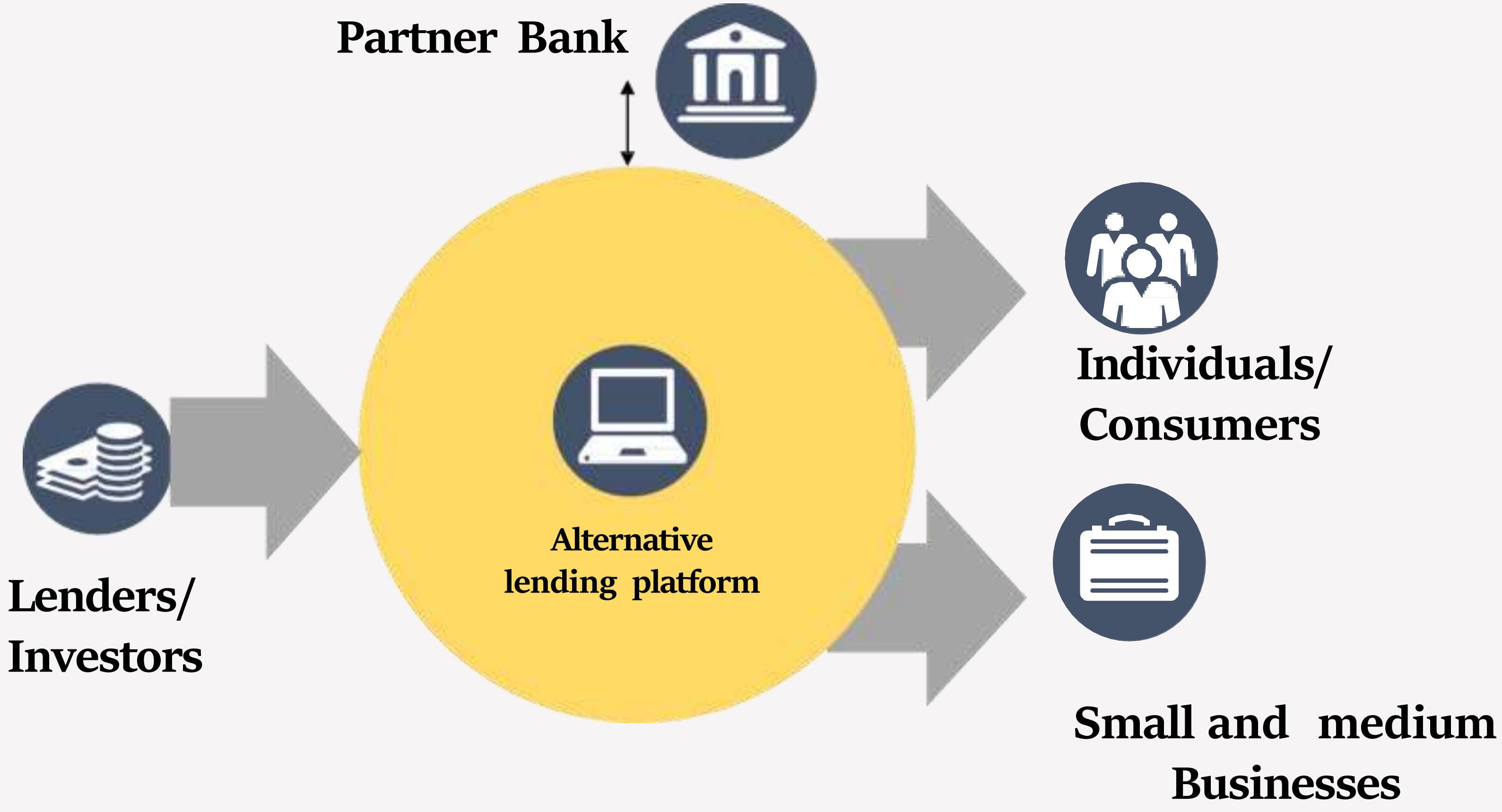
Empowering Financial Access with Digital Lending

In today's fast-paced world, digital lending provides financial convenience, speed, and accessibility to borrowers. In this presentation, we are exploring the benefits, challenges, and the future of digital lending.



What is Digital Lending?

Digital lending provides financial products and services, primarily loans, through online platforms. It leverages technology and data analytics to streamline the loan application approval and disbursement process.

Digital lending platforms, including digital banks and mobile lending applications, offer an efficient and fast experience to millions of people globally.

Difference between a Traditional & Digital lender

Digital lending is advantageous over traditional lending with lesser paperwork, lesser processing time and lesser qualification requirements.

	Traditional Lenders	Digital Lenders
Qualification	❖ *Stricter requirements to qualify for a loan. For example, business owners should have excellent credit score*	❖ *Minimal requirements to qualify for a loan. For example: Minimum credit score or revenue requirement are much lower for some digital lenders*
Paperwork	❖ *Requires significant amount of paperwork and documentation*	❖ *Requires less paperwork and documentation*
Funding Time	❖ *Takes anywhere from few days to a few weeks to provide the loan*	❖ *Takes 2-3 days to provide the loan*

Gaps in traditional lending and need for digital lending

Thetraditional lending model failed to meet the evolving needs of borrowersand lenders and faced several issues that were unaddressed. Following are few of those:

1

Supply vs demand gap

- Traditional lenders could not bridge the gap between credit demand and its supply

2

Unable to finance customers with Insufficient credit history

- Traditional lenders could only lend to the customers with sufficient and credible credit history
- They require lot of documents which might not be available with all the customers

3

Unable to finance unqualified business owners

- Traditional lenders can only finance to qualified businessowners having reasonable credit history such as GST, tax file receipts, etc.
- Thus small businesses like shopkeepers, vegetable vendors are left out from financing

Digital Lending Mechanism

Alternative lending, also known as online lending, matches potential borrowers and lenders seeking loan opportunities higher than those offered by traditional financial institutions through online platforms. India's digital lending industry has seen significant growth, with over 225 alternate lending companies founded by 2017.

Peer-to-peer lending (P2P lending) offers cheaper loans as intermediary commissions are avoided, and better matching of lender-borrower pairs based on their needs. Crowdfunding is another type of P2P lending for startups and organizations.

Alternate Lending

- Offers loan processing in a shorter time frame"
- Contactless application process
- Offers loans without collateral
- Minimal documentation

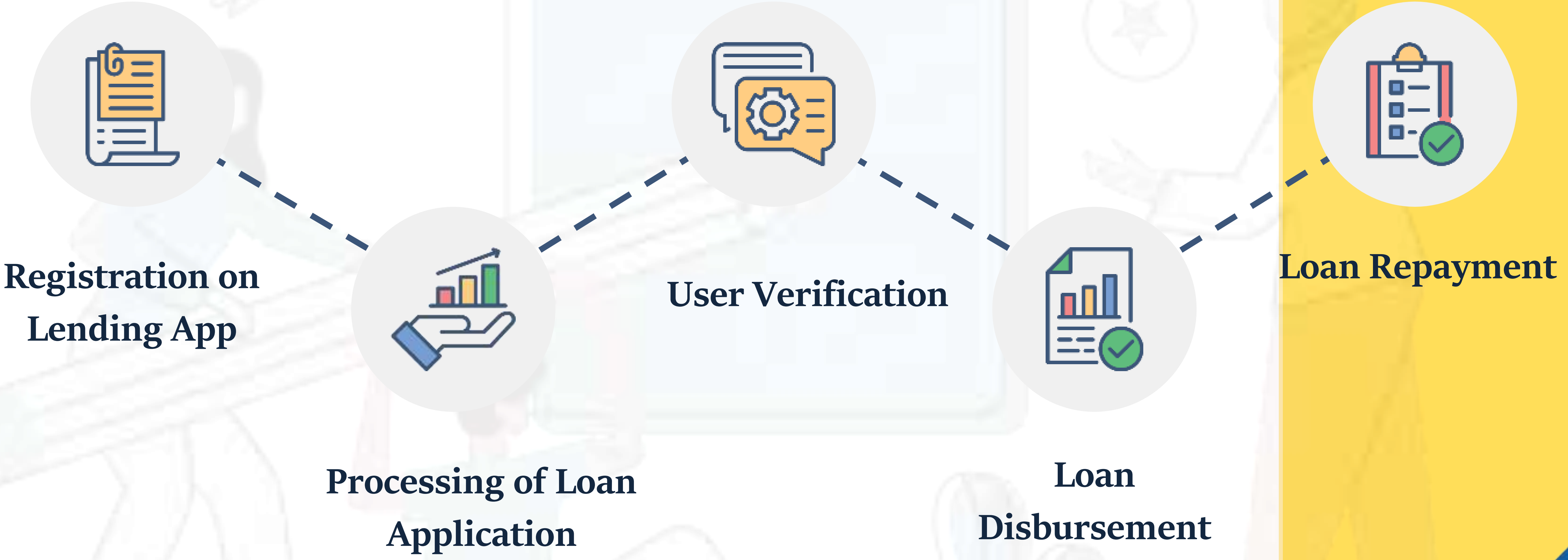
Peer-to-Peer Lending

- Matches individual lenders and borrowers without intermediaries like banks
- Offers cheaper loans than those given by banks
- Equally benefits the lender and borrower
- Bypasses the traditional banking system

Crowdfunding

- Two types: Donation Crowdfunding and Financial Return Crowdfunding
- Allows small companies to raise funds publicly
- Allots equity shares to investors in exchange for funds in equity crowdfunding
- Offers perks to investors like discounts on products or services

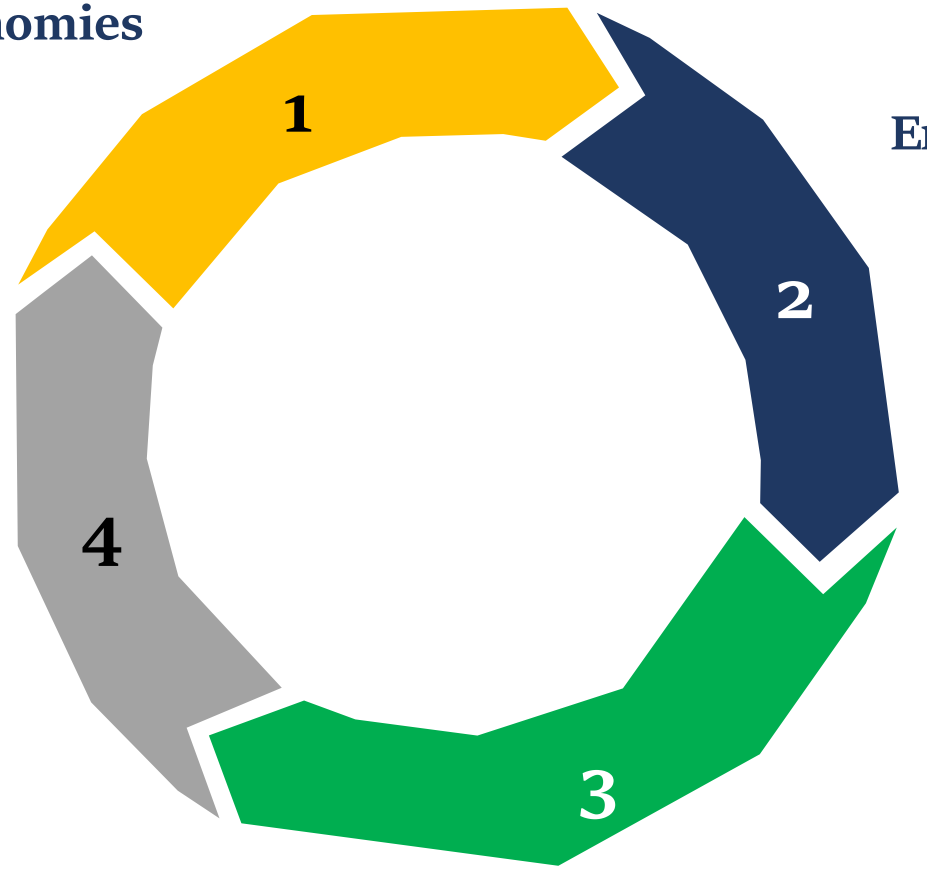
Digital Lending Cycle



Industry Trends In Digital Lending

Following are the 4 major trends in the digital lending space that have the potential to define how this space develops in the near future

Clear distinction between business models for developed and developing economies



Emergence of digital loans as a viable asset class

Traditional players are reacting with agility

Evolving secondary market for online loans

Industry trends in digital lending

Clear distinction between business models for developed and developing economies

- In developed economies such as the US and UK, the focus is largely on consumer financing (refinancing existing loans, purchasing goods/services, payment of credit card dues or education loans)

- On the other hand, in developing economies, the goal of most firms is to reach under-/unbanked borrowers. These borrowers range from small and medium enterprises (SMEs) who find it difficult to obtain bank loans on amicable terms, to individuals who are subprime for traditional lenders

Industry trends in digital lending

Emergence as a viable asset class (a group of similar assets)

- Alternative lending has evolved as a viable and relatively less volatile asset class for both retail and institutional investors
- Less complex investment decisions and higher rates make it an attractive avenue for retail investors to place short-term funds
- Investment banks, hedge funds and insurance companies have deployed massive amounts of funds by partnering with online lenders, thus altering the structure of the industry

Industry trends in digital lending

Traditional players are reacting with agility

- Banks across the world are closely watching this segment to ascertain the sustainability of the business models, and many are starting to get involved in some form or the other

- A few large banks have partnered with various online lenders and are looking to join the bandwagon as investors

- A few others have taken strategic equity stakes in some of these firms, while several others are looking to start their own online lending arms

Industry trends in digital lending

Evolving secondary market for online loans

- Some online lenders are looking to bundle small-ticket size loans and sell them to institutional lenders – this is called securitization*
- Securitization enables lenders to spread some of the risk and provides additional sources of funding
- Some firms have formed internal hedge funds and affiliated entities to act as investment advisors and participate in the securitization of loans

**Securitization is the process of bundling of small sized loans into marketable securities that are then sold to larger investors.*
For example: A bank who has given out several small house loans in the form of mortgages can combine these into groups to form Mortgage backed securities (MBS), which it can sell to investors such as insurance companies. The insurance company gains interest on these small loans with the houses as collateral and the bank transfers the risk of default on the house loans to the insurance company.

Advantages of Digital Lending

Digital lending makes it easier to apply, receive funding, and repay loans. It eliminates the strenuous paperwork and documentation associated with traditional lending, making it more convenient and accessible for everyone. The following are the key advantages of digital lending:

Faster Approval

With faster application approval processes, borrowers can access loans within minutes or a few days.

Enhanced Customer Experience

End-to-end digital processing enhances customer satisfaction and reduces errors, risk, and cost in the loan approval process.

Data-Driven Decisions

Technology and machine learning engines utilize digital footprints to assess credit eligibility and more accurately predict creditworthiness.

Financial Inclusion

Digital lending loosens credit constraints for people who previously did not meet the rigorous eligibility criteria used by traditional financial lenders.

Challenges and Risk Management

Cyber Security, Regulatory Compliance, Fraud Prevention, and Data Privacy are crucial for responsible lending practices in digital lending. Ensuring safe access to confidential information and secure online transactions play a vital role in mitigating cyber risks associated with online transactions and transactions' unauthorized access.

Ensuring Responsible Lending

Responsible Lending Practices, Transparent Terms, Customer Support, and Credit Risk Management are essential for sound risk management. Financial institutions must instill responsible lending practices with customer-centric policies and mindful credit risk management to control unintended consequences.

1 Responsible Lending Practices

Lenders must adhere to the regulatory environment's standards and maintain proper transparency in policies.

2 Transparent Terms

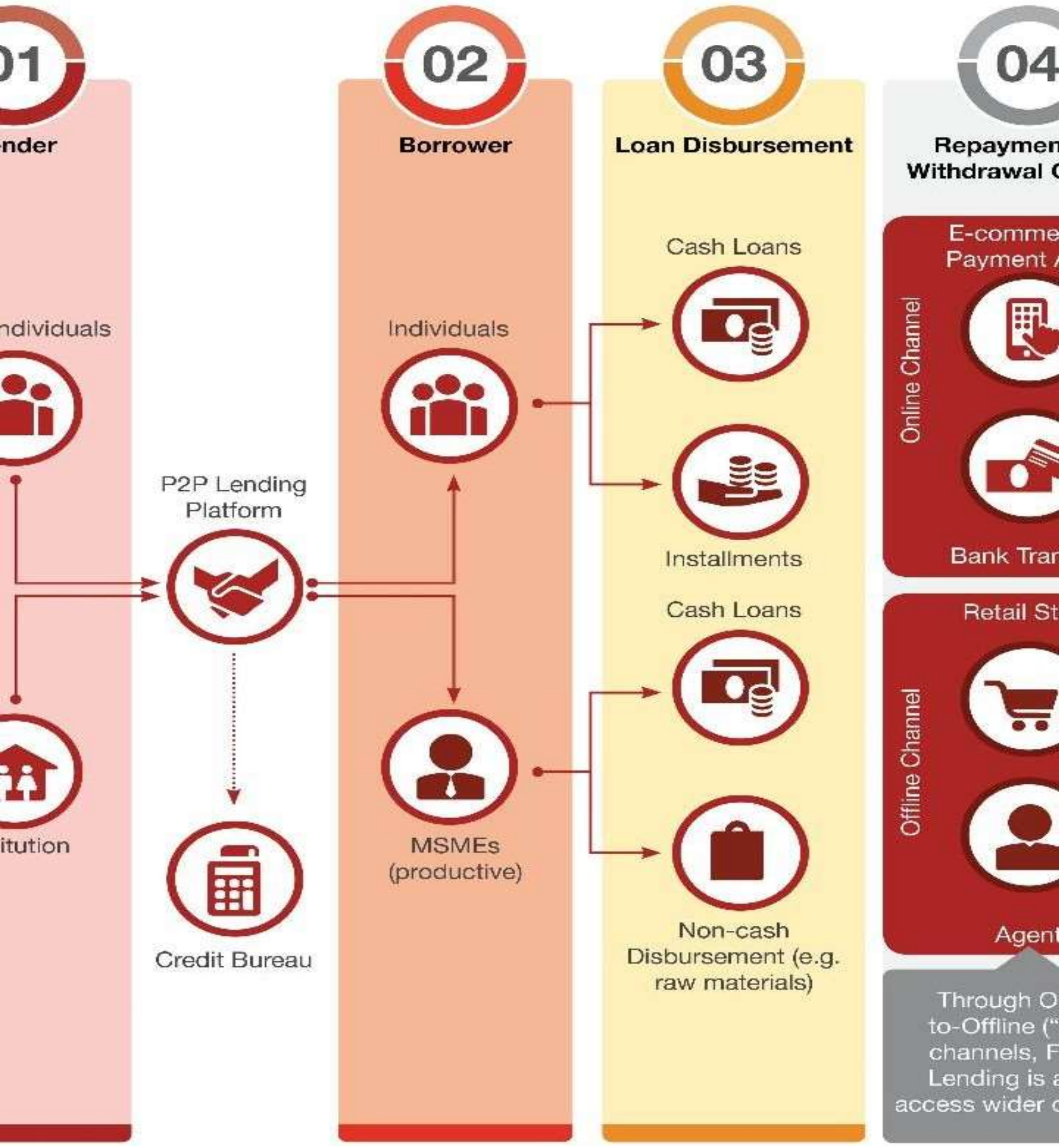
Clear terms and conditions in digital lending can increase transparency in operations, which positively impacts the borrower.

3 Customer Support

Access to effective customer care, online resources, and advice regarding borrowing can reduce the borrowing risk.

4 Credit Risk Management

Effective credit risk management practices must be in place for practical and well-informed lending decisions.



Future of Digital Lending

The future of digital lending lies in exciting technologies that provide a more inclusive and transparent financial ecosystem. The increased use of Artificial Intelligence and Machine learning, Blockchain technology, Open Banking, and IoT integrations will enable better security, transparency, and access to credit systems.

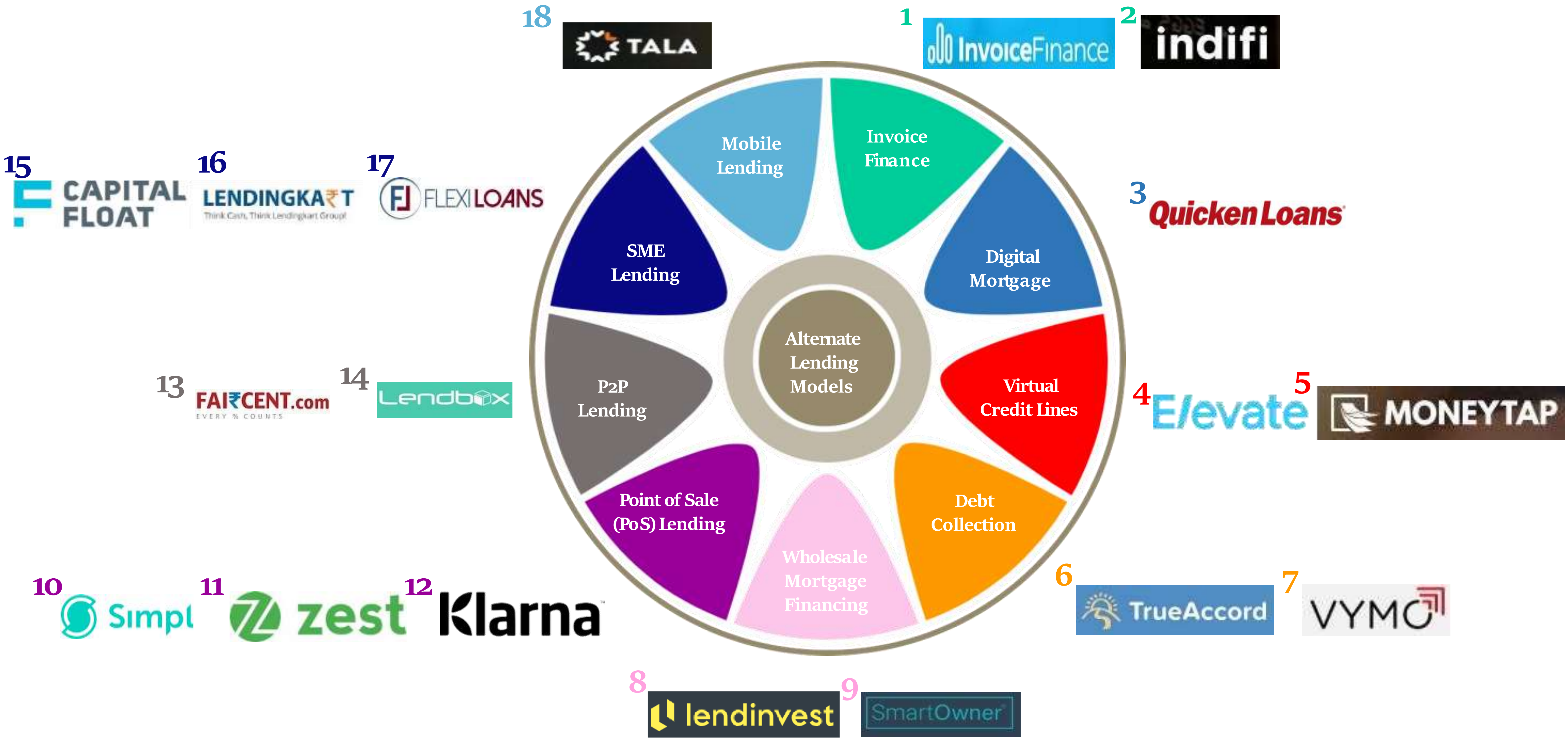
Digital Lending: Industry Examples in India

Company Name	Offering Overview
zest	• Provides short term, small ticket size loans at point of checkout at a wide variety of online-merchants • Eliminates payment step at merchant, significantly improving checkout conversion • Machine learning technology allows itto lend to consumers who might not qualify for credit cards, utilizing additional data, such as ecommerce payment behavior
FLEXI LOANS	• FlexiLoans.com isa pure digital lending FinTech platform that provides paperless, collateral free working capital financing to small and medium businessac rossIndia • Its proprietary technology and algorithms are built to remove the friction points in the borrower's application process, data gathering, credit decisioning, scoring, loan funding, customer servicing, regulatory compliance and fraud detection

Digital Lending: Industry Examples in India

Company Name	Offering Overview
LENDINGKART Think Cash, Think Lendingkart Group!	• Instant small business loans using creative alternative data to underwrite loans and reduce dependency on documentation • Partnerships with merchant aggregators provide access to merchant and Small and Medium Enterprises’ (SMEs) sales information • Provide finance management services in exchange for data on SME performance for better underwriting
FAIRCENT.com EVERY % COUNTS	• Digital financial community that connects borrowers and investors, providing different forms of credit and investment options • Pairs borrowers and investors based on built in algorithms • Provides additional services related to loan servicing and collections

Popular Digital Lending Platforms



Digital lending empowers borrowers with convenient and accessible financial solutions. Continued innovation and responsible practices will shape the future of lending.

The digital lending sector's pace shows promise, challenging the traditional lending system and the path to rapid financial inclusion

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