Some notes on credit limits

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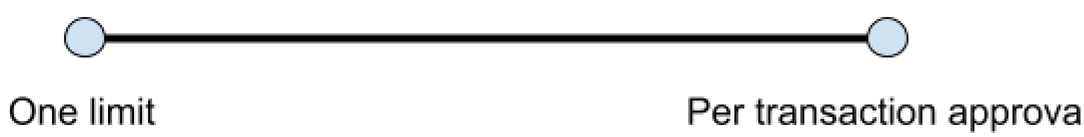
Pi3 is changing the way we think about credit limits and I want to write out some notes around the concept of credit limit, and also some fallacies that I have noticed while thinking about limits.

Background - Limit at what granularity?

A big question, conceptually, is - what is the granularity at which we assign credit limit. First let us consider the two extremes.

One Limit: There is one limit per user - across products (PL vs Pi3 vs Pi12 vs SoD) and across merchants.

Per transaction approval: There is no "credit limit" per - se. Each transaction is evaluated in real time - and it is approved based on our confidence of repayment of that transaction. So, in principle, the same user transacting on Zomato at 1 PM might be considered safe, but if they transact at 2 AM, they may be considered risky.



The advantage of one-limit is its simplicity. You have one limit which you see in the app, and you can use this limit anywhere.

The advantage of per transaction approval is the versatility that it provides to us in controlling risk. Each transaction can be evaluated separately. However it leads to a lot of confusion - user 1 sees Simpl on merchant 1 but not on merchant 2, while for user 2 it is the other way round.

Where do we lie on the spectrum

Here is how we have moved over the years.

Phase 1
We used to have MCLs only. So a user could have 10 MCLs allowing him to transact on those 10 merchants. The value of those 10 MCLs could be different also.

The problem with this approach was
1. As merchants increase, MCLs also increase and their management becomes harder.
2. There is no unique limit that we can show in the app.

Phase 2
We then introduced the concept of GCL - a limit that was applicable for all the merchants. The concept of MCL continued to be supported, but it was used sparingly.

Phase 3
Phase 2 is quite to the left. Due to various exigencies we slowly started moving towards right (not too much)

- AFS systems got ability to deny approval/transaction to a user on a merchant if they think it was fraudulent. So, their action started overruling the GCL.
- Using circuit breakers, from some merchants we stopped acquiring new users. So, a users with limit who has not yet transacted (ANT) could see Simpl button on Swiggy, but not on zomato

Phase 4
In phase 4, the shift to the right has accelerated. We believe Pi3 users deserve a higher limit, and are achieving this using MCLs more and more.

Some fallacies when thinking about credit limits

1. If a user is falling short of eligibility by < Rs 10, let's please give them upgrade

This request sounds reasonable - let's give a real time bump to the user if the user is falling short by a small amount.

However, this is fallacious.

We have some rules which assign credit limits to the user. If, in real time, you put an additional rule "If a user falls short of eligibility by < Rs 10 then allow approval to succeed", then it is equivalent to giving a Rs 10 credit bump to everybody.

So, one is free to change the rules by which credit limit is assigned, but one is not free to overrule this limit at run time, except in one case.

And that exception is - if the current approval call is carrying a new information about the user which has not been incorporated while assigning the limit, then one can change the limit.

E.g. User's current limit is 10K, but approval contains the information that they own a mercedes car, then we can bump the limit to 50K. (Ok, volvo will also do;)

2. We should give credit limit bump to the user in real time so that we give limits only to the users who really need it

This thinking is also fallacious - there is no cost in giving limits to users. To any user whom you intend to give limit in real time - you might as well as pre assign the limit. Real time assignment works only for those cases where you could not do assignment a priori.

The lurking question as MCLs become widespread

We are enabling higher Pi3 approvals without increasing PL approval by leveraging MCLs. MCLs don't get displayed in the app. Hence there is a problem - one might see their limit as Rs 1500, but then do a transaction of Rs 10000 on a Pi3 merchant and then wonder what does the limit even mean.

We need to solve it.

Some suggestions
- Never mind. Let the users first complain and then we will solve it.
- Let's stop showing the credit limit to the user.
- Show explicitly all the MCLs to the user