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Original Article

Fintech lending in India: A Threadbare Analysis of the Demand Factors

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1. Abstract:

Purpose: Fintech lending is an emerging innovation in the Indian financial market. With increasing technology development and artificial intelligence, fintech companies have developed a new method to mitigate risk and identify creditworthy borrowers, disrupting the conventional approach. The primary goal of this research project is to understand better the demand factors that affect the fintech lending industry in India.

Methodology: In order to comprehend the factors, this investigation relies on secondary sources of information, including scholarly articles, reports, and newspaper articles.

Findings: The study finds the six factors that influence demand. It's clear that some of them have a long-lasting impact, while others seem to have a temporary one.

Originality: This study fills an informational void by illuminating the need for fintech lending in India. The findings of this study will aid in the development of a case study-based methodology for future research. The study provides a broader context, as well. Also, determinants of lending in the fintech industry.

Paper type: The study is a desk research paper based on a conceptual framework.

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2. Keywords: Fintech lending, India, Demand, Digital India.

3. Introduction:

Fintech refers to any technologically enabled financial innovation that may lead to unique business models, systems, procedures, or commodities and hence have a significant impact on the financial services industry as a whole. The Financial Stability Board (FSB) describes FinTech as "technology support for financial services that may lead to new business models, applications, processes, or products that significantly impact financial markets, financial institutions, and the provision of financial services."

Fintech established themselves as a major participant in the lending sector. With a CAGR of 27.4% between 2021 and 2030, the global FinTech lending market is expected to increase from its 2020 valuation of $449.89 billion to a total of $4,957.16 billion (Goswami et al., 2021)[6]. Fintech changes the traditional system in activities like lending, payments, algorithm trading, etc. The impact of fintech on the banking and financial sectors has been substantial.

The term "demand" is used in economics to describe the level of interest in and the ability to pay for a product or service. In fintech lending there are the various factors that influence the demands in this sector. In this paper researchers explore demand factor that helps the fintech firms to grow their market in India. It is possible due to the innovation in information technology, growth in mobile & internet connectivity and market based financial intermediation. Fintech sector is currently developing new goods and services and implementing new business methods in order to reach their target consumers.

4. Objective:

In this paper, researchers explore the demand factor that helps fintech firms to grow their market in India.

Demand Factors:

There are a lot of factors that have an effect on the demand for the financial lending industry. Some of these factors create demand, while others maintain the demand over an extended period of time. Demand factors of lending (D_L) are as follows; -

1. Accessibility & inclusion in the banking sector (I_b)
2. Pandemic-Economic strain (E_s)
3. Demographic demand (D_d)
4. Customized loan service (C_s)
5. Instant loan disbursement (I_d)
6. Marketing tactics (M)

$$D_L = f(I_b, E_s, D_d, C_s, I_d, M)$$

1. Accessibility & inclusion in the banking sector (I_b):

In India, Bank plays a major role by acting as savings mobilizers and credit allocators for production and investment. By providing credit to those business owners most likely to succeed in launching their new ventures, banks play an important role in the expansion of the national economy (Central bankers, 2013)[2]. On August 28, 2014, the Government of India introduced the "Pradhan Mantri Jan Dhan Yojana" (PMJDY) scheme to Indian citizens with the goal of providing them with access to financial services. The PMJDY plan encourages people to register bank accounts, increase their deposits, and receive larger loans. As of October 5, 2022, the total number of beneficiaries is around 47 Crore, and the total deposits in accounts under the PMJDY scheme is around 1,75,000 Crore (pmjdy.gov.in, 2022)[12]. Research by Maity and Sahu shows that overall technical efficiency increased in PSBs after the PMJDY scheme (Maity & Nath Sahu, 2020)[11].

Currently, 12 public sector banks with a total of 86,311 branches and 21 private sector banks with a total of 35,791 branches are available services to the consumer in India (Reserve Bank of India - Publications, 2021)[14]. Financial access can improve the standard of living of the citizen of a country. An effective inclusive financial system is necessary for economic growth in India, where a lack of accessible, affordable, and adequate financial services has long been an issue. By increasing banking penetration, installing new ATMs, and implementing other initiatives, the Reserve Bank of India (RBI) and the government of India are actively working to promote financial inclusion for economic growth (Raman, 2012)[13].

The banking sector's role to the creation of loan possibilities is evident. Accessible banking accounts create an opportunity to borrow money from the organised financial sector. Fintech uses this chance to understand, how account holders use their bank accounts, which sector they want to invest, and how much they willing to invest.

2. Pandemic-Economic strain (Es):

As with the health care system, the global economy took a significant hit when Covid-19 attacked. India is one of the major countries that is affected by the covid 19 pandemic a well function financial system also disrupted. To understand the impact on the economy five factors are need to follow; GDP, unemployment rate, interest rate, inflation rate, industry output (Barbate et al., 2021)[1]. Because of the pandemic, the GDP shrank 6.6% in fiscal 2021, although it bounced back to grow 8.7% the next year (CRISIL Global Research and Risk Solutions, 2022)[3]. During lockdown unemployment rate was all time high in overall (average of rural and urban rates). In April, 2020, the unemployment rate was 23.5% which was previously 7.2 % in Jan'2020 (Unemployment, 2022)[17]. Not just unemployment, also inflation was all time high, an analysis by MOSPI shows that upward trend 1.88 in Apr'2020. Retail inflation jumps to 8-year high of 7.79% in April (CPI) jumped (Trading Economics and MoSPI, 2020)[16] RBI decreases the rate to encourage the banks to give credit. Reverse repo rate was decreases to 4%, repo rate comes down to 4.40% and marginal standing facility rate cut down to 4.65% and also decreases the CRR by 1% (Barbate et al., 2021)[1]. Industry output disrupted due to the extended lockdown in March, April and May 2020.The Ministry of Statistics and Programme Implementation said that in July, the index of industrial production (IIP) fell by 10.4 percent, to 118.1 (MoSPI) (Indian express, 2020)[9].

In India, digital lending has been around for a long time. In spite of this, the digital lending sector has been pushed forward to a new level as a result of the economic strain caused by the pandemic. As a result of the widespread economic hardship caused by the issues mentioned, a growing number of individuals have turned to borrowing in an effort to alleviate some of the burden.

3. Demographic demand (D_d):

Demographics define the characteristics of populations. Employment, education, income, marriage rates, birth and death rates, and other forms of socioeconomic information expressed in numerical form are all examples of demographic data. In 2015, Younger, higher-income people are more likely early adopters of FinTech. For instance, over a quarter of all 25-34-year-old respondents have used two or more FinTech products in the preceding six months (Gulamhuseinwala et al., 2015)[7].

It is also seen in India, that millennials are preferred digital lending. As per Economic times those millennials prefer fintech lending are already denied by the bank for their credit score or security (ETBSFI, 2022)[4]. Not only that millennials are also attracted to online loans thanks to attractive offers, perks, and quicker application processes (ETBSFI, 2022) [4]. LenDenClub found that millennials between the ages of 21 and 30 make up the largest demographic of both borrowers (56%) and lenders (54%). Followed by the ages between of 31 and 40 made up 37% of borrowers and 33% of lenders (LenDenClub, 2021)[10].

According to a survey conducted by ZestMoney on BNPL platform, BNPL has become the favoured option for individuals of all ages in 2021, with the youngest user being 18 years old and the oldest customer being 66 years old. The majority of BNPL's 2021 clients were between the ages of 23 and 26 choose BNPL as their preferred option. The millennial and gen-z client bases have grown by a factor of 2x and 3x correspondingly also increase 143% in women customer and 137% increase in men, demonstrating that in accordance with the worldwide trend, India is driving the BNPL market (THE INDIA BUY NOW PAY LATER REPORT 2021)[15]. Sugandh Saxena, chief executive officer at FinTech Association for Consumer Empowerment (FACE) said, the report's trends highlight the importance of fintech lending in meeting the needs of young, low- and middle-income customers by making personalized, convenient loans more accessible at affordable rates. They are certain that the fintech lending industry will continue to grow sustainably to help people meet the possibilities and challenges that lie ahead, thanks to a forward-thinking regulatory and legislative framework, an emphasis on customer-centricity, and the creativity of the market.

So, it is evident that various types of individuals show the demand for lending from fintech.

4. Customised loan service (C_s):

One of the most significant changes made by fintech is the availability of loans to individuals who are typically excluded from the traditional lending ecosystem. The quantity of personal loans has over three times from FY 2017 to FY 2021, reaching Rs 644.6 lakh crore as of March 2021, according to available data. During the same time span, loan amounts have decreased by 40%, from Rs 2.4 lakh to Rs 1.5 lakh. It demonstrates an amazing increase in microloans, bringing more individuals into the formal credit ecosystem (How Fintechs Are Embracing Changing Demands of Consumers, 2022)[8]. Fintech firms, with their emphasis on data and analytics, have created a customer-based, customized offering that addresses previously unfulfilled demands. Most banks and financial organizations that offer personal loans have a minimum loan amount of Rs.50,000, a minimum loan term of 12 months, and a maximum loan term of 60 months. Personal loans from fintech can start as little as Rs.20,000, and the terms can be as short as 3 months or as long as 60.

Flexibility one of the reasons that attract the customer.

5. Instant loan disbarment (I_d):

Instant loans as the name implies, allow you to get your hands on loan quickly. Features offered by fintech firms; instant approval or rejection, online verification, flexibility of tenure. Fintech firms uses. One of the biggest differences between bank and fintech is fintech can release instant loans far more quickly, often within minutes of receiving an application by go through user's credit worthiness. Most fintech organizations utilize risk-assessment algorithms to determine user's creditworthiness. Users can upload their documents in online no need to go the institution. Users can submit their paperwork electronically instead of physically visiting the institution.

Ease of getting a loan create a demand in users' group.

6. Marketing Tactics (M):

In order to cater to each customer's unique set of needs, fintech companies employ innovative methods of advertising, such as the usage of AI and Robo-advisors to learn about customer's financial habits. Most of the time, they'll attempt to educate the consumer about the benefits and drawbacks, so that they can make an informed decision. Fintech companies take advantage of customers' curiosity about specific topics by featuring their products in search engine results alongside news articles, reports, and user comments that discuss the pros and cons of using the product in question (Flavian et al., 2019)[5]. Adapting to new technologies and the growth of automated services is predicted to increase the value of the financial ecosystem to $616 billion by 2025.

5. Conclusion:

When the bank was unable to meet the demand for credit, the financial technology industry and other large technology companies stepped in India to mitigate the demand. Fintech market is expected to grow at CAGR 31% between 2021 to 2025 with an estimation of $1.3 trillion market to $1.7 trillion market. In that process lending market contribution is $616 billion (approx. 47%).

There are six major factors that create the demand in fintech lending. In these factors some of them have short term effect and others have long term effect in creation of demand. Inclusion of banking services opens a major path for the digital financial sector not just for lending for all financial services and Covid 19 and lockdown gives a major push to the lending sector. But still lack on personalize and customized loan for those who need a short amount or for those who need a quick loan, where these fintech lending comes to the market. For bring the hold to the customers fintech firms are also using unique market tactics to hold the attention of the customers.

Traditional financial institutions are beginning to consider non-traditional lenders more as possible allies than as competitors. In a number of ways, banks are partnering with fintech lenders. They might be anything from referring new clients to offering financial backing for new ventures. In other instances, clients won't even notice the connection, which is great for keeping their banking relationship strong. Slice is a digital lending platform that offers credit card in collaboration with several NBFCs, including Quadrillion Finance Private Limited, DMI Finance Private Limited, etc..

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