

How Has Digital Lending Impacted The Indian Banking Market

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I. Introduction

Assessment of the digital lending market growth in India and identification of risks are the key issues that this paper tackles. The recent emergence of various platforms connecting borrowers and lenders has led to a substantial increase in the industry's expansion, boosted by greater mobile phone usage and data availability. However, while the sector is being fostered by government support, several laws and regulations have also been introduced which could impact its development. One means through which lenders may achieve better yields than what is possible with traditional strategies like savings accounts or fixed deposits is by participating in online lending activities.

The practice also represents a straightforward method by which investors can expand their portfolio mix while having exposure to more diverse areas of investment potentiality.

Nonetheless, we cannot overlook the accompanying risks posed by online lending solutions affecting both parties involved- borrowers and lenders alike as there may be inconsistencies present in delegated credit assessments conducted by some platforms reducing transparency levels at present.

While alternative lending platforms can provide access to funding for borrowers who might otherwise be rejected by banks, it is worth highlighting that these options may not come with the same safeguards as a regular loan. Additionally, weak security protocols employed by certain platforms also raise concerns around potential fraud.as contributed to positive growth in the industry or has had negative effects on traditional banks. By exploring the benefits and risks associated with online lending, I hope to provide insights into the future of the industry and its potential impact on the Indian banking market

II. Advancement of Digital Lending

India's burgeoning online lending space continues to expand rapidly as more apps hit the marketplace providing valuable financial resources across segments of society. However, it is important that all participants in this dynamic environment are aware about the various hazards associated therein. While there are numerous advantages offered by web-based loan systems such as unparalleled consumer convenience through prompt approval processes from any location as well as better returns on investment for lenders than traditional channels - all users of said sites also need to take adequate care about threats including fraud attempts which have unfortunately become increasingly common lately.

III. Evolution in India

Underserved segments of society have been able to access credit effectively due to a shift towards digital lending in India. Traditional banks and financial institutions have been apprehensive about extending credit facilities to people with low credit scores or no collateral.

The growth of digital lending is changing this scenario, offering unprecedented access to finance for these populations through technology-driven platforms. This step is being facilitated by supportive policy measures from the government that have encouraged fintech companies' development. The introduction of alternative data sources has revolutionized credit scoring practices among digital lenders. Credit assessment utilizing mobile phone data and social media profile analysis has allowed many individuals who were previously denied access to loans due to their lack of traditional credit history a chance at acquiring loans. While this new method fosters inclusivity and accessibility, curation biases during the decision-making process could impact accuracy.

The favourable policies implemented by the Indian government and the widespread availability of Internet and mobile connectivity have resulted in a surge in digital lending across the country. The Indian government has also launched a Unified Payment Interface (UPI) and the India Stack, an Application Programming Interface (API) which helps in identifying digital identities in order to verify and safeguard digital lending platforms.

IV. Segmentation of Market

The Indian digital lending industry can be classified into different segments based on its offerings, customer types sought after and lender model utilized. For example, one classification could focus on divided by specific product types — personal loans composed of non-collateralized funds with flexible use cases such as debt reduction, holiday expenditure or house improvement; whereas another category lies in home loans designed for either buying new homes outright or restructuring pre-existing mortgage systems. From auto loans to education loans to business loans, there are various financing alternatives at consumers' disposal. Auto loans are meant for purchasing new or pre-owned vehicles while education loans provide economic support to students pursuing higher studies. Small or medium-sized enterprises can fund their operations through the assistance of business loans. Lending entities come in three distinct business models: online lenders conduct their transactions entirely via digital platforms with no physical locations, traditional banks shifted towards providing digital lending solutions in addition to maintaining branch offices and NBFCs furnish financial provisions excluding holding a banking license. Lastly, Online P2P lending platforms have recently emerged as a popular alternative means for connecting borrowers to potential lenders directly. Traditional financial institutions are not involved in this process.

V. Loans

The demand for unsecured personal loans has been witnessing rapid growth over time due to its personalized nature catering primarily towards a borrower's individual needs such as weddings or holiday plans among others. Last year's report released by the Reserve Bank Of India exhibits this trend well since they accounted for almost 40% of all retail credit consumption in India which signifies their increasing popularity amongst consumers nationwide. Industry leaders like HDFC Bank, Bajaj Finserv and ICICI bank were quick enough in recognizing this opportunity and capitalized on it through effectively leveraging digital channels to make availing Personal Loans much easier than before.

To help salaried individuals overcome their temporary monetary difficulties quickly, payday loans are offered with a loan amount usually ranging between INR 5,000-50,000. These kinds of short-term debts come with a payback period that seldom goes beyond one or two months.

SMEs in India make up around 45% of industrial production and 40% of export volume as per research done by SIDBI; this is where business loans efficiently facilitate funding operations. As new technologies continue to redefine access to finance, online lending platforms are becoming a popular source of funding for SMEs. The streamlined process that these platforms offer

cut-across traditional bureaucracy involving tedious paperwork makes them appealing for this segment. Concurrently, students seeking educational funding have grown more reliant on these channels too.

With convenience as its prime factor, online lenders can help address pressing educational needs within strict deadlines.

The financial needs of students seeking higher education are met with education loans that have witnessed consistent growth in recent years. According to Public Sector Banks (PSBs), over the past ten years alone a staggering 4,61,017 students opted for educational loans with the intention of studying abroad.

For individuals in need of purchasing or improving a home, home loans are available online through renowned lenders such as HDFC, SBI and LIC Housing Finance. This segment forms a significant portion of India's retail loan market. The growth trajectory of the home loan market in India for the period between 2020 to 2025 has been estimated by the National Housing Bank (NHB) at a Compound Annual Growth Rate (CAGR) of 15%.

Alongside this, the P2P lending sector, which facilitates direct peer-to-peer lending transactions without intermediaries, has observed consistent expansion. Notably, platforms such as Faircent, i2iFunding and LenDenClub have gained traction among borrowers and investors alike. The P2P lending market in India has been projected to experience substantial progression with a CAGR of approximately 18.6% from the year 2020 up to the conclusion of the predicted term in 2028, based on current trends and data presented in a recent report.

Non-Banking Financial Companies

Non-banking financial companies (NBFCs) have significantly contributed to various sectors of the Indian economy like consumer finance, microfinance and infrastructure financing among others. Current data reveals that around 9471 NBFC firms are registered with the Reserve Bank of India as authorized lenders operating within certain guidelines. This database spans until December 2022 taking into consideration

deposit-collecting as well as non-deposit-collecting corporations. As one of the key players in the Indian financial market, NBFCs have made significant strides in expanding their loan portfolio over recent years. In fact, nearly 8% or INR 14.63 lakh crore worth of loans come from these institutions as per records from 2019-20 evaluating Indian financial divisions alongside other companies worldwide .

In addition to this accomplishment, RBI's latest report on September this year reveals that NBFCs'

combined assets amount to INR32,34,413 crore - contributing towards an overall cumulative figure equaling about 12% or INR25.24 lakh crore from all NBFCs in India. However, NBFCs seem to continue to face challenges such as tighter regulatory scrutiny and economic instability with

optimism becoming increasingly difficult to sustain over time. In India, NBFCs are heavily involved in two main areas: consumer finance and microfinance.

In terms of loan portfolios, consumer finance constitutes a sizable portion - accounting for roughly 45% as of 2020. Comparatively, microfinance makes up about 15%.

A noteworthy sector wherein NBFCs make substantial contributions is infrastructure finance, representing approximately 25% of their total loans in India during 2020. Within this sector lies a robust regulatory framework implemented by the Reserve Bank of India (RBI) aimed at furnishing a stable and sound economic landscape for these institutions' operations.

As providers of assorted fiscal services that address the country's varying needs, NBFCs assume significant positions within India's financial market. In the upcoming years, NBFCs are expected to retain a prominent standing in the Indian financial sector owing to the country's thriving economy and growing financial service demands.

VI. Statistics on Digital Lending

Some key statistics about the market distribution of online lending in India as of 2022:

The digital lending space in India saw phenomenal growth in value from USD 270 billion in the year 2022 to an estimated worth of USD 350 billion by end of next year with a remarkable compound annual growth rate (CAGR) of almost forty percent (39.5%).

P2P or peer-to-peer lenders are at the helm on which over 50% depends on for online loan transactions while about 30% is contributed by both digital banks and fintech companies together. It appears that there is a pool of young, technology-inclined loan candidates specifically drawn towards convenient and swiftness offered by these virtual lenders.

The demographic analysis indicates that nearly two-thirds (60%) of Faircent's lenders comprise individuals below the age of thirty-five as per corporate reports cited by CEO Rajat Gandhi. A majority share (over 50%) of online lending bankrolls in India specifically involve personal loans while distinct types such as education funds or subsidies for property upkeep incorporating services like home improvement secure at least one-fifth each (20+%).

The typical range for obtaining these funds usually encapsulates a modest sum such as INR fifty thousand to expenses trending at around INR two lakhs with repayment periods tracing durations over twelve months till thirty-six months. Quarterly loan disbursements by online lending platforms in India reach a staggering INR 10,000 crore, with an impressive monthly loan disbursement rate of over INR 2,500 crore.

In its recent annual report, India's leading banking regulator - the Reserve Bank of India (RBI), demonstrated clear evidence that its P2P lending sector continued to flourish amidst economic recovery - showing YoY growth rates exceeding expectations at 22.3%, the value being INR 4.26 lakh crore.

Moreover, data shared in RBI reports suggests that investors practising digital-lending have been achieving startlingly good results for their portfolios; delivering consistent ROI ranging from roughly eight to sixteen percent.

VII. Government actions

Amidst rapid advances being made by fintech platforms offering digital loan products in India today have come several key policy changes designed to structure an orderly marketplace wherein consumers' safety prevails over profit motive. Such policies were most recently updated when regulators at RBI introduced new protocols calling upon all online lenders collecting data on Indians to report directly to them while seeking licenses ahead any venture launching into operations; thereby setting clear boundaries around compliance with financial transparency measures across-the-board. It is vital for individuals who are frequent users of online networking sites and other forms of electronic communication platforms that they remain made aware and mindful about the consequences associated with their extended engagement to these services.

Some of the most impactful regulations that were introduced :

India's finance industry has experienced some significant changes recently thanks to the intervention of their government.

One key development was their launch of a centralized credit bureau database (CIBIL) accessible by all relevant parties designed to improve access for both banks and borrowers alike.

This move toward improved transparency was bolstered further by new legislation implemented last April intended to limit predatory online lender activity that left many consumers struggling with elevated interest rates or crippling debt ratios.

These regulatory measures now enforce mandatory disclosure of charges incurred by borrowed funds as well as protecting consumers through capped overall interest rate ceilings. The Indian government introduced a novel digital platform in May to help small businesses leverage various financial tools such as loans, insurance &

investment products.

This move aimed at cracking down on credit barriers that hinder entrepreneurial activities within Indian borders by providing easier access to working capital. Following this development, the government formed an oversight committee tasked with monitoring online lending activities of companies operating in India strictly.

As a result of these initiatives and laws, the online lending industry in India saw a significant increase in regulatory oversight in 2022. The new regulations and laws helped to improve the transparency and fairness of online lending practices, and also provided better protection for borrowers and lenders.

The committee is expected to ensure that these firms apply consistent ethical principles and remain transparent. In comparison to March 2021, the lending market in India experienced substantial growth of 11.1 per cent on an annual basis, with its value expanding to Rs 174.3 lakh crore by March 2022.

The Indian government took several important steps in 2022 to regulate the online lending industry and promote financial inclusion in the country. The new initiatives and laws helped to improve the transparency and fairness of online lending practices, and also provided better protection for borrowers and lenders.

VIII. Safety of Digital Lending

When it comes to digital lending, safety should be a top concern.

One particular issue that must be addressed is the risk of fraud. Scammers and cybercriminals are constantly trying to exploit individuals by requesting upfront fees or sensitive financial and personal details which can be used for identity theft purposes. As a result, before engaging with any digital lending avenue, proper research about the platform's security measures is immensely crucial. Additionally, potential borrowers should exercise caution against alluring offers that seem too good to be true since they may fall prey to digital loan scams. In light of potential complications that could arise between borrowers and lenders on digital platforms, it's essential to choose one with a strong reputation that practices transparency in all operations.

Digital lending can be a useful option for borrowing or lending money, but it is important to carefully consider the safety and security of any platform you use.

IX. Conclusion

With a predicted value of \$1.3 trillion, digital lending in India is expected to become an expansive market by the year 2030, according to the latest study conducted by Inc42. With the increasing scope for integrating improved technology tools, the financial sector will see greater digitalization and credit dissemination. There is also a high demand for skill development, system audits of technology tools, and systemic controls that must be constantly monitored to ensure that the benefits of digital lending last in the long run. As more banks join the digital lending stream, digital lending will gradually take a larger share of credit delivery.

I believe that the digital lending market will continue to grow rapidly and become the main source of loans with most financial institutions switching to digital and joining fintechs in improving accessibility to loans. In my opinion, digital lending and the fintech market as a whole will become the norm in a beneficial way rather than worsen it.

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