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UNIFIED LENDING INTERFACE TRANSFORMING THE LENDING LANDSCAPE

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ABSTRACT

The country has made notable progress in financial inclusion, as evidenced by the increase in its Financial Inclusion Index and the establishment of millions of Jan Dhan bank accounts, particularly in rural areas. The rapid expansion of digital lending platforms, along with advancements in public infrastructure, has enhanced the accessibility of streamlined lending processes. These developments support the Reserve Bank of India's objectives to facilitate easier access to financial services, particularly for underserved communities. Digital lending, primarily offered by banks and non-banking financial companies (NBFCs), mainly consists of unsecured consumer loans, along with secured consumer loans from banks and high-value loans from NBFCs. The loans disbursed through digital channels by NBFCs has risen significantly and this growth is influenced by factors on both the supply and demand sides, such as initiatives for financial inclusion, increased smartphone and internet access, better socioeconomic conditions, and supportive regulatory environments. The Unified Lending Interface (ULI), launched by the Reserve Bank of India (RBI), is set to transform India's lending landscape by consolidating various lending services into a unified digital platform. This article analyses the journey from UPI to ULI.

***Keywords**: Unified Payments Interface (UPI), Unified Lending Interface (ULI), Reserve Bank of India (RBI).*

Introduction

Imagine being able to apply for a loan as smoothly as making a UPI transaction. In the near future, when you request a loan through your bank's mobile app, you may simply grant permission for instant access to your financial records, allowing the bank to evaluate your overall financial position within seconds. India, the world's fastest-growing major economy, is witnessing rising per capita income, financial deepening, and a rapidly changing economic environment—all of which are fueling the demand for digital financial services and innovations. With consumption-led growth creating opportunities in areas like embedded finance and peer-to-merchant (P2M) transactions, and with the bank credit-to-GDP ratio standing at around 58.7% in 2023–24, there remains vast scope for deeper financial penetration supported by technological advancements.

India also has the world's second-largest telecom subscriber base and internet user population, which has provided fertile ground for fintech expansion. From mobile banking and digital payments to AI-enabled lending and blockchain applications, the sector is constantly evolving to meet the needs of the growing economy. Globally, fintech is a $245-billion industry projected to touch $1.5 trillion by 2030. In

India, digital tools have significantly advanced financial inclusion, improved operational efficiency, and made real-time services widely accessible.

The country today stands as a global pioneer in digital payments—thanks to progressive government policies combined with technological breakthroughs. Initiatives such as Aadhaar, UPI, and DigiLocker are direct outcomes of coordinated efforts between regulators, innovators, and policymakers. By 2024, Aadhaar had reached 1.38 billion holders, covering nearly 98% of the population; UPI recorded 424 million unique users in June 2024; and DigiLocker had issued more than six billion documents, serving over 300 million users. The JAM trinity (Jan Dhan, Aadhaar, Mobile) has further simplified the delivery of government welfare schemes through direct benefit transfers.

Meanwhile, the Reserve Bank of India's regulatory sandbox framework has been instrumental in encouraging experimentation and nurturing new solutions in areas such as retail payments, cross-border transfers, MSME financing, and fraud prevention.

Our Existing Knowledge of Lending

Traditional lending systems have long served as a fundamental aspect of financial intermediation, significantly contributing to economic development by providing access to credit. These systems typically involve a detailed credit assessment process that evaluates a borrower's financial history, credit score, and collateral. This approach aims to reduce credit risk, helping banks to uphold asset quality and financial stability. Traditional lending also entails substantial documentation and compliance measures to protect both lenders and borrowers. However, these requirements can lead to prolonged processing times and higher costs. Traditionally, this model relies heavily on in-person interactions, where prospective borrowers meet directly with bank representatives to discuss loan terms, submit necessary documents, and negotiate interest rates. Such personal engagement is often deemed essential for building trust and assessing a borrower's reliability, especially in relationship banking scenarios.

Traditional lending has faced criticism for its exclusionary practices, particularly in developing regions. Stringent collateral demands and strict credit evaluations can limit credit access for small businesses and low-income individuals, thereby worsening financial exclusion. Furthermore, these practices often fail to adapt to the needs of dynamic sectors like small and medium-sized enterprises (SMEs), which require quick and flexible financing options to seize growth opportunities. The collateral-based approach can also result in procyclical credit supply, tightening access during economic downturns and contributing to financial instability.

Despite these drawbacks, traditional banking continues to be the primary source of credit worldwide, especially in areas with limited digital lending infrastructure. Nearly 190 million Indian adults still lack access to formal credit. However, the emergence of fintechs is starting to challenge these traditional models, providing more accessible and efficient alternatives. Urban and young middle-class consumers demand fast, convenient access to credit that is aligned with their digital lifestyles. As banks increasingly embrace digital technologies to enhance their lending processes, the lines between traditional and digital lending are beginning to blur, ushering in a new era of hybrid financial services.

Digital Lending and Story so Far

Digital lending refers to a technology-driven, automated, and remote process of providing loans that covers stages such as customer acquisition, credit evaluation, sanctioning, disbursement, and repayment. Unlike traditional lending, it is characterized by faster processing, minimal human intervention, and the absence of physical interaction. By December 2020, digital lending contributed only about 2 percent of the total loan amount disbursed by banks surveyed, which together accounted for nearly three-fourths of the overall banking system. However, in recent years, Scheduled Commercial Banks (SCBs) have been increasingly digitizing their retail loan services, particularly for personal and MSME segments. Data indicates that nearly 40 percent of personal loans offered by the top five SCBs in 2022–23 were processed entirely through digital platforms.

In the non-banking financial sector, NBFCs reported that digital loans constituted around 11.4 percent of their total lending activities, reflecting a steady rise. BigTech companies are also playing a significant role by providing credit facilities for consumer durables via credit cards, UPI-linked credit lines, and "buy now, pay later" (BNPL) schemes. Credit disbursed through such platforms, especially through credit cards, recorded a notable 32.4 percent year-on-year growth in 2023–24, reaching approximately

INR 11 lakh crore. At the same time, peer-to-peer (P2P) lending is becoming a popular channel for unsecured loans, while fintech firms are expanding their reach in semi-urban and rural markets, largely serving younger borrowers.

Although the personal loan market has been expanding rapidly, concerns over rising default rates and questionable practices have surfaced. To mitigate these risks, the Reserve Bank of India has introduced comprehensive guidelines that mandate greater transparency, consumer protection measures, and stricter rules to prevent misleading digital interfaces. Globally, deferred payment systems such as BNPL have gained traction. These services, which often bypass detailed credit checks, can encourage borrowers to take on more debt than they can repay, especially if they use multiple BNPL providers. In India, however, BNPL is legally recognized as a credit product and must follow the same due diligence norms as traditional lending. Internationally, BNPL transactions are projected to increase from USD 309 billion in 2023 to USD 566 billion by 2026, with India ranking among the top five BNPL markets. In 2023, BNPL's share in India's e-commerce stood at roughly 3 percent, compared to about 5 percent globally.

Challenges in Fintech-based Lending

In India, research on fintech lending companies indicates that alternative credit scoring methods like using mobile and social data can expand access to credit while lowering overall default rates. BigTech companies from industries such as e-commerce, social media, and ride-hailing are entering the financial sector, using vast amounts of customer data to offer services tailored to individuals with limited credit history. Traditional lenders are also increasingly adopting fintech platforms for credit evaluation. Since 2018-19, the proportion of prime and above-prime borrowers in fintech lending has increased, showing an improvement in loan portfolios. However, the number of first-time borrowers served by fintech lenders has decreased, possibly reflecting a more cautious approach by lenders due to rising delinquencies in small personal loans, as well as the Reserve Bank's issuance of digital lending guidelines in September 2022.

Despite the rapid growth of fintech firms in India, they continue to face significant challenges in assessing counterparty credit risk. A large portion of the population lacks formal credit histories, making traditional credit scoring models less effective. Moreover, data-related issues are among the top 10 risks confronting the Indian fintech sector. Fintech operations often rely on external service providers, which introduces potential operational risks to the system. The interaction between borrowers and investors on fintech lending platforms can lead to greater fluctuations in lending patterns driven by changes in market sentiment, resulting in heightened volatility. Fintech-based lending has the potential to improve financial inclusion and expand access to financial services, but it also introduces concerns about concentration risk and the possibility of market spillovers. As a result, it is essential to closely monitor potential risks, maintain competition, ensure operational resilience, safeguard data privacy and cybersecurity, and preserve financial stability.

As fintechs integrate with e-commerce platforms, consumers may face increased risks related to the misuse of their personal and sensitive information. Therefore, safeguarding the integrity and privacy of user data is essential. Moving towards a more secure digital fintech environment requires not only adherence to regulatory standards but also the establishment of trust and the ethical application of technology.

Digital Public Infrastructure (DPI)

As digitalisation advances quickly, India has adopted the idea of Digital Public Infrastructure (DPI), promoting banks, NBFCs, fintech firms, and start-ups to develop and deliver innovative solutions in payments, credit, and various financial services. The three basic layers of DPI are:

- Identity Layer-Aadhar, E-KYC, E-Sign, Udyam and GSTN
- Payments Layer-UPI, AePS, APBS, NACH, NETC, BBPS
- Data Layer-Digilocker, Account Aggregators

India is actively collaborating with various countries to develop digital identity solutions through the Modular Open Source Identity Platform (MOSIP) program. Digital Public Infrastructure (DPI) refers to essential technological systems, largely developed in the public sector, that are open for use by the public and developers. DPIs are designed to be scalable, interoperable, and cost-efficient, which enables

them to support population-wide systems. These features foster innovation by making the infrastructure accessible to innovators and private entities while their economies of scale reduce costs. The scalability, interoperability, and cost efficiency of DPIs can significantly enhance financial inclusion by addressing barriers such as physical distance, documentation issues, and high transaction costs. In India, DPI has been instrumental in achieving remarkable levels of financial inclusion within a short period, something that would have otherwise taken decades. By lowering transaction costs, promoting competition through interoperability, and attracting private investment, DPIs stimulate market innovation. Figure 2 shows India's global footprint in terms of DPI. Additionally, DPI has proven to be crucial during crises like the COVID-19 pandemic, when it was leveraged for efficient vaccination drives and direct benefit transfers. Examples of successful digital identity systems in other countries include Colombia's Cédula Digital, Nigeria's National ID, and Singapore's Singpass. India's DPI model, which builds public sector infrastructure while allowing private sector innovation, is a unique approach that promotes interoperability, transparency, and cost-effectiveness in financial systems. Future developments in DPI could address concerns like fraud and data privacy while incorporating emerging technologies like AI and blockchain for enhanced security.

As of May 2024, India has around 0.9 billion mobile Internet users, with a mobile teledensity of 83 percent. Even in rural areas, the teledensity stands at approximately 60 percent. The JAM trinity, comprising Jan Dhan Accounts, Aadhaar, and mobile phones, has established the foundational infrastructure for Digital Public Infrastructure (DPI) in the country. This framework is being utilised to deliver numerous value-added services, with over 67 percent of the beneficiaries residing in rural or semi-urban areas and more than 55 percent being women.

This highlights the significant role DPIs play in fostering inclusion. Another notable example of DPI in India is the Account Aggregator (AA) framework, introduced by the Reserve Bank of India. This system allows for secure, transparent, and consent-based sharing and aggregation of financial data among qualified financial institutions. The AA framework helps Micro, Small, and Medium Enterprises (MSMEs) gain access to cash flow-based financing from lenders with minimal documentation, further enhancing financial inclusion and efficiency.

Digital Lending Innovations in India

Recognising fintech as a key engine for growth, the Reserve Bank of India (RBI) has introduced several initiatives to nurture innovation in digital lending. These include the launch of the Account Aggregator (AA) framework in 2016 and regulations for peer-to-peer (P2P) lending in 2017. Together, the Government of India and RBI have worked to build confidence in platform-based credit delivery by creating robust regulatory structures.

Account Aggregators (AA)

The AA framework is a consent-driven and standardised system that enables secure exchange of financial data across individuals, businesses, and government entities. Using common APIs, AAs serve as digital consent managers, allowing customers to control and authorise how their data is shared with financial institutions.

This system addresses the earlier challenge of fragmented, institution-specific APIs, thereby reducing data silos in the financial ecosystem. Under the Data Empowerment and Protection Architecture (DEPA), AAs link Financial Information Providers (FIPs) such as banks, NBFCs, mutual funds, and insurers with Financial Information Users (FIUs) like lenders and insurers. Since its nationwide rollout in August 2021, nearly 80 million customers and enterprises have benefited, with about 40 million new accounts added in 2024. The inclusion of Regional Rural Banks (RRBs) is expected to further expand credit penetration in rural areas.

Trade Receivables Discounting System (TReDS)

TReDS was set up by the RBI to address MSMEs' persistent working capital problems caused by delayed payments. It provides a digital marketplace where invoices and bills can be discounted, enabling quicker access to liquidity. Currently, four licensed TReDS platforms operate in India, with steady growth in both transaction volumes and values.

Open Credit Enablement Network (OCEN)

Launched in 2020, the OCEN framework aims to democratise credit and widen access at the grassroots. It connects lenders, aggregators, loan service providers, and data partners through standardised APIs. Built initially on platforms like GeM Sahay and GST Sahay, it has since evolved into OCEN 4.0. Several banks now host white-label applications within this ecosystem.

GeM Sahay offers unsecured short-term loans to sellers on the Government e-Marketplace, disbursing around Rs.23 crore so far, with 4 banks and 7 NBFCs participating by mid-2024. GST Sahay, developed under the RBI's sandbox, uses AA and OCEN frameworks to provide on-demand cash-flow–based loans to micro-enterprises. Typically, these loans range between Rs.168 and Rs.10 lakh for 60–90 days, making them viable through reduced processing and recovery costs.

For lenders, OCEN reduces acquisition expenses and enables easier monitoring of borrowers, while borrowers benefit from customised credit products via their preferred apps. By creating an embedded finance ecosystem, OCEN supports MSMEs and small businesses that traditionally face barriers in accessing formal credit.

Public Tech Platform for Frictionless Credit (PTPFC)

Introduced in 2023 by the RBI Innovation Hub, PTPFC leverages open APIs and common standards to build a "plug-and-play" infrastructure for credit delivery. The platform helps lenders cut operational costs, making loans more affordable.

Its pilot focused on fully digital Kisan Credit Card (KCC) loans, MSME finance, personal loans, vehicle and tractor loans, and even digital gold. The results were significant: KCC processing time fell from weeks to under an hour, with loans disbursed digitally at the farmer's doorstep. The platform has since evolved into the Unified Lending Interface (ULI).

Unified Lending Interface (ULI)

The ULI is envisaged as a nationwide digital credit infrastructure—similar in ambition to how UPI transformed payments. By integrating diverse datasets such as GST returns, land records, cooperative payments, and credit bureau data, ULI enables real-time assessment of borrowers.

For instance, a dairy farmer seeking a loan could have their cash flow records, land ownership details, and cooperative payment history instantly analysed. Lenders can then approve and disburse loans within minutes, eliminating paperwork and long appraisal cycles.

ULI also hosts shared digital building blocks—AI/ML-based credit scoring, KYC verification, contract registries, and loan origination systems—reducing development costs for lenders while improving fraud detection and risk assessment. It is expected to:

- Expand credit to underserved rural and semi-urban segments
- Lower operational inefficiencies and transaction costs
- Reduce information asymmetry between borrowers and lenders
- Create a competitive lending market with better borrower terms
- Enable small-ticket business loans through GST-linked and land-record–based data integration

In effect, ULI has the potential to reshape lending in India by fostering inclusion, driving efficiency, and reducing reliance on informal credit sources.

Role of AI and Digital Tools

Artificial intelligence is becoming central to digital lending innovations in India. AI-driven models support fraud detection, predictive credit scoring, and borrower monitoring. Chatbots and virtual assistants are enhancing customer support through personalised recommendations and instant resolutions.

However, challenges remain. Integrating all banks and NBFCs into one system, ensuring robust cybersecurity, and preventing data misuse are key hurdles. Responsible AI adoption and secure storage frameworks will be crucial to safeguard trust in these platforms.

UPI versus ULI

UPI, introduced in India in April 2016 by the National Payments Corporation of India (NPCI), is a real-time payment system that consolidates various banking functions, facilitating seamless fund transfers and merchant payments through a single mobile application offered by any partner bank. While ULI aims to minimise paperwork and accelerate loan processing, experts note that it cannot achieve the instantaneous nature of UPI. Unlike UPI, which allows for immediate transfers of existing funds, ULI requires a comprehensive credit risk assessment for loans, necessitating a more detailed evaluation.

How will UPI and ULI Facilitate each other?

Digital payments through UPI provide real-time insights into sellers' operations, cash flow timing, and buyers' purchasing behaviours, enabling payment providers to offer a range of financial services, including credit, savings, wealth management, collections, and insurance. This payment history allows lenders to assess borrowers' cash flow, revenue trends, and repayment behaviours, improving their chances of securing credit on more favourable terms and facilitating business growth.

By addressing the barriers that often limit credit access for smaller enterprises, digital payments have eased credit constraints and reduced transaction costs, particularly in areas with limited traditional banking infrastructure. As a result, small entrepreneurs, including hawkers and traders, have seen an increase in borrowing from formal financial sources thanks to the support of digital payment systems.

Alternatively, ULI can positively impact the growth of digital payment and settlement systems. When new segments will enter the credit ecosystem through ULI, they will enable more digital payments. Access to microcredit can increase UPI adoption in rural areas. Instant disbursal to bank accounts will trigger consumption, thereby increasing digital transactions. As the credit ecosystem expands, it will generate more financial data, which will increase the efficiency of digital payment systems.

Conclusion

The country has made notable progress in financial inclusion, as evidenced by the increase in its Financial Inclusion Index and the establishment of millions of Jan Dhan bank accounts, particularly in rural areas. The rapid expansion of digital lending platforms, along with advancements in public infrastructure, has enhanced the accessibility of streamlined lending processes. These developments support the Reserve Bank of India's objectives to facilitate easier access to financial services, particularly for underserved communities. Digital lending, primarily offered by banks and non-banking financial companies (NBFCs), mainly consists of unsecured consumer loans, along with secured consumer loans from banks and high-value loans from NBFCs. According to Ernst and Young (2023), the proportion of loans disbursed through digital channels by NBFCs has risen from 6 percent in 2016-17 to 32 percent in 2021-22. This growth is influenced by factors on both the supply and demand sides, such as initiatives for financial inclusion, increased smartphone and internet access, better socioeconomic conditions, and supportive regulatory environments.

The Unified Lending Interface (ULI), recently introduced by the Reserve Bank of India (RBI), is designed to reshape the country’s lending ecosystem by bringing multiple lending services together on a single digital platform. Its main objective is to address long-standing issues of inefficiency and fragmentation in the financial sector while improving transparency and ease of access. By drawing inspiration from the success of UPI, the ULI platform will allow lenders to access crucial records such as land ownership details in real time, thereby speeding up loan approvals. This is expected to particularly benefit small enterprises and rural borrowers by reducing paperwork, ensuring faster assessments, and simplifying the overall credit delivery process.

At the same time, the move reflects global trends where technology is being used to reduce information gaps between borrowers and lenders, enabling more accurate credit decisions. However, the integration of advanced digital systems also brings challenges. Concerns around data privacy, protection of sensitive personal information, and cybersecurity are central, given the increasing dependence on online financial transactions. Moreover, the use of artificial intelligence (AI) in credit decisions requires ethical safeguards to prevent bias, ensure fairness, and protect consumer trust.

The introduction of the Digital Personal Data Protection (DPDP) Act, 2023 has strengthened the legal framework by emphasizing data minimization, user consent, and accountability. In addition, government guidelines targeting “dark patterns” in financial services call for transparent product design

and customer-centric practices. Financial institutions and fintech companies are therefore expected to focus on security, fairness in algorithm-driven decisions, and clear communication with borrowers. To mitigate risks, ongoing investment in IT infrastructure, AI-driven threat detection, and regular monitoring is essential.

The Reserve Bank has also mandated data localisation for payment information and issued regulations preventing lending apps from accessing personal data without explicit user approval. Building awareness among consumers and employees about cyber safety will further strengthen trust in the digital ecosystem. Collectively, the new “trinity” of JAM, UPI, and ULI represents a milestone in India’s digital journey, signalling a broader move toward the “democratisation of credit” by making financial access easier, faster, and more inclusive.

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