GOVERNMENT OF INDIA

MINISTRY OF FINANCE

DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA

UNSTARRED QUESTION NO. 1324

ANSWERED ON MONDAY, 28th JULY, 2025/ 6 SRAVANA 1947 (SAKA)

NEW DIGITAL CREDIT ASSESSMENT MODEL FOR MSMES

1324. SHRI BASTIPATI NAGARAJU:

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has recently launched a new digital credit assessment model for Micro, Small and Medium Enterprises (MSMEs) and if so, the details thereof, including its basic mechanism, methodology and the way by which it differs from the traditional/manual loan evaluation mechanisms used by banks and Financial Institutions (FIs);

(b) whether the new model introduces any changes in eligibility criteria for MSME loans, such as inclusion or removal of existing eligibility criteria and if so, the details thereof;

(c) the number of MSMEs who have been approved for eligibility under the new assessment model;

(d) the estimated improvement in processing and turnaround time achieved with the new model compared to the earlier system; and

(e) the steps taken by the Government to ensure accountability and reduce the risk of default, especially in view of the removal of physical collateral requirements for loans granted under this system?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI PANKAJ CHAUDHARY)

(a) It was announced in the Union Budget 2024-25 that Public sector banks (PSBs) will build their in-house capability to assess MSMEs for credit, instead of relying on external assessment. PSBs will develop a new credit assessment model, based on the scoring of digital footprints of MSMEs in the economy. Subsequently, Union Finance Minister had launched the New Credit Assessment Model for MSMEs on 6th March, 2025.

The model leverages the digitally fetched and verifiable data and devises automated journeys for MSME Loan appraisal using objective decisioning for all loan applications and model-based limit assessment for both Existing to Bank (ETB) as well as New to Bank (NTB) MSME borrowers.

The digital footprints used by the model may include Pan authentication using National Securities Depository Limited (NSDL), Mobile and email verification using OTP, Application Programming Interface (API) fetch of GST data through service providers, Bank Statement Analysis using account aggregator, ITR upload and verification, API enabled commercial and consumer bureau fetch and due diligence using Credit Information Companies (CICs), fraud checks, through APIs, among others. The model is live with all banks with different loan amount threshold.

Under Traditional / Manual methods, banks rely on physical documents submitted by customers for manual underwriting. While under new credit assessment model, credit request and data submission as well as assessment is done entirely through digital process.

(b) The introduction of the new digital credit assessment model does not involve any fundamental changes in the basic eligibility criteria for MSME loans in terms of regulatory norms or policy guidelines of individual bank. However, it simplifies the process of sanctioning loans and offers a more user-friendly and standardized approach by relying on digitally available data.

(c) Between 1st April and 15th July, 2025, a total of 98,995 MSME loan applications have been sanctioned by the Public Sector Banks (PSBs) under New Credit Assessment Model.

(d) Bank loans through new digital credit assessment model are decided within maximum of upto one day significantly reducing the turn around time (TAT) as compared to manual methods.

The benefits to MSMEs by use of this model include submission of application from anywhere through online mode, reduced paperwork and branch visit, instant in-principle sanction through digital mode, seamless processing of credit proposals, reduced TAT, credit decision based on objective data/ transactional behaviour among others.

(e) Under the new model, credit decision is based on objective data/ transactional behaviour and credit history of the borrower. Further, credit request submission & assessment is done entirely through digital process which reduces subjectivity, fraudulent submission of credit information & error in decision making. This enables faster, transparent and more objective assessment of creditworthiness using system-generated credit logic and scorecards. Business Rule Engines (BREs) of banks will capture all risks as per its credit risk management policy.

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