Digital Lending: A New Era of Banking in India

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Abstract- **This paper majorly focuses upon the main concept of digital lending and how it works in practical world. Paper also discloses benefits through adopting digital lending processes by any lending organization. It justify why Indian banks should go for digitalize lending and how it can be beneficial to the current advancement in MSME sector. This paper also elaborates how a bank can be capable to serve through digital lending. In the confusion, author forces Indian banking sector experimenting digital lending and the consequences in near future.**

Keywords- **Digitalization, Indian Banking, Lending, MSME, Fintech**

I. INTRODUCTION: DIGITAL LENDING

Lending is simply the act of giving money on credit to another person called the Borrower against some pre-decided interest in return. This is universal concept of banking which has got organized in last few decades. The services are catered to Retail well as Institutional customers and changes according to the Economic Structures in different countries.

The lending process starts with bringing a borrower onboard then collecting information about the borrower, then validation with the help of various documents deciding what is the amount of credit or loan should be approved to the borrower on the precise interest rates. This entire process if get on various digital platforms through paperless process and with the help of electronic means will be called as **digital lending**. [1]

The biggest challenge before entire industry is to decide for a bank that how much money it should lend to his customer as Customer focus of Banking industry bring a narrow competition. In digital banking the concept of Credit Score has evolved. Credit score which is a three digit numeric summary of entire credit behavior of a person. In recent times for the evolution of Banking made a resolution regarding a Credit history of a person while lending for any purpose. CIBIL an authority to issue credit score to the person by referring his base history of credit throughout years. Digital lending moreover considers such credit score provided by Agencies (like CIBIL in India) consider as a base platform for lending.[2]

A. How it Works?

As this entire procedure is online and with the help of electronic media there shall be a huge bulk of data related with the transactions and records made by the borrowers and lenders. Technology plays very important role in setting up the network of digital lenders. Technology also brings in various private players as **'fintechs'** in the market these people are not just technologically sound but uses more advanced models of Data Analytics and social media along with it. Traditional banks has a big challenge to stand before search Techno-savvy organizations and provide a competitive advantage in the market especially in niche areas of digitalization.

B. Digital Lending Process has the following advantage

1) ***Costs:*** Digital way of lending save a lot of cost over the manpower as well as the fixed asset by any banking or financial institution and also upon the transactions which are made on the daily basis or recorded by manual procedure.
2) ***Technology and Data Processing:*** In today's world technology is very cheap and the data processing services provided all over world are the talk of the town. Therefore it becomes easy to handle many customers at different locations at a time.
3) ***Speed:*** Collection of borrowers information its validation and disbursement of loan becomes easy and in pace that a loan applicant can get this loan instantly in a day or two. Some 'fintechs' claiming to provide loan within an hour as per the information provided by the borrower.
4) ***Multilevel Network:*** Digital Lending performs various processes on diverse levels where lending institutions with different organizations and channels get associated at one place, which ultimately brings a huge network of Institution growing together.
5) ***Borrower Satisfaction:*** the customer who gets associated with such technological advancement and efficient organization get a good support from their side and feels satisfied over the services provided to him in such short period of time.

C. Why Indian Banks should go for Digitalized Lending?

Digitalize landing uses customize models and industry best practices along with the existing customer data to automate the lending decision making process. It completely anywhere eliminates the risk of improper decision making as it happens in the regular practice in traditional lending.

Many time it happens with the borrower that the need of money tends to an emergent bases and therefore loan application and processing takes his much time. But in digital lending this error can be totally eliminated and customers can be served as per the demand for finances. Indian banking sector has evolved in last ticket and therefore it is still in a growing condition to reach at its end market. Therefore huge amount of products can be served to the customers through digital lending platforms looking at their demographic and economical characteristics.

Banking structure in India is more or oriented with the Nationalized banks. Private players are providing customized services that too in urban areas and majority of rural sector has been departed from the mainstream banking services. In such case in spite of expanding on the staff or the infrastructural facilities banks can focus upon digital platforms and reach every home with the help of various apps at the smart phones or through digital counters at various places in remote areas to form strong networks which ultimately will provide peaceful solutions to complex interest rate issues upon RBI. If Nationalized banks wants to get over commercial banking in competition with the private sector banks or global banks, digital lending process will be huge milestone for Indian banking sector.

If, we consider problems with institutional lending, Indian MSME Sector is largely dealing with such issues. In India, the GoI, via India Stack and the JAM (short for Jan Dhan-Aadhaar-Mobile) Trinity, is supporting digitization and the fintech industry. IndiaStack is a set of APIs that allows governments, businesses, startups and developers to utilize a unique digital Infrastructure to solve India's hard problems towards presence-less, paperless, and cashless service delivery. JAM Trinity refers to the government of India initiative to link Jan Dhan accounts, Mobile numbers and Aadhar cards of Indians to plug the leakages of government subsidies.

MSME banking is likely to be the fourth-largest sector to be "disrupted" by fintech in the next five years after consumer banking, payments, and investment/ wealth management (PwC 2016 Global fintech Survey report). Fintech companies are offering solutions that can substantially improve efficiencies at every step of the lending process. Fintech models can provide end-to-end solutions for the lending value chain or "full stack lending models" such as peer-to-peer (P2P) lending, marketplace lending, crowd funding, invoice based financing and so forth.

Figure 1: Key players in the MSME lending space in India (source WBG study on Fintech for MSMES in India, 2017)

D. *What it takes a Bank to be able to serve 'Digital Lending':*

Most banks have already integrated a digital banking offering into their services. Allowing for fund transfer or cash withdrawals without human interaction is not new. The next step for banks is digital lending: allowing customers to apply for, receive and access loaned funds instantly and automatically, using any device. This kind of offering has many benefits; here are a few to consider:

The path to becoming a true digital lending organization involves five steps.

1) *User-Centric Design*: Applying design thinking principles, oriented to both internal and external users. Tools that are used to support user-centric design include journey maps, borrower personas, creation of multiple concepts, listening labs and prototypes.

2) *Data-Driven Decision Making:* Making the right information available at the right time, to the right stakeholders, in the right format. Artificial intelligence (AI) and machine learning can match customer needs with the right product … proactively.

3) *Flexible Infrastructure:* Systems and architectures must be configurable, aligning to real-time requirements that may extend beyond traditional ecosystems to accommodate external APIs.

4) *Effective Development Approach:* Development capabilities must align with the need for a much more intense speed-to-market functionality. Delivering 'high velocity' IT and an agile framework that is iterative is no longer optional.

5) *Organizational Agility:* Beyond systems and back office processes, there needs to be a tearing down of the silos that can stall development and implementation. This requires a change in culture that supports innovation and promotes change.[3]

II. CONCLUSIONS

The digital revolution in banking has only just begun. Today we are in phase one, where most traditional banks offer their customers high-quality web and mobile sites/apps. [4] An alternate approach is one where digital becomes not merely an additional feature but a fully integrated mobile experience in which customers use their Smartphone or Tablet to do everything from opening a new account and making payments to resolving credit-card billing disputes, all without ever setting foot in a physical branch.

Digitization, *Linkage of Adhaar*, *Introduction of E-KYC, Start ups of Fintech 'Lending-as-a-Service' (LaaS) platform*s, *Usage of Block-Chain*, *Introduction of Cheap Internet*, *Reducing import duty on Smartphones*, *Progression of Analytics and Alogorithms* will bring huge avenues to develop bankers' own models as per the Borrowers profile and their timely needs. The role of RBI will shift from in-depth Money Management to supervision and the controlling will become an ease. This ultimately will change the face of Indian Banking Industry. From a Process based to a Customer sector.

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