New MSME model for PSBs may see March '25 launch

Credit model goes beyond credit scores, evaluates supply chains, digital footprints

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New Delhi, 1 September

The new micro, small and medium enterprise (MSME) credit assessment model, based on digital footprints for public sector banks (PSBs), is expected to be launched by the end of March next year, sources in the know said.

"Almost half of the work has been completed, and we expect a launch by the end of this financial year (2024-25/FY25)," said a PSB official.

Finance Minister Nirmala Sitharaman, in the Union Budget for FY25, proposed that PSBs develop in-house capabilities to assess MSMEs for credit, moving away from external assessments. She also indicated that PSBs would lead the development or acquisition of a new credit assessment model based on scoring MSMEs' digital footprints.

"This is expected to be a major improvement over traditional credit assessment methods that rely solely on asset or turnover criteria. It will also encompass MSMEs without formal accounting systems," said Sitharaman.

Another senior official said, "Work is underway, and after its completion, we will conduct an audit and acceptance test. The exact dates are yet to be determined, as we aim to ensure all aspects are thoroughly covered."

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AI-powered Shram Suvidha portal by yr-end

The labour ministry is set to launch a revamped version of the Shram Suvidha portal by year-end to assist in improving the ease of doing business. The portal will leverage AI and machine learning to make it easier for businesses to file registrations and submit returns.

MSME credit model aims to eliminate external ratings

A third official added that, unlike conventional credit assessment models that primarily rely on credit scores, the new internal system offers a more comprehensive approach. "It evaluates a range of factors, including an MSME's supply-chain dynamics, digital footprint, and industry-specific conditions, ensuring a more nuanced and accurate assessment," said the official. Currently, banks require MSMEs seeking loans above a certain threshold — usually between ₹30 crore and ₹50 crore — to obtain external credit ratings. This requirement can be costly and financially burdensome for these businesses. In some cases, even loans below ₹30 crore are subject to this stipulation.

The new internal system aims to alleviate this burden by reducing or eliminating the need for external ratings.

"The new assessment model for providing credit to MSMEs will likely leverage advanced technologies such as artificial intelligence (AI), machine learning (ML), and Big Data analytics to evaluate creditworthiness based on digital footprints. By integrating data from multiple digital sources, such as goods and services tax filings, transaction histories, and utility payments, the model will create a comprehensive financial profile for each MSME. This profile will be dynamically updated, ensuring that the credit assessment remains accurate over time. The use of AI and ML algorithms will enable the model to detect patterns and predict future credit behaviour, allowing for more precise and tailored credit decisions. Additionally, the model will be designed with scalability in mind, making it adaptable to various sectors and capable of evolving with new digital data sources and technologies," said Mukesh Chand, head of banking practice at Economic Laws Practice.

According to data provided by the government in a parliamentary reply on August 5, 2024, credit outstanding to MSMEs by scheduled commercial banks stood at ₹27.2 trillion as of March 31, 2024, compared to ₹22.6 trillion on March 31, 2023.

Chand further added that this technical approach not only enhances the accuracy of credit evaluations but also broadens financial inclusion by accommodating MSMEs of varying sizes and technological maturity.

"The model should be adaptable, allowing for continuous updates as new data becomes available. This flexibility ensures that the credit score remains relevant over time and can adjust to changes in the business environment. The model should be scalable across different sectors and regions, accommodating the diverse nature of MSMEs in India. It should also evolve with advancements in technology and the increasing digitisation of business operations," he added. According to the latest data from the Reserve Bank of India, bank credit to micro and small industries grew at a slower pace — 9.9 per cent year-on-year until June 2, 2024 — compared to overall bank loan growth of 15.4 per cent. Loans to medium enterprises grew by 11 per cent during the same period.

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