A STUDY ON THE AUGMENTATION OF DIGITAL LENDING AND THE FACTORS PROPELLING ITS METEORIC RISE

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Abstract:

The adoption of FinTech has experienced a significant increase in recent years, particularly in the pandemic. The BFSI sector has experienced growth as a result of the emergence of digital lending services, which have significantly transformed the processes and distribution of loans. Financial institutions provide loans and credit services via online platforms or digital channels within the realm of digital lending. The popularity of digital services can be attributed to several factors, including the widespread use of smartphones, easy access to internet connectivity, the availability of flexible lending options, and the ease and efficiency of digital platforms. According to media sources, it is projected that the digital lending market will have a significant growth from USD 100 billion in 2019 to around USD 350 billion by 2023. In the year 2020, India exhibited the most substantial rate of FinTech adoption, reaching an impressive 87%. The global digital lending industry is expected to experience significant growth due to an increasing number of individuals with advanced technology skills who are seeking loans. This research employs the ARIMA Model to investigate the progression of digital lending and forecast its prospective expansion. Additionally, it seeks to examine the growth aspects of India's digital lending sector. It is anticipated that the digital loan industry would experience significant growth, reaching an estimated value of around USD 900 billion by the year 2030. This projection indicates a substantial increase from its value of USD 270 billion in 2022.

Introduction:

The financial industry has witnessed a notable trend in the previous decade with regards to the expansion and development of digital lending. Digital lending encompasses the provision of loans and credit services to both individuals and enterprises via online platforms and technologically-driven procedures. The expansion of digital lending has been influenced by various variables. The expeditious advancement of technology, specifically in domains such as artificial intelligence, big data analytics, and machine learning, has facilitated the automation of diverse facets inside the lending process by lenders. These advancements have resulted in a decrease in expenses, enhanced operational effectiveness, and facilitated the evaluation of creditworthiness. Moreover, digital lending platforms provide borrowers with the convenience of applying for loans and accessing credit from the comfort of their residences or mobile devices. This obviates the necessity of in-person trips to branches and the completion of physical paperwork, thereby expediting the procedure and enhancing user convenience. The advent of the digital era has resulted in the production of substantial volumes of data, which can be utilised by digital lending institutions to evaluate the creditworthiness of potential borrowers. Through the examination of alternative data sources, such as social media profiles and transaction history, financial institutions are able to enhance the accuracy and comprehensiveness of their lending assessments. The emergence and proliferation of financial technology (fintech) startups and companies have significantly contributed to the expansion of digital lending. These organisations frequently utilise technology and data analytics to develop inventive financing solutions that are tailored to particular consumer segments or target underdeveloped markets. Numerous governmental entities and regulatory authorities have acknowledged the potential advantages of digital lending in enhancing credit accessibility. Regulatory frameworks and guidelines have been implemented to establish responsible lending practises and safeguard consumer protection. The utilisation of digital lending has the capacity to extend financial services to demographic groups that have historically faced limited access or exclusion from conventional banking institutions. This facilitates financial inclusion by expanding the availability of loans to a wider spectrum of individuals and enterprises. In order to maintain competitiveness, traditional banks and financial institutions have ventured into the digital lending arena. Consequently, there has been a notable surge in the allocation of resources towards the development and implementation of digital lending technology and services. Digital lending platforms provide the ability to customise loan packages and terms according to the unique financial profiles and requirements of individual borrowers. The degree of personalization offered can be appealing to individuals in search of tailored financial solutions. The practise of digital lending has exhibited a lack of geographical constraints, as it has not been confined to particular regions or nations. The phenomenon of worldwide expansion has been observed, as digital lending platforms and models have been implemented in diverse regions across the globe.

Historically, the loan process has been marked by prolonged durations as a result of outdated technology, cumbersome procedures, and lengthy approval timelines. The financial services industry in the nation is experiencing a significant influence from technology and innovative digital solutions, resulting in the rise of novel FinTech companies that are transforming the processes of credit evaluation and loan origination.

The adoption of comprehensive digital transformation has greatly propelled the lending sector, enabling FinTech firms to expand their reach, stimulate innovation in product development, and tailor loan options to meet the unique requirements of individual customers. Financial technology (FinTech) lenders are employing sophisticated technologies like as Artificial Intelligence (AI), big data, and Application Programming Interface (API) to develop tailored financial solutions aimed at addressing the needs of low-income and rural people inside the country. These sectors exhibit a notable lack of access to formal credit and financial services. The introduction of quick loan approvals has replaced the laborious process of paperwork and manual procedures. Financial technology businesses, commonly referred to as FinTechs, are utilising advanced technologies such as intelligent algorithms and automation capabilities to improve the effectiveness of document processing, underwriting services, and approval procedures.

In order to effectively reduce operational and customer acquisition expenses, it is vital for FinTech lenders to prioritise digital imperatives and create innovative business models. To efficiently manage the growing customer base in a rapidly expanding economy such as India, it is crucial for financial institutions to prioritise the provision of improved access to affordable loan alternatives.

Financial technology (FinTech) lenders are utilising alternative credit scoring and underwriting techniques in order to improve the accessibility of credit. This is facilitated by the implementation of efficient automation in credit decision-making and expedited disbursement procedures.

Despite India being considered as one of the world's rapidly expanding economies, the restricted accessibility of credit continues to pose a substantial barrier impeding the nation's socioeconomic advancement. Within the broader framework of financial inclusion, there are significant barriers that demand careful consideration, namely the constrained accessibility of cash and the scarcity of viable loan opportunities.

The present-day Indian economy is heavily dependent on the concept of financial inclusion, which underscores the significance of granting individuals and businesses from diverse social strata with prompt and affordable cash accessibility. Ensuring accessibility is of paramount importance in facilitating enduring and sustainable economic growth. The Micro, Small, and Medium Enterprises (MSMEs) of India, which are widely seen as the driving force behind the country's economy, have a significant challenge in terms of limited access to formal financial services. The micro, small, and medium enterprises (MSME) sector in India encompasses a substantial population of more than 110 million individuals. It is believed that this sector makes a significant contribution of approximately 30% to the country's gross domestic product (GDP). Nevertheless, it is important to acknowledge the presence of a significant credit deficit totaling USD 600 billion. Banks face challenges in assessing the creditworthiness of micro, small, and medium enterprises (MSMEs) due to their informal operations and lack of financial data, such as historical cash flow statistics. Improving the accessibility of loans and increasing the affordability of financial services would have a significant impact on revitalising the financially burdened micro, small, and medium enterprises (MSMEs) sector. This, in turn, would greatly enhance their competitiveness on a global level.

The FinTech industry's rise has brought about a substantial revolution in the lending sector, fundamentally changing the way credit is extended in the country and contributing to the

achievement of India's digital lending goals. Micro, Small, and Medium Enterprises (MSMEs) facing challenges in accessing loans from traditional banking institutions have progressively resorted to contemporary technological intermediaries that offer alternative lending solutions. There is a growing trend among small and medium-sized firms (SMEs) in the nation to embrace digital strategies for obtaining funds to support their business activities. These strategies encompass a range of digital approaches, including streamlined onboarding procedures and accelerated disbursement processes. The utilisation of digital technologies has made a substantial impact on the assistance of Micro, Small, and Medium Enterprises (MSMEs) located in distant areas. These technologies have enabled easier and faster access to products along the entire value chain.

Objectives:

- To understand the types and process of Digital lending
- To study about various Digital lending platforms in India.
- To forecast the market value of digital lending till 2030 using ARIMA Model.

Methodology:

This study employs secondary data acquired from several sources, including the Statista, Inc Report and other websites. The utilisation of the Autoregressive Integrated Moving Average (ARIMA) model is employed to forecast the prospective expansion of the market worth of Digital lending. The forecasting is conducted via Python software.

The Autoregressive Integrated Moving Average (ARIMA) model is a widely employed technique utilised for the examination and forecasting of time series data. The Box-Jenkins model, generally known as such due to its initial development by a group of electrical engineers in the 1930s and its refinement by George Box and Gwilym Jenkins in the 1970s. The exploitation of historical data to forecast future results is an often-employed practise.

The aforementioned model is a type of regression analysis that evaluates the relative impact of several factors on the dependent variable. The aforementioned methodology pertains to regression analysis, wherein the objective is to evaluate the relative impact of several independent variables on the dependent variable.

The ARIMA model is employed for the aim of understanding past data, assessing present situations, and forecasting future results. In specific circumstances, such as the emergence of technological improvements or financial crises, this technique may be deemed wholly unreliable.

Process of Digital Lending:



Source: Author's own

Step 1: Customer acquisition

The implementation of digital marketing strategies and onboarding processes plays a crucial role in the acquisition of digital lending customers for banks. The implementation of technology such as electronic Know Your Customer (eKYC) processes serves to authenticate and validate the identities of customers. Digital marketing encompasses several strategies and techniques, such as SMS (Short Message Service), SEO (Search Engine Optimisation), banner advertisements, and social networking platforms. These tools place a strong emphasis on strategic planning and execution. Banks have the opportunity to effectively expand their digital marketing efforts through the utilisation of expert services at a reasonable cost. Web applications, mobile platforms, and artificial intelligence chatbots have the potential to serve as viable alternatives to SMS blasts in the context of digital onboarding. Customer identification verification was necessary for the acquisition of risky loans. The process of electronic Know Your Customer (e-KYC) facilitates the automation of identification verification within contemporary banking institutions. There will be a cessation of in-person customer document verification. Many electronic Know Your Customer (eKYC) solutions enable banks to enhance consumer data by leveraging government or commercial databases. Digital platforms have been found to enhance company productivity and improve client happiness. Banks are provided with substantial amounts of data in order to evaluate consumers or make adjustments to their goods. Digital platforms facilitate the accessibility and costeffectiveness of product information dissemination and advertising. Banks should refrain from abandoning physical channels. The establishment of extensive branch and call centre networks is advantageous. Engaging in interpersonal communication fosters the development of trust in lending relationships. In order to establish trust, early digital lending platforms require the implementation of physical marketing strategies. This assertion holds particular significance in the context of underbanked individuals.

Step 2: Approval and analytics

The concept of digital lending mostly revolves around leveraging increased data availability to expedite and enhance the accuracy of underwriting processes. Financial institutions today have the capability to retrieve and utilise several sources of information, including internal sales data, social media data, partner data, credit bureau data, and government data. The utilisation of data and algorithms enables financial institutions to efficiently assess persons and expedite credit determinations. The use of bureau data, social media data, and digital transactions, such as supplier payments, e-commerce payments, and mobile money payments, has facilitated banks in comprehending borrower behaviour and accessing individuals who were previously declined due to limited credit history. If the process of developing new algorithms over a period of many months appears to be laborious, there are various technologies available that can assist banks in streamlining their approval and analytics procedures. The Loan Origination System (LOS) software is designed to extract client data from pertinent sources, conduct credit analysis, and provide credit judgements autonomously, without the need for human involvement. Sophisticated algorithms or pre-existing systems are employed to evaluate the repayment capacity and inclination of clients through data analysis. The benefits include prompt decision-making, expedited processing times, and enhanced customer satisfaction.

Step 3: Disbursement and Repayment

The utilisation of digital lending enables financial institutions to engage in distant lending activities and facilitate the collection of payments. Financial institutions offer digital banking services through internet and mobile platforms. The utilisation of partners' mobile wallets or e-commerce accounts for loan disbursement and collection has proven to be effective. Cashless channels have the potential to decrease the amount of paperwork involved, hence enhancing operational efficiency. In addition, these systems provide a transparent audit trail that aids financial institutions in mitigating instances of fraudulent activities. Digital loans are repaid through the use of same digital channels, occasionally employing automated debiting mechanisms to withdraw funds from the designated account.

The utilisation of a mobile banking application has the potential to facilitate bidirectional digital lending. At a particular location, individuals have the opportunity to submit loan applications, receive loan disbursements upon meeting the necessary criteria, and subsequently repay the loan amount within the designated timeframe. The Loan Management System facilitates banks in accessing the lending history of individual customers. This software aids financial institutions in identifying, categorising, and overseeing loans by offering the flexibility to customise repayment schedules and durations.

Step 4: Collections

Financial firms employ data and algorithms as a strategy to enhance their collection methods. Certain individuals employ cutting-edge technologies to monitor client conduct and propose tailored recovery strategies. Loan collection software is a technological tool utilised by financial institutions to streamline the process of distributing loans and facilitating timely repayments. This entity offers solutions for loan recovery, restructuring, and collection. The Loan Collection System employs several mechanisms such as notification engines, warning systems, skip tracing, and geo-fencing to effectively prevent any instances of overlooked cases. Similar to traditional loans, digital loans necessitate the inclusion of delinquent consumers in a blacklist, resulting in the forfeiture of their future credit privileges. This consequence serves as an incentive for these individuals to fulfil their repayment obligations. Nevertheless, it is imperative for banks to furnish informative materials that aid clients in comprehending the enduring financial ramifications associated with a diminished credit score, as well as mitigating efforts to recover outstanding debts. Produce blog articles, infographics, or audiovisual presentations as educational tools for elucidating the concept of loans. Financial institutions disseminate information through various channels such as blogs, social media platforms, and a mobile application knowledge centre.

Step 5: Customer Engagement

Customer interaction does not mark the conclusion of digital lending. However, this phenomenon occurs consistently over the whole loan cycle. Positive customer connection serves as a driving force for clients, encouraging them to progress through the digital loan process. The utilisation of digital channels and customer data has the potential to facilitate a streamlined, easy, and customised customer experience. Communication takes place in two directions: inbound, which refers to communication from the borrower to the lender, and outward, which refers to communication from the lender to the customer. Lenders employ

customised messaging, reminders, and incentives as a means of responding to customer activity. Customers have the ability to conveniently access and effectively manage their accounts, seek information, and communicate any issues or grievances. Channels such as SMS, call-center support, self-service portals, chatbots, and in-app messaging are utilised for communication and interaction purposes. The lending analytics system, which incorporates machine learning technology, conducts an analysis of client data and delivers customised messages and product information based on predetermined parameters, showcasing a higher level of sophistication. Customer engagement refers to the process of comprehending a customer's patterns of behaviour and preferences in order to promptly address their concerns and offer tailored resolutions.

Types of Digital Lending Platforms:

In the Indian context, there are numerous notable digital lending models that may be recognised.

- **Peer-to-peer (P2P) lending** pertains to online platforms that promote the interaction between borrowers and lenders, hence streamlining the process of acquiring affordable loans in a timely manner.
- **Crowdfunding** is a financial mechanism that involves the utilisation of online platforms to facilitate the acquisition of funds by individuals or organisations seeking investment from a wide range of contributors. This is accomplished by enabling investees to present their business case and seek funding through various platforms.
- **Point of Sale (PoS) lending** pertains to the activity of extending financial assistance for online transactions by using conventional data sources, such as bank statements, alongside non-traditional data sources like transaction history.
- **Supply chain financing** is the establishment of partnerships with non-banking financial organisations (NBFCs) to extend financial assistance to merchants who leverage online platforms for the sale of their goods and services. The facilitation of the financing procedure is accomplished by the utilisation of the data provided by these merchants.
- **Invoice finance** is a financial arrangement that is extended to micro, small, and medium enterprises (MSMEs) with the purpose of resolving their immediate liquidity need. This particular type of working capital credit is provided to Micro, Small, and Medium Enterprises (MSMEs) based on their outstanding customer bills that remain unpaid.
- **Pay later loans** can be defined as a type of digital credit that bears resemblance to a credit card. This financial arrangement allows consumers to acquire minor loans and postpone the payback to a future date.
- **Mobile lending** is the practise of granting loans to individuals through the use of cellphones. This process involves evaluating the creditworthiness of clients by analysing data related to their call patterns and electronic money usage.
- The digital mortgage approach is the usage of a digital platform to facilitate the process of obtaining mortgages, hence simplifying the conventional mortgage loan method and leading to a decrease in the overall time needed for completion.

Growth:

Since the implementation of demonetisation in India in 2016, there has been a significant adoption of fast digital payment and finance solutions in several aspects of our everyday lives, which has continued for six years. Consumers have access to a diverse array of choices when it comes to selecting financial technology (fintech) applications for facilitating a multitude of payment transactions. These transactions encompass a broad spectrum, such as settling power and utility bills, paying for groceries at local kirana stores, covering auto or cab fares, and conducting purchases of various commodities and automobiles.

The implementation of the Unified Payment Interface (UPI) in India has had a profound effect, facilitating the effortless movement of payments through mobile devices. During this particular time span, the India stack materialised as a technology architecture encompassing open application programming interfaces (APIs) and digital public goods. This stack enabled a variety of services, including identity verification, payment processing, and other associated operations. The emergence of the India stack can be attributed to the convergence of regulatory frameworks, governance, and technology, positioning India as a leading participant in the global fintech industry. The emergence of the India stack can be attributed to the financial limitations encountered during the period of demonetisation, hence offering numerous prospects for the fintech sector in India. The period following the implementation of demonetization in India marked the onset of the fintech era, wherein digital lending emerged as a swiftly growing industry. Digital lending platforms have developed the capacity to expand their geographical coverage beyond urban areas by adopting a comprehensive digital credit cycle that incorporates all stages, such as origination, underwriting, disbursement, and repayment. Based on the findings of a recent report titled 'State Of Indian Fintech Ecosystem Q3 2022', it is expected that the digital lending sector in India will witness significant growth, perhaps accounting for 60% of the total Indian fintech industry by the year 2030. Moreover, the paper presents a projection of significant expansion, estimating a growth rate of 4.75 times, from \$270 billion in 2022 to \$1.3 trillion in 2030, in the market size of digital lending.

The rise of the digital lending sector in India has been facilitated by several favourable characteristics. These variables include an increase in per capita income, enhanced financial inclusion, and greater internet accessible in Tier 2, 3, and 4 cities, towns, and rural regions. The credit landscape in the nation has undergone notable transformations as a result of regulatory measures, a thriving funding climate, and the active participation of venture capitalists who have keen interest in innovative credit solutions that successfully cater to the requirements of end users.

The Covid-19 epidemic has saw a significant increase in the utilisation of credit, as evidenced by statistics provided by the Reserve Bank of India (RBI), which indicates a surge in credit card transactions from INR 6,30,414 crore in fiscal year (FY) 2020-21 to INR 10,49,065 crore as of September in FY23.

Digital lending value in India 2012-2023





SARIMAX Results									
Dep. Variable:			y No.	Observations:		7			
Model:		SARIMAX(2, 1, 0) Log	Likelihood		5.441			
Date:		Thu, 05 Oct 202	AIC			-4.881			
Time:		09:12:4	IS BIC			-5.506			
Sample:			0 HQIC	:		-7.382			
		-	7						
Covariance Typ	e:	op	og						
	coef	std err	z	P> z	[0.025	0.975]			
ar.L1	0.7269	1.282	0.567	0.571	-1.786	3.240			
ar.L2	0.2465	1.337	0.184	0.854	-2.374	2.867			
sigma2	0.0060	0.006	1.040	0.298	-0.005	0.017			
Ljung-Box (L1) (Q):			0.93	Jarque-Bera	(JB):		0.51		
Prob(Q):			0.33	Prob(JB):			0.77		
Heteroskedasticity (H):				Skew:			0.44		
Prob(H) (two-sided):				Kurtosis:			1.88		

Fig 3: ARIMA Model Result Source: Author's own

Out[13]:	12	434.422184
	13	519.593099
	14	603.146712
	15	683.610750
	16	760.120347
	17	832.220096
	18	899.727471
	19	962.638828
	20	1021.064935
	21	1075.186945
	dtype:	: float64

Fig 4: Predicted values for the next 12 years Source: Author's own



Fig 5: Plot showing the actual and predicted market value of digital lending Source: Author's own

Interpretation of results:

- Mean Error (ME): In the execution of the study, it was observed that the mean error exhibited a low value, suggesting that the disparity between the actual and predicted values is minimal.
- The Root Mean Squared Error (RMSE) is a statistical metric that quantifies the standard deviation between observed and predicted values. In comparison to alternative models, the RMSE for this particular model is likewise rather low.
- The Mean Absolute Percentage Error (MAPE) value, which is below 10%, suggests that the model used for forecasting exhibits a high level of accuracy.

Drivers leading to the growth of Digital Lending in India:

1. The government's initiative to promote digitisation

The digitization of financial services is being actively promoted by the Indian government. The introduction of digitalization has enabled the rise and expansion of digital lending services.

This section critically analyses the many governmental policies implemented in India that have played a significant role in fostering the expansion and progress of digital lending.

- The Digital India Initiative was implemented by the Indian government in 2015 with the aim of enhancing digital literacy and accessibility. The objective of the strategy is to improve internet accessibility, promote the adoption of digital payment systems, and provide a digital infrastructure to facilitate the expansion of startups and digital firms.
- The unique identity number known as Aadhaar is issued by the Indian government. The government mandates that all individuals must establish a connection between their Aadhaar numbers and other services, including bank accounts and mobile numbers. Digital lenders are able to utilise Aadhaar-based e-KYC (Know Your Customer) in order to authenticate the identities of consumers, hence expediting the loan application process.
- The UPI (Unified Payments Interface) was established by the National Payments Corporation of India (NPCI). The usage of Unified Payments Interface (UPI) facilitates the effective and prompt movement of funds across different bank accounts for mobile phone customers. The government actively promotes the implementation of the Unified Payments Interface (UPI) as a strategy to decrease dependence on cash-based transactions. This mechanism enables the transfer of funds from online lenders to the bank accounts of borrowers, hence accelerating the loan disbursement procedure.
- The Reserve Bank of India (RBI) has established a regulatory sandbox to facilitate innovation in the field of financial technology (fintech). Fintech enterprises have the opportunity to conduct trials of their products and services inside a regulated framework under the supervision of the Reserve Bank of India (RBI). This provision enables digital lenders to experiment with novel lending models, such as peer-to-peer lending and alternative credit scoring, without the need for regulatory authorization.
- 2. The proliferation of internet and smartphone usage has experienced a notable increase. In recent years, there has been a notable surge in smartphone and internet utilisation within the Indian context. According to a forecast by the Internet and Mobile Association of India (IAMAI), the number of internet users in India is projected to reach 974 million by the year 2025. The proliferation of internet and smartphone usage has facilitated the growth and advancement of digital lending companies in India.
- According to Counterpoint Research, India ranks second globally in terms of smartphone usage, boasting a user base of over 750 million individuals. This enables digital lenders to access a vast demographic of consumers that utilise smartphones.
- The proliferation of internet usage has facilitated the expansion of digital lending platforms, enabling them to extend their services to borrowers residing in remote areas and smaller municipalities that may lack the presence of conventional banking institutions. In the contemporary financial landscape, borrowers are now afforded the convenience of obtaining loans from the comfort of their own homes, eliminating the need for physical visits to traditional banking institutions.
- The advent of mobile banking and wallets has streamlined the process of loan application and distribution, enabling borrowers to promptly receive monies directly into their bank accounts

or mobile wallets. The loan application process has been enhanced to optimise efficiency and streamline accessibility.

• The proliferation of digital platforms has resulted in enhanced accessibility to credit information, granting lenders access to comprehensive data pertaining to prospective borrowers, encompassing their credit history and patterns of repayment. This technological advancement has facilitated lenders in enhancing their ability to assess the creditworthiness of loan applicants, hence streamlining the process of extending credit to individuals who lack a conventional banking credit history.

3. Fintech enterprises are revolutionising the loan industry.

Indian fintech companies that leverage technology are providing innovative credit options. In this analysis, we will explore the strategies employed to enhance the growth of digital lending in India.

- Fintech enterprises are causing disruption in the realm of conventional lending through the use of expedited processing, reduced interest rates, and enhanced flexibility in repayment options. This phenomenon facilitates the accessibility of credit and compels conventional lenders to enhance their practises.
- Fintech enterprises utilise social network data, e-commerce transactions, and utility bill payments as means to assess creditworthiness. This assessment examines individuals who lack conventional credit records as borrowers. This technology enables financial institutions to extend loans to a larger consumer base.
- Fintech enterprises leverage technological advancements to provide tailored loan solutions. Certain financial institutions employ machine learning algorithms to customise loan packages based on the financial profiles of applicants.

4. Potential lending options for individuals in need of financial assistance

Personalised finance solutions are specifically designed to meet the unique needs and circumstances of individual borrowers. This section explores the impact of tailored loan alternatives on the growth of digital lending in India.

- Digital lending platforms leverage technology to offer customised credit options to individual customers. These loans are tailored to accommodate the borrower's income, credit score, and borrowing history. Individual loans provide consumers with the opportunity to secure financial resources that are tailored to their specific requirements.
- Digital lending platforms in India provide loan processing timeframes that are more expeditious compared to those offered by conventional banking institutions. The utilisation of technology expedites the process of loan approval and distribution through the automation of loan applications. This facilitates the expeditious acquisition of loans by borrowers, particularly during times of crises.
- Digital lending companies in India are disrupting the conventional lending industry by offering loans at more affordable interest rates. Due to their comparatively reduced operational costs, online financial institutions have the potential to offer more competitive interest rates on loans when compared to conventional brick-and-mortar banks. This has facilitated borrowers in obtaining credit at diminished interest rates, so alleviating their financial burden.

- 5. The emergence of digital lending in India has brought forth a multitude of prospects for both borrowers and lenders.
- The utilisation of digital lending platforms in India has promise in facilitating financial accessibility for traditionally marginalised segments, including small business proprietors, self-employed individuals, and individuals without a credit record. This measure is expected to effectively address the credit deficit in the Indian economy and promote greater financial inclusivity.
- The utilisation of digital lending platforms results in a decrease in loan processing expenses. This is due to the comparatively lower operational costs associated with these platforms in comparison to traditional banking institutions. Consequently, these platforms are able to provide loans at reduced interest rates. This has the potential to substantially decrease the expenses associated with loan processing for borrowers, hence enhancing the affordability and availability of credit.
- Digital lending platforms employ data-driven algorithms to evaluate the creditworthiness of borrowers, thereby reducing the likelihood of loan defaults. This mitigates the likelihood of loan defaults, enabling lenders to extend loans to individuals who may lack a credit history with conventional financial institutions.

6. The profitability and capitalization of financial institutions (FIs)

Financial intermediaries are able to engage in increased lending operations when they possess significant levels of capitalization. The aforementioned assertion carries notable importance within the framework of banks that have been subjected to "reserve requirements" as prescribed by the Reserve Bank of India (RBI). The lending activities of the institution are additionally impacted by its ability to absorb losses arising from defaults in loan repayments.

The rise in non-performing loans (NPAs) compels banks to assign supplementary provisions, so limiting their capacity to engage in lending operations. Financial institutions (FIs) may curtail the provision of credit in response to anticipated declines in loan performance in the very near future.

7. The utilisation of Big Data Analytics, Artificial Intelligence (AI), and Machine Learning

(ML) has been increasingly prevalent in the lending industry as a means to gain deeper insights into consumer requirements and preferences. This trend is driven by the recognition that data holds significant value, comparable to that of oil, and can be leveraged to enhance customer understanding. Technological advancements, such as Big Data, artificial intelligence (AI), machine learning (ML), and blockchain, have significantly contributed to the enhancement of lending activity. The utilisation of data analytics has facilitated lenders in conducting fast underwriting and enhancing fraud detection capabilities, hence ensuring the expeditious disbursement of loans.

8. Demographic Dividend

The term "demographic dividend" pertains to the prospective economic advantages that can arise from alterations in a nation's age distribution. This is particularly relevant in the case of India, which possesses a considerable demographic makeup characterised by a substantial proportion of young individuals, as evidenced by a median age of 29. The targeted customer population is driven by lifestyle needs and actively pursues convenient options, such as credit cards, Buy Now Pay Later (BNPL) services, and Equated Monthly Installments (EMIs), to finance their consumption expenditures. There is a significant rise in the utilisation of digital technology, specifically in rural areas, among the younger population in India. The consumer demographic that is seeing significant growth is distinguished by their proficiency in technology and has shown a growing preference for utilising smartphone-based banking and lending services.

9. The phenomenon of competition within the lending market

In recent times, the central bank has initiated the process of liberalising the financial sector by granting licences to various entities such as payment banks, small finance banks, neobanks, and others. The lending business has undergone a transformation due to heightened competition from both traditional banks and non-banking financial companies (NBFCs).

Lenders currently exhibit a keen interest in expanding their loan portfolios by providing loans that are customised to suit the specific circumstances and requirements of individual customers. Moreover, financial institutions seeking greater returns, such as venture capital firms, angel investors, and private equity firms, exhibit a willingness to provide funding for ventures with higher levels of risk, provided that appropriate conditions and terms are presented.

10. The shift in consumer purchasing behaviour has resulted in a rise in the demand for consumer loans.

While personal loans constituted the majority of loan accounts, there was a significant rise of 63% in the disbursement of consumer loans by volume during the fiscal years 2021-2022 and 2022-2023. Based on the analysis conducted by industry experts, it was a prevalent practise among those aged 25 years and older to obtain consumer loans for the purpose of financing the acquisition of diverse goods, including phones, laptops, and other electronic devices. There has been a notable transformation in purchasing behaviours, namely in response to the Covid-19 In the past, the customer base for items such as mobile phones and laptops outbreak. predominantly comprised individuals aged 25 years or over. In the present-day context, there has been a noticeable rise in the prevalence of personal electronic devices, such as smartphones, laptops, and similar technology, among individuals as young as 16 years old. As a result, there has been a rise in consumer borrowing. The rise in consumer loans can be attributed, in part, to the changes observed in consumer behaviour inside Tier 3 cities. A considerable proportion of digital loans is directed towards the agricultural sector. In the realm of procuring agricultural gear, such as tractors and their constituents, as well as other farming equipment, individuals often turn to obtaining loans using financial technology (fintech) platforms. The existence of these financial technology firms has experienced substantial growth in semi-urban and rural parts of India.

Findings:

The expansion of digital lending in the past five years has been remarkable, especially considering the concurrent development of enabling factors and supporting infrastructure.

Now, it is opportune for digital lending to operate at its maximum potential, with the active involvement and support of all stakeholders. According to a report, India exhibited the greatest rate of FinTech adoption at 87 percent as of 2020. According to the analysis, the Indian FinTech market is projected to reach a valuation of ₹8.35 lakh crore by the year 2026, as compared to ₹2.3 lakh crore in 2020. This indicates a significant expansion at a compound annual growth rate of 24.56 percent. Furthermore, there has been a substantial increase in the percentage of loans with short durations, specifically those lasting less than six months. These short-duration loans now make up 88% of the overall disbursement volume for loans that were closed throughout the fiscal year period spanning from FY 2022 to FY 2023. It is noteworthy that a significant proportion of clients exhibit a preference for short-term digital loans, with a considerable number opting to prematurely settle their loans prior to the initially agreed upon duration.

Conclusion:

Despite the encouraging statistics, there remains a considerable scope for further expansion in the utilization of credit cards within the Indian context. The expansion of the credit market in India can be attributed to the comparatively low prevalence of official credit cards, which are possessed by less than 5% of the country's population of 1.4 billion. Nevertheless, conventional banking institutions have encountered difficulties in fulfilling this need due to a significant segment of the Indian populace possessing minimal or nonexistent credit records. The rise of digital lending platforms, such as non-banking financial businesses (NBFCs), fintech firms, and similar entities, can be ascribed to the hesitancy of conventional banking institutions to provide loans to those with restricted incomes and unfavorable credit histories. Moreover, a significant segment of the population has demonstrated reluctance in utilizing credit cards or obtaining conventional loans as a result of the uncertain nature of the epidemic and the current economic conditions. As a result, individuals have resorted to consumer durable loans as a more adaptable and financially beneficial alternative. The current conditions have presented a favorable opportunity for fintech companies to broaden their range of services and develop a strong presence in this rapidly growing sector. Based on the aforementioned data, there was a notable increase in both the monetary value and volume of Consumer Durable Loan initiations from fiscal year 2021 to fiscal year 2022. The data demonstrates a significant rise of 66% in the value of originations, accompanied by a proportional growth of 43% in the volume of originations. The data presented above demonstrates an increasing trend in individuals adopting bite-sized consuming practices. The lending market in India has seen a significant rebound during the fiscal year 2022, following a downturn witnessed in the fiscal year 2021. With the growing integration of humans into the domain of technology, the prospects for digital lending are perceived as favorable and are anticipated to undergo further growth. The utilization of this financing approach is pervasive inside metropolitan communities, although its accessibility remains constrained in rural or socio-economically marginalized areas of India. The foremost goal going forward should be to expand outreach to rural areas where folks have limited knowledge of technological improvements, thereby providing them with access to a streamlined and effective loan distribution procedure.

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