Fintech-led Digital Lending: Coming of Age

(Impact Created, Pertinent Issues and Outlook 2030)

Foreword by
Saikrishnan Srinivasan,
MD, Experian Credit Information Company of India

Fintechs have been instrumental in driving digital lending in India. The impact of enhancing process efficiency and the customer experience has scaled up digital lending in India. However, there is another important aspect to digital lending that makes the role of fintech extremely critical. It is on the agenda for increasing credit coverage and thereby enhancing financial inclusion. We believe this white paper can set the foundation towards addressing this gap.

I'm pleased to release the report titled "Fintech-Led Digital Lending: Coming of Age," which focuses on the role of fintech-led digital lending in reducing the credit gap. Insights from the bureau provide an empirical foundation that will have numerous takeaways to aid digital lending. This white paper also delves into the transformative changes ushered in by the fintech industry in the way credit is delivered through digital innovations. The white paper discusses how digital lending has been instrumental in providing a superior experience by reducing turnaround time for credit applications. Fintech has not just addressed the credit gap but also helped reduce geographical disparities in credit supply. The white paper is also forward-looking, as it provides key predictions on the digital lending landscape for 2030. Financial inclusion is one of Experian's mission as a key player in the ecosystem, and this white paper is a reflection of our commitment.

Digital lending is an evolving space and provides tremendous opportunity for fintech to make further inroads. I believe that you will find the report insightful, and I look forward to hearing your views and feedback.

Foreword by

Siddharth Mahanot,

Chairperson - Knowledge committee, DLAI

It gives us great pleasure to introduce the most recent whitepaper produced by the Knowledge Committee of the Digital Lenders Association of India (DLAI) in collaboration with Experian. The whitepaper, **"Fintech-led Digital Lending: Coming of Age (Impact Created, Pertinent Issues, and Outlook 2030),"** explores how fintech-driven digital lending has helped close the credit gap and how it has fundamentally altered how credit is provided through technological advancements.

The DLAI Knowledge Committee has been working with various partners and members to bring out whitepapers, podcasts, and webinars to further their mission of fostering the growth and development of digital lending in India. This paper offers an empirical basis and bureau insights that will have several takeaways to support digital financing. It's amazing to note how fintechs have lessened geographical differences in credit as well as the credit gap.

The research also makes important projections regarding the future of digital financing through 2030. Experian and DLAI's vision is centred on financial inclusion, and this report represents our dedication to achieving it. We are certain that this whitepaper will be a useful tool for all participants in the ecosystem of digital lending.

Executive summary

A decade ago, not many of us would have envisaged how fintechs would change the credit landscape through digital innovations. Although the share of fintech in the overall lending pie is still small and concentrated towards bite sized unsecured lending, the promise it holds for the future is immense. Fintech-led digital lending is the fastest-growing segment today. The disruptions created by fintech by providing a superior customer experience with a reduced cost of acquisition, a frictionless customer journey, and instant decisioning have revolutionised digital lending in India. The larger impact is in terms of addressing the credit gap and making India more credit-inclusive. This report, while taking a deep dive into these aspects, has the following key takeaways:

1. Fintechs, through their unique operating model and innovative underwriting processes, have helped to bring a large population under the credit umbrella. A large segment has overcome their credit hesitancy and taken credit, especially for their consumption needs. Not only are the fintechs sourcing more from the New To Credit (NTC) segment, but they are also addressing geographical disparities in credit supply (based on personal loan disbursals). In business loan, MSME borrowers (especially Bureau score < 700) are catered to more by fintechs compared to other lenders. Fintechs have even motivated traditional players to accelerate their digital transformation journey. Co-lending arrangements are a testimony to how the innovations from fintechs are valued by large, traditional players. In the recent years digital lending has seen a rapid growth but some of the post lending procedures which require physical efforts, such as collection have not matured that rapidly. Due to this Fintech see an increased Delinquency rate and Lower rollback.

2. We find new age fintech players to be largely focused on personal loans (< Rs. 50,000 ticket size including Buy Now Pay Later (BNPL) sub-segment), business loans (< Rs. 5 lacs sanction amount) and supply chain financing. In order to further deepen their share in the overall digital lending market, they will need to expand into asset-backed product segments, which are currently dominated by traditional players. To enable this, digitisation of land records and properties, field verification of borrower authenticity, and collection digitisation are areas that need investment. Organisations willing to make these investments today can enjoy the benefits of being an early mover in the future.

3. Gen Z and Millennials are digital natives and hence have a natural proclivity for digital purchases. It is no surprise that fintechs have greater traction among Gen Z and Millennials. The share of these digital natives in the addressable market will increase over the next decade. This can put fintechs in an advantageous position. Fintechs need to invest in enablers and accelerators such as new data partnerships, leverage analytics to underwrite on New To Credit (NTC) and Thin File Customers, focus on cybersecurity, and invest in regulatory compliance measures. With all these foundations in place, the next decade would be transformational not just for fintechs but also for the larger credit ecosystem in India.

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Digital Lending: At Inflection Point

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Democratising Access to Credit: Fintechs Show The Way

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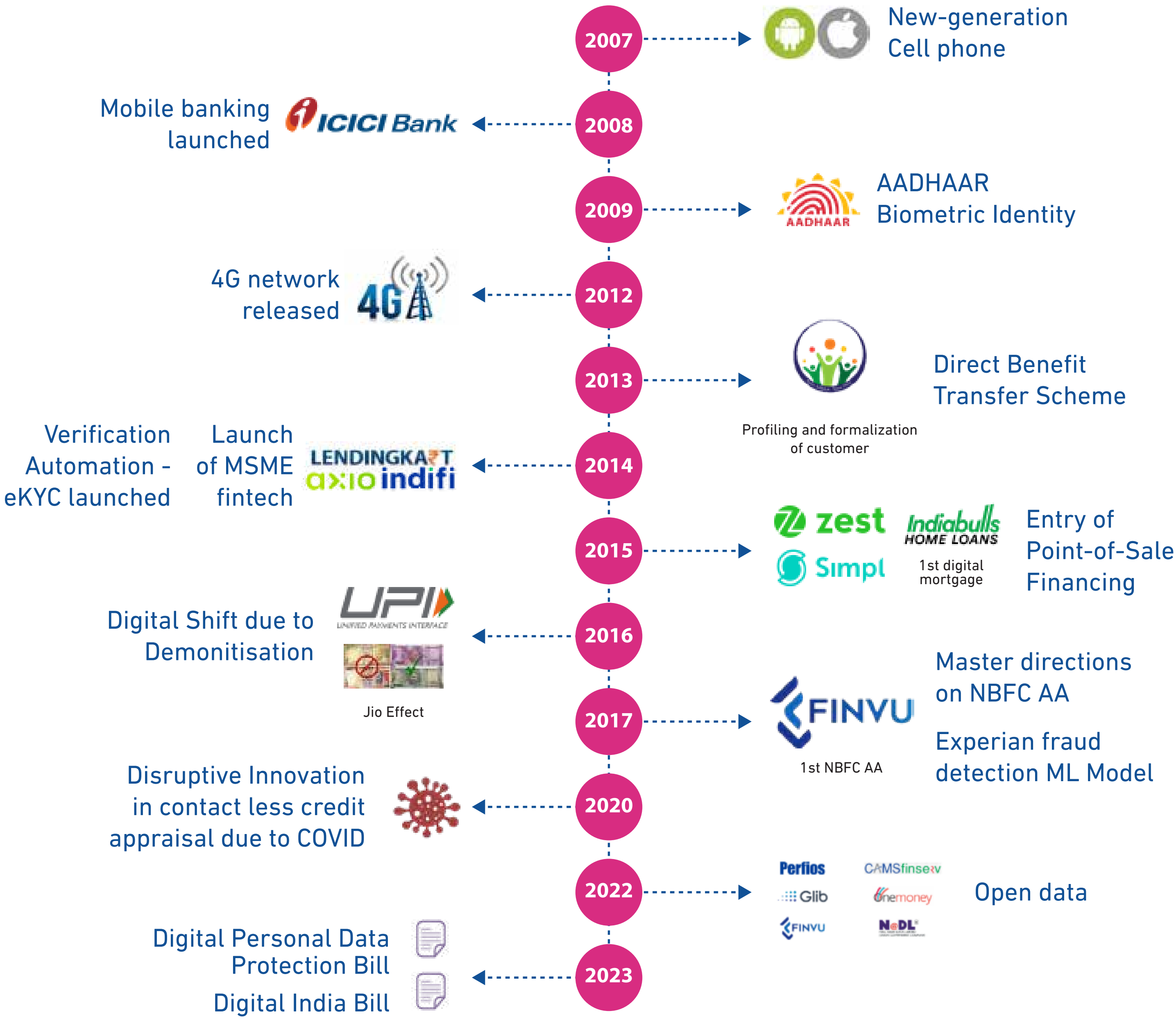
Fintech Lending Outlook 2030

Digital Lending: At Inflection Point

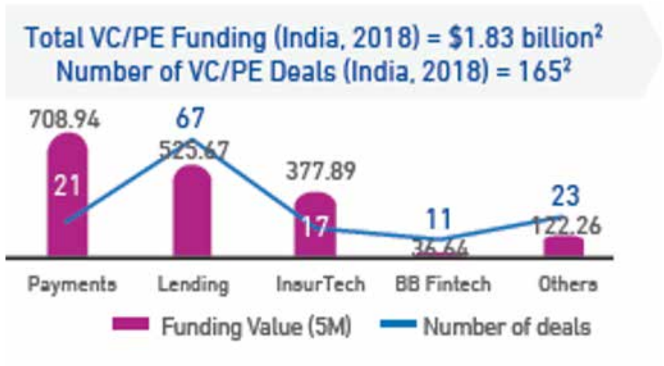
Breakthroughs over the last decade have helped build a robust digital foundation for a sustained fintech-led credit evolution

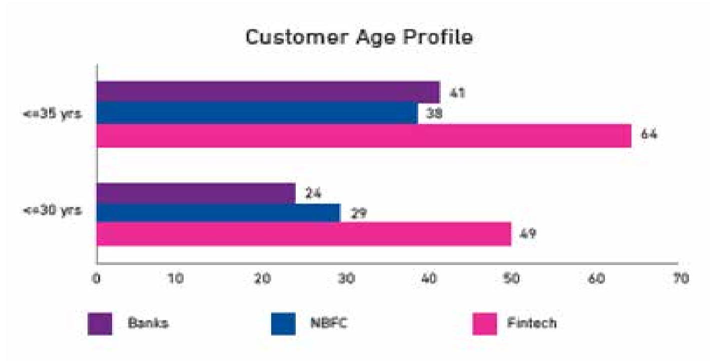


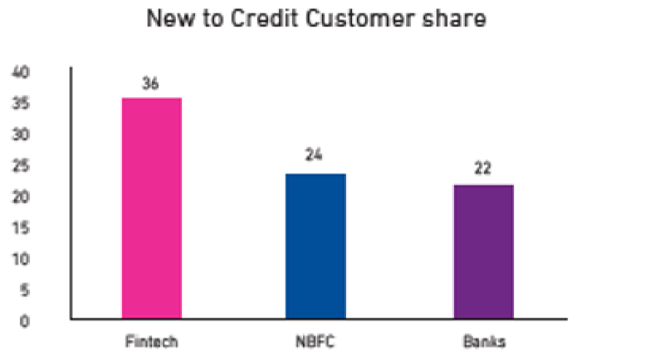
Digital lending works on a process of end-to-end automation of the customer credit lifecycle. The evolution of online financing was a logical development from traditional banking methodologies. The initial phase of digital lending concentrated on loan origination. Today, origination is becoming more automated because there is so much useful information available digitally. This has greatly increased access to credit. With technology like a remote online notary (RON), eSignature, and self-service workflows to speed up processes, the second phase of digital lending was centered on execution and the customer experience. Recent developments have surpassed the barriers of digital lending by providing a platform that provides speed and simplicity in the loan process with strict security.

Fintechs nurtured niche customer segment witnessing rapid growth over last decade

Emergence of Fintechs*	New Customer Segment**







Source:** New accounts opened in FY22 as per submissions to Experian Credit Bureau

Source*: A Review of India's Credit Ecosystem a– joint report by Experian and Invest India.

- Fintech is heavily focused on building an agile and flexible framework to match ever-evolving customer expectations.
- 52% of the adult Indian population comprises digitally active consumers who use fintech.
- Nearly 30% of consumers are willing to wait up to 30 seconds before abandoning an online transaction.
- Rapid evolution of the regulatory framework with the following trends:
  - ~40% drop in manual KYC as compared to digital KYC
  - ~85% reduction in costs with adoption of e-KYC vs. manual KYC

The DELTA Perspective: What makes digital lending to be at an inflection point?

D

Demographics and rising aspirational class to drive digital lending

A

Analytics democratisation to make underwriting smart and universal

E

Enabling ecosystem fuels digital adoption

T

Technology overcomes barriers rendering tradition lending obsolete

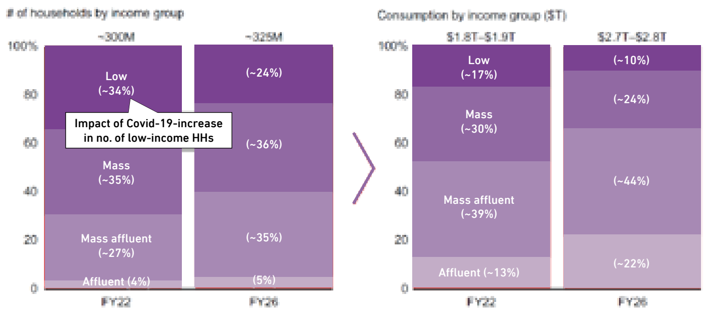
L

Lenders shift to digital process to change the way credit is delivered

Demographic shift and rising aspirational class to drive growth over next decade

With about 34% (440 million) of the country's total population, India has one of the largest millennial populations. This cohort has grown up with exposure to the online world and expects services across sectors to be uniform, quick, personalised, and convenient. Fueled by cheaper internet penetration across regions, structural changes due to the pandemic, and a digital savvy working class, the adoption of digital technologies has experienced extensive development in the financial sector.

By FY26, affluent and mass affluent consumers will contribute to 60%+ consumption, due to the transformation from a bottom-of-the-pyramid to a middle-class-led economy. This shift in income levels would lead to the creation of a large mass affluent segment, leading to a surge in demand for CDs and PL loans.



This shift in income levels would lead to creation of large mass affluent segment leading to a surge in demand for CD, PL which have higher traction among fintechs

Key characteristics of millennials in India

- Every third Indian is a millennial as of 2022, significantly higher than 23% for the world
- Together with Gen Z, they are estimated to comprise 50% of India's Population by 2030
- 54% out of the total base of 574 million active Internet users in the age group of 20 – 39 years as of 2019 report by Acumen
- On an average, Indian millennials spend about 17 hours online weekly with 11% of time spent on banking including transactions

Source: https://www.bain.com/insights/india-Fintech-report-2022-sailing-through-turbulent-tides/Bain Study

Digital adoption is thriving due to multitude of factors and offers tremendous growth opportunity to lenders

1.39 Bn
Total population

1.17 Bn
Wireless phone subscribers

624 Mn
Internet subscribers

500 Mn
Smartphone devices

12.3 Bn
app downloads in (5% are financial apps)

448 Mn
Users engaged in social media

Increasing growth pockets due to urbanisation

- **35.2%** of India's population lives in urban centers which is projected to reach 40% in 2030
- **70%** of the jobs will be created in urban centers and will contribute to 70% of GDP in 2030
- **88%** of online shoppers that will be added between 2020-2030 will be from tier-2, 3,4 cities by 2030

Digital spending – A huge opportunity for India

- **40%** lending through digital channels by 2027, a growth from 15% in 2020
- **$800 Bn** digital consumer economy by 2030 ; 10x growth from $ 90 Bn in 2020
- 60% of travel, 40% non-grocery retail, 30% of education, 25% of food and beverages services and 6 per cent of pharma/grocery going through digital channels

Source: https://datareportal.com/reports/digital-2021-india & Union ministry of housing and urban Affairs, India, Redseer report

Consumer expectations in this digitally evolved ecosystem

38% of consumers expect to increase their online activity in the next 12 months

Top activity among consumers online: personal banking, including opening new loans and credit cards (58%)

60% of consumers are using a universal mobile wallet, a 13% increase since Covid-19 began. 66% of consumers under age 40 and 56% older than 40 have used mobile wallets

55% of consumers have high expectations for digital experience. This sentiment is highest in India (83%)

55% of consumers say security is the most important factor in their digital experience

42% of consumers are concerned about fraud and have lingering doubts about security of their information

Source: Experian Insights report 2019

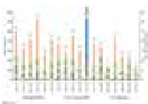
Enabling ecosystem provides tailwinds for fintech-led lending to gain pace

IndiaStack

Set of APIs that allow developers to utilise a unique digital infrastructure. Open architecture platform to be an enabler for digital lending through online data sharing and authentication for underwriting.

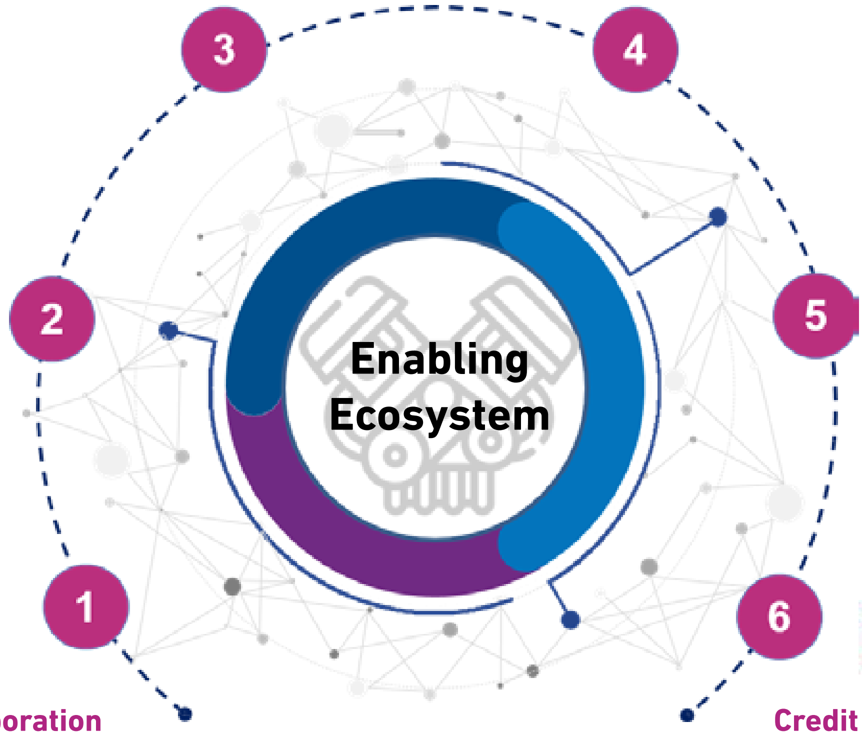
Regulatory Guidance and Clarity

Digital lending guidelines became effective in December 2022. These guidelines will help bring about greater transparency and ownership of regulated entities, helping lift customer confidence.



Investment

Fintech investment touched nearly $4.2 billion in H1 2022, despite adverse external situations. Roughly 25% of this went towards digital lending.



Government Initiatives

The Indian government has increased its scrutiny to identify and weed out unethical digital lending apps. In addition, initiatives like Jan Dhan and Pradhan Mantri Gramin Digital Saksharta Abhiyaan are also helping to increase digital uptake.

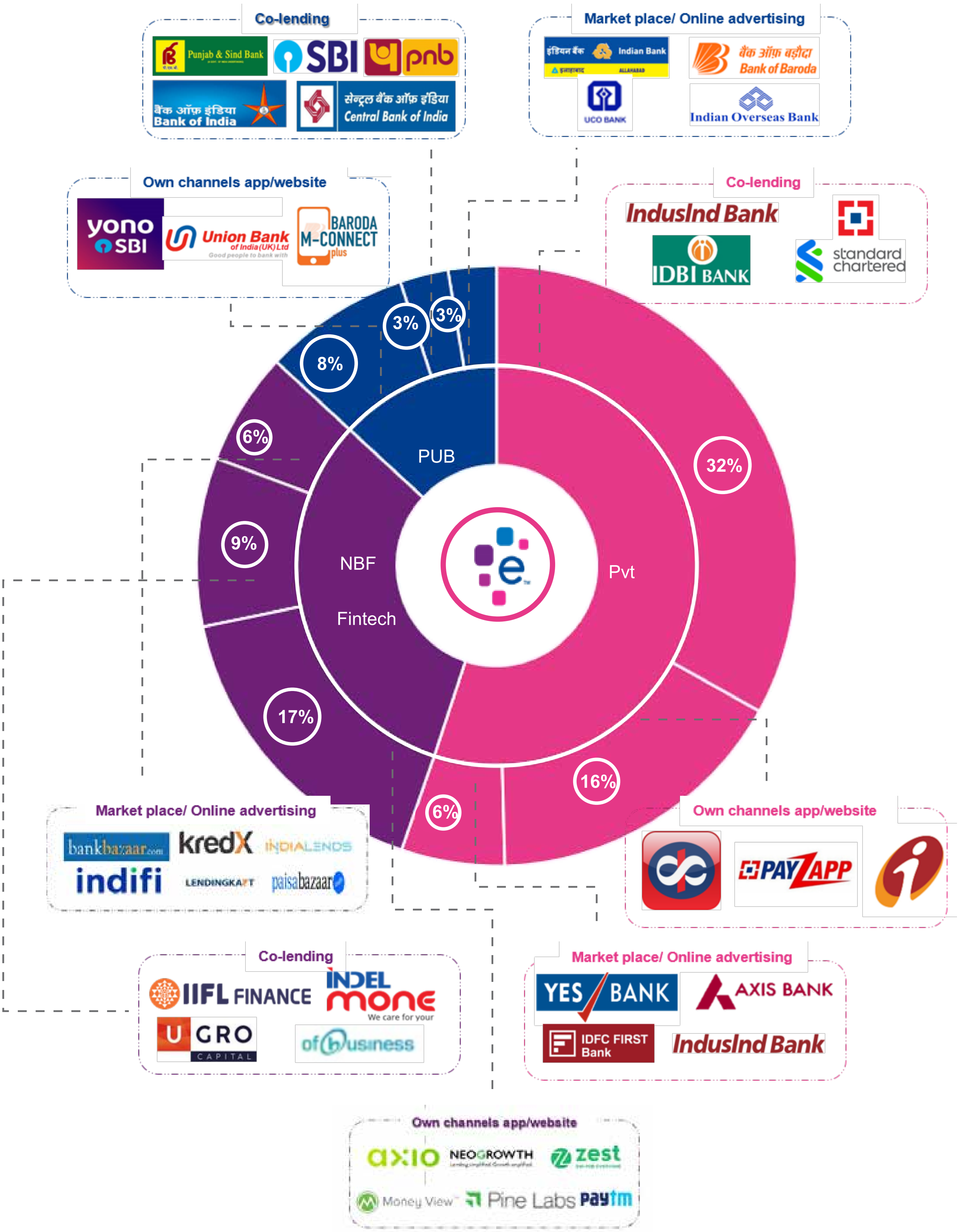
Industry Collaboration

Organisations like DLAI are helping increase collaboration between participants as well as adoption of best practices.

Credit Bureaus

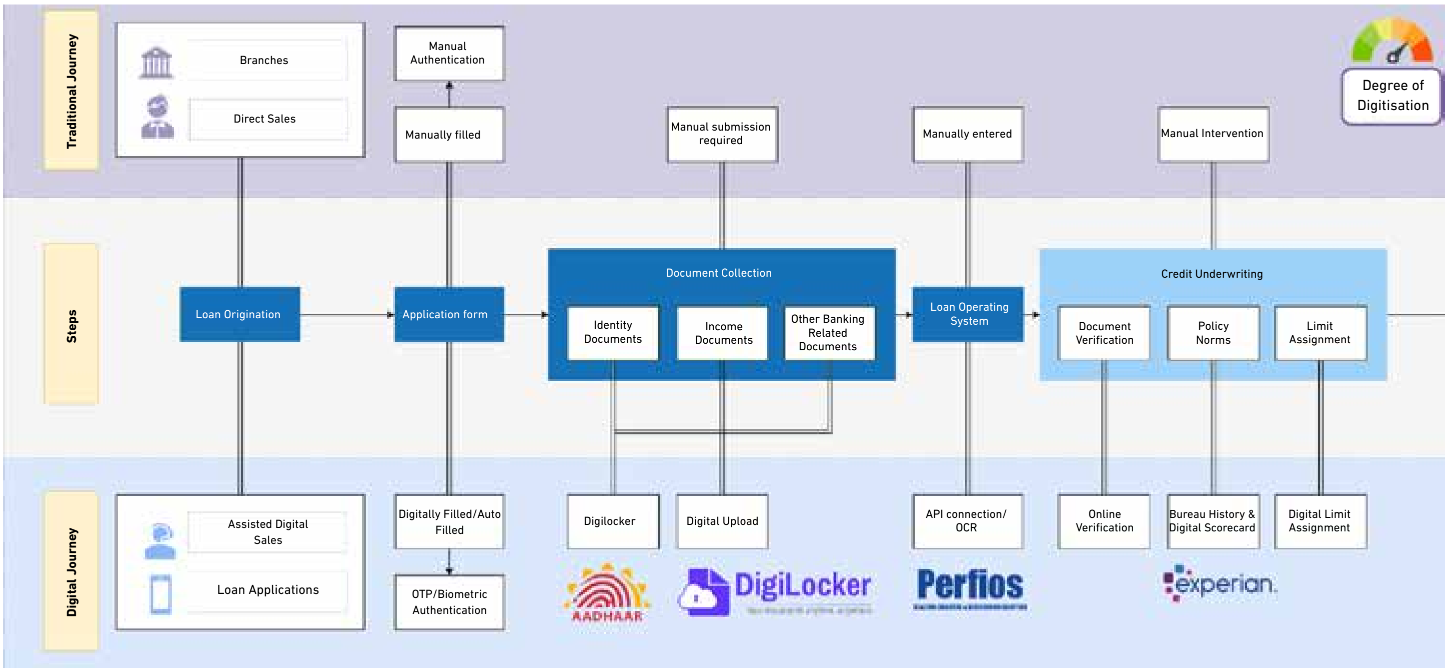
CIC's are helping with automated underwriting by providing information on borrower's historical repayment performance. Most of the fintechs are integrated with one of the four CIC's.

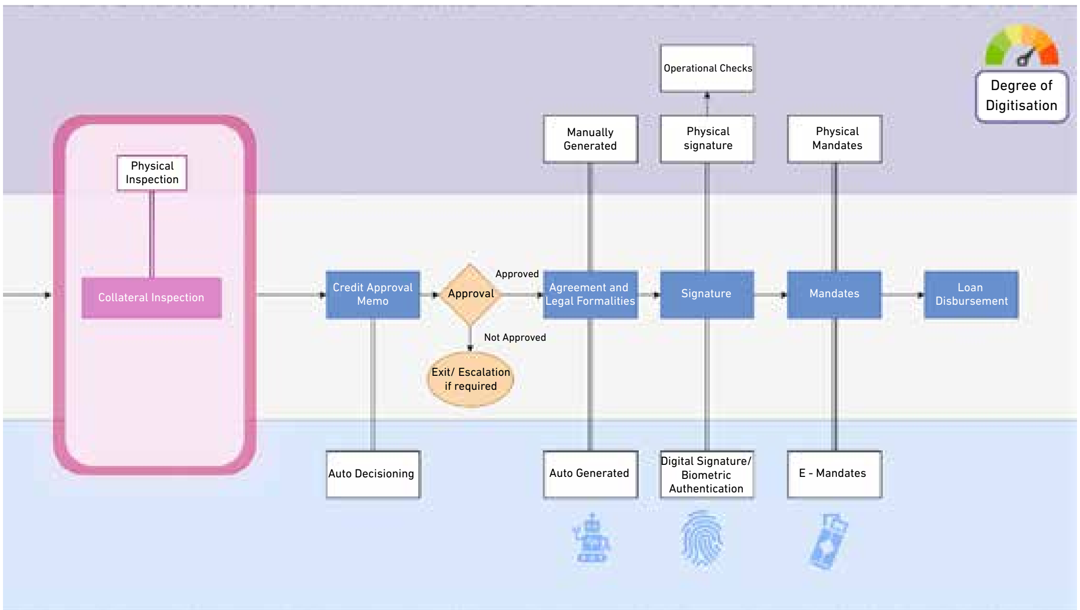
Digital Lending Landscape: Overview



*Based on focus group discussions with various Lenders

Technological innovations helped overcome barriers to digitisation. However, there are grey areas limiting proliferation of digital lending to product classes other than unsecured personal loan and business loan.





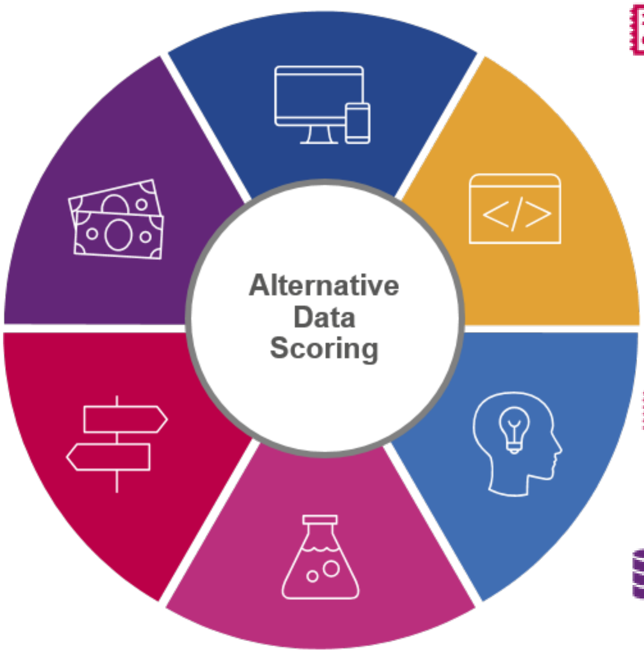
**Based on Experian Research

- Technological breakthroughs have helped fintechs create a frictionless lending journey. However, there are sub-processes which are yet to reach a high degree of digital maturity

- Consequently, certain products especially high ticket asset backed segment is yet to pick up on digital adoption

Alternate data key contributor in moving towards universal underwriting

The current adoption stage of various alternative data sources which fintechs are specialising over. Using such various alternative data sources they are able to curtail to a large New to Credit (NTC) segment



E-Commerce Data

Capability to extract ecommerce data from apps using partner SDKs and develop risk models

Use Case(s) – Risk | Income | Verification

Payment Gateway Data

Risk scores based on transaction data from PG partner

Use Case(s) – Risk

Bank Transaction Data

via Open Data and OCR Vendor pipelines

Use Case(s) – Risk | Income

Telco Data

Being used in Southeast Asia and India

Use Case(s) – Risk | Fraud | Verification

University & Employment

Education, employment history along with income information using open source, Experian, partner data

Use Case(s) – Income

SMS

Promotional/transactional SMS - text and pattern mining

Use Case(s) – Risk | Income

SDK attributes

Frictionless onboarding for small ticket loans

Use Case(s) – Risk

Click-Stream Data

Price comparison websites

Use Case(s) – Risk | Fraud

Ride hailing

Risk scores using activity and transactions on ride hailing app

Use Case(s) – Risk

Data repository

Analytics/
Tech capability

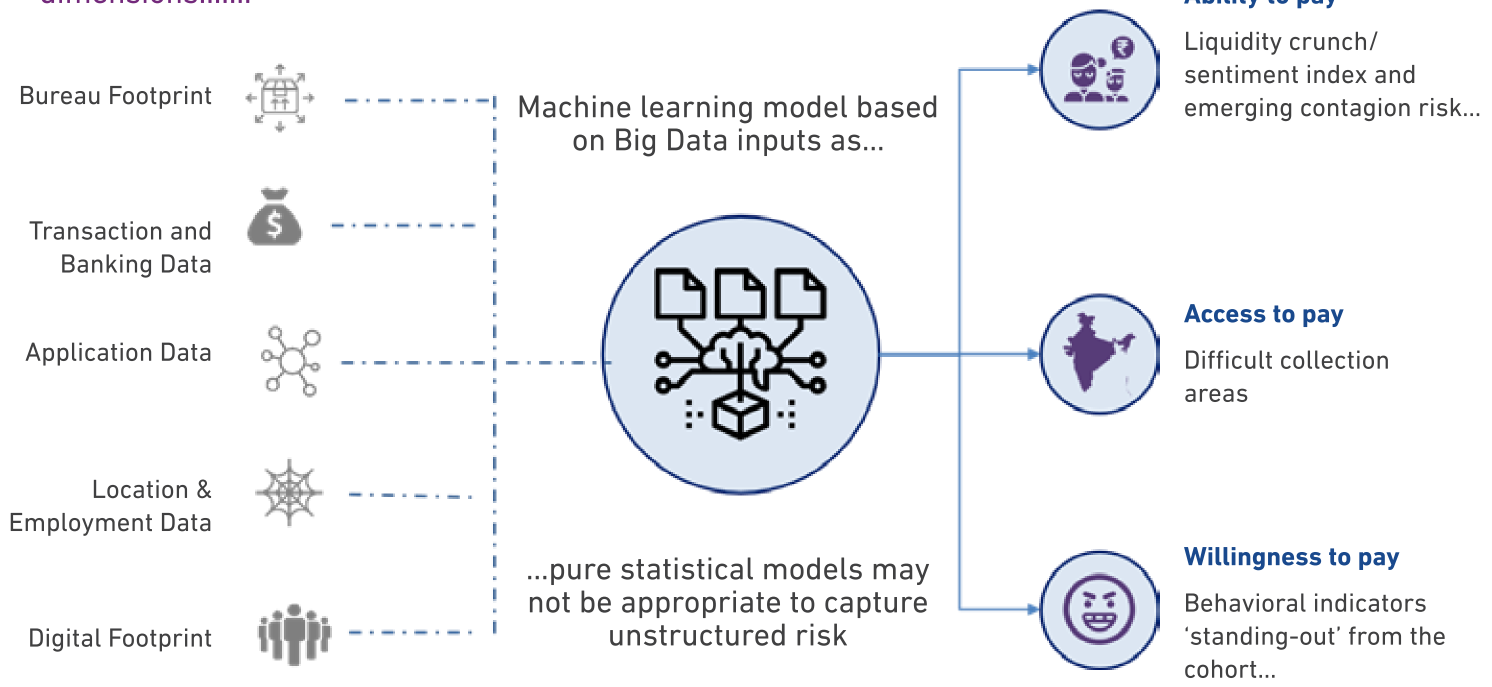
Adoption Stage

Exploration ▶ Development ▶ Validation ▶ Early Maturity ▶ Mature

***Based on Experian Research**

Analytics democratisation has created a level playing field which the fintechs have capitalised to their advantage

Leverage data across multiple dimensions.......



Uniqueness of the model

New-age information signals (e.g., web crawling, news, social media, borrower level info, etc.)	**Quickly tweak the model** based on emerging signals	Factors in **contagion risk** (i.e., emerging uncorrelated risks)	Builds on the best **traditional risk metrics**

FUTURE OUTLOOK

Low Code No Code: Builds developer centric platform

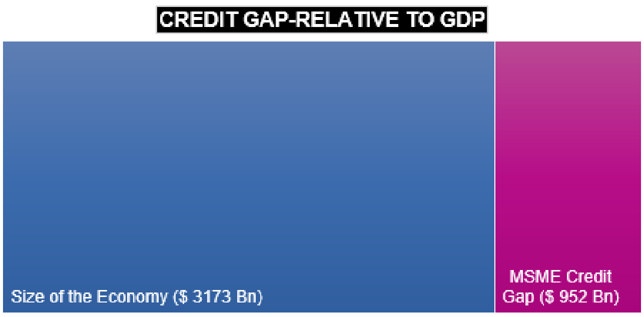
By 2024, low-code no-code tools likely account **for > 65% of all app development within enterprises** ~ Gartner

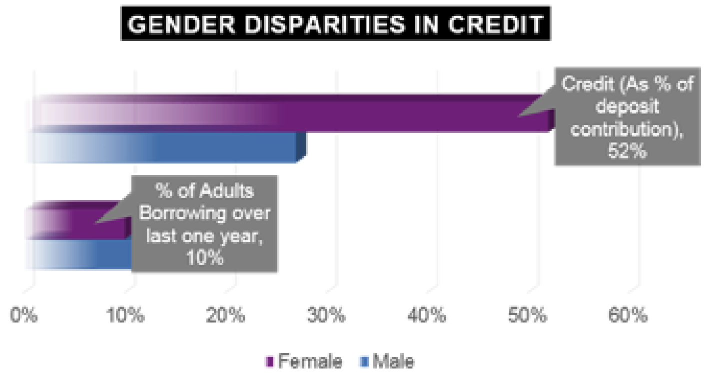
Source: Experian Insights report 2020

Democratising Access to Credit: Fintechs Show the Way

Credit gap in India is still very high with high gender disparities...

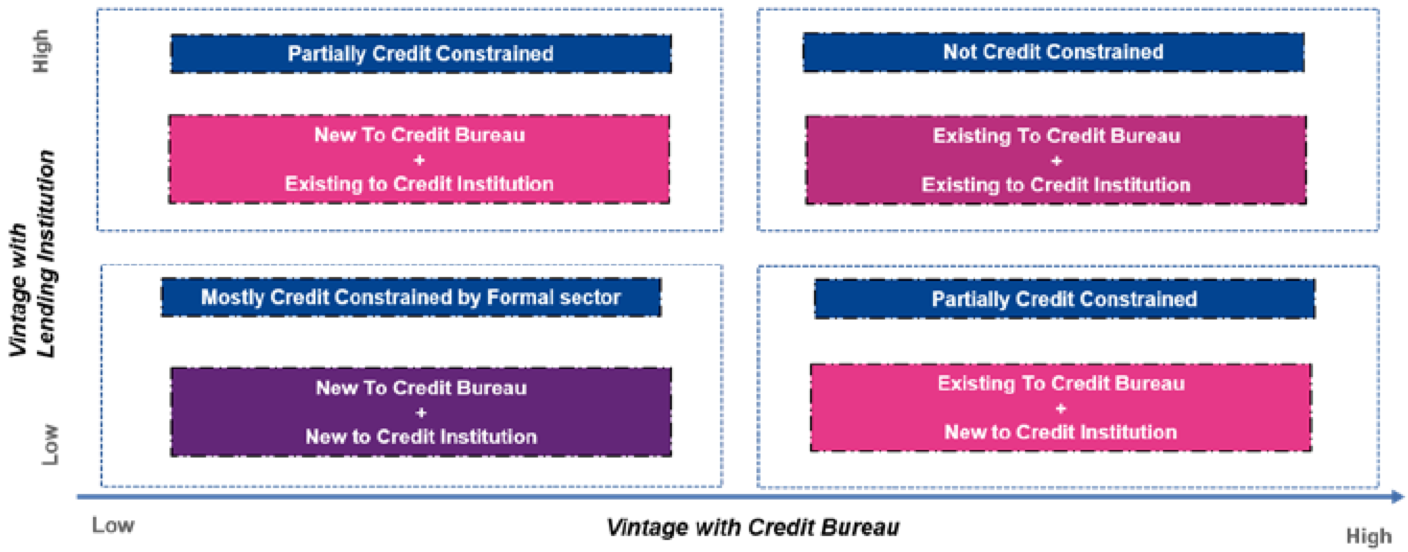
- Traditional lending succeeded in bringing a large population within the coverage of credit. However, it could not democratise access to credit for all as the demand from the rising aspirational class outpaced the growth in credit supply.
- As per the latest Standing Committee on Finance report, MSMEs faced a credit gap of around Rs 20–25 lakh crores. This is a whopping 30% of India's GDP. In a similar study done by IFC in 2017, the gap was estimated at 11% of GDP. This gap needs to be bridged considering the importance of MSME in both growth and employment generation.
- The Global Findex 2021 data shows that the share of adults in India that borrowed formally over the last year prior to the survey was 13%, a significant 10% points lower than that of other developing countries considered in the study.
- The gender gap is high, with only 10% of adult women borrowing over the last year compared to 15% for men. According to a 2020 study (Global Findex 2021), women in India receive credit equivalent to only 27% of the deposits they contribute, while men receive credit equal to 52% of deposits.



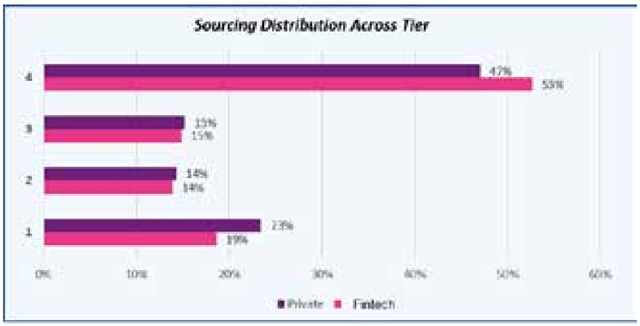


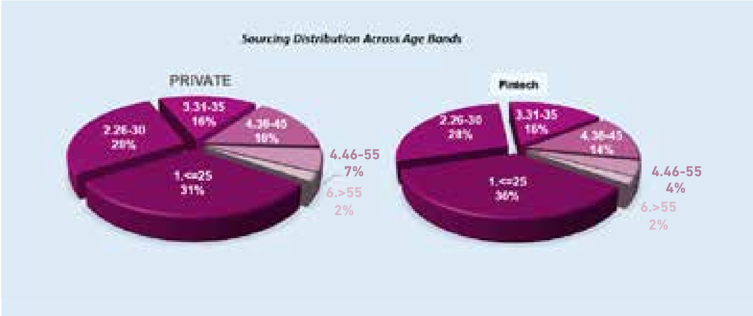
...Owing to difficulty in underwriting a large segment with limited repayment history

- Traditional lending alone cannot address the credit gap in India. The real challenge lies in the difficulty of underwriting owing to a lack of data or the ability to fully leverage available data. Traditional lending methods rely on conventional underwriting methods for risk assessment. It is difficult to underwrite segments where traditional data sources are limited.



Fintech NBFC's have better addressed credit gap compared to private lenders





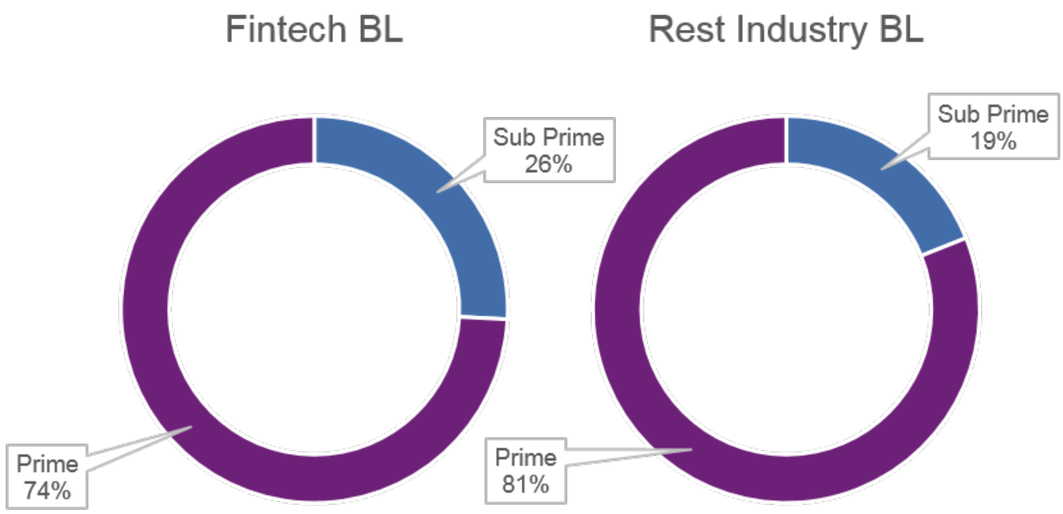
		As on Score					
Peer_Group	Open Score	1.<=650	2.651=700	3.701-750	4.751-800	5.>801	All
Fintech	1.NTC	7.7%	0.7%	5.4%	4.9%	0.5%	19% ↑
	2.<=650	14.2%	1.4%	1.2%	0.2%	0.0%	17%
	3.651=700	7.2%	1.9%	2.8%	0.4%	0.0%	12%
	4.701-750	14.1%	3.7%	9.1%	2.6%	0.1%	30%
	5.751-800	6.4%	1.3%	4.7%	4.4%	0.7%	18% ↓
	6.>801	1.0%	0.2%	0.9%	1.4%	0.9%	4%
Private	1.NTC	2.4%	0.2%	2.9%	1.7%	1.1%	8% ↓
	2.<=650	7.4%	1.2%	1.1%	0.2%	0.0%	10%
	3.651=700	4.7%	2.3%	2.6%	0.3%	0.0%	10%
	4.701-750	13.1%	2.7%	8.1%	5.6%	0.6%	30%
	5.751-800	7.2%	1.7%	9.0%	12.9%	1.7%	32% ↑
	6.>801	2.1%	0.3%	2.1%	4.1%	1.4%	10%
	All	37%	8%	26%	25%	5%	100%

- A higher share of sourcing done by fintechs serves the NTC segment as compared to private lenders.
- More than half of this cohort moves to a higher score band (>700). This indicates that NTC is not inherently a high-risk group if assessed beyond mainstream credit data sources.
- Fintechs have penetrated deeper in smaller towns, helping to overcome geographical disparities in credit supply. Further, Gen Z and millennials have higher traction among fintech NBFCs compared to private lenders.

*Based on Experian Research

Fintechs have also managed to better churn subprime customers helping in increasing credit penetration in that segment

		As on Date							
	Open Data Source	01. <=650	02. 651-700	03. 701-725	04. 726-750	05. 751-775	06. 776-800	07. 801-825	08. 826-900
Fintechs	00. NTC	29%	20%	13%	23%	11%	2%	1%	0.0%
	01. <=650	70%	14%	10%	6%	1%	0.5%	0.0%	0.0%
	02. 651-700	31%	29%	22%	14%	4%	0.4%	0.2%	0.0%
	03. 701-725	27%	23%	25%	21%	3%	0.4%	0.4%	0.0%
	04. 726-750	20%	18%	23%	28%	9%	2%	0.2%	0.0%
	05. 751-775	18%	13%	18%	32%	14%	3%	1%	0.0%
	06. 776-800	16%	12%	13%	33%	20%	6%	0.0%	0.0%
	07. 801-825	16%	10%	11%	29%	22%	9%	2%	1%
	08. 826-900	16%	11%	7%	25%	21%	14%	6%	1%

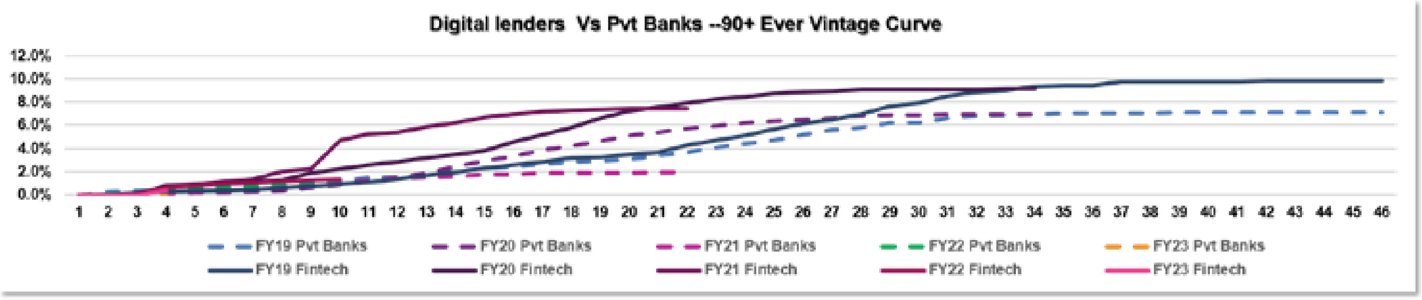


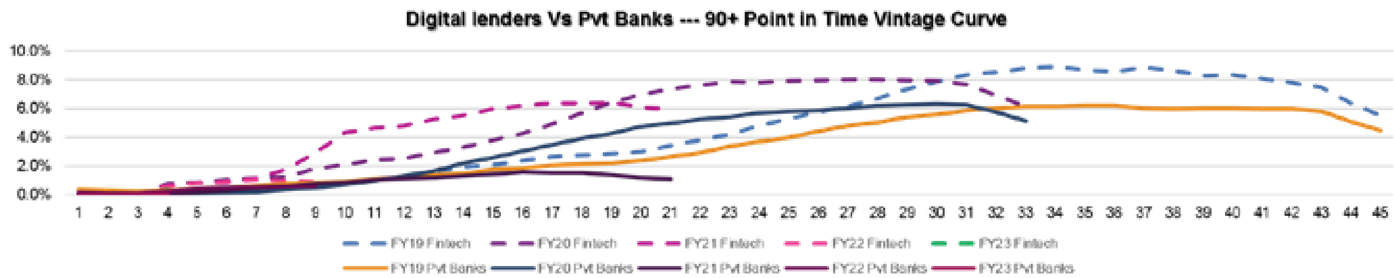
Sourcing of Prime and Sub-Prime Customers

- Fintech sourcing from Sub-Prime customer (<700 Experian Bureau Score) is higher compared to the rest of the industry (26% vs 19%)
- Sub-prime customers (<700 Bureau scores) sourced by fintech saw an improvement, with 40% of them either moving towards the Prime or Super Prime category. Similarly, 37% of New to Credit customers moving to Prime score band (>725)

*Based on Experian Research

While fintechs have made huge strides in origination portfolio management will be key to a sustainable business

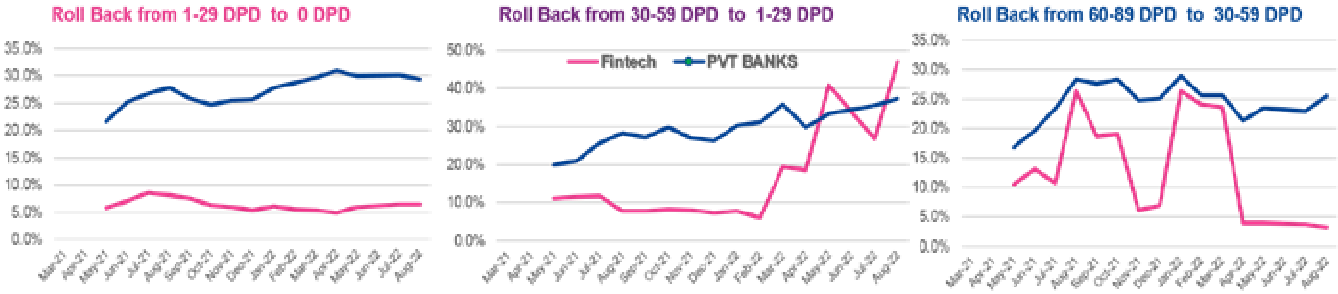




Early signs indicate book built by fintechs have higher level of stress and this needs to addressed for a sustainable growth

- Analysis done for a personal loan sourced from FY19 till FY23
- Higher deep delinquency risk seen in the fintech portfolio

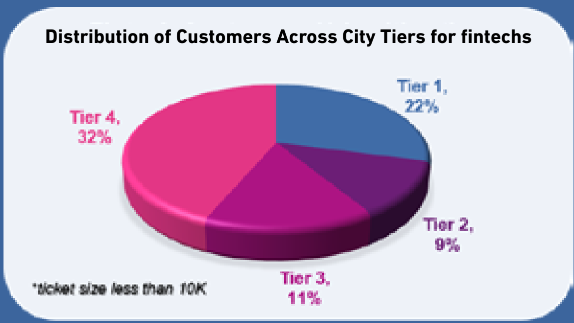
Fintechs face greater difficulties in normalising delinquent accounts and hence they need to invest in collection capacity



- Customers of fintech lenders have lower rollback as compared to private lenders across all delinquency buckets. This implies fintechs have lower collection efficiency compared to private lenders.
- Collections is largely a high touch point process where fintech do not have an inherent strength

*Based on sample of data for FY22 (Product: Personal Loan) **DPD: Days past due

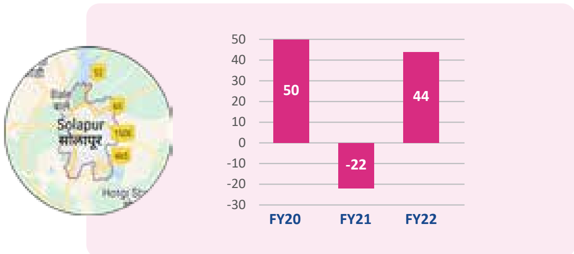
Fintechs have also helped in addressing credit disparities across geographies

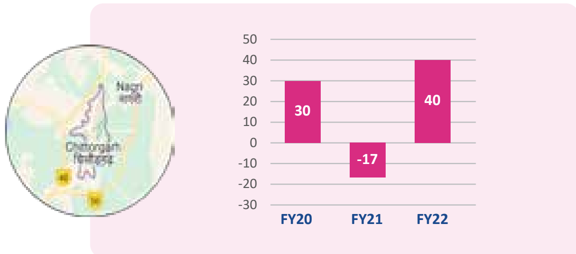


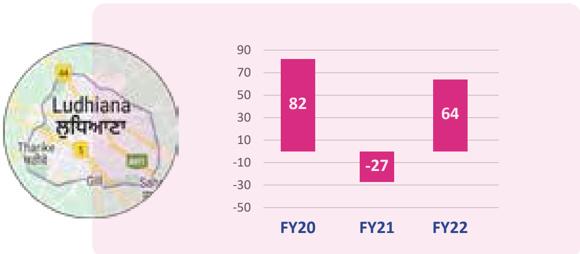
The need for short-term loans in tier 2 and tier 3 towns has increased exponentially in recent times. This is evident in the study conducted by Experian with a representative sample from industry.

It was found that 32% of the accounts sourced with ticket size less than ten thousand are contributed by tier 4 towns. It shows that fintech created the business opportunity in the untapped market.

Growth in PL in smaller towns was largely driven by fintechs. Chart given below shows how smaller towns like Solapur, Chittorgarh and Ludhiana witnessed surge in PL disbursals.





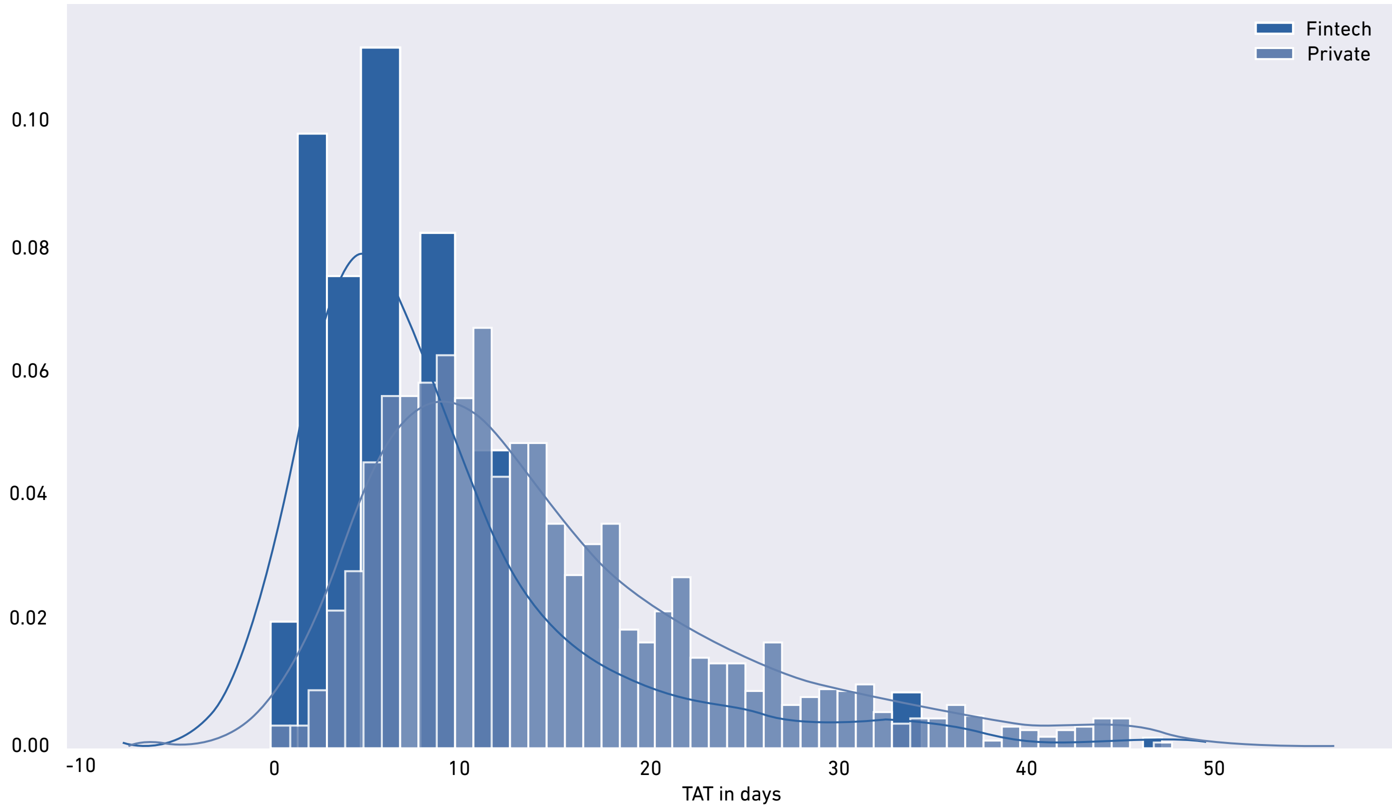


* Drop in FY21 might be due to impact of COVID

*Based on Experian study on sourcing for last three years

Frictionless digital journey is in sharp contrast to multiple handovers in a manual credit journey; this also means customers journey is swifter leading to superior experience

TAT for traditional lenders on mid-sized asset backed products remain high...



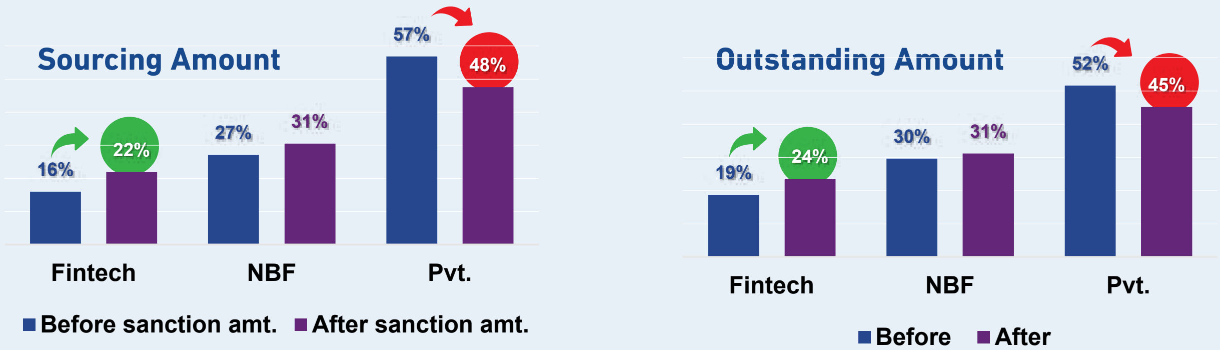
- Fintechs turn-around time is lower even for asset-backed products (seen in co-lending loans)
- On unsecured small ticket size loans, fintechs are well known to offer instant loans

*Based on Experian study on a sample of disbursal in FY22

Customers tend to shift their loyalty towards fintechs at the expense of private lenders

- Subsequent product purchases by customers can be a good indicator of their loyalty towards their lender.
- We tracked a sample of customers well distributed across different lender types over a period of twelve months.
- The chart below shows the distribution of loans across different lender types taken before and after the study. We can clearly see fintechs are able to increase their wallet share at the expense of private lenders.
- This implies fintechs have been able to create integrations better than private lenders.

Fintech's are net customer gainers and do so at the expense of private lenders



- Customers who shift their loyalty to other lenders perform well on delinquencies. Thus, the segment of customers migrating is a good acquisition..

	Ever 90+ Off Us	
Ever 90+ On Us	0	1
0	89.3%	6.2%
1	2.4%	2.0%

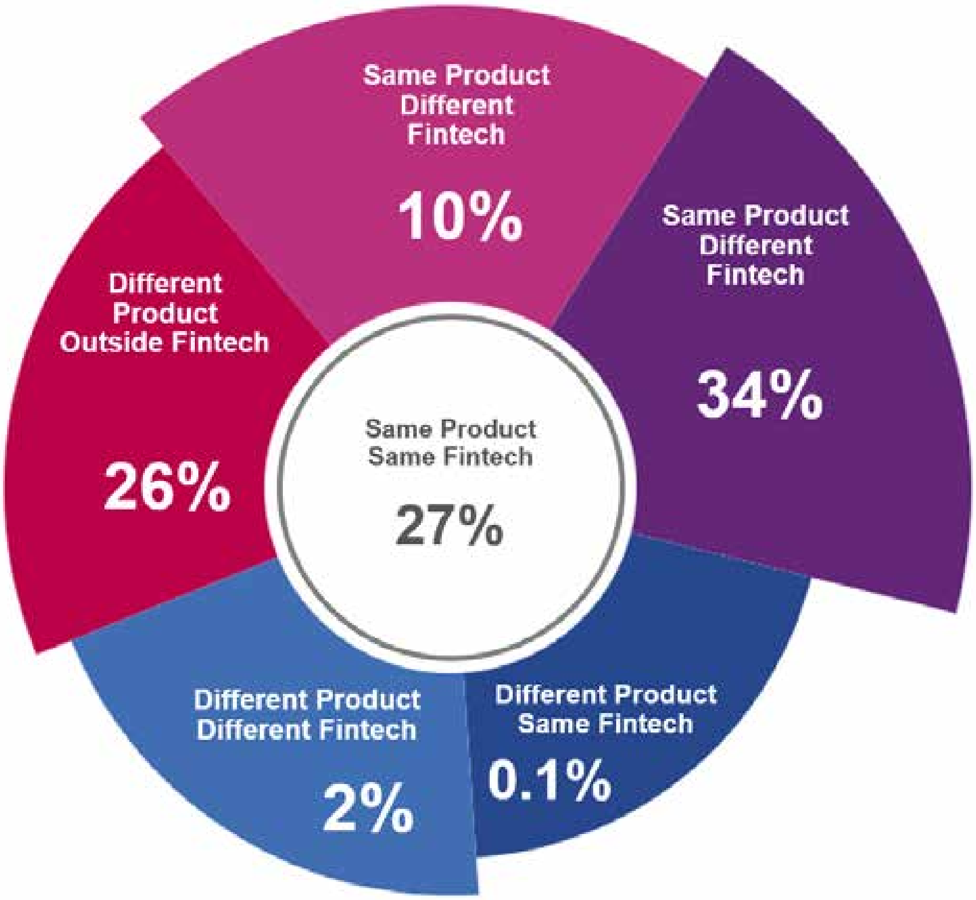
	Ever 30+ Off Us	
Ever 30+ On Us	0	1
0	84.9%	7.4%
1	4.4%	3.3%

Potential Risk	Opportunity to win back
60+ Off-Us but <60 On-Us	<90 Off-Us but >90 On-Us
1.0%	2.4%

- Further, based on the behaviour of customers, we can identify potential high-risk situations early and take preventive steps.
- Likewise, we can identify segments to win back customers who are in the deep delinquency bucket but have shown a rollback tendency with other lenders.

*Based on Experian Research

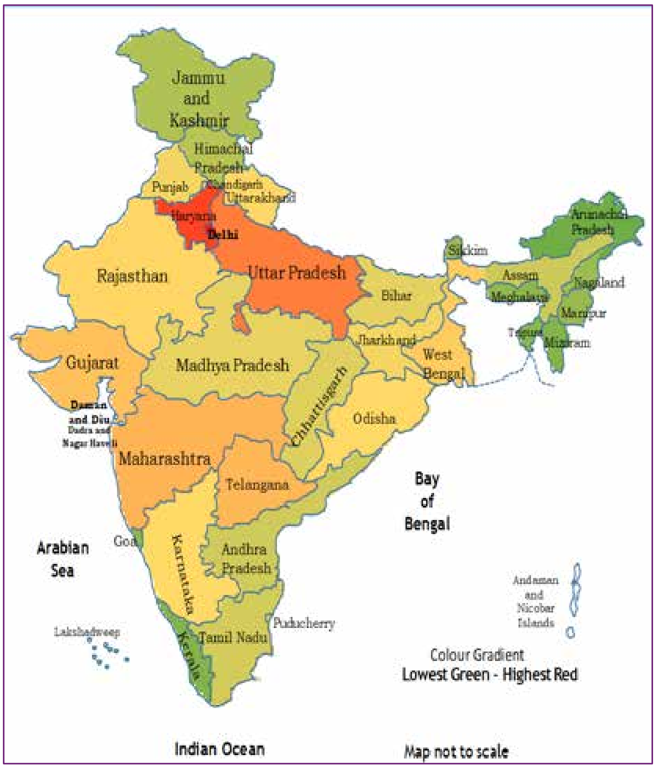
Customers tend to shift their loyalty towards fintechs at the expense of private lenders



- Nearly 27% of subsequent loans disbursed go to the same fintech lender.
- Loss in cross-sell is due to fintech having limited products in their portfolio. Customer need such as home purchase, car loan are largely catered to by lenders outside the fintech

*Based on cross-sell study done on a sample of customers acquired by Fintech.
Twelve month of performance was observed

The segment fintechs cater to have high incidences of application fraud and hence they need to invest in fraud mitigation more than traditional players

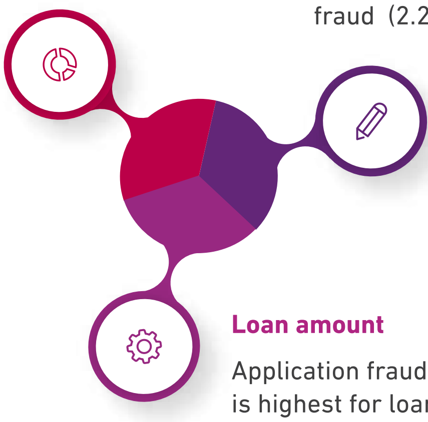


Qualification

Postgraduates have very high incidence of application fraud (3.06%)

Age

Millennials have very high incidence of application fraud (2.27%)



Loan amount

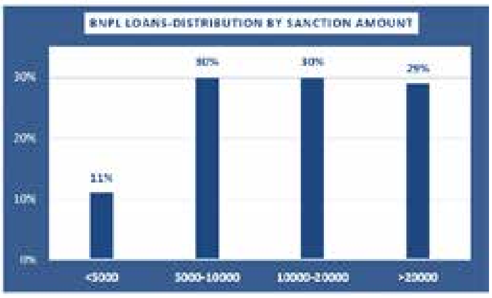
Application fraud incidence is highest for loans less than 50k (5.82%)

- Fintech and New Age NBFCs have a higher sourcing from millennials, highly educated and in small ticket segment. These segments pose higher application fraud incidences as per Experian Hunter analysis. Further, the catchments where fintechs have a greater presence also have higher reported fraud incidences.
- Fintechs need to invest in fraud mitigation measures to ensure they provide a frictionless onboarding journey without really impacting their bottom line.

*Based on Experian Hunter data analysis

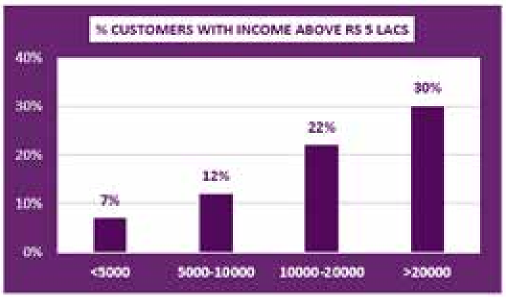
Product innovation from fintech have also helped in overcoming credit hesitancy helping increase credit demand e.g. Buy Now Pay Later (BNPL)

Contrary to popular belief bite sized BNPL products sees more traction among evolved profiles like higher income, Existing to Bureau (ETB). BNPL is considered not just because of its affordability but also from an experience standpoint.



Not Just Bite Sized

29% of BNPL have a sanction amount greater than 20,000. This demonstrates purchase of high value products like branded smartphones, white goods etc. being considered for purchase.



Popular With Mass Affluent

BNPL is gaining traction among mass affluent segment considering the profile of customers and their imputed income

Well distributed Pan India

Smaller towns have grabbed BNPL and helped in removing some geographical disparities in credit supply

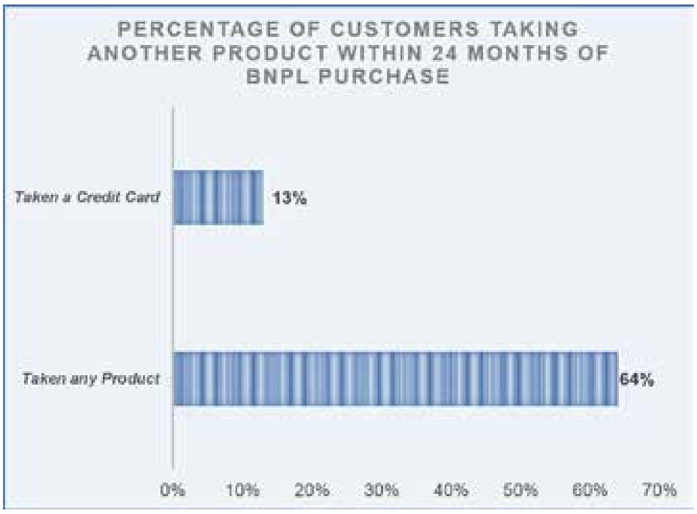
ETB Segment crowds out NTC

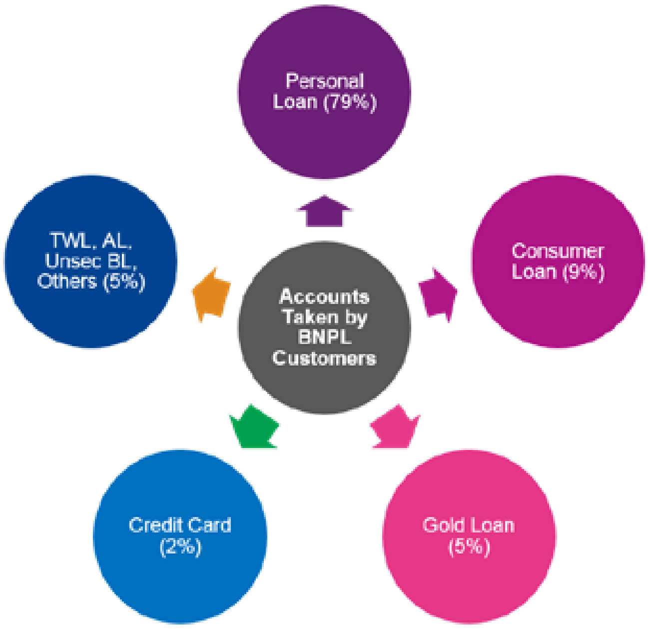
Myths that NTC is the flavor of BNPL doesn't hold true on data. It appears seemingly credit hesitant population is having higher traction.

*Based on Experian Analysis on finance by BNPL lenders in FY22 (Till Oct.)

BNPL could be a good teaser loan to build integration hook with the customer

Customers tend to buy more products when they are delighted by the onboarding journey. BNPL proved to be a game changer in deepening credit exposure to customers. 93% of the new loans are taken from fintechs, and this is a testimony to the integration hook built by BNPL.





*Based on Experian Research

Fintech Lending Outlook 2030

*Based on Experian Research

Big Predictions for 2030

01

Digital lending to surpass traditional lending by making deep penetration into unsecured small ticket size segment and also making inroads into collateral based high ticket size secured lending market.

Presence of fintech today is largely restricted to small ticket and bite size products. Traditional lenders have dominated lending on asset-backed products. With further inroads into digitisation, this segment too may become accessible to fintechs. With this, it would create a level playing field. Fintechs with greater agility would make up a significant portion of the lending pie.

02

Collaboration between fintechs and banks to reach a high degree of maturity, with co-lending being the dominant operating model.

Traditional lenders would seek greater collaboration with fintechs, and this would be a win-win for both. Co-lending ensures that both parties are invested in the risks as also the benefits of the amalgamation of core competencies.

03

The key players of the future will comprise organisations that can harness the power of analytics and technology to provide a superior experience in an embedded manner.

Open data is a reality and will progressively become wider in scope. This will create a tremendous opportunity for fintechs, as this can help bring about a level playing field with traditional lenders. Fintechs, with the ability to leverage this opportunity through the use of analytics and Artificial Intelligence (AI), will lead the market. In this respect, big technology organisations will also play a greater role.

04

As fintechs become systematically important in catering to credit demand, they would come under greater regulatory supervision, necessitating a significantly higher investment in compliance.

Regulatory oversight will increase as fintechs market share increases over the next decade. Fintech will need to invest in measures to ensure regulatory guidelines are complied with. While this will help increase trust, it will also entail greater compliance investments for measures such as cybersecurity, customer data protection, and more.

Recommendations

The Indian credit market has undergone massive changes over the last few years, and this trend is likely to accelerate further in the near future. There has been a shift in preference towards products like consumer loans, small-ticket personal loans, and affordable housing. New product segments like BNPL (Buy Now Pay Later) have firmly gained traction. The next 100 million customers likely to enter the credit market are likely to be vastly different in profile and expectations. Digital lenders have responded well to automating the credit decisioning process and enhancing the onboarding experience. However, given the evolving landscape, it is imperative for fintechs to prepare for the next wave of growth. Here are some of the recommendations for fintechs to help them make the most of the next wave of growth:

01

Focus on sustainability

Fintechs have so far been focused on their quest to gain market share. There needs to be a greater emphasis on risk and fraud mitigation, as the challenges on these fronts are only going to increase with market expansion. In order to get improved margins, the need to focus on customer lifetime value through cross-sell and up-sell is going to be of utmost importance. There is empirical evidence of customer stickiness after the first purchase, and this needs to be capitalised. If fintechs have a limited product portfolio, they may take the partnership route, such as co-lending, so as to capitalise on these opportunities. Partnership will also provide an effective collection procedure which will in turn improve the roll back of customers.

02

Scale up embedded lending to new products

Fintechs have pioneered experience or context-based lending as against traditional approach based on products and services. However, this is currently focused on consumption-based financing, which has a natural pull. This approach needs to extend to unaddressed needs such as home purchases, vehicle purchases, long-term financing, and more. With digitisation being on the top agenda of the government, bottlenecks on this may soon be a thing of the past. With that, new opportunities to cater to customer needs will emerge, and hence fintechs will need to extend a similar frictionless experience to new products as well.

03

New data partnerships and use of analytics

With competition heating up, the fintechs that can collaborate better are the ones likely to demonstrate consistent market share growth. Traditional banks will look for new digital partnerships given the difficulties in enabling the digital journey due to legacy systems and processes. Fintechs need to firm up multiple partnerships through co-lending arrangements. The data ecosystem is likely to explode with the proliferation of open data, but this needs to be harnessed well. Industrialised use of analytics is imperative.

04

Invest in cybersecurity and greater regulatory supervision

Cybersecurity is an area that no player can really afford to ignore. Cyberattacks have grown significantly in recent times. Hence, any player with long-term ambitions needs to invest heavily in this area. This is also needed to build trust with customers and the regulator.

As digital lending takes a big pie of credit demand, regulators are likely to increase supervision. Lenders need to beef up their preparedness to respond to regulatory and compliance requirements.

Disclaimer

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