

# Account Aggregators Will Be Transformational

Ensuring Credit and Insurance based on Information Flow

- Amitabh Kant

The Pradhan Mantri Jan Dhan Yojna (PMJDY) revolutionized the financial services system for the most deprived section of the society. The scheme is a step towards holistic financial inclusion, including features like no minimum balance for a bank account, direct cash transfer, access to Rupay Debit Cards and pension. As we complete seven years of this initiative, its success needs to be celebrated for bringing more than 43 crore beneficiaries, with ₹145,140.77 crore balance, under the banking system.

Citizens getting easy and affordable access to credit and insurance is key to holistic financial inclusion. According to the IFC report on Financing India's MSMEs, 80 per cent of the addressable credit demand of small enterprises is currently met by informal financial sources.

As the next step for PMJDY mission, to achieve the goal of true financial inclusion, easy access to affordable credit, insurance, and investment has been the key focus. At present, Individuals need to have physical collateral and run from pillar to post with bank statements, stamped documents from notaries, GST returns, and cash flow statements to get a loan. Since the financial records of individuals are fragmented and scattered across different organizations, it becomes challenging for them to consolidate all these financial statements when applying for a loan. For instance, fixed deposit and recurring deposit receipts are stored with Banks, Life insurance documents are with LIC, Mutual fund investments details are with Asset Management companies etc.

Complementing the success of Pradhan Mantri Jan Dhan Yojna (PMJDY), India recently unveiled the Account Aggregator (AA) network to overcome the challenges of access to micro-credit for Individuals and MSMEs. Account Aggregator enables sharing of financial records, safely and securely, only after the consent and permission of the individual with financial service providers to get access to small formal credit. For example, when an individual or business applies for a bank loan, then with their consent, an account aggregator can collect information from bank accounts and for other financial assets and share the details with other financial institutions as lenders on the AA network. With access to financial records, lenders can establish eligibility for the loan. Since the financial data has been shared electronically by the institutions via AA, therefore is no issue of counterfeit documents.

If a hotel owner wants to take a loan to renovate the property, he can share the bank statements of the last five years with the lender. With these details, the lender will be able to discover the creditworthiness of the owner and will provide micro-credit. AA is a paradigm shift from physical collateral to information collateral and will unlock access to affordable credit in a streamlined and trustworthy way. This will reduce the transaction cost and time to sanction loans, make lower-sized loans more feasible and viable for banks, empower banks to provide personalised loans with flexible repayment schedules and more innovative financial products.

An Account Aggregator (AA) is an RBI-regulated entity (with an NBFC-AA license). The system has three components: Financial Information Users (FIUs), Financial Information Providers (FIPs), and account aggregators. AA acts as an intermediary to collect information from all Financial Information Providers (FIP) that hold users' personal financial data like

banks and share with Financial Information Users (FIU) like lending agencies. The Account Aggregator system can make access to financial services more affordable and quicker. The future plan is to make all financial data related to taxes, pension, investment, and insurance available on the network for sharing.

Protecting user privacy is the crux of the AA network. It is developed on consent mechanism and permission from individuals to share the data with FIU. The consent method is designed by the principles of Data Empowerment and Protection Architecture (DEPA), a policy proposed by NITI Aayog. Secondly, the data shared on AA is end to end encrypted. The data is encrypted by the sender and can be only decrypted only by the recipient. Thirdly AAs are not allowed to store, process and sell the customer's data. These design principles ensure that ownership of the data lies with individuals, there is no conflict of interest, data is shared across the AA platform to provide better financial services to individuals and data is not monetised. This is fundamentally different from the design principles of global behemoth technology companies where consumers' data reside with them and is monetised by the platforms.

The goal should be on scaling and wider adoption of the platform. All the stakeholders in the entire AA's ecosystem need to play a pivotal role in the growth. Four apps with operational AA licenses are Finvu, OneMoney, CAMS Finserv, and NADL. Three more have received in-principle approval from RBI (PhonePe, Yodlee, and Perfios) and will be launching apps soon. AAs should focus on growth, marketing and create awareness of the services they provide. The growth of these apps will lead to the growth of the entire AA ecosystem. Secondly, all four apps are available on only android smartphones. AAs should focus on developing intuitive apps for feature phones. If AA services are available on feature phones, it will be transformational and will cater to a substantial portion of individuals and enterprises. Thirdly, at present, eight major banks - State Bank of India (SBI), ICICI Bank, Axis Bank, IDFC First Bank, Kotak Mahindra Bank, HDFC Bank, IndusInd Bank, and Federal Bank have joined the network. The process to onboard other FIPs like GSTN, NBFCs, insurance companies, National Pension System (NPS), etc., needs to be fast-tracked. The future plan of non-financial players like health and telecom companies joining the network should also be accelerated. Fourthly, any technical glitches on the platforms should be quickly resolved to build the trust of individuals in the ecosystem.

Technology platforms born in India – Aadhaar, UPI, GeM, DigiLocker and GSTN are jewels in the Indian technology landscape and are examples of how technology can be leveraged for citizen services. Account aggregator will be a new feather in the cap to improve the formalization of credits for MSMEs and economic growth in the post covid era. It is a pathbreaking concept that will enable access to affordable micro-credit and insurance on information collateral rather than paperwork.

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*Author is CEO, NITI Aayog. Views expressed are personal*