

Digitization helps reduce frauds in NBFCs

Data mis-representation, fake balance sheets & wrong stock data are the common frauds faced by the NBFC'S in India:

The non-banking financial companies, or NBFCs, have significantly evolved in India in terms of size, operations, technological sophistication and product innovations. Today, these entities are highly interconnected in the financial sector, on both sides of their balance sheets. As such, they are exposed to risks as well. Acknowledging the risk factors applicable to NBFCs, the Reserve Bank of India has issued a master circular on reporting of frauds, laying down a road map like the one for banks.

Sunil Agarwal, MD, Paisalo Digital, a non-deposit taking NBFC, says the RBI's mandate in reporting frauds by NBFCs in a prescribed format poses certain challenges and may require many to re-visit their business model. These regulations call for NBFCs to invest in upgrading their systems and processes and equip themselves with advanced tools to prevent as well as detect frauds in parlance with the emerging threats by way of technology, says he.

Arvind Hali, MD & CEO at ART Affordable Housing Finance, however, believes that there is no direct relation between rise in the number of instances of frauds and the growth of housing finance business in India. Says he: "Housing finance has been growing at a CAGR of about 18% over the last 3 years; however there is no direct relation between this growth and the growth in the number of frauds. [The frauds pertaining to identity of the applicants has come down because of the advent of Aadhar.](#) However, profile frauds continue to remain to be tackled."

INITIATIVES TO PREVENT FRAUDS

NBFCs are focusing on total digitization of their operations and many have achieved 100% digitization in areas like KYC, income documentation and application forms. This has resulted in lesser chances of forgery.

Hali speaks about the adoption of new technologies: "We at ART Affordable Housing Finance, have created several validations in our system to weed out certain

possible fraudulent incident occurrence and detect the misgivings. For example, taking live pictures of the applicants for the digital application form and online submission with

geo-tags confirm that the salesperson has met the customer at his/her residence/office. We have internal database for running de-dupe of any new case sourced in. Another instance is use of the digital verification services of NSDL to weed out PAN related frauds. We have also institutionalized maker-checker concept in all activities involved in the lifecycle of a home loan application."

The company has built a mechanism to detect and weed out frauds through an independent Fraud Containment Unit. It has also implemented digital onboarding solutions, online verification processes to weed-out any fudging in the physical reports and e-verification of PAN.

Agarwal lists 3 initiatives of his company in this regard: "We undertake eKYC using the Aadhaar database; we constantly evolve credit matrix and we always do encrypted transfer of data."

OFFLINE VS ONLINE FRAUDS

Offline processes are more susceptible to frauds / misrepresentation as the fraudsters get to fudge copies. The profile setup frauds committed with the connivance of people in the value chain and property fraud perpetrated by creating multiple sets of ownership documents remain a challenge. Experts say organized crimes like hacking into an establishment's system and stealing of data are major threats, but NBFCs have deployed robust systems and mechanisms to prevent such acts and have been striving to make their systems impregnable.

Agarwal speaks about the company's preparedness: "We go by the concept that



Arvind Hali



Sunil Agarwal

those employees in sales are the first line of defense. This is a vigilant team that will not let any fraud cases creep into our system. In addition, we keep strict vigil across all areas. Experience

reveals that identity and document level frauds are more prevalent in areas where the migratory population is higher like in the metros while property and its identification related frauds happen in areas which are less regulated and fragmented."

FUTURE MEASURES

[Use of Aadhar database and the high penetration of this procedure is proving to be the key towards fraud control and compliance to AML guidelines.](#)

Says Hali: "There is an immediate need to clear the ambiguity around Aadhar based eKYC/eSign enrollment by the user operators and to make the environment congenial for use. Currently, the procedure demands long license gestation period and huge implementation cost. Rationalization of implementation cost and obtaining license should be eased out. On the other hand, the government should create an environment for e-registration and e-record of properties across the country and the facility of digi-locker for keeping the e-documents safe."

Paisalo has an app that uses Jan Dhaan, Aadhaar and mobile (JAM Yojna). There is use of AI, ML and analytics tools. The loan, when sanctioned is directly deposited in the customer's bank account and there is electronic clearing facility for repayments.

[Agarwal feels that the government should allow OTP signing of digital agreements without any biometric verification of the agreement.](#) This will ease the digital lending platform and ensure development of highly scalable model of fintech lending, he says.

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