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Tech Challenges Could Stall RBI's Push for Co-Lending Model

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India's co-lending framework, designed to boost credit access through partnerships between banks and non-banking financial companies (NBFCs), is facing headwinds due to technical and operational integration challenges, according to industry leaders.

The Reserve Bank of India (RBI) has been encouraging co-lending partnerships, particularly to support small borrowers and deepen financial inclusion. However, recent feedback from

banks and NBFCs indicates that technical complexities in integrating core systems are slowing down implementation.

Under the co-lending model, NBFCs originate loans, and banks fund a major portion, with both institutions sharing risk and servicing responsibilities. While the policy framework is already in place, seamless tech integration between bank and NBFC systems remains a major obstacle.

“While the idea of co-lending is sound, executing it is difficult. Most NBFCs and banks operate on different technology platforms, which do not talk to each other easily,” said a senior executive from a large NBFC, as quoted in *The Economic Times*.

Inconsistent application programming interfaces (APIs), legacy banking software, and regulatory requirements for real-time data sharing have added to the burden. Additionally, partners often struggle to align operational procedures, from customer onboarding to loan disbursement and collection.

Experts also noted that some lenders are wary of co-lending arrangements due to concerns over credit underwriting standards and data transparency. As a result, only a limited number of successful partnerships have emerged so far, despite the RBI's backing.

According to the article, some financial institutions are exploring third-party solutions and fintech partnerships to bridge the tech gap. However, this approach also introduces new challenges, including data security risks and increased compliance requirements.

Industry insiders have urged the RBI to issue more detailed operational guidelines and provide clarity on liability sharing to encourage broader adoption. Until then, lenders are expected to proceed cautiously, limiting the co-lending model's growth in the near term.