


# Chapter 4

## Co-Lending Framework: A Technological Evolution in the Insurance Landscape

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### **ABSTRACT**

*“Co-Lending Framework: A Technological Evolution in the Insurance Landscape,” offers a comprehensive analysis of how co-lending is transforming financial services via cutting-edge technology and partnership models. Insurance is vital in the co-lending structure, serving as a fundamental facilitator of risk management and financial stability. In co-lending, where banks and non-banking financial companies (NBFCs) work together to offer loans, the inclusion of insurance reduces possible risks linked to credit defaults and operational unpredictability. The chapter starts by discussing the difficulties encountered by conventional lending models, especially in fulfilling the credit requirements of underserved and unbanked communities.. By providing credit insurance, lenders safeguard themselves from borrower defaults, guaranteeing that their financial risk is reduced. This safeguard builds trust among co-lending partners, promoting wider involvement and teamwork.*

DOI: 10.4018/979-8-3373-1882-0.ch004

## INTRODUCTION TO CO-LENDING IN FINANCIAL SERVICES

Co-lending is a funding approaches in which two lenders—usually a bank and a non-banking financial company (NBFC) or a FinTech company—join forces to extend credit to borrowers. This model utilizes the advantages of both parties: Banks provide affordable capital, in-depth regulatory knowledge, and a wide customer network. NBFCs and FinTechs provide agile operations, sophisticated risk assessment models, and the capability to serve specialized markets.

In 2020, the Reserve Bank of India (RBI) launched the Co-Lending Model (CLM) to formalize this collaboration, enabling banks and NBFCs to jointly provide loans and share both risks and benefits. Within this structure, banks provide 80% of the financing for the loan, whereas NBFCs supply 20%, oversee client relations, and conduct risk evaluations utilizing technology-based credit models. This model has become widely recognized for its capacity to cater to the priority sector, encompassing agriculture, MSMEs, and low-cost housing. Nonetheless, its reach has broadened beyond conventional lending, discovering uses in various financial services, such as insurance-supported lending methods.

The co-lending model has developed in reaction to the constraints of conventional lending practices. In the past, banks and NBFCs functioned separately, frequently resulting in credit gaps, delayed disbursement procedures, and elevated operational expenses. Banks encountered challenges in accessing last-mile borrowers because of rigid underwriting guidelines (Panda, 2023). NBFCs, though more adaptable, faced challenges with elevated borrowing expenses and restricted resources. To close this gap, regulatory authorities established collaborative lending frameworks, fostering a cooperative connection between banks and NBFCs. At first, co-lending was restricted to microfinance and MSMEs, but the rise of FinTech innovations broadened its scope to other sectors. Digital platforms and AI-powered underwriting have enhanced co-lending efficiency, enabling instant credit evaluations and quicker loan distributions. Blockchain and smart contracts have improved transparency, lowering the risks linked to loan defaults and fraudulent activities.

Currently, co-lending extends beyond traditional credit sectors and is progressively being combined with insurance offerings, establishing a new boundary in financial services. Technology has been crucial in influencing the co-lending ecosystem, especially in facilitating smooth loan origination, underwriting, risk assessment, and compliance. Important technological advancements comprise: Innovative credit scoring techniques evaluate alternative information (social behavior, transaction history, digital footprint) to determine borrower risk. Automated underwriting accelerates loan approvals by minimizing human involvement and biases. Guarantees clear contracts between banks and NBFCs, minimizing fraud risks. Facilitates smooth monitoring of loan distribution and repayment. Open banking APIs enable

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