Fintech Lending Preferences towards Customer Digital Borrowings

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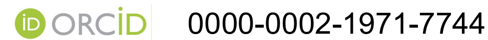 0000-0002-1971-7744

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ABSTRACT

India's financial inclusion has significantly improved during the last several years. The financial market has been transformed by FinTech platforms which offer different products and services. FinTech platforms use a combination of technologies to digitalize processes and introduce new business models with unique characteristics, FinTech projects which are regarded as some of the most advances in the financial sector, have also obviously been driven by the growth of digital transformation. FinTech borrowers does not require face-to-face meetings. This study examines the impact of FinTech borrowings in individual which made them user friendly access to their financial requirements wherever they are rather than physically going to the bank. This development empowers the individuals to take their financial decision and allows them to get higher financial literacy than ever before. This paper incorporates their significant impact of the digitalization of finance. The sample size considered for the study is 120 online customers. The sample technique used for the study is convenience sampling and the data is measured using simple regression.

Keywords	Fintech, Financial Lending, Individuals, Personal borrowing, professional borrowing
JEL Classification	O3
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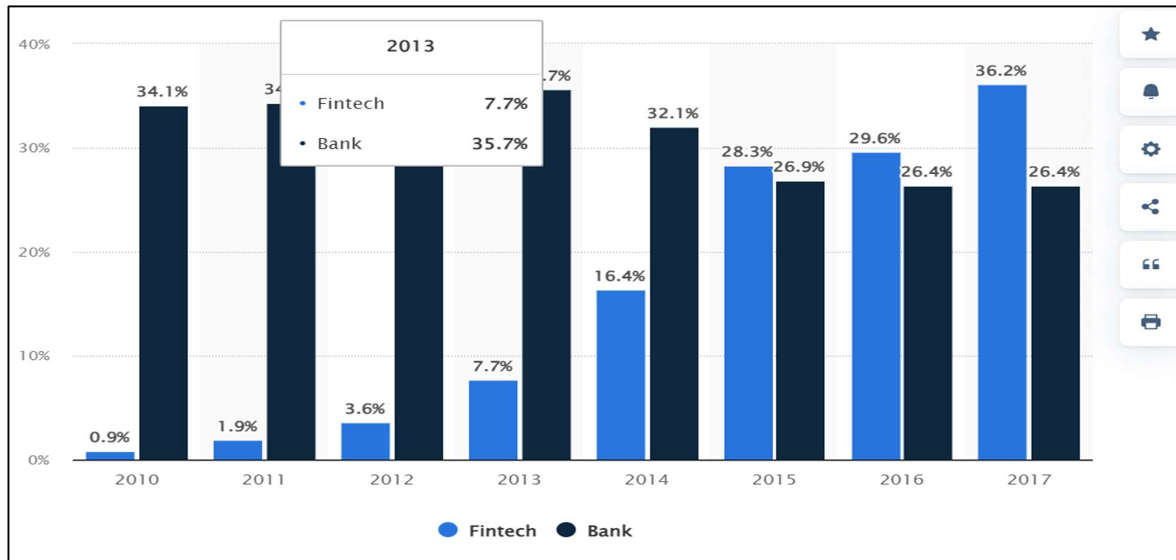
INTRODUCTION

A fintech company refers to any company that offers financial services or applications that rely heavily on technology. Traditional financial operations are done through technological platforms. Fintech, a combination of the terms "financial" and "technology," refers to businesses that use technology to enhance or automate financial services and processes. The term encompasses a rapidly growing industry that serves the interests of both consumers and businesses in multiple ways. The numerous advantages of being on digital platforms have become a promising sustainable business for traditional financial organizations. The flexibility in making transactions has enabled the adaptability of customers towards fintech operations. The customers are immensely satisfied with fintech operations as the complications of the traditional system have been eliminated and the transparency of account details, transaction details, and periodical information provided by fintech companies." Fintech platforms emerged, offering centralized and user-friendly solutions to track accounts, avoid unexpected expenses, and make informed financial decisions. By providing access to comprehensive financial information, fintech platforms empower users to take charge of their financial well-being". The types of fintech companies are consumer banking and investing, mobile payments, insurance tech, digital lending and leasing, and budgeting apps.

Since the 1850s, the financial services industry has grown in tandem with the expansion of commerce. The transition of finance to technology has only begun in the last two decades. Fintech has become increasingly desirable as a result of technological breakthroughs that have the potential to transform financial services and drive the development of novel business modes, applications, processes, and products (Arner, Barberis, & Buckley, 2015; Feyen, Frost, Gambacorta, Natarajan, & Saal, 2021; Sironi, 2016). The banking sector has also been forced to regularize its operations in response to changes in information and communication technologies, resulting in novel solutions for transactions, changes in cyber security, and digitalization. As a result, fintech operations can be considered a long-term business. The macro-level statistical data shows the expansion of fintech operations in previous years.

Figure 1: Statistical data of fintech companies' growth as of 2017



Source: Published by Statista Research Department, Feb 8, 2023.

Explanation of the Table

The above table explains the exponential growth of fintech operations from 0.9 to 36.2% in seven years' time period.

FinTech is defined as the design and delivery of financial products and services using information technology (Leong et al., 2017).The term was first used in the 1970s, but it has become firmly established in the modern business lexicon since the mid-2010s (see Schoffel, 2016). There are two primary reasons for the current wave of fintech hype. The first stems from the maturation and convergence of numerous technologies, such as blockchain, internet-of-things, data analytics, and artificial intelligence (Chen et al.), which has increased its commercial potential (Gomber et al., 2018a). Al. al., 2019). The second stems from the advantages it will bring. Fintech improves access to financial services while lowering costs for consumers (Demirgyuk-Kunt et al., 2017).Furthermore, the impact of fintech is felt across a variety of industries (e.g., driving new ventures in professional services and e-commerce - see Leong et al., 2017)."

Borrowing is as old as the concept of money itself. It all began with the invention of money. The world has seen technological advancements in financial systems, allowing for quick and convenient access to a wide range of financial services. Hermes and Lensink (2004) digitally transformed the credit market landscape, leading to digital lending, revolutionizing the borrowing order. Mazer and Chen (2016) the process of leveraging digital platforms to leverage digital data to inform credit decisions and create intelligent customer engagement is

referred to as digital lending. This represents their various holdings - 29 percent for individuals and 79 percent for credit institutions and other companies.

It is important to plan your finances properly in order to make the most of your earnings and savings as money is limited. According to Campbell (2006), effective financial planning requires a high level of financial literacy so that you can make smart financial decisions without exceeding your budget. Menor et al. (2008) describes personal finance as including all of an individual’s or family’s assets that assist in managing finances successfully. An individual's finances include the use, preservation, security, and distribution of their financial assets. Because of the financial sector's rapid technological advancements, digital lenders, and more recently, mobile banking and mobile money services, have proliferated (Chen & Major, 2016). Digital lending platforms have evolved quickly by leveraging increasingly digitized and accessible customer data to create and deliver digital products to their customers remotely. Individual lending is one of the most important drivers of fintech growth. CAGR estimates the growth rate of fintech companies and investments at 57%.

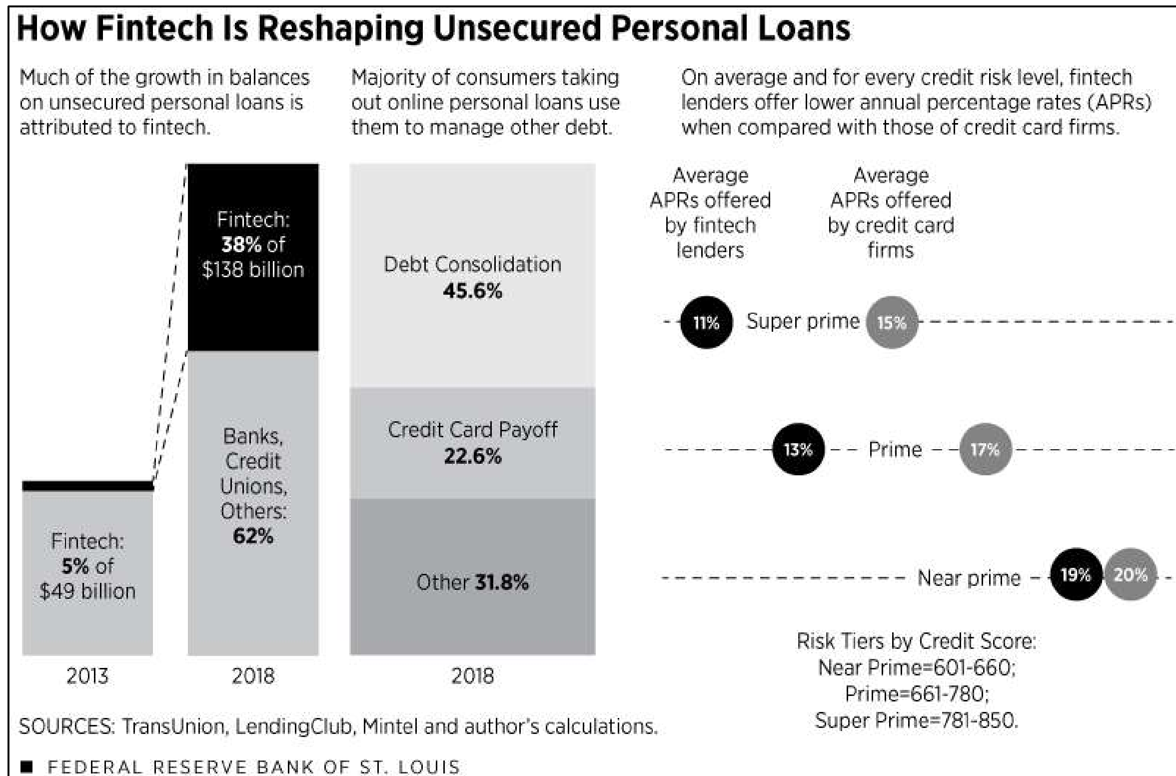
Lending to private individuals is more common than lending to MSMEs and other businesses. Different geographic locations, cultural tastes and consumer behavior characterize each lending environment. Knowing the many consumer segments, each with its own consumer set and literacy levels, is unique and comes with its own buying preferences. Understanding multiple client segments is unique, each a diverse collection of buyers with their own buying desires and different literacy levels. Consumers' inclination towards fintech loans is largely driven by variables such as online information availability, mobile and internet access, and minimal third-party influence on decision-making. Credit card debt is the largest source of borrowing.

Private individual lending is more common than lending to MSMEs and other businesses. Each lending environment is distinguished by its geographical location, cultural preferences, and consumer behavior. Each lending environment is distinguished by its geographical location, cultural preferences, and consumer behavior. Knowing multiple user segments, each with its own user set and literacy levels, is distinctive. It also has its own set of purchasing preferences. Understanding multiple client segments is difficult because each is a distinct group of buyers with different purchasing desires and literacy levels. Consumers' preference for fintech loans is largely influenced by factors such as the availability of online information, mobile and internet access, and little third-party influence on decision-making. Credit card debt is the most common source of borrowing.

According to a report by the FinTech Association for Consumer Empowerment (FACE), financial technology or fintech lending companies doubled disbursements in the financial year

2021-22, disbursing 2.66 crore loans worth a total of Rs 18,000 crore. Figure 2 explains the trends of customers towards fintech companies. Most of the customers prefer fintech companies for unsecured loan and for their shortterm needs.

Figure 2: Trends on unsecured personal Loans



Data Source: https://www.stlouisfed.org/publications/regional-economist/second-quarter-2019/unsecured-personal-loans-fintech

Other types of consumer credit, such as auto, credit card, mortgage and student loan debt, have grown more slowly than unsecured personal loans over the past two years due to favorable economic conditions. Unsecured personal loans, or personal loans as they are commonly known, are expected to grow in popularity. Total personal loan balances are expected to reach an all-time high of $156 billion by the end of this year. At the end of the first quarter of 2019, a record 19.3 million American consumers had at least one unsecured personal loan. This represents an increase of two million customers over 2017. Total uninsured personal loans in the United States rose to $138 billion at the end of 2018, an increase of $21 billion from the previous year.This paper aims at individual financial growth because of borrowings from fintech companies.

The study considers the sample size of 120 individuals and the sampling technique used is Convenience sampling. The statistical tool used for data interpretation is simple regression. The scope of study is limited to the area of Hyderabad.

REVIEW OF LITERATURE

Fintech refers to the innovative approaches and products now available for financial services as a result of technological advancements. The Financial Stability Board defines FinTech as "technologically enabled financial innovation that may lead to business, applications, procedures or products with a material impact on financial markets and institutions and new approaches to the provision of financial services." (C. Vijay)

The Indian fintech software market will grow from USD 1.2 billion to USD 2.4 billion by 2020, according to NASSCOM. The traditionally cash-based Indian economy has reacted positively to fintech opportunities, primarily through the rise of e-commerce and widespread smartphone use. The transaction value for the Indian fintech sector is expected to reach USD 73 billion in 2020, up from an estimated USD 33 billion in 2016. According to a KPMG 2016 study, India is emerging as a dynamic ecosystem, providing financial startups with a platform to become billion-dollar unicorns. Fintech startups in India have ambitions ranging from exploring global markets to entering new ones.

The Indian fintech software market, which is currently valued at USD 1.2 billion, is expected to grow to USD 2.4 billion by 2020, according to NASSCOM. The Indian economy, which was previously reliant on cash, has embraced the concept of fintech. Powered primarily by the expansion of e-commerce and widespread smartphone use. The Indian fintech sector's transaction value is expected to reach USD 73 billion in 2020, representing a 22% five-year CAGR.

Buchak et al. (2018) and Fuster et al. (2019) investigate how FinTech lending has affected the US mortgage market. Their research is predicated on the notion that technological advancements in fintech lending models can reduce frictions. Long loan processing times, limited resources, inefficient refinancing, and limited access to capital are all examples of issues in mortgage lending. They were the first to demonstrate that fintech lenders could significantly shorten mortgage processing times by 20%. Fintech loans are 25% cheaper than traditional lender loans, putting an end to the "locks screening" theory. Fuster et al. (2019) provide additional evidence in light of differences in refinancing activity: fintech financing is associated with a higher probability of refinancing, making it possible to consistently beat market interest rates.

Lending platforms are designed to match investors and borrowers by providing a low-cost, standardized loan application process. Prospective borrowers provide information about the project they wish to raise funds for, and the platform verifies some of the self-reported data by requesting supporting documentation. Platform employees do not interact with borrowers personally. S. Agarwal and J. Zhang were previously borrowers and investors

As previously stated, the primary distinction between P2P lending and traditional banking is the emphasis on investor screening and information generation (Valley and Zheng, 2019). Given this, the first question raised in the literature is about the implications of the lack of formal intermediaries for the types of loans produced. Michels (2012) uses transaction-level data to determine how these details about the final interest rate and the number of bids on a loan offering are determined. When two people are matched, they enter into a loan agreement, which attracts investors.

In 1967 Texas Instruments introduced the first handheld calculator, the same year Barclays Bank installed the first ATM in London. Each of these important innovations can be considered the beginning of the second fintech era.This phase of digitization started with analog paper and progressed to ATMs, computers and calculators in the digital world. From the 1960s to the 1970s, the development of payment systems such as SWIFT laid the foundation for widespread Internet commerce. The first in a series of electronic stock exchanges, NASDAQ was launched.Advances in Stock Market Digitization. In the early 1980s, most developed country banks switched from manual to electronic systems. Internet technologies have evolved.

Zeng Yao and Pulak Ghosh (2022) They discovered that there is a connection between cashless payment and the fintech offering in their research on fintech financing. They have expected that using a cashless system will make it simpler to acquire alternate data analyses. Financial technology lenders are more at ease with individuals who has a solid cashless payment track record. The greatest technique for checking the payments made without cash is the Loan applications that leverage cashless payments for better financing results would be risk-averse or neutral. According to the author, fintech and cashless transactions are both growing. The cashless transaction offers different sources of data for fintech lenders.

Mark and David (in 2021) They looked at small company fintech financing organizations for their study. They discovered that the COVID -19 epidemic caused the modest fintech loan company to become dry in March 2020. When researchers examined the fintech industry's functions in March 2020, they discovered that the fintech firm was able to consider the new loan application form because of the high level of financial abstraction and consumer seeking for alternative forms of financing. loan requests skyrocketed, and fintech companies were

financially constrained. Additionally, they discovered that one of the biggest issues for the borrower and fintech company was loan payback was wary because of the ambiguity surrounding the nationwide COVID -19 lockdown.

In their study, Berg Tobias and Fuster Andreas (2021), they found that fintech lending is more practical and has expanded quickly. They conducted an analysis of the market size and market capitalization for fintech lending, and they concluded that the market for "buy now, pay later" transactions in particular has seen fintech lending earn a double-digit market share rising significantly. The predicted adoption rate of fintech will be three times higher than the current adoption rate thanks to favorable demographics and affordable internet access, the Fintech lending model is experiencing not been applied widely. However, as Campbell (2006) emphasizes, good personal financial planning requires strong financial literacy, which enables you to make wise financial decisions within your financial constraints.

Personal finance as defined by Menor et al. (2008), includes all individual and family resources that contribute to financial success. Personal finance is how a person spends, saves, protects, and invests their money. In recent years, the rise of mobile money and mobile banking services has led to rapid technological advances in the financial sector, resulting in digital lenders (Chen & Major, 2016).

Digital lending platforms have expanded rapidly using increasingly digitized and accessible customer data to create and remotely deliver digital products to their customers. As a result, a new category of borrowers (digital borrowers) has emerged, Increasing financial inclusion by focusing on emerging markets and competing for traditionally low-income consumers such as society's youth. With the world's population continuing to grow, credit demand has increased significantly in both developed and developing economies. In particular, the global financial crisis of 2008–2009, as explained by Parada and Bull (2014), quickly undermined customer trust in financial services, leading to more stringent loan application requirements. Such measures have created a credit gap by leaving a significant portion of credit requirements unmet by formal financial institutions

Kenya’s digital lending eco system has become a standing evidence for Indian fintech lending and it has paved a way to fintech organisations to fix their priorities towards lending. Kenya, a rapidly growing digital economy, has widely adopted mobile technology, which has transformed the country's socioeconomic development (Central Bank of Kenya [CBK], 2015). Mobile technologies have resulted in the creation of new and innovative ways of communication between people, businesses and governments, as well as the ease of money transfer, job creation and quick and convenient borrowing. Historically, most Kenyans have obtained credit from informal moneylenders, relatives and friends. People trade goods to

others, and others get loans as collateral against home assets. According to Nyangosi, Arora, and Singh (2009), the banking industry has adopted mobile technology over the years to provide better financial services to its customers. Furthermore, Kathuo, Rotich, and Anyango (2015) also supported digital lendings that customers do not need to wait in line to be served or perform other financial transactions.

Digital credit now surpasses total informal loans and borrowings from Shylocks, friends and relatives. According to Hermes and Lensink (2004), the digital credit market landscape embodies formal financial inclusion by providing fast and convenient access to funds to many borrowers. No collateral required, or less documents required, complete and remote access and use of digitized data to determine creditworthiness of borrowers. Corruption, lack of capital, information and related skills hinder youth access to employment and income opportunities in Kenya (International Labor Organization, 2013).

RESEARCH METHODOLOGY

RESEARCH OBJECTIVES

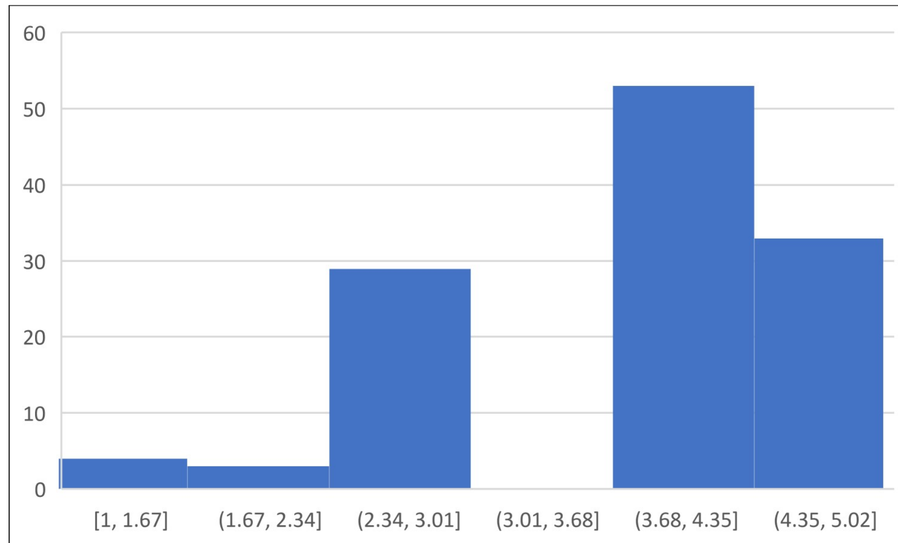
1. To study and understand FinTech process.
2. To understand the factors contributing to growth of fintech operations.
3. To compare the preferences of fintech organisations towards online lending.

RESEARCH HYPOTHESES

Hypothesis 1: There is no significant effect of FinTech lending on personal borrowings.

Hypothesis 2: There is no significant effect of Fintech lending on professional borrowings

Figure 1: Felxibility of financial operations through mobiles and internet by customers



Data Source: Author Analysis

From the above figure we can interpret that 45% of the customers prefer fintech because of its flexibility in operating through mobile and internet. Independent operations made by individuals made it more adaptable by customers.

Table 1: Effect of Fintech lendings towards customer personal borrowings

Model	R	R sq	AdjR sq	Std. Error	Co effi	T val	F value	Sig F value	P value	Sig value
Incom	0.131707	0.017	0.009	0.750	3.686	25.88	2.155	0.144588	2.14E-51	0.000

Source: Author compilation

Interpretation: The factors of personal borrowings are personal loan, credit card repayment, unexpected business needs, short term financial needs. To assess the significance of the coefficient, we must generate test statistics, which are simply B / Std.Error and are displayed in the t column. To test the null hypothesis that the slope is zero, the t statistic for the slope on decision independence is 25.88. The P value is less than 0.000.

Table 2: Effect of Fintech lendings towards customer professional borrowings

Model	R	R sq	AdjR sq	Std. Error	Co effi	T val	F value	Sig F value	P value	Sig value
Income	0.157	0.024	0.016	1.250	1.415	2.63	3.097	0.080	0.009	0.001

Source: Author compilation

Interpretation: The factors considered to measure professional borrowings are short term loans and medium-term loans, housing loans against security. To assess the significance of the coefficient, we must generate test statistics, which are simply B / St. Error and are given in the t column. The t statistic for the slope on independence in making decisions is 0.009 to test the null hypothesis that the slope is 1.1415. The p-value is greater than 0.000.

This outcome can be compared to a t distribution. The final p value of the test can be found in the Sig. column. The p value is.000 (reported as p.001), which is less than 0.05 (mentioned under "Sig."). With a significant value of.000, the null hypothesis is accepted and the alternative hypothesis is rejected. Personal borrowings have a p-value greater than.001, while professional borrowings have a p value of 0.009. As a result, a substantial amount of data may rule out the null hypothesis that the slope coefficient on personal borrowings is zero. The slope of the t values for decision-making is (2.63) and the significant value is.009 (p0.001).

DISCUSSION

The data analysis of Hypothesis 1 shows that there is more effect of fintech lending towards personal borrowings, rejecting null hypothesis. On the other side Hypothesis 2 shows that individual preferences towards professional borrowings from fintech organizations is less because of the complexities accepting null hypothesis. Thus, the study shows that there is more effect of fintech lending on income level of individuals as the immediate short-term loans and unproductive needs are being met.

The study examined clearly about the effect of fintech lending towards different individual needs and understanding individual preferences. Fintech organizations preferred to give loans for the short term and personal loans without security for a fixed amount. From the perspective of customers, Individuals prefer fintech lending for the personal needs, short term loans, loans without security. Customers preference is more towards personal loans even if more interest charged. Less formalities and more availability of fintech lending has helped customers to meet their non collateral needs. The problems of cash turn over towards day-to-day operations are met and thus individual can spend more time on investments and productive activities. The transformation of individual preferences towards fintech borrowings from traditional banking system has helped customers to get more money for customer’s immediate needs. Thus contributing for the growth of fintech operations. On the other hand fintech organizations were cautious to lend long term and professional borrowings which

needs collateral security. Fintech organizations were not aggressive in lending professional borrowings against customer preferences.

IMPLICATIONS OF STUDY

The areas of fintech study are unexplored and scope of the study can be extended to understand the customer preferences, perceptions of customers towards fintech organizations, fintech and IT, security of data and others.

CONCLUSION

The study aimed to measure fintech organization’s perspective towards digital customer borrowings. The fintech organisations preferred to process shortterm and low risk personal loans at a higher rate of interest. On the other hand, Organisations felt it to be little risk to process without proper documents and collateral securities as against to the customer preferences. Even though the factors of customer preferences are the same for personal borrowings but the organisations preferences is very low. The complexities in the professional borrowings are understood by both the ends. Thus the study concludes to measure organization preferences to customer digital borrowings.

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