Reimagining Creditworthiness How Pre-Credit Scores Can Transform Financial Inclusion

India houses the largest informal economy in the world, contributing to about half of the nation's GDP and employing nearly 90% of the total labour force. There exist over 60 million unregistered enterprises in India, those that do not file tax returns, register for GST, maintain financial records or possess significant collateral.





The vicious cycle of credit exclusion

Among the barriers faced by this sector, access to finance remains a big one, perpetuating a vicious cycle of credit shortage that holds them back from acquiring the basic building blocks of a sustainable, meaningful life, such as education, healthcare, social security, relevant skills and training for jobs and entrepreneurship development, and more. In the absence of these avenues of economic upliftment and hard-pressed for money to make ends meet, individuals from the sector continue to rely on informal credit sources, contributing to an unorganised lending market estimated at nearly $100 billion.

This dependence also points to the systemic barriers that continue to widen the gap in access to formal financial services for India's informal sector, which includes everyone from farmers, to artisans, small business owners, beauty-preneurs and microentrepreneurs, and more. In India, over 40% of low-income households lack the essential documentation, such as income proof or identity cards, which are necessary to acquire formal loans.

Systemic barriers to formal finance

Even if access is theoretically possible, most individuals belonging to the informal sector—those who fall within underprivileged rural populations and the urban poor—have limited understanding of financial and digital literacy due to gaps based on gender, urban-rural locations, socio-economic background, etc. Additionally, the complexity of banking processes—from lengthy application procedures to rigid repayment structures—alienates many potential borrowers who remain unaware of the application processes.

More importantly, with nearly 63 million Indians having thin or non-existent credit files, it becomes difficult for financial institutions to assess their creditworthiness, leading to high rejection rates. In simple terms, lending to people from the informal sector is just not feasible for formal lending institutions even today. The risks are too high, there aren't enough safeguards in place, and the process remains arduous.

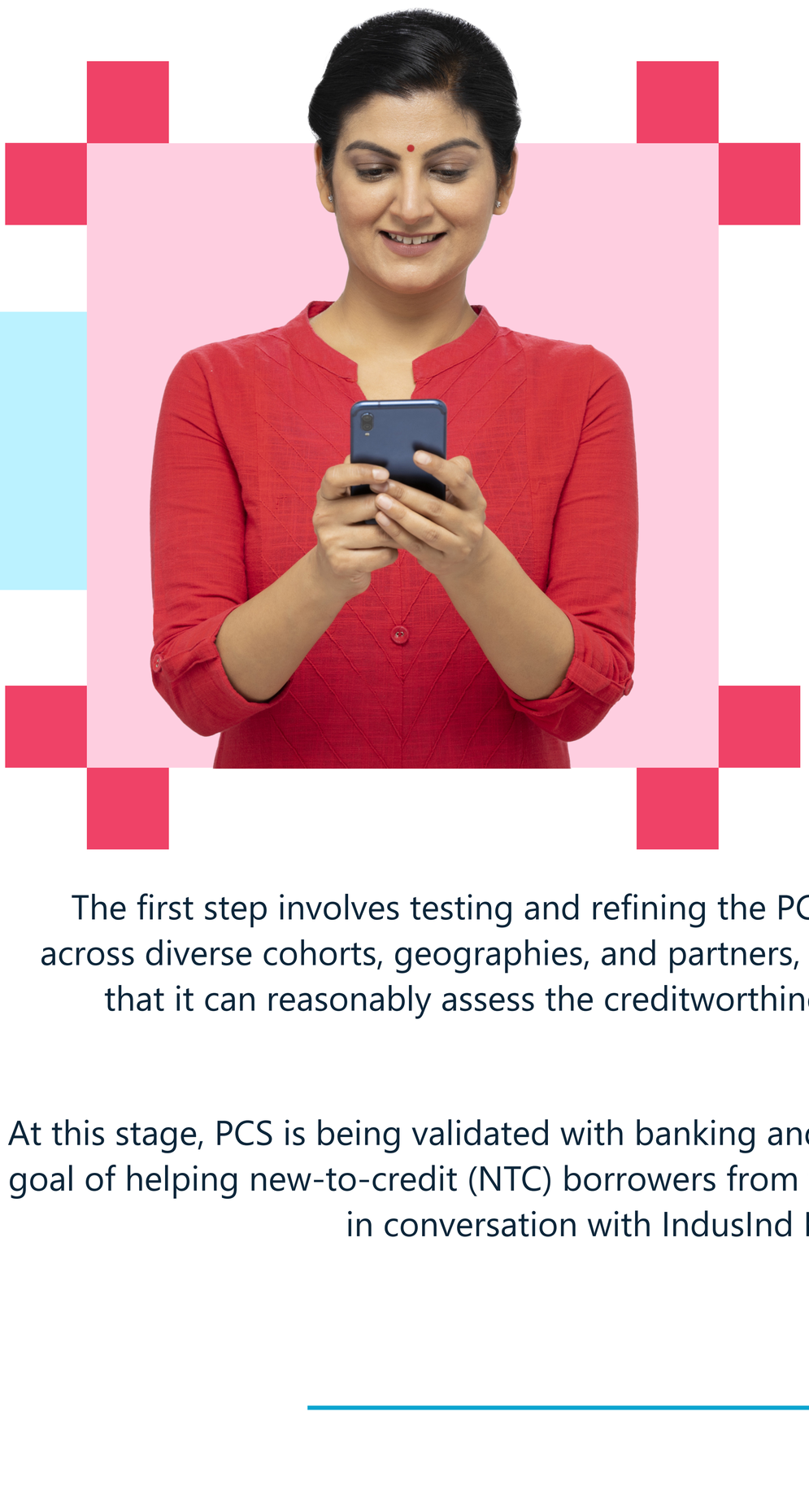
Introducing the Pre-Credit Score (PCS): A new pathway

What if there was another way? What if there was a tool that solved the problem for both sides? A tool that reassured formal lending institutions through robust risk management built into it and that also enabled new-to-credit (NTC) individuals to graduate from informal lending to formal credit?

The Pre-Credit Score (PCS), launched in 2023, is a one-of-its-kind, innovative tool that does exactly that.

Designed by Samhita in collaboration with financial services industry professionals, academics, and philanthropic institutions like **360 ONE Foundation**, the PCS is a standardised data framework that is essentially used as a proxy for a formal credit score for new-to-credit (NTC) participants to demonstrate their creditworthiness. We have been building the PCS methodology as an important public good, powered with the capability to be integrated with Loan Originator Systems (LOS) that easily link to India's Digital Public Infrastructure for account aggregators.





How PCS works

This quasi-financial and quasi-behavioural model is based on the time-tested paradigm of the 3Cs of credit, which include Character, Capacity, Collateral; and includes a fourth C, Connectivity, to reflect today's digital behaviour at the grassroots level. The inputs to this model do not require any validating documents apart from minimum KYC requirements, and the model scoring is based on the foundational principle that an individual who has built up certain "equity in life" — business and financial experience, resilience, savings, digital and financial literacy, tangible assets — has both the motivation to grow their business and the ability to repay loans responsibly.

The first step involves testing and refining the PCS. Developing the PCS is a continuous process of testing and refining across diverse cohorts, geographies, and partners, to ensure that the sample set is sufficiently exhaustive and diverse, so that it can reasonably assess the creditworthiness of multiple types of borrowers as more and more data is received.

At this stage, PCS is being validated with banking and NBFC institutions such as Ugro Capital and the SEWA Bank, with the goal of helping new-to-credit (NTC) borrowers from the informal sector with access to formal credit. Currently, we are also in conversation with IndusInd Bank and Godrej Capital to enable the PCS for their borrowers as well.

How the PCS is empowering women entrepreneurs in Gujarat: A case study of our work with 360 ONE Foundation.



Samhita has put the PCS model into practice through a tailored intervention program implemented with **360 ONE Foundation**'s support, where we are deepening our partnership by developing the PCS as a public good that benefits India's informal workers.

As a pilot exercise, **360 ONE Foundation** and Samhita are empowering a cohort of 2,600 informal women entrepreneurs across multiple districts in Gujarat with Credit-Guarantee (CG) backed loans to facilitate their access to affordable formal credit. By using philanthropic capital to provide credit guarantees, the program reduces the perceived risk for lenders and encourages them to lend to first-time borrowers who would otherwise be excluded from formal finance.

These large ticket-size loans, offered as First Loss Default Guarantees (FLDGs) that covers initial losses from loan defaults for lending institutions, have been utilised by the participants for various use cases, such as purchase of raw materials and inventory for their existing businesses, household repair, repayment of debts, healthcare expenses, daily household expenses, and more. An extensive PCS survey was conducted before the loans were disbursed to participants, capturing details of their financial state at the beginning of the program, including information on their current loans, business-related financial data, household finances, asset ownership, savings and more. As participants continue to make repayments on the FLDG loans, these will be tracked against the PCS score attributed to each participant to measure their financial behavior, thereby establishing the PCS as a credible marker for an NTC borrower's creditworthiness in the absence of a CIBIL score.

From pilot to practice



After piloting the program with the women entrepreneurs in Gujarat, the next step is to examine the tool's effectiveness for other cohorts. Samhita is now preparing to administer the PCS for two new cohorts—agri and agri-allied segments of borrowers in Maharashtra and nano women entrepreneurs in UP. The goal remains the same—to ascertain the creditworthiness of NTC borrowers, and using the data from the survey to help banks mitigate risks associated with lending to this segment of the population. This will require significant effort in training the enumerators and administering the questionnaires, data collection processes, analysis, and back-testing of the PCS in-house. Technology remains a key piece and enabling tech integration of the PCS is an important step in ensuring its sustainability and adaptability; additionally, we will also be focusing on building capacity of business development, communication, and implementation teams at Samhita, NGOs, survey agencies, and field agents to administer the PCS to each type of cohort.

Once the PCS and the processes around it have been established within this ecosystem, we will work towards enabling its adoption by multiple lenders, so that it can serve a wider set of participants and also provide access to more data sets that allow us to improve the analysis and forecasting capabilities of the PCS. And finally, the main objective we are collectively working towards is to socialize the PCS with a wider audience, including the business community, leaders in the financial industry, CSR donors, government agencies, MSME Ministry, etc., creating greater acceptability to engage, co-create, and refine the PCS, making it a true public good.

Towards a public good for financial inclusion

India’s informal sector has long been a cornerstone of the economy, yet continues to remain excluded from the formal financial ecosystem. The PCS is a bold, innovative step toward correcting this imbalance—not just by offering a new way to measure creditworthiness, but by reimagining what it means to be "credit-ready" in a country as diverse and complex as India. By blending behavioural insights, local context, and the lived realities of NTC individuals, PCS creates a pathway for financial inclusion that is dignified, data-driven, and scalable.

As the PCS evolves through testing and adoption, it holds the potential to unlock formal financial access for millions who have so far been invisible to the credit economy. With the backing of mission-aligned partners like **360 ONE Foundation,** and the commitment to build PCS as a public good, this initiative can set the stage for systemic transformation—where trust, equity, and opportunity replace risk, exclusion, and informality. The journey is just beginning, but the road ahead promises a future where no enterprising Indian is denied the chance to grow because of a lack of paperwork or proof.