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EDITORIAL ANALYSIS

The Real Reason India's Underserved Borrowers Pay More: Information, Not Capital

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The Real Reason India's Underserved Borrowers Pay More: Information, Not Capital

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INTERVIEW ANGLE

"If two borrowers with identical repayment capacity pay very different interest rates only because one has a formal credit history and the other does not, is that a market pricing risk correctly, or a market failing to see reality accurately, and does the answer change the policy response you would recommend?"

Every fact web-verified against primary sources

THE LIFT LINE

A bank does not charge a high-risk borrower a high rate because it dislikes them. It charges a high rate because it cannot see them clearly, and pricing what you cannot see is always expensive.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Financial inclusion questions are usually answered with a list of schemes, PMJDY, MUDRA, Stand-Up India, without ever asking why credit remains costly for exactly the borrowers those schemes target. This editorial supplies the missing diagnostic layer: **distinguish a capital-scarcity problem from an information problem before recommending a solution**, because the two point to genuinely different policy instruments, more lending capital versus better data infrastructure, and conflating them produces answers that sound complete but recommend the wrong fix.

GS Paper 3: Indian economy and issues relating to planning, mobilisation of resources, growth and development; inclusive growth and issues arising from it; banking sector reforms.

CONCEPT	MEANING	WHY IT IS TESTABLE
Information asymmetry	A situation where one party to a transaction, here the lender, has less information than the other, or than is needed to price risk accurately	The editorial's central diagnostic concept
Account Aggregator (AA) framework	RBI-enabled, consent-based architecture for secure financial data sharing across institutions	Launched September 2021; the concrete infrastructure the editorial recommends expanding
Cash-flow-based underwriting	Lending decisions based on a borrower's actual income and transaction flows rather than only collateral or a formal credit score	Directly enabled by AA data; relevant to MSME and thin-file lending
Credit Information Companies (CICs)	Entities regulated under the CIC (Regulation) Act, 2005, that compile and share borrowers' formal credit history	The pre-existing infrastructure whose reach and reporting frequency the editorial says must expand
Thin-file / no-file borrower	A borrower with little or no formal credit history for lenders to assess	The population most affected by the information gap described

BACKGROUND AND CONTEXT

The trigger is the persistence of a well-documented pattern: India's underserved borrowers, first-time credit seekers, MSMEs and informal-sector participants, continue to face high effective borrowing costs even as aggregate banking-system liquidity and credit growth remain healthy, indicating the constraint lies less in the supply of capital than in how confidently lenders can assess a given borrower's risk.

COMPONENT	DETAIL
Statutory basis for credit bureaus	Credit Information Companies (Regulation) Act, 2005; RBI regulates CICs under Section 11
Account Aggregator framework launch	September 2, 2021
AA accounts enabled	Over 2.2 billion
AA users with linked accounts	More than 112 million (112.34 million)
Financial institutions live on AA (2026)	112 as both Financial Information Provider (FIP) and Financial Information User (FIU); 56 as FIP only; 410 as FIU only
RBI credit information reporting reform	Amended directions for banks and NBFCs applicable from **July 1, 2026** (deferred from an earlier April 1, 2026 date)
New reporting cadence	Structured submissions on four fixed reference dates monthly (9th, 16th, 23rd, last day) plus a full-file submission by the 5th of the following month

The Account Aggregator ecosystem operates under the consent-based data-sharing framework enabled by the RBI and coordinated through the Sahamati collective, and it deliberately keeps data flow limited to what the borrower explicitly authorises, distinguishing it from a centralised credit database.

THE ANALYSIS

1. Separate the two possible diagnoses before prescribing a fix. If the problem is capital scarcity, the correct response is more lending capital, refinancing windows, priority-sector allocations, credit guarantee corpuses. If the problem is information asymmetry, the correct response is data infrastructure, expanding what a lender can verify about a borrower. The two are not mutually exclusive, but conflating them, or defaulting to the capital-scarcity explanation because it is more politically visible, produces underinvestment in the data-infrastructure fix that this editorial argues is actually binding for a large share of underserved borrowers.

2. The Account Aggregator framework is not a hypothetical remedy, it is an operating system already producing the predicted effect. Cash-flow-based underwriting enabled by AA data allows lenders to assess MSMEs and individuals lacking collateral or a long credit history on the basis of actual income and transaction patterns, which is precisely the information a thin-file borrower cannot otherwise supply. Scale, over 2.2 billion accounts enabled, is now large enough that the framework's continued expansion, rather than a redesign, is the relevant policy lever.

3. The RBI's tightened CIC reporting cadence is a quiet but important confirmation of the diagnosis. Moving from a coarser reporting cycle to near-fortnightly structured submissions, effective July 1, 2026, only makes sense as a policy response if the previous cadence was producing stale or incomplete borrower pictures, precisely the information-gap problem the editorial identifies.

4. The unevenness of institutional reach is the gap most likely to blunt this diagnosis in practice. Both AA participation and dense CIC reporting currently concentrate among larger, digitally mature banks and NBFCs. The underserved borrowers this editorial is concerned with are disproportionately served by smaller NBFCs, microfinance institutions, cooperative banks and regional rural banks, precisely the institutions slowest to integrate with either system. Closing the information gap on paper does not close it in practice until these smaller lenders are inside the same data architecture.

5. The counter-argument deserves real weight, not a token mention. Some segments, long-tenure agricultural credit, high-risk early-stage MSME lending, carry genuine credit risk that better information alone cannot fully price away. A borrower whose crop depends on monsoon timing is a real credit risk regardless of how complete their financial data is, and for these segments, credit guarantee mechanisms and risk-sharing instruments remain necessary alongside, not instead of, better information.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

- Credit Information Companies (Regulation) Act, 2005: statutory basis for CICs; RBI regulates under Section 11
- Account Aggregator (AA) framework: launched September 2, 2021; consent-based financial data sharing, coordinated via the Sahamati collective
- AA scale: over 2.2 billion accounts enabled; more than 112 million users linked accounts (2026)
- AA institutional participation (2026): 112 live as both FIP and FIU; 56 FIP-only; 410 FIU-only
- RBI's amended credit information reporting directions for banks and NBFCs: applicable from July 1, 2026 (deferred from April 1, 2026)
- New reporting cadence: four fixed monthly reference dates (9th, 16th, 23rd, last day) plus full-file submission by the 5th of the following month

WATCH THE TRAP: DO NOT CONFLATE THE ACCOUNT AGGREGATOR FRAMEWORK WITH A CREDIT INFORMATION COMPANY. AN AA IS A CONSENT-BASED DATA-SHARING CONDUIT, IT DOES NOT ITSELF SCORE OR JUDGE CREDITWORTHINESS, WHILE A CIC COMPILES AND REPORTS FORMAL CREDIT HISTORY UNDER A SEPARATE STATUTE, THE CIC (REGULATION) ACT, 2005. THEY ARE COMPLEMENTARY, NOT THE SAME INSTITUTION.

THE DEBATE

Argument FOR the information-asymmetry diagnosis. Aggregate banking-system liquidity has not been the persistent binding constraint on credit access for most underserved borrowers; the Account Aggregator framework's rapid, voluntary adoption and its demonstrated shift toward cash-flow-based underwriting is direct evidence that better information genuinely changes lending outcomes, not merely lending optics. The RBI's own tightening of CIC reporting norms is a regulatory admission that data quality, not capital quantity, was the more binding gap.

Argument AGAINST overstating it. Certain lending segments, particularly long-gestation agricultural and early-stage MSME credit, carry risk that richer information cannot fully resolve, and a narrative that credit costs are "just an information problem" risks diverting policy attention from credit guarantee schemes and risk-sharing instruments that remain necessary for genuinely high-risk borrowers regardless of data quality.

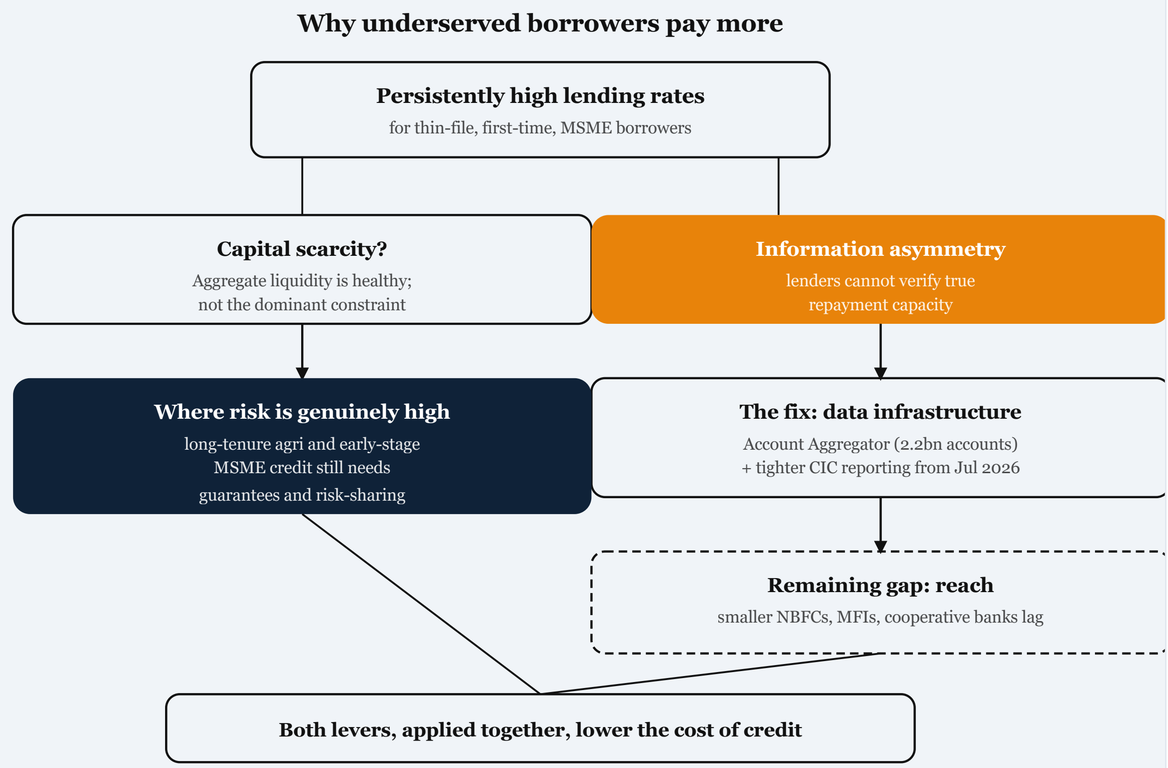
Balanced verdict. Both are true in different proportions for different borrower segments. For a large population of thin-file but fundamentally creditworthy borrowers, first-time salaried and self-employed individuals, MSMEs with real but undocumented cash flows, the information-gap diagnosis is likely dominant, and Account Aggregator expansion is the correct primary lever. For a smaller but real population facing structurally higher underlying risk, capital and risk-sharing instruments remain necessary. The right policy design pursues both simultaneously rather than treating one as a substitute for the other.

HOW TO THINK ABOUT THIS

The transferable pattern: **before recommending "more credit" or "cheaper credit" as a policy fix, ask whether the binding constraint is the amount of capital available or the quality of information lenders have about borrowers.** These require different instruments, and applying the capital-scarcity fix to an information-gap problem, or vice versa, wastes policy effort without closing the actual gap.

Run this test on any financial-inclusion question. *Is aggregate credit growth or system liquidity actually constrained, or merely credit to a specific underserved segment?* If the constraint is segment-specific while aggregate liquidity is healthy, information asymmetry is the more likely diagnosis. *Does the segment in question have thin or absent formal data, or does it have observable, quantifiable risk factors that persist regardless of data quality?* The former points to data infrastructure as the fix; the latter points to risk-sharing and guarantee instruments. *Is the relevant data infrastructure, AA participation, CIC reporting depth, actually reaching the smaller, localised lenders who serve this segment, or only the larger institutions?* Reach, not just the existence of infrastructure, determines whether the fix actually closes the gap for the borrowers who need it.

DIAGRAM-IN-WORDS



High lending rates for underserved borrowers trace mainly to information asymmetry, which Account Aggregator expansion and tighter credit bureau reporting can close, while a smaller set of genuinely high-risk segments still needs capital-based instruments alongside better data.

TAKEAWAY BOX

India does not have too little money to lend. It has too little verified knowledge of who can be trusted to repay it, and that gap, not the credit pool, is what keeps borrowing costly for those who can least afford it.

Credit Information Companies (Regulation) Act, 2005 *(RBI powers under Section 11);* **Account Aggregator framework** *launched* **September 2, 2021***; over* **2.2 billion** *accounts enabled,* **112 million+** *users linked; RBI's amended credit information reporting directions applicable* **July 1, 2026** *(fixed reference dates: 9th, 16th, 23rd, last day of month); cash-flow-based underwriting as an AA-enabled lending method.*

if better data lets a lender price risk more accurately, some previously "affordable" credit for genuinely high-risk borrowers may become more expensive, not less. Is more accurate pricing always a fairer outcome for the borrower, or can better information itself become a new form of exclusion?

UPSC has repeatedly tested financial inclusion, banking sector reforms, and the role of technology in expanding credit access; this editorial supplies the specific diagnostic distinction between capital scarcity and information asymmetry that a strong answer on lending-rate disparities for underserved borrowers should make explicit.

"Access to capital is not India's principal constraint on affordable credit for underserved borrowers; access to reliable borrower information is." Critically examine this statement with reference to the Account Aggregator framework and India's credit bureau architecture.

Sources: The Indian Express, Reserve Bank of India, PIB, Sahamati

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KEY ARGUMENTS AT A GLANCE

The editorial's core argument is that persistently high lending rates for India's underserved borrowers, first-time borrowers, MSMEs, and informal-sector participants without a long formal credit history, are driven less by an actual scarcity of loanable capital in the banking system than by an information asymmetry between lenders and borrowers on creditworthiness, which forces lenders to price in an uncertainty premium that a borrower with a thin or absent formal credit file cannot easily overcome regardless of their true repayment capacity.

✓ SUPPORTING

- India's existing credit bureau architecture, built around the Credit Information Companies (Regulation) Act, 2005, captures formal credit history well but structurally excludes the cash-flow, income and informal-liability data that would allow a lender to price a first-time or informal-sector borrower accurately, which is why such borrowers are quoted higher rates or denied credit outright even when their underlying repayment capacity may be sound.
- The Account Aggregator (AA) framework, a consent-based, RBI-enabled architecture for secure financial data sharing launched on September 2, 2021, already demonstrates that closing this information gap works in practice; with over 2.2 billion accounts enabled and more than 112 million users having linked accounts, participating lenders have moved toward cash-flow-based underwriting for exactly the segment, MSMEs and individuals without traditional collateral or long credit history, that thin-file information gaps have historically shut out.
- The RBI's own regulatory direction confirms the diagnosis: amended credit information reporting norms for banks and NBFCs, applicable from July 1, 2026, mandate more frequent, structured data submission to Credit Information Companies (CICs), an implicit acknowledgement that the existing reporting cadence was too coarse to give lenders a timely, accurate picture of borrower behaviour.
- The gap is not merely technical but institutional: participation in the AA ecosystem, and depth of reporting to CICs, both still concentrate among larger, more digitally mature financial institutions, meaning the borrowers who would benefit most from richer credit information, those served by smaller NBFCs, microfinance institutions and cooperative lenders, are often the last to be covered by the very infrastructure meant to help them.

⚠ COUNTER

Information gaps are a real and significant factor, but they are not the whole story. Genuine capital constraints persist in specific segments, particularly long-tenure, high-risk MSME and agricultural lending, where even perfect borrower information would not by itself lower the cost of capital, because the underlying credit risk, seasonal cash flows, limited collateral, thin recovery mechanisms, remains real.
Overstating the information-gap thesis risks understating the continued need for targeted capital infusion, credit guarantee schemes, and risk-sharing instruments alongside better data.

→ WAY FORWARD

Expand Account Aggregator participation beyond large banks to cooperative banks, regional rural banks, microfinance institutions and smaller NBFCs, since these are the lenders closest to the underserved borrowers the framework is meant to help; accelerate the transition to alternative-data-based underwriting, utility payments, GST filings, mobile and digital-payment history, for borrowers without a long formal credit file; ensure the RBI's tightened credit information reporting norms, effective July 1, 2026, are matched by comparable reporting obligations on informal and semi-formal lenders so the resulting borrower profile is genuinely complete; and pair improved information infrastructure with continued, targeted credit guarantee support for segments where risk, not information, remains the binding constraint.

MAINS ANSWER FRAMEWORK

QUESTION

'The high cost of credit for India's underserved borrowers is less a capital-scarcity problem than an information problem.' Examine this claim with reference to India's Account Aggregator framework and credit bureau architecture, and discuss measures to close the information gap between lenders and borrowers. (250 words)

INTRODUCTION

Persistently high lending rates for India's underserved borrowers, first-time credit seekers, MSMEs, and informal-sector participants, are often attributed to a scarcity of loanable funds. An Indian Express editorial argues this diagnosis is largely incorrect: the binding constraint is information asymmetry between lenders and borrowers on creditworthiness, not capital scarcity, and the policy response should prioritise credit-information infrastructure over further capital infusion alone.

BODY

India's formal credit-information architecture rests on the Credit Information Companies (Regulation) Act, 2005, under which the Reserve Bank of India, exercising powers under Section 11 of the Act, regulates Credit Information Companies (CICs) that compile borrowers' formal credit history for use by lenders. This system works well for borrowers with an established formal credit relationship but structurally underserves those without one, since a thin or absent credit file gives a lender no reliable basis to distinguish a creditworthy first-time borrower from a genuinely risky one, and lenders respond to this uncertainty by charging a risk premium, restricting loan size, or declining credit altogether, regardless of the borrower's actual repayment capacity.

The RBI's Account Aggregator (AA) framework, operational since September 2, 2021, addresses this gap directly by enabling consent-based, real-time sharing of a borrower's financial account data, bank statements, GST returns, tax filings, across institutions, allowing lenders to move toward cash-flow-based underwriting rather than relying solely on collateral or a formal credit score. The scale is now significant: over 2.2 billion accounts are enabled for the framework, and more than 112 million users have linked accounts, with 112 financial institutions live as both data providers and users as of 2026.

The RBI's parallel tightening of credit information reporting norms, requiring banks and NBFCs to submit structured data to CICs on a near-fortnightly cycle from July 1, 2026, reinforces the same diagnosis: more frequent, granular reporting produces a more accurate borrower picture, and a more accurate picture is what allows a lender to price risk correctly instead of defaulting to a blanket premium for any borrower lacking an established file. The persistent gap is one of institutional reach: participation in both AA infrastructure and dense CIC reporting still skews toward larger, digitally mature lenders, while the borrowers who stand to gain most are typically served by smaller NBFCs, microfinance institutions, cooperative banks and regional rural banks, which have been slower to integrate.

CONCLUSION

The information-asymmetry diagnosis does not fully displace the case for targeted capital support in genuinely high-risk, thin-margin segments such as long-tenure agricultural and MSME lending, where credit risk would remain material even with perfect information. But it correctly identifies that, for a large share of India's underserved borrowers, the fastest and most durable way to lower borrowing costs is not more capital chasing the same opaque pool of borrowers, but extending the reach of Account Aggregator participation, alternative-data underwriting and tightened credit-bureau reporting down to the smaller, more localised lenders who serve this segment directly.

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