

UNIFIED LENDING INTERFACE AS A PILLAR OF INDIA'S DIGITAL ECONOMY

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ABSTRACT

India's financial sector has witnessed a digital revolution over the past decade, with the Unified Payments Interface (UPI) at the forefront. Launched in 2016 by the National Payments Corporation of India (NPCI), UPI has transformed the way Indians transact, making digital payments seamless, instant, and universally accessible. This transformation has fuelled the growth of digital payments and played a critical role in financial inclusion, bringing millions into the formal banking system. As UPI continues to set benchmarks in digital payments, the Reserve Bank of India (RBI) is now steering the next wave of transformation with the Unified Lending Interface (ULI). Just as UPI revolutionised payments, ULI aims to do the same for the lending landscape in India. This article analyses the journey from UPI to ULI, its implications, challenges, and the road ahead for India's digital financial ecosystem and banking sectors.

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

Introduction

India's story of digital public infrastructure (DPI) is by now well known. What started with the introduction of Real-Time Gross Settlement (RTGS) and the National Financial Switch (NFS) in 2004 and the National Electronic Funds Transfer (NEFT) in 2005, in a series of techno-financial innovations culminated into the Unified Payments Interface (UPI) in 2016 by the National Payments Corporation of India (NPCI). UPI has transformed the way Indians transact, making digital payments seamless, instant, and universally accessible. This transformation has fuelled the growth of digital payments and played a critical role in financial inclusion, bringing millions into the formal banking system. As UPI continues to set benchmarks in digital payments, the Reserve Bank of India (RBI) is now steering the next wave of transformation with the Unified Lending Interface (ULI). Just as UPI revolutionised payments, ULI aims to do the same for the lending landscape in India. In this evolutionary process of innovation, the latest addition is the Unified Lending Interface (ULI), announced recently by the Reserve Bank of India (RBI), which provides a techno-logy platform enabling frictionless credit.

UPI: A Digital Payments Revolution

The inception of UPI marked a paradigm shift in India's payment systems. It was designed to facilitate instant money transfers between bank accounts through a mobile application. What made UPI unique was its ability to link multiple bank accounts to a single app, allowing users to make payments,

receive funds, and perform various banking activities without the need for traditional banking methods. This was further bolstered by features like QR code payments, one-click, two-factor authentication, and the ability to initiate transactions using just a mobile number or a Virtual Payment Address (VPA).

In its early stages, UPI faced the typical challenges of any new technology, including user adoption and infrastructure readiness. However, it quickly gained traction due to its simplicity and the growing penetration of smartphones. The demonetisation move in 2016 acted as a catalyst, driving millions to explore digital payment options. As a result, UPI transactions grew exponentially, from a mere 18 million transactions in FY 2016-17 to nearly 131 billion transactions by FY 2023-24. Chart 1 shows growth in the value of UPI transactions since its inception, and Chart 2 shows growth in the volume of UPI transactions.

UPI's Impact on Financial Inclusion

One of UPI's most significant contributions has been in the realm of financial inclusion. UPI has made it possible for individuals, especially in rural and semi-urban areas, to access banking services without the need for a physical bank branch by simplifying digital transactions. The integration of UPI with the Jan Dhan Yojana, Aadhaar, and mobile phones (collectively known as the JAM trinity) has ensured that even the most underserved populations can participate in the digital economy. UPI has also empowered small businesses and street vendors by enabling them to accept digital payments without the need for expensive point-of-sale (POS) machines. The ease of use, coupled with the absence of transaction fees for peer-to-peer payments, has made UPI the preferred mode of payment for millions of Indians.

Challenges and the Way Forward for UPI

Despite its success, UPI is not without challenges. The platform's rapid growth has put pressure on the underlying infrastructure, leading to occasional downtimes and transaction failures. Additionally, the increasing number of transactions has made UPI a target for cybercriminals, raising concerns about security and data privacy.

To address these issues, the NPCI and RBI are continuously working on upgrading the UPI infrastructure. This includes introducing measures like the UPI Lite for small-value transactions, which reduces the load on the main UPI platform, and the UPI AutoPay feature for recurring payments. Moreover, the RBI has emphasised the need for stronger cybersecurity protocols and the adoption of AI and machine learning to detect and prevent fraud.

The Advent of ULI: Transforming the Lending Landscape

- **What is Unified Lending Interface (ULI)?**

The Unified Lending Interface (ULI) represents the next frontier in India's digital finance journey and is going to be launched by the RBI very soon. ULI is envisioned as a public tech platform designed to streamline and digitise the lending process in India. Just as UPI revolutionised payments by making them instant and hassle-free, ULI aims to do the same for credit, particularly in the context of small and medium enterprises (SMEs), agriculture, and underserved sectors.

ULI will act as a centralised platform that enables lenders to access and verify critical information required for credit appraisals, such as state land records, tax filings, and credit histories, from a variety of sources. The platform will ensure that this information is accessed with the consent of the borrower, there by maintaining data privacy and security. ULI will significantly reduce the time and cost associated with credit appraisals, making it easier for lenders to extend credit, especially to sectors that have traditionally been underserved by the formal banking system, by standardising and simplifying the flow of data.

- **The Need for ULI**

India's lending ecosystem, particularly for SMEs and the agricultural sector, has long been plagued by inefficiencies and challenges. These include lengthy credit appraisal processes, a lack of standardised documentation, and difficulties in accessing accurate and up-to-date borrower information.

As a result, many potential borrowers, especially in rural areas, find it difficult to obtain timely and affordable credit.

The fragmented nature of data storage is a significant barrier to smooth credit delivery. Land records, for instance, are maintained by state governments and are often outdated or not digitised. Similarly, financial data relevant to credit assessments is scattered across multiple platforms, making it difficult for lenders to get a comprehensive picture of a borrower's creditworthiness. ULI addresses these challenges by creating a unified digital platform that brings together all the necessary data in one place, ensuring that lenders have access to accurate and timely information.

- **How ULI Works**

ULI operates on the principles of consent-based data sharing and interoperability. Borrowers will be able to authorise lenders to access their financial and non-financial data through the ULI platform. This could include data such as land records, income tax filings, credit scores, and utility bill payments. By consolidating this data, ULI will enable lenders to perform more accurate and faster credit appraisals. The platform is designed with standardised APIs (Application Programming Interfaces) that allow different systems to communicate with each other seamlessly. This plug-and-play approach means that lenders can integrate the ULI platform into their existing systems with minimal disruption. Furthermore, ULI's design ensures that data privacy is maintained, with borrowers retaining control over who can access their information and for what purposes.

ULI is also expected to integrate with other digital public infrastructure initiatives, such as the Account Aggregator framework, which allows individuals and businesses to share their financial data with third parties in a secure and consent-based manner. This integration will further enhance the ability of lenders to assess creditworthiness and extend credit to previously underserved segments.

The potential impact of ULI

- **Accelerating credit access for SMEs and agriculture**

The introduction of ULI is expected to have a transformative impact on the availability of credit, particularly for SMEs and the agricultural sector. These sectors are often perceived as high-risk by traditional lenders, primarily due to the lack of reliable data and the high cost of credit appraisals. By providing lenders with access to a unified source of accurate and up-to-date information, ULI will reduce the perceived risk and lower the cost of lending, making it more attractive for banks and financial institutions to extend credit to these sectors.

For SMEs, access to timely credit is crucial for their growth and survival. The streamlined credit appraisal process enabled by ULI will allow these businesses to access working capital and expansion loans more quickly and at lower interest rates. Similarly, farmers will benefit from faster access to agricultural loans, which would enable them to invest in better inputs and technologies, thereby improving productivity and income.

- **Enhancing Financial Inclusion**

ULI has the potential to significantly enhance financial inclusion by making credit more accessible to underserved populations. In rural areas, where access to formal credit has traditionally been limited, ULI will enable lenders to reach new customers by simplifying the credit appraisal process and reducing the reliance on physical documentation. This will empower individuals and businesses in these areas to participate more fully in the formal economy, driving overall economic growth and development.

Moreover, ULI's integration with other digital public infrastructure, such as the JAM Trinity and the Account Aggregator framework, will ensure that even individuals without a traditional credit history can access credit. For example, by allowing lenders to consider alternative data sources, such as utility bill payments or mobile phone usage, ULI will enable a broader range of individuals to establish their creditworthiness and access formal credit.

- **Reducing Non-Performing Assets (NPAs)**

One of the most significant challenges facing the Indian banking sector is the high level of Non-Performing Assets (NPAs). NPAs are loans or advances that are in default or in arrears, leading to financial losses for banks and reducing their ability to extend further credit appraisals and the lack of accurate borrower information.

ULI will enable more thorough credit appraisals, reducing the likelihood of loans turning into NPAs by providing lenders with access to comprehensive and accurate data.

The ability to assess the borrower's creditworthiness more accurately will allow banks to price credit more appropriately, thereby mitigating the risk of default. In the long term, this could lead to a healthier banking sector, with lower levels of NPAs and a more sustainable credit environment.

- **Driving innovation in Financial Services**

ULI's open architecture is expected to act as a catalyst for innovation in the lending ecosystem. For fintech companies which thrive on data-driven approaches, ULI provides an opportunity to develop new financial products that are more inclusive, tailored, and responsive to the needs of India's diverse population. For example, dynamic credit scoring models could evolve, leveraging real-time data obtained through ULI to assess creditworthiness more accurately. This innovation is crucial for the growth of alternative lending platforms, which can offer products such as micro-loans, SME financing, and agricultural credit that are tailored to the specific risk profiles of borrowers.

Furthermore, ULI could enable the development of personalised lending solutions. Lenders can better understand the needs of their customers and offer tailored financial products by analysing the vast amounts of data made available through ULI. This could range from customised repayment plans for SMEs to specialised agricultural loans that align with crop cycles and weather patterns. The ability to personalise lending solutions will not only improve customer satisfaction but also enhance the overall effectiveness of the credit system.

The rise of digital lending platforms powered by ULI also holds the potential to bring down the cost of credit. By reducing the administrative burden associated with traditional lending processes, ULI will enable lenders to offer loans at more competitive rates. This is particularly important in the context of SMEs and rural borrowers, who often face prohibitively high interest rates due to the perceived risk associated with their credit profiles.

Moreover, ULI's standardised interface will allow fintech firms to quickly integrate with multiple banks and financial institutions, facilitating a more competitive marketplace. This competitive pressure is likely to spur further innovation as lenders and fintech companies strive to differentiate themselves by offering superior products and services.

Challenges in implementing ULI

While ULI holds immense promise, its successful implementation will require overcoming several significant challenges.

- **Data Security and Privacy Concerns**

One of the most pressing challenges is ensuring the security and privacy of the vast amounts of sensitive data that will be processed through the ULI platform. Given the rise in cyber threats, protecting this data from breaches is paramount. The success of ULI will largely depend on the robustness of the security protocols put in place to safeguard the borrowers' information.

The RBI and NPCI will need to work closely with technology experts to ensure that ULI is equipped with state-of-the-art encryption and cybersecurity measures. Additionally, there will need to be strict guidelines on data sharing and access, ensuring that borrowers' consent is obtained and that data is only used for its intended purpose. Transparency will be key to building trust among borrowers, particularly those who are new to the formal credit system.

- **Integration with Existing Systems**

Another challenge is the integration of ULI with existing financial and non-financial systems. India's financial infrastructure is complex and diverse, with varying levels of digital maturity across different sectors. For ULI to be effective, it must seamlessly integrate with these existing systems, including those maintained by state governments, financial institutions, and other data providers.

This will require significant coordination and collaboration among various stakeholders, including state governments, the RBI, and private sector players. Standardising data formats and ensuring interoperability across systems will be critical to overcoming this challenge. Moreover, there will be a need for ongoing support and training for financial institutions, particularly smaller banks and non-banking financial companies (NBFCs), to help them adopt and effectively use the ULI platform.

- **Ensuring Equitable Access**

As with any new technology, there is a risk that ULI could exacerbate existing inequalities if not implemented thoughtfully. For example, rural areas and smaller financial institutions may face challenges in accessing and utilising the ULI platform, potentially widening the gap between urban and rural borrowers.

To address this, the RBI and other stakeholders will need to ensure that ULI is designed with inclusivity in mind. This could involve providing targeted support to rural areas, such as subsidising the cost of infrastructure upgrades or offering training programs to help smaller institutions adopt the platform. Additionally, there may be a need for policies that ensure that ULI is accessible to all lenders, including those who serve the most vulnerable populations.

- **Regulatory and Legal Framework**

Finally, the successful implementation of ULI will require a robust regulatory and legal framework. In this framework, it will be necessary to address issues such as data ownership, consent, and liability in the event of data breaches. Additionally, there will need to be clear guidelines on the use of data obtained through ULI, particularly regarding how it can be used in credit appraisals and the extent to which it can be shared with third parties.

The RBI will need to work closely with lawmakers and regulators to develop this framework, ensuring that it is both comprehensive and flexible enough to adapt to the evolving needs of the financial sector. Additionally, there will need to be ongoing oversight and enforcement to ensure that all stakeholders comply with these regulations.

The Road Ahead: ULI as a Pillar of India's Digital Economy

As India continues to embrace digitalisation, ULI represents a significant step forward in building a more inclusive and efficient financial system. By streamlining the credit appraisal process and making it easier for lenders to access accurate and timely information, ULI has the potential to transform the lending landscape in India, particularly for SMEs and the agricultural sector. However, the success of ULI will depend on how effectively it is implemented and whether the challenges outlined above can be overcome. This will require a concerted effort from all stakeholders, including the government, the RBI, financial institutions, and technology providers.

In the coming years, ULI is likely to play a central role in India's digital economy, helping to drive financial inclusion, reduce the cost of credit, and spur innovation in financial services. By building on the success of UPI, ULI has the potential to create a more equitable and dynamic financial system, one that is capable of meeting the needs of India's diverse and rapidly growing population.

The Road Ahead for the Indian Banking Sector

The transformation from UPI to ULI signifies a monumental shift for the Indian banking sector. As ULI expands its reach, banks will need to undergo a paradigm shift in their approach to lending, risk management, and financial inclusion. To remain competitive and relevant, banks will need to invest heavily in digital infrastructure to ensure that they can integrate seamlessly with the ULI platform. This will involve not only upgrading their IT systems but also training their workforce to manage and leverage the new technology effectively. Moreover, collaboration with fintech companies and the development of innovative lending products will be essential to fully realise the potential of ULI.

As ULI provides a more comprehensive view of borrowers' financial data, banks will have the opportunity to offer more personalised and flexible credit solutions. This will enhance customer satisfaction and allow banks to cater to the unique needs of different sectors, particularly those that have traditionally been underserved. The introduction of ULI will also help banks reduce credit risk by improving the accuracy of credit appraisals, which in turn will lead to better asset quality and lower non-performing assets (NPAs). Furthermore, the integration of ULI with other digital public infrastructure initiatives, such as the Account Aggregator framework, will open new avenues for data-driven decision-making. Banks that embrace these technologies early will be able to provide more efficient and transparent services, thereby gaining a competitive edge.

In the long run, ULI has the potential to revolutionise the Indian banking sector by fostering financial inclusion, promoting responsible lending practices, and driving innovation. However, for this transformation to succeed, banks must stay agile, continuously adapt to new regulations, and invest in

building robust digital ecosystems. As ULI evolves, it will reshape the way credit is delivered and monitored, positioning India's banking sector as a leader in the global financial landscape.

Conclusion

The recent launch of the Unified Lending Interface by the Reserve Bank of India is an important step towards the further development of digital public infrastructure. The platform aspires to capture the digital footprint of consumers from various sources about their economic decisions and lifestyle to provide banks with sufficient data for quick loan decisions. The transformation from UPI to ULI marks a new chapter in India's journey towards a fully digital economy. While UPI revolutionised payments, making them fast, secure, and accessible, ULI promises to do the same for lending. ULI has the potential to reshape the financial landscape in India by streamlining the credit appraisal process, reducing the cost of lending, and making credit more accessible to underserved populations. However, realising this potential will require careful planning, robust regulatory oversight, and a commitment to inclusivity. If successfully implemented, ULI could help bridge the gap between urban and rural India, empower SMEs and farmers, and drive economic growth and development. As India continues to lead the way in digital financial innovation, ULI stands as a testament to the power of technology to transform economies and improve lives. The road ahead may be challenging, but with the right strategies and a commitment to inclusivity, ULI has the potential to be as transformative as UPI, ushering in a new era of financial empowerment for millions of Indians. With appropriate checks and balances, the ULI has the potential to make a sea change in India's credit scenario.

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