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The Role of Digital Platforms in Revolutionizing the Lending Sector

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ABSTRACT: Existing loan processes currently take a long time to complete due to manual verification, resulting in poor accuracy and efficiency due to human error. In the field of financial technology, digital lending is a new, revolutionary, and emerging area. Digital lending is defined as the use of technology to originate and renew loans in order to provide faster service and decisioning. As a result of the massive wave of process digitization and automation seen across lending institutions, the lending space has taken the path of digitization. The digitization of a process such as lending has gained significant traction as a result of the use of new technologies, scoring algorithms, and an inclusive approach. The mechanisms and growth of the digital lending space are the focus of this paper.

KEYWORDS: Digital, lending, Financial technology, Financial service systems, Digital transformation, Value creation.

I. INTRODUCTION

Traditional banks before globalization have run as a monopoly in the financial market, with the help of the ruling government and other financial institutions, they could develop large infrastructure and increase their network growth. The globalization in the banking sector has led to increased cut-throat competition with other banks to provide or attract customers with better, high-end technology that meets customer satisfaction and demand. The traditional banks had a significant number of issues related to offering customers a better experience, which led to the growth and rise of Fintech Ventures, that deep dive into niche market sectors in order to help digitize the process of banking. [1]

The lack of customer involvement, low value creation in ideas, innovation and technology, facing difficulties in upgrading banking technology due to an infrastructure built and improperly maintained over a long period of time has led to a disruption in the traditional banking sector and given rise to alternate finance. Poor adoption of technology has reduced the customer experience of banks, the customers of today's era are more technology centric which opens their options to financial institutions with which provide similar services, but meet the customer demand area with the aid of Customer Relationship Management (CRM) tools and other services to provide a smooth functioning digitized process in order to achieve more efficiency.

The banking landscape is rapidly changing, with nearly all banking processes becoming digital. Especially in these trying times of a global pandemic, various banks are focusing more on virtualization to reduce physical touch-points while improving customer experience. The conventional or traditional method of lending includes a rigorous documentation process where the borrower and the bank go through an elongated process which leads to increased lead time. However, with emerging technology and developing systems and processes the process of loan lending has become more efficient and less taxing to both the borrower and banks. Therefore, enhancing the loan lending process with digitization leads to a reduction in lead time, adds more value-added time, more percentage in loan conversions and finally leads to an overall increase in productivity. The feasibility of the current project includes a paradigm shift



which has led to digitization of existing processes to prevent human contact and error as much as possible, thereby accelerating the pace at which bank loan processes are digitizing.

1.1 Lending in Fintech

There are many disruptive companies in the fintech ecosystem, but perhaps none more so than the lending industry, which offers online payments, loans, financing, transactions, and insurance. ‘The process of borrowing, disbursing, and managing digital channels through which credit decision-making and smart customer involvement are informed by digital data is referred to as digital lending’. [2]

1.2 Types of lending

Fintech lenders are currently experimenting with a variety of lending models, including:

- *Lending based on POS transactions:* - Credit will be granted using POS and future POS electronic transaction data and payments. [3]
- *Payments:* - Fintech payments allow those who do not have banks to transmit money to others. As a result, significant bank fees for simple peer-to-peer transfers are no longer necessary.
- *International Money Transfers:* - People paid a lot for international money transfers (as much as 8 percent). Furthermore, traditional transfers are time consuming. FinTech firms, on the other hand, now provide faster and less expensive international money transfers.
- *Equity Financing:* - Fintech firms in this sector make it easier for business owners to raise capital. Certified investors are sometimes matched with pre-screened startups. Others use crowdfunding models to make investments in new businesses possible. In a nutshell, they make it easier for a business to collect money.
- *Consumer Banking:* - Fintech firms provide better alternatives to banks in the consumer banking sector, generally paying significant fees. Instead, debit cards may be issued to people who are unable to obtain or do not desire credit cards.
- *Insurance:* - Fintech firms entered the insurance market as well, but their primary focus has been distribution. They use apps to reach out to uninsured customers. As a result, people who want to borrow a friend's car can only purchase insurance for a few days. However, because the insurance industry is highly regulated, organisations typically work with traditional insurance companies in this category. [4]

II. EXISTING LENDING PROCESS

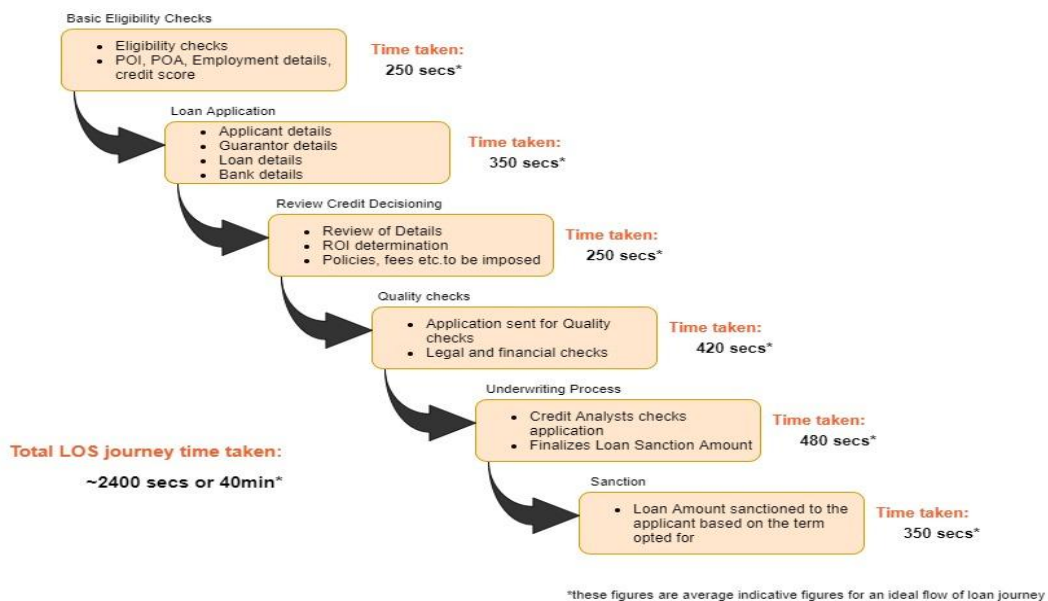


Fig. 1. The existing loan origination process

The existing loan journey consists of more or less the following steps: -

Step 1: Onboarding Customer

Step 2: Applicant details and Documents

Step 3: Credit and Risk assessment

Step 4: Underwriting

Step 5: Legal Check

Step 6: The Final Loan Deal, Signing the Agreement, & Disbursal

2.1 Issues Identified in Conventional Lending Processes

The entire lending process is done manually in the existing traditional banking and financial systems, from finding prospective borrowers to authorising loans or credit, which was a time-consuming and exhausting process for borrowers. Banks use traditional credit ratings, such as the CIBIL credit score, to assess borrowers' creditworthiness. Traditional credit ratings have limitations and do not take borrowers' data into account. Furthermore, bankers only make loans to people who have bank accounts and a good credit score and can access the banks. As a result, despite the Government of India's numerous financial inclusion programmes, individuals and businesses lack access to banks, and those with poor credit become financially excluded. As a result, the traditional banking system financially excluded individuals and businesses, and the loan process is long and time-consuming [5]. 'Digital lending' has now filled these voids. Digital finance is fast and loans with technology and alternative credit ratings at cheap interest rates are provided for a shorter period of time. In less than one minute after obtaining the needed evidence, some digital lenders authorise the loan, providing a range of credit solutions to satisfy the needs of people and companies. The credit process has been changed by digital-loans, which have become a viable alternative to bank loans. Consequently, it is essential that we study the development and expansion of digital lending in India and around the world as a viable alternative to bank lending.

III. LEVERAGING DIGITAL TECHNOLOGY TO REVOLUTIONIZE THE LENDING PROCESS

3.1 Tools and Techniques enabling digitalization of the lending process

The worldwide financial services industry is growing rapidly as digital lending increases, especially in India. This rise is all driven by Internet use, technological advances, large data, digital ecosystems, innovative models, customer-centered approaches and time savings.

a) The usage of the internet

The digital revolution has begun. All over the world, behavioural patterns are constantly changing. In recent years, the Indian people have grown more reliant on online transactions enabled by websites such as e-commerce, digital government pushes, moneyless economy, and so on. In 2014, only 7% of urban Indians made online purchases; by 2018, that figure had risen to 30%. [6]

b) Fintech technological advances

Artificial intelligence, blockchain technology, cloud computing, massive data, and analytics have all been influenced by the way businesses operate today. As a result of these advancements, new Financial Technology businesses arose. One type of financial technology firm is digital lending companies.

c) User Experience in FinTech (UI/UX)

It's straightforward: if your website or application is irritating or difficult to use, customers will not become customers. In today's competitive fintech market, creating the right experience might mean the difference between success and failure. [7]

d) A digital ecosystem

A supportive digital ecosystem and supportive customer behaviour are required for the growth of digital-lending. 'India' has been a pioneer in creating a growing environment for FinTech and digital transactions. As a result of digital



ecosystemic projects such as Adhar, UPI, Bharat Bill, the cashless economic push, and taxes on goods and services, ‘digital lending’ has grown significantly (GST).

e) Business modelling that is novel

FinTech has revolutionised the financial services sector in general, and its lending sector in particular, by utilising innovative business models such as point-of-sale lending, bank and FinTech collaborations such as capital float, marketplace lending, and bank-led digital models. [8]

f) A Customer-Oriented Approach

Obtaining a loan via the internet is neither difficult nor time-consuming. Digital lending, on the other hand, is a simple and smart lending process. In terms of time, money, and approach, it is more convenient.

3.2 Leveraging Digital Technology in New Age Lending Processes - Conceptual Framework of Digital Lending

The lending process is a series of actions carried out by a financial service provider, beginning with customer acquisition and integration and ending with credit analysis, payment, and reimbursement. Throughout the financing process, the financial service provider promotes customer commitment and loyalty through high-level interactions that are tailored to the customer's needs and preferences. [9]

The ‘digital’ lending process involves using digital data and advanced algorithms to digitise credit purchase, distribution, reimbursement, loan involvement, collection, and customer service.

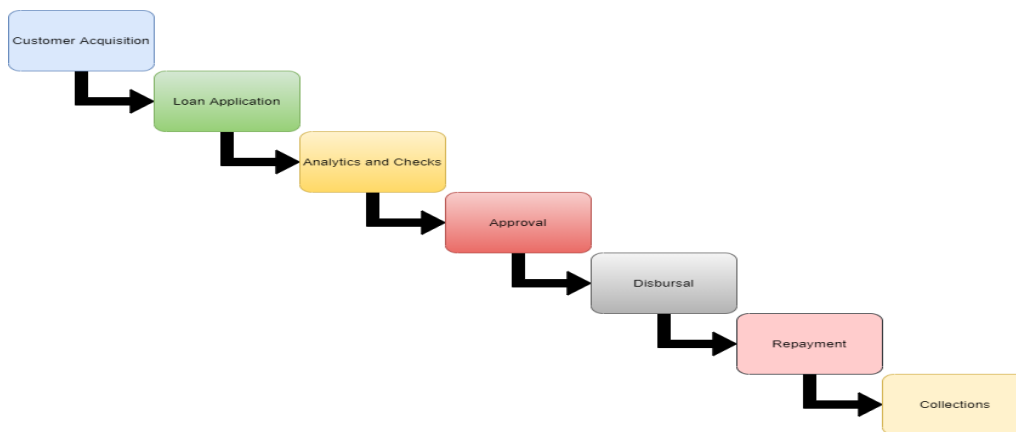


Fig. 2. The lending process

A) Acquisition of customers

Consumers can be acquired by digital lenders through a combination of digital marketing tools and channels, as well as strategic physical points of contact and referrals. SMS blasts, programme optimization, online banners, SCQ codes, and social network advertising campaigns are all examples of digital marketing tools. Digital marketing should also be used with caution, as aggressive push marketing may lead to increased empowerment. Unstructured additional data, SMS, web and mobile applications are all part of the digital onboard channel. Remote onboarding can also be accomplished through the use of central human call centres or AI-powered chatbot services. The identity of a customer is an important aspect of acquisition. The electronic KYC enables digital lenders to access verified government or private sector records, validates customer identity information, and eliminates the need for the customer to visit a physical identity document verification location. Digital acquisition channels increase efficiency and provide a high-quality data source for analysing customer creditworthiness, allowing customers to choose from a wider range of products. They also provide a low-cost way for potential customers to promote, provide, and improve transparency and critical product information. However, during the early stages of customer acquisition, payment marketing still necessitates responses to inquiries, especially in areas with low financial or digital literacy. In the early stages of digital marketing, traditional marketing techniques such as door-to-door sales and market storming can be used to supplement and manage this transition in the target market provider. It is determined by the canal (direct or indirect) through which the financial service provider receives its user data, as well as the nature of the financial service provider's relationship with its customers. Direct purchases are frequently difficult and costly, but they provide the lender with full customer



ownership and direct access to clients. Another option is to collaborate with a "data-rich" third party, such as an E-commerce operator, to gain access to their consumer datasets, albeit this requires a well-planned and resourced collaboration strategy. Indirect partnership procurement provides "pre-qualified" clients for a financial service provider, frequently forcing them to "purchase" the customer and restricting access based on contract restrictions. Before entering into a partnership, financial service providers should weigh the benefits and drawbacks, considering data that potential partners can give to supplement current client knowledge of the financial service provider.

B) Approval and Analytics

Lenders who have access to digital data can make underwriting decisions that are faster, more automated, and more accurate. This can be accomplished using traditional, alternative, or advanced data, analytics, and algorithms. To improve customer understanding and access, many lenders provide self-assessed and independent office data with expert information on the individual borrower (also known as data records), digital transactions (e.g. supplier payments, e-commerce payments, mobile payments), and social media information previously collected. Decisions are made in milliseconds, return times are cut in half, and the customer experience is enhanced. The data is turned into algorithms that predict the ability and willingness of customers to repay. In order to improve their analyses, the most advanced algorithms use reiterative machine learning methodologies. Regardless of the intricacy of the scorecard, digital lenders usually make higher initial defaults because they can 'learn' and respond to new trends from algorithms or risk assessors. It is frequently accomplished by allowing virtually everyone to borrow up to a predetermined coffee threshold and then analysing their reimbursement behaviour in relation to data collected. These lenders should also consider how to deal with defaulters, particularly for small loans, to avoid unfair penalties for early adopters who (inadvertently) helped test and refine their algorithm.

C) Disbursal and Repayment

Digital-lenders send and receive funds through 'digital' channels such as bank accounts, e-commerce, and mobile-wallets. Cashless channels improve business efficiency by creating a visible audit trail and lowering the risk of fraud. They also offer quick, sometimes instant distribution, allowing customers to access funds in seconds. Payment is made in a similar way, such as by auto payment. Some digital lenders, for example, manage risk successfully by retaining future revenue. When it comes to procurement partnerships, there may be disagreements about who owns the connection to the customer and his data. Fear of financial service providers "losing their clients" is often alleviated by the fact that the partner alone cannot replicate a convincing digital value proposition.

D) Collections

Data and algorithms gathered by digital lenders are used to aid in the collection process. Scorecards are used by some businesses to track customer behaviour and recommend customised recovery strategies. Customers who commit crimes are barred from obtaining In the future, credit could be a powerful motivator. Financially integrated product design, on the other hand, can help customers understand the long-term financial consequences of a credit value deficiency. This is beyond the frequently ineffective, self-directed financial literacy training. Instead, financial-service providers should include content and provision for educational messages in the design and deployment of digital products to reduce the strain and, as a result, the negative effect on customer collections. One method is to create short educational videos that are sent to local staff via mobile devices to remind them of their payments. Partnerships can also aid collection efforts by providing late-stage collection facilities or loans for future electronic commerce. However, because 'portfolio performance' necessitates a 'adjusting and learning' approach, financial technology firms frequently establish collective capacity for early stage collections, particularly when introducing new products. [10]

IV. STEPS TO DIGITIZE THE EXISTING LOAN JOURNEYS

When applying for a loan online, a customer journey consists of several steps, beginning with onboarding and progressing through the application, which includes filling out the necessary information. After completing the application, the customer must wait for the loan application to be approved. Throughout this time, the bank undertakes numerous financial inspections and checks customer information. The bank primarily examines the applicant's creditworthiness at this stage. After it is determined that the customer is able to incorporate the loan into his balance sheet, the customers who may accept or decline the offer will be given a loan approval paperwork. When the loan is approved, the loan amount is deposited into the customer's account. Most loans have a 'moratorium period,' which means that the borrower is not required to repay the loan after it has been fully paid off. After the moratorium period expires, the borrower must repay the loan in accordance with the agreed-upon estimated monthly instalments (EMI). From the lender's perspective, the repayment period is referred to as 'collection.' The repayment can be reduced by clicking a button, and the customer can get help via phone or chat 24 hours a day, seven days a week. [11]

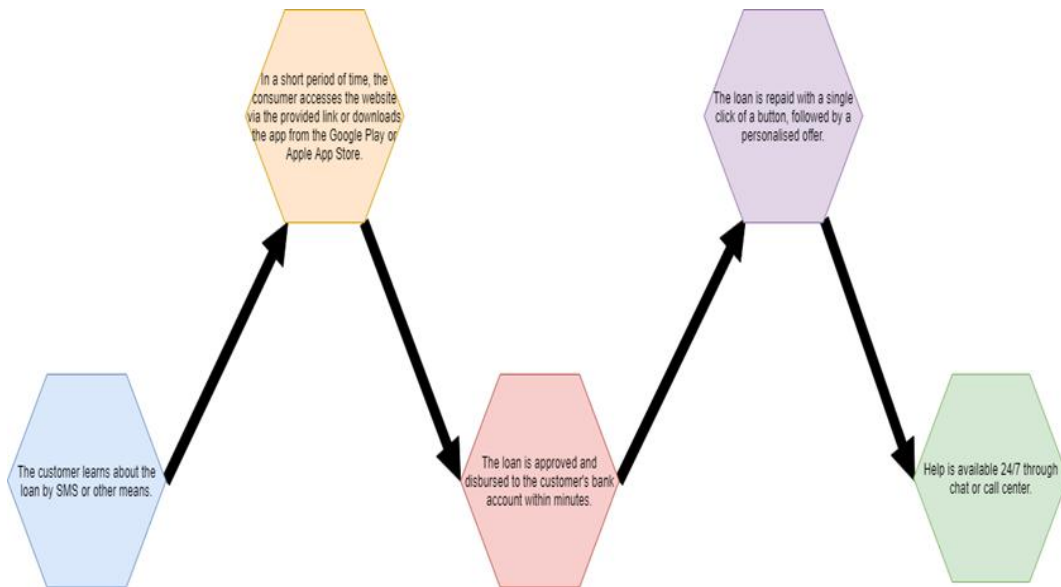


Fig. 3. Customer Journey of Digital Lending

4.1 Digital loan process transformation steps

Because of the breadth of digital lending, it can be difficult for prospective lenders to know where to begin. Every lender can start right now, but digital reforms take time. This should be done in no particular order. Many tasks can be completed concurrently to make the process iterative.

STEP-1: Evaluation and Development of ‘Digital Readiness’

Implementing ‘digital’ loans can be difficult and time-consuming, and success necessitates a solid structural and cultural foundation. An important first step is to assess lenders' digital readiness. As previously stated, this covers critical processes, activities, and systems that enable digital initiatives to be implemented throughout the lending process.

Increased preparation, including the implementation of a knowledge warehouse to assist consistent data gathering and visualisation, is critical for operational efficiency and lays the groundwork for the future design and delivery of digital-loans. A solid foundation for ‘digital’ readiness can help to eliminate frequent roadblocks in the adoption of digital lending.

STEP-2: Set the Goals and Objectives for ‘Digital Lending’.

Failures in digital lending are frequently caused by the lender's assumption that they are "digitally better than the status quo." It may appear to be a simple distinction, but distinguishing between the lender's objective and the customer value proposition is critical. For example, a financial services provider may decide to launch a digital lending product to expand its credit book and increase operational efficiency, but it cannot consider or explain why customers prefer this product over competitors. Transforming institutional aims into a significant value proposition necessitates full comprehension and empathy from customers in order to avoid poorly designed products or customer experiences. It is also critical to distinguish between long-term and short-term goals. While profitability and efficiency are long-term goals, financial service providers should prioritise and monitor client acceptance at the pilot stage because it is an important indicator of performance ‘(KPI)’. The pilot's goal is to increase acceptability, which necessitates a focus on how customers interact with the product, as well as an openness to learning and changing the offer as needed. To ensure long-term viability, the business model is frequently modified over time. When developing their digital roadmap, financial service providers should differentiate between digital pricing, the ability to provide digital services that are typically delivered via various digital tools - and a digital product proposal - by launching a digital end-to-end product. Several Financial Service Providers wish to establish digital products without the time needed to ensure their

digital availability before the introduction of existing digital products, which normally involves many years of system development and solid digital product capacity. The credit ecosystem can be a paradigm for the digital economy.

STEP 3: Putting Together a Channel Strategy

Many financial service providers want to introduce digital products without first verifying their digital readiness, which typically involves many years of system building and capable of delivering solid digital products. The market loan's digital environment could be used as a model.

STEP-4: Identify potential partners or integrations that can help to improve the digital offering.

The adoption of digital loans necessitates the acquisition of new skills and capabilities by traditional financial service providers. Partnerships are important because they add to the lending models of financial service providers, whose expertise and experience are required for a specific aspect of the credit process. They will assist 'financial service providers' in entering new markets, providing new solutions to existing customers, improving product competitiveness and 'efficiency', increasing consumer involvement and consumption, and significantly reducing plug-in times.

STEP-5: Prioritize and develop a digital maturity roadmap.

With a solid foundation of digital readiness in place, a financial service provider will take specific steps to improve digital lending and "tech and contact" channel strategy at every stage of the lending process by defining its digital-lending goals and identifying potential partners. Financial service providers should create a visible plan that focuses on key competencies, covers existing organisational parameters, and considers customer preferences. A road map encompasses all possibilities for long-term business planning, over and over annual-budget strategic thinking, and cross-functional cooperation. The paper assesses project-by-project interdependence over time in order to accomplish the somewhat ambitious objectives of the Financial Services Provider. More cross-functional alignment of these 'goals' is also possible, which is crucial given the complexity of most digital initiatives. Again, not all financial services organisations aspire for a full 'digital' presence; the roadmap outlines their client categories and organisational objectives of each financial services provider. [12]

V. DIGITAL LENDING GROWTH IN INDIA: A FUTURE PERSPECTIVE

The first web users in India were millennials, men, and subway riders at the start of the internet boom. However, with all types of people in India now using the Internet, this scenario is no longer valid. Boston Consulting Group discovered that 50 percent of Internet-based loan seekers purchase their loans online, based on consumer behaviour research conducted throughout the purchase journey. According to research, the expansion of Indian digital infrastructure, as well as Indian customer readiness, will drive an exponential increase in digital lending. Over the next five years, the total value of digital-lending in India is expected to be around \$1 trillion [13]. Small and medium-sized enterprises and personal loans are the most popular types of digital customer loans, followed by housing loans. As a result of technological advancements, Indian financial service providers may now promote financial inclusion. 'Aadhaar' numbers now include a mobile phone as a distinguishing feature. Over one billion Indians have a cell phone or an Aadhaar card. Unbanked Indians now have access to formal financial system benefits through one or both of these intermediaries. While India's digital lending industry has had a significant impact, it is still in its early stages. The following activities are likely to 'broaden the scope and growth of digital lending':

- Increase the limit on digital loans from Rs 60000 to Rs 500,000 using One Time Password-based 'e-KYC'.
- 'Amending Section 138 of the Law of Negotiable Instruments of 1881' to allow for digital signatures (e-signature) on loans.
- Acceptance of e-mandates for collected digital-loans

The FinTech market has done well in light of 'COVID' declines. 'COVID-19' wreaked havoc on the global economy, with long-term consequences for businesses and consumers. Despite these adversities, FinTech's have proven to be resilient and adaptable, assisting in the relief of pandemics, changing operations and offerings for vulnerable markets such as micro, small, and medium-sized enterprises, and posting annual growth in the majority of locations. 'Covid-19, is rapidly changing the way people interact with financial services in order to accelerate the safe and inclusive transition to digital banking. [14]



VI. CONCLUSION

Digital lending has transformed the lending industry all over the world. This article investigates digital lending, including its conceptual framework, growth factors, and technology. Globally and in India, digital loans have transformed the lending industry. Digital lending is driving technology and new business models. Because of its time-saving and inclusive techniques, digital lending has begun to emerge as a viable alternative to traditional lending. Digital lending is an alternative to traditional loans because digital lending companies, mostly small and medium-sized loans, enable access to digital lending companies through alternative lending procedures, even for those who are financially excluded.

Any interested party, including banks and CNBFs, customers, analysts, and researchers, may benefit from a digitised loan procedure. Client digitalization would strengthen the institution's ability to make correct and trustworthy decisions while also creating an environment conducive to continuous improvement.

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