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Digital lending and its future in India

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Abstract:

Digital lending involves lending through web platforms or mobile apps, utilizing technology for authentication and credit evaluation. Lending is always about trying to get a strategic edge. How can fraud be found more easily, decisions about underwriting made more accurately, or the universe of targets grows more quickly than competitors? India still has the second largest number of people who don't have a Bank account. In this research work only secondary source of data and information are utilized. RBI has initiated a frame work to regulate the digital lending in India. Over 190 million Indian adults don't have any kind of Bank account thereby representing a huge opportunity. The industry has been altered by Covid-19, as customer demand for contactless transactions. Therefore contactless transactions were rises and more lenders will adopt technology to provide borrowers with maximum convenience. In the coming years, technology will continue to disrupt the digital lending ecosystem with a renewed emphasis on delivering an improved end to end customer experience.

Keywords: Digital lending, technology, Bank account

Introduction

Historically lending has been a transaction in which the lender gives money to the borrower in exchange for a return (interest) on the money. While there are a variety of complex lending and financing instruments, lending is always centered on one thing 'the ability to get the money back'.

Traditionally, this sector was highly disorganized. It has evolved over time from pawnbrokers lending money in exchange for collateral to a more structured procedure involving Bank and/or Financial Institutions. Rapid advancements in cloud computing, artificial intelligence and block chain as well as faster and more affordable internet connectivity have fuelled the rise of Fintech startups and lending has also transformed and become "digital".

Digital lending involves lending through web platforms or mobile apps, utilizing technology for authentication and credit evaluation. Lending is always about trying to get a strategic edge. How can fraud be found more easily, decisions about underwriting made more accurately or the universe the universe of targets grow more quickly than competitors? India still has the second largest number of people who don't have a Bank account.

Review of literature:

Gupta etal (2013) The authors described the ICT based payment system in the Indian banking sector. The application of technology is able to improve the payment facility more smooth and transparent. It also helps to make process more simple and cost effective. Services like withdrawing money, opening bank accounts, transferred money from one account to another also becomes possible with the help of these facilities. Access to capital becomes easier. The timely availability of fund helps the business groups to generate cash for business requirement in a hassle free manner. Not only have that banking services become more relevant from the view point of reach and diversity. Poor people do not have the time to deposit and withdraw money from the bank branches due to remote location of villages. Visiting Bank branch was a costly affair as it leads to loss of manpower and resource. The travelling cost was also a matter of concern for this group of people. But, use of technology helped to reduce the problems faced by these groups.

Kumar etal (2013) the paper focuses on the concept of new generation banking system. The Indian banking system has a rich history and over the time period it grows in various aspects. Different forms of banking facilities are introduced for the benefits of the target customers but these facilities may not be adequate to provide the growing demand for better service, better products and better reach. It has been noticed that most of the time the banking sector grows horizontally to tap the huge customer base but most of the time the expansion happened in a non plan matter. As a result of the same, the sector is not able to provide the value added services. There is growing demand for new age technologies which may be adopted by the banks so as to provide the much needed services. It will also able to help reach a wider mass that are remained unbendable till data. The banks are basically working as a financial backbone of the country and adequate supply of finance is absolutely necessary so as to bridge the demand supply gap. Thus, it is important to create that environment with the help of technology which may help to provide various banking services including finance to the needy section of the people.

Kak etal (2015) The authors describe the role of ICT in developing socio economic aspect of rural India. In a globalized environment the consumers are suppose to get better service and facilities as compared to traditional product and services. As the business opportunities increased the rural consumers also become the target consumers. But due to wide application of technology based products and distribution network, it is becoming inevitable for them to learn and understand the usage and benefits of the facility. Since the cost of delivery is not that much high, it is becoming more acceptable for the producers also. As the global market is growing the nature of the business and consumer expectation is also changing. The changing environment should be taken into consideration and ICT should be implemented in phased manner.

Midha (2016) The author discussed the issue of digitalization process and effectiveness of digital Indian campaign. The program is a good initiative but it has certain barriers which need to be overcome. Digital Indian campaign aims to create a cashless society which has its own advantages. Implementation phase is surely problematic as the concept is new but over the time period this has to seen from the perspective of customers. It is high time to discuss the relevant issues with the customers so that the existing barriers may be removed.

Objectives of the study:

1. To study the regulation frame work for digital lending in India.

2. To study the position of digital lending in India

3. To know the status of ML and AI in digital lending.

4. To determine the future of digital lending in India..

Research methodology:

In this research work only secondary information and data was collected from the different sources and compiled and analyze for the purpose and get the findings.

RBI regulation for digital lending:

The Reserve Bank of India has instituted a framework to regulate the digital lending. Its new regulation are based on recommendations from a working group setup in January,2021 on digital lending including lending through online platform and mobile apps'(WGDL). What is the new regulation and why have they introduced?

Who are digital lenders?

RBI has categorized digital lenders into three groups:

Entities which are regulated by the RBI and are allowed to carry out lending business.

Entities that are authorized to carry out lending as per other statutory or regulatory provision buit are not regulated by the RBI

Entities lending outside the purview of any statutory or regulatory provisions.

India's digital lending:

Digital lending involves giving and recovering loans through web platforms or mobile apps. It facilitates speedy disposal and helps lower costs.

Lending Service Providers (LSPs) operate in collaboration with non banking financial companies (NBFC) who disburse credit to customers using the farmers' platform .However these platforms often resist to reckless practices by lending beyond a borrower's repayment capacity.

RBI Guidelines:

Some of the new guidelines are:

All loan disbursed and repayments are to be executed between the Bank accounts of the borrower and the entity. This eliminates the presence of a nodal pass through or pool account of the LSP.

Lenders must inform the borrower about all the fees, charges and the annual percentage rate(APR) in a standardized format.

Charges payable to LSPs in the credit intermediation process will be paid directly by the bank and not the borrower.

No automatic increase in credit limit can be made without the explicit consent of the borrower.

Data collected by digital lending apps must be need based, with the borrower's prior consent, and can be audited if required.

Banks and LSPs associated with them must appoint a nodal grievances redressal officer to deal with fintech or digital lending related complaints.

The borrower can complain to the Integrated Ombudsman scheme of the RBI if their grievances are not resolved by the bank within 30 days.

Regulated entities are required to ensure that any lending carried out through digital lending apps has to be reported to credit information companies (CICs)

Lending through the Buy now pay later (BNPL) mode also needs to be reported to the CICs.

The RBI has mandated these regulations in order to check miss-selling to customers, unethical business conduct, exorbitant interest rates, and excessive engagement of third parties in digital lending transactions.

Digital lending in India:

Table 1: Value of digital lending market in India from 2012 to 2020 with estimates until 2023(in billions US Dollars)

Financial year	Digital lending in billions US Dollars
2011-2012	09
2012-2013	14
2013-2014	23
2014-2015	33
2015-2016	46
2016-2017	58
2017-2018	75
2018-2019	110
2019-2020	150
2020-2021	200 (Projected)
2021-2022	270 (Projected)
2022-2023	350 (Projected)

Digital lending is one of the fastest growing fintech segments in India and grew exponentially from 09 billion U.S .Dollars in 2012 to nearly 150 billion U.S .Dollars in 2020. It was expected that the digital lending market would reash a value of around 350 billion US Dollars by 2023. This business was mainly covered by Fintech Startups and non banking financial companies (NBFC).

Advantage/Opportunity:

Over 190 million Indian adults don't have any kind of Bank account thereby representing a huge opportunity. Over the years, the digital lending market in India has significantly expanded. The value of digital lending rose from USD 33 billion in Financial year 2014-15 to USD 350 billion by 2023(Projected).

ML and Digital Learning:

Using the power of machine learning, financial institutions can now make quicker and more accurate decisions by shifting from an analysis of individuals to an analysis of patterns and trends. The global market for digital lending platforms is anticipated to reach $20 billion by 2026, representing a compound annual growth rate of 19.6 percent over the previous seven years.

As a result of the advantages of a transformed lending process, such as improved decision-making, happier customers, cost optimization etc., machine learning provides lenders with a variety of ancillary leverage points,

such as Enhanced operational effectiveness, Improved precision, simplified compliance, and Effective analysis of large volumes of data.

From accelerating the underwriting process to improving portfolio composition and optimization, robot-advising, model validation and alternative credit reporting machine learning aids the lending industry by automating processes that previously required extensive manual paperwork.

It accomplishes this by analyzing unprocessed data sets and deriving meaningful insights in order to provide accurate decisions. The system then uses this information to solve complex, data-rich problems that are crucial to the banking and finance industry.

Conclusion:

The industry has been alerted by Covid-19 to the tremendous potential of digital transformation. As customer demand for contactless transactions rises, more lenders will adopt technology to provide borrowers with maximum convenience. Even traditional banks and non banking financial companies(NBFCs) are realizing the need to digitize processes such as customer on boarding, risk assessment, loan underwriting, disbursement, and repayment in order to redue operational costs and enhance the customer experience.

With services such as video-KYC, Aadhaar-based KYC and websites and applications with cutting edge functionalities, loan application procedures will become more efficient and less cumbersome. Additionally, the traditional credit underwriting procedure will undergo a radical transformation. Lenders will increasingly utilize cutting-edge technologies such as AI, ML and big data analytics to collect and e3evaluate date from multiple sources in order to evaluate the credit worthiness of an applicant more quickly and efficiently. With the technology that enables alternative credit scoring, lenders can extend credit to a greater number of individuals, thereby advancing the cause of financial inclusion.

In the coming years, technology will continue to disrupt the digital lending ecosystem, with a renewed emphasis on delivering an improved end-to-end customer experience.

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