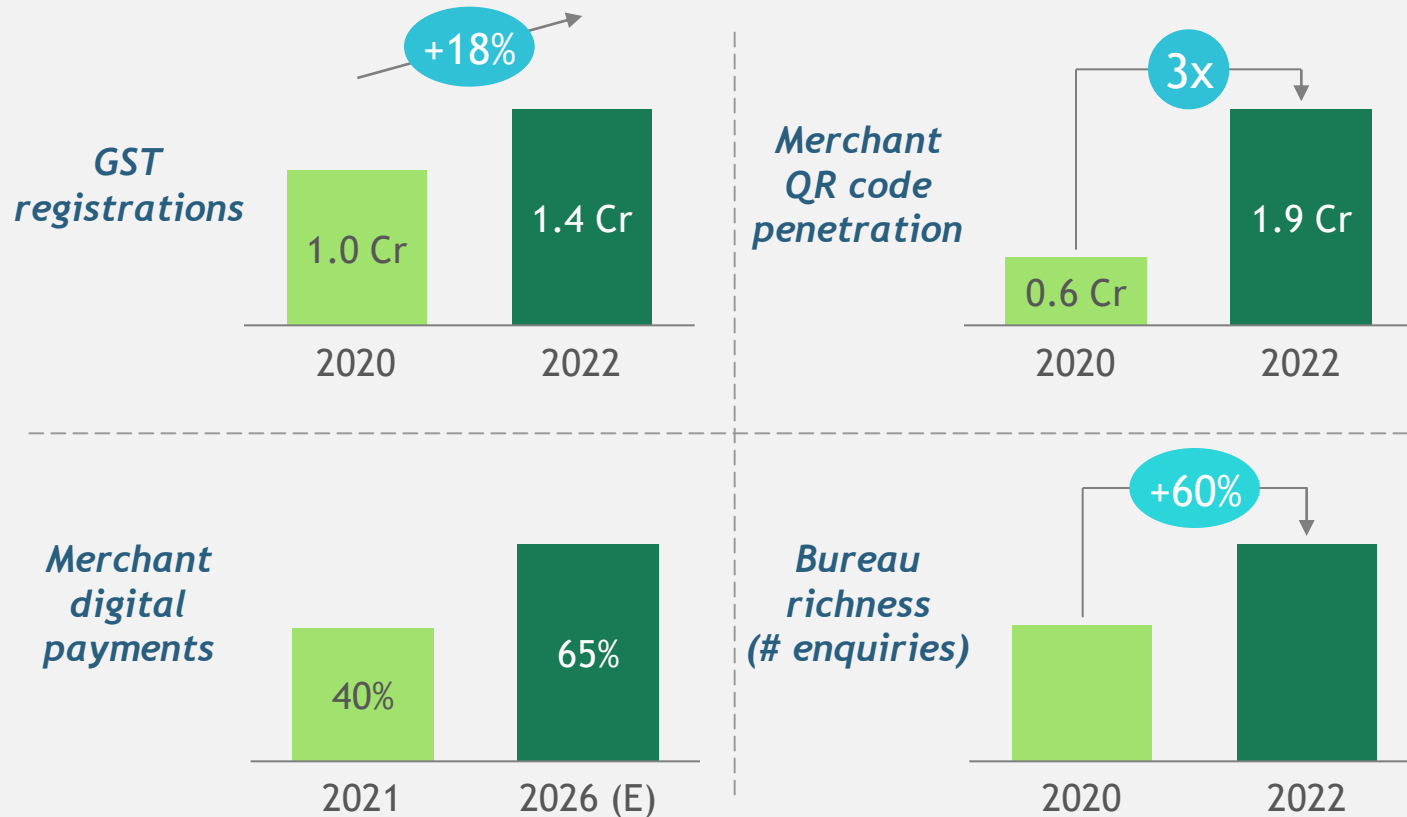
15-20Mn



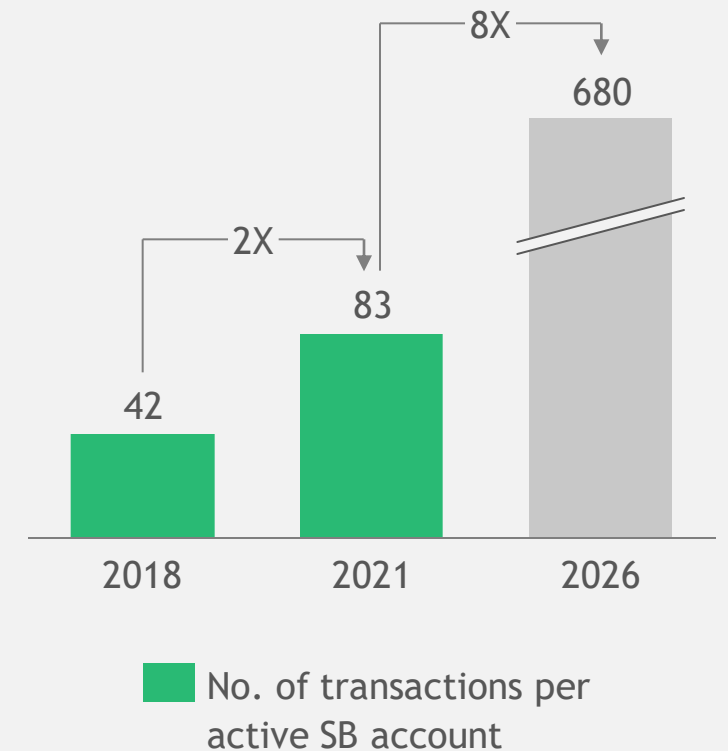
1. Overall NPA figure is based on all scheduled commercial banks in India as disclosed in their financial results
Source: TU CIBIL - MSME Pulse Aug'22, Oct'20, Jan'20, BCG MSME Survey 2022 - 1000+ MSMEs

Structural changes enabling formalization of MSMEs

Rapid digitization of MSMEs



Bank statements will become “thick files” for credit appraisal



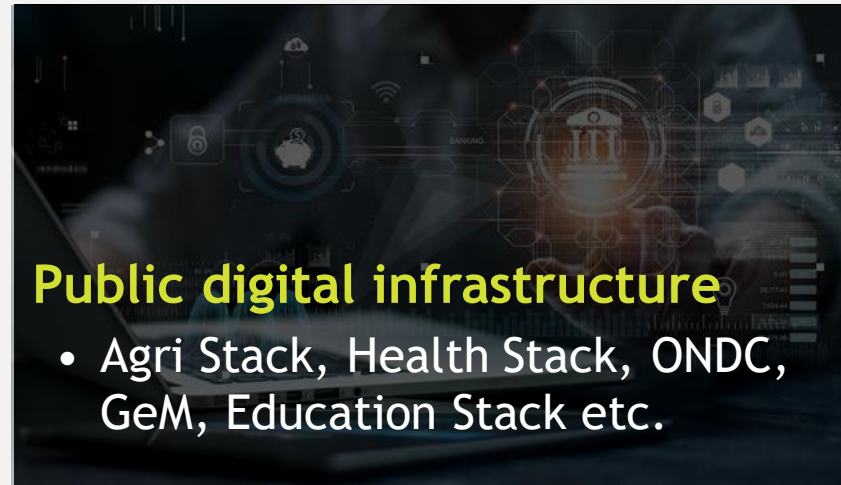
Assumption: 80% of active SB account will use UPI by 2026 compared to 10-15% in 2021; 50% of active SB account will use Mobile banking by 2026 compared to 10-12% in 2021; number of transaction per UPI and mobile banking enable account has increased in line with past trends
 Source: GST Council, TU CIBIL, NPCI Statistics, RBI Payment Indicator, FIBAC Trends and Benchmark Report 2021, World Bank, PhonePe, BCG Analysis

Expanding public digital infrastructure and digital access



AA and OCEN

- Lending layer on *India Stack*
- Consent-based data sharing




Public digital infrastructure

- Agri Stack, Health Stack, ONDC, GeM, Education Stack etc.



Ecosystems and Marketplaces

- E-commerce, B2B Marketplaces
- Growing supply chain ecosystems



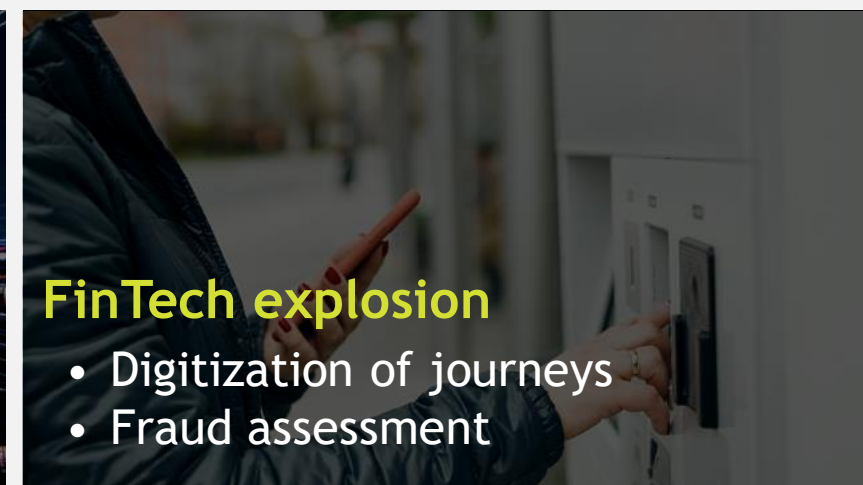
Analytics capabilities

- Talent (e.g., data scientists)
- Computing capability & tools



Digital access

- Lowest data cost in the world
- 50+% digital penetration

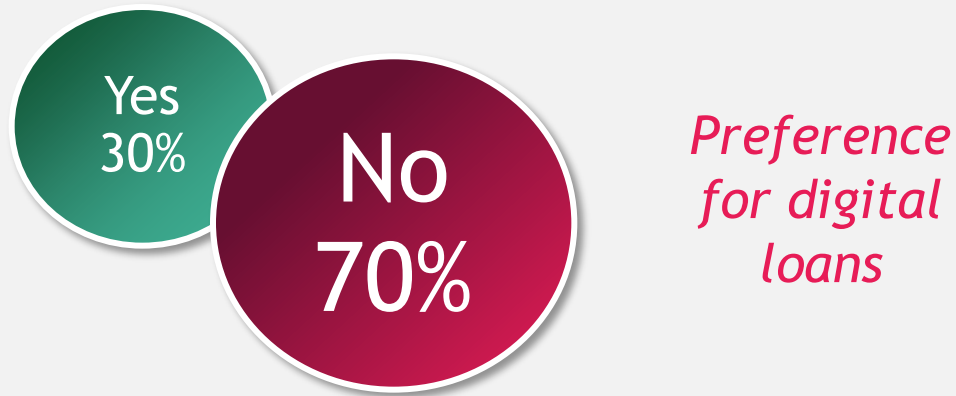


FinTech explosion

- Digitization of journeys
- Fraud assessment

Customer expectations remain unmet

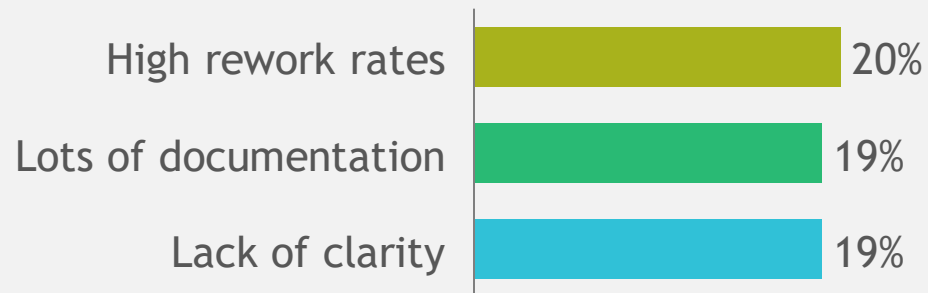
Digital journeys not preferred by MSMEs



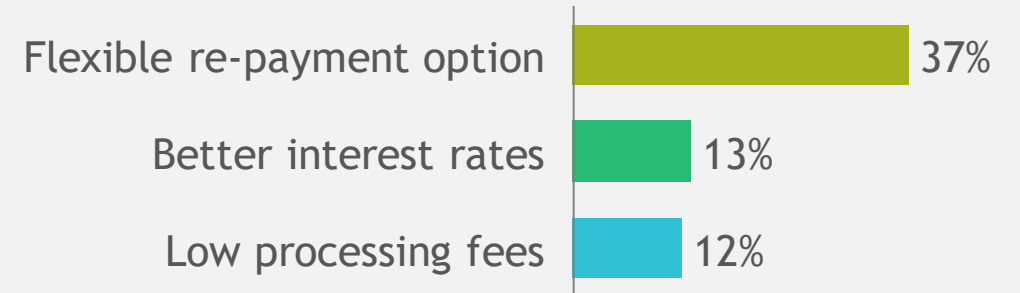
Low satisfaction with product choices



Top 3 challenges while availing digital loans



Top 3 reasons for choice of lender



Points for Discussion

- Is India ready for a lending disruption in MSME segment?
- What opportunities does AA/ OCEN and digital infrastructure open up for MSME lenders?
- Large amount of authentic, digital data is available for MSMEs - are banks/ NBFCs geared to utilize this effectively?
- Customer expectations have evolved - how can lenders use this to their advantage and grow profitably?
- What are the challenges with this framework? How do we ensure customer behavior changes?

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