How SmartCoin solved for co-lending money flow post-DLG with RazorpayX Escrow+
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ABOUT

SmartCoin

SmartCoin Financials is one of India's leading digital financial platforms aiming to address the credit requirements of the vast underserved middle-income segment in India. The personal loans disbursed usually range up to 2 lakhs with payback period of up to 12 months.

SmartCoin has its own in-house NBFC license from the RBI (through the wholly owned subsidiary Upmove Capital Pvt Ltd). Upmove Capital has partnered with several big and reputed RBI-registered NBFCs to extend personal loans through co-lending arrangements on the SmartCoin platform.

The Challenge

DLG and a changing business climate

The microlending platform witnessed incredible growth in 2022 and scaled over 8x with 90 Crore INR in revenue. While the company was on its way to a hockey stick growth with record numbers, the digital lending guidelines announced by RBI in September 2022 posed unprecedented operational challenges for SmartCoin as it did for other lending platforms in the industry.

Until now, SmartCoin and its NBFC partners were disbursing loans through RazorpayX Lite, however the Digital Lending Guidelines (DLG) announced in September 2022 blocked the use of any virtual or pool accounts in the money transfer process.

The guidelines clearly stated that the money transfers must happen directly between the regulated entity / lender's account and the borrower's account. Thus, tri-party Escrow accounts were the only feasible option for co-lending use cases. Businesses were given a couple of weeks to set up their technology infrastructure and comply with the latest guidelines. Failure to comply within the stated deadline could lead to penalties or even threaten business continuity. Solving for compliance and DLG suddenly became the biggest priority to sustain growth.
Evaluation Process

Cashfree, PayU and RazorpayX - all were strong contenders to solve this problem for SmartCoin. However, there were two key reasons why SmartCoin chose RazorpayX over all others for their loan disbursals:

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<th>01</th>
<th>Ease of Integration</th>
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<td>Having used RazorpayX Lite in the past, SmartCoin was happy with the payout performance and knew that integration can be done a lot faster and smoother with RazorpayX. This was a huge advantage as going ahead with a different vendor would have required doing all of the integrations from scratch.</td>
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<th>02</th>
<th>Compliance Expertise</th>
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<td>Following interactions with various vendors in the industry, RazorpayX’s team stood out for their knowledge and clarity on what can or cannot be done to stay compliant with the DLGs. This allowed SmartCoin to stay reassured, trust the team and move forward with confidence with RazorpayX’s Escrow+ solution.</td>
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The Solution

Going live with NBFC partners on RazorpayX powered Escrow account

Eight individual Escrow accounts were opened with RazorpayX’s banking partners - one for each NBFC partner. SmartCoin and the NBFC partner involved were the primary parties in each Tri-party Escrow account along with the bank. RazorpayX acts as the TSP (Technology Service provider) in these agreements.

Once agreements were signed, SmartCoin was live on RazorpayX with the new money flow in just a few days. SmartCoin and its NBFC partners were able to ensure disbursals and fund collection seamlessly between the Escrow account and the borrowers’ accounts. Customized access was provided for different roles to both NBFCs, based on their respective business needs. This eased operational overhead and also enabled a single source of truth for all the parties involved.
Ease of reconciliation with RazorpayX saved hundreds of man-hours for SmartCoin & their NBFC partners. Instead of matching the account statements with disbursals manually, SmartCoin’s finance team was now equipped with a much simpler reconciliation process. They could now access a comprehensive report on the RazorpayX dashboard with loan disbursals auto-reconciled against the account statement.

A unique custom identifier was created so that all loan disbursals on RazorpayX can be matched with the collections received on PG, closing the complete money lending loop with the borrowers. As a result, SmartCoin received a single report - one for each of their NBFC partners - that combined all transactions from RazorpayX Escrow disbursals and Razorpay Payment gateway in one report.

RazorpayX Escrow+ helped us move fast and comply with DLG. Everything has been working smoothly since going live. The reporting module is extensive and makes reconciliations extremely easy for us. We love that making your own maker checker flows and creating new users is so easy with RazorpayX vs banks. In startups, roles change pretty quickly, so this has given us a critical advantage in moving fast.

Jayant Upadhay
Co-Founder, SmartCoin Financials Pvt. Ltd.

Looking to solve for the latest RBI guidelines?
Email us at lending-support@razorpay.com to book your Digital Lending 2.0 demo today!