

A Study on Consumer Preferences and Satisfaction Towards Digital Lending

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ABSTRACT

Digital lending has revolutionized the way consumers access credit, offering a convenient, fast, and personalized alternative to traditional banking methods. As digital platforms increasingly become the preferred method for obtaining loans, understanding consumer preferences and satisfaction becomes essential. This study explores the factors that drive consumer choice in digital lending, including convenience, speed, transparency, cost effectiveness, and personalized offerings. It highlights how these features significantly enhance consumer satisfaction, making digital lending more appealing than traditional lending methods. Additionally, the study examines challenges such as data security, eligibility concerns, and the lack of physical interaction, which can impact consumer trust and satisfaction. Ultimately, the research underscores the growing role of digital lending in meeting modern consumer expectations and its potential for continued growth and innovation in the financial services sector..

Keywords: Money lending, Digital banking, Consumer Satisfaction.

1. INTRODUCTION

Digital lending refers to the provision of loans or credit through online platforms, eliminating the need for physical interactions at traditional banking institutions. This method leverages technology to streamline and simplify the lending process for consumers, offering faster, more accessible, and often more affordable options than traditional financial institutions. In recent years, digital lending has seen a significant surge, driven by advancements in technology, mobile internet access, and changing consumer expectations. With the increasing popularity of digital lending, understanding its impact on consumer satisfaction has become critical. Consumers today are seeking financial services that are efficient, user-friendly, and personalized. Digital lending platforms, such as peer-to-peer lending sites, fintech companies, and even digital branches of traditional banks, are reshaping how consumers access credit and interact with financial services.

MEANING DIGITAL LENDING IN BANKS

Digital lending refers to the process of offering loans through digital platforms, such as mobile apps, websites, or fintech solutions, without the need for traditional paperwork or in-person interactions. It involves the use of technology like artificial intelligence (AI), big data, and automation to assess creditworthiness, approve loans, and disburse funds quickly. Digital lending is widely used by banks, non-banking financial companies (NBFCs), and fintech startups to provide personal loans, business loans, payday loans, and other financial products. It enables faster loan processing, better risk assessment, and improved customer experience compared to traditional lending methods

DEFINITION OF BANK

According to Indian Banking Regulation Act 1949: "A Banking company means any company which transacts the business of banking which means accepting for the purpose of lending or investment of deposits from the public, repayable on demand or otherwise and withdrawable by cheque, draft, and order or otherwise"

R.R. Sayers states: "Banks are institutions whose debts usually referred to as 'Bank Deposits' are commonly accepted in final settlement of other people's debts."

According to Prof. Coucher: "A bank is a financial institution which can accept the surplus savings from the individuals in the form of deposits and when the depositor demands the money, the institution can immediately pay the amount invested."..

According to Oxford Dictionary: "Bank is an establishment for the custody of money, which it pays out on a customers' order".

Digital lending refers to the use of online platforms and technology to provide loans or credit to individuals or businesses. Unlike traditional lending methods, where borrowers typically need to visit a bank or financial institution in person, digital lending allows borrowers to apply for loans, get approval, and manage their loans entirely online

LITREATURE REVIEW

Asamani, A., et al. have done research on the topic "An Empirical Study of Digital Lending in India and the Variables Associated with its Adoption". This study employed structural equation modeling (SEM) to investigate the potential links between the underlying variables. The study found that customers' attitudes toward the adoption of digital lending platforms were highly influenced by trust, perceived value, and perceived ease of use. The quality of service had a considerable impact on consumers' perceptions of risk while using digital lending services. The generated model corresponded to the findings of previous studies. The findings of the research were important for optimizing platform marketing strategies and translating strategic goals into concrete activities. To improve future research, it was recommended to integrate more variables to gain a more comprehensive understanding of the adoption intentions of digital lending platforms. The digital lending platform was a significant and innovative business concept in the field of financial technology. It created a direct connection between lenders and borrowers. Scientists studied the technique by which digital lending companies used leverage. This study proposed an updated technology acceptance model (TAM) to investigate the factors influencing consumer adoption of digital lending platforms. More specifically, it examined how service quality and perceived threat influenced trust development

Dr. Sanjula Thanvi et al. have done research on the topic "DIGITAL LENDING IN INDIA: THE LOAN TRAP". This study examines the unconscionable bargains were declared void by Indian Courts under Section 16 of the Indian Contract Act, 1872. Technology, like in all other fields, had impacted financial services, resulting in the emergence of FinTech companies. A recent phenomenon had been 'digital lending,' wherein a person instantly downloaded an app from Google Play Store and borrowed amounts with just a click, without visiting a bank or Non-Banking Financial Company (NBFC) and complying with copious KYC norms and formalities. These borrowings turned out to be fatal, and people committed suicides due to the tricks applied by these digital lenders, such as social shaming, making insulting calls to friends and family members of borrowers, and stigmatizing them in society. Digital lending has grown in FY 15 from 5 billion USD to 150 billion USD in FY 2027. But the current menace created by these apps have to be responded and regulated. The MeitY has requested to Ministry of home affairs to ban 27 lending apps and Google has removed 100 lending apps from its play store. Digital lending shall become more popular and robust with the advent of more technological innovations. The borrower shall have to remain cautious and alert in order to keep all rogues out of credit market. Regulators have to keep a vigil regulation and monitoring.

Adwait Jain have done research on the topic "How has Digital Lending Impacted the Indian Banking Market". The study determines India's burgeoning online lending space continues to expand rapidly as more apps hit the marketplace providing valuable financial resources across segments of society. However, it is important that all participants in this dynamic environment are aware about the various hazards associated therein. the increasing scope for integrating improved technology tools, the financial sector will see greater digitalization and credit dissemination. There is also a high demand for skill development, system audits of technology tools, and systemic controls that must be constantly monitored to ensure that the benefits of digital lending last in the long run. As more banks join the digital lending stream, digital lending will gradually take a larger share of credit delivery. the digital lending market will continue to grow rapidly and become the main source of loans with most financial institutions switching to digital and joining fintechs in improving accessibility to loans. In my opinion, digital lending and the fintech market as a whole will become the norm in a beneficial way rather than worsen it.

TYPES OF DIGITAL LENDING IN INDIA

1. Personal Loans

Description: Personal loans in India are unsecured loans offered through digital platforms to cover various personal expenses like medical bills, education, travel, home improvements, etc. The application process is simple, with quick disbursements.

Example: Bajaj Finserv, MoneyTap, CASHE.

2. Microloans

Description: Microloans are small loans targeted at low-income individuals or underserved populations. These loans are aimed at promoting financial inclusion by providing access to credit for people who typically do not have access to traditional banking services.

Example: Milaap, Kiva India.

3. Business Loans

Description: Digital lending platforms in India offer loans to small and medium-sized enterprises (SMEs) to help with business growth, inventory, working capital, or expansion. These loans are often quicker to process and have fewer documentation requirements compared to traditional bank loans.

Example: Lendingkart, Capital Float, Indifi.

4. Peer-to-Peer (P2P) Lending

Description: P2P lending platforms allow individuals to lend directly to other individuals or businesses. These platforms provide an alternative to traditional banks, offering competitive interest rates for both lenders and borrowers.

Example: Faircent, Lendbox, RupeeCircle.

5. Buy Now, Pay Later (BNPL)

Description: BNPL services allow consumers to make purchases and pay for them in installments. These services are becoming increasingly popular for e-commerce purchases and online shopping, offering interest-free repayments within a specified period.

Example: Simpl, LazyPay, ZestMoney.

6. Credit Line (Instant Credit)

Description: Digital platforms in India offer consumers access to instant credit lines, which they can use for immediate financial needs. These are flexible, revolving loans where the consumer borrows money and repays as per their convenience, similar to a credit card.

Example: Dhani, KreditBee, CashBean.

7. Payday Loans

Description: Payday loans are short-term, small loans designed to help borrowers manage their cash flow until their next payday. These loans are generally provided with high-interest rates and are aimed at individuals who need urgent funds.

Example: EarlySalary, CASHe, MoneyTap.

8. Student Loans

Description: Digital student loan platforms offer financial assistance for higher education, whether within India or abroad. These platforms provide a simple, fast application process and quicker disbursal of funds.

Example: Credenc, HDFC Credila.

9. Home Loans (Digital Mortgage)

Description: Digital mortgage platforms in India have made it easier for consumers to apply for home loans online, with faster processing and lower paperwork. These platforms often provide home loan products with competitive interest rates and flexible terms.

Example: HDFC, Home First Finance, Piramal Housing Finance.

10. Vehicle Loans (Auto Loans)

Description: Digital auto loan platforms help consumers purchase new or used vehicles. The process of loan application, approval, and disbursement is done entirely online, making it more convenient for consumers to access auto financing.

Example: Bajaj Finserv, Mahindra Finance, Cars24.

11. Invoice Financing

Description: Invoice financing allows businesses to access funds based on outstanding invoices. Digital platforms enable businesses to get immediate cash flow by selling their receivables to a lender, reducing the waiting time for payments from customers.

Example: KreditBee, Finbox, BlueVine.

12. Gold Loans

Description: Gold loans are secured loans where borrowers pledge their gold as collateral. Digital platforms have simplified the gold loan process, allowing consumers to apply, get approval, and receive the loan amount quickly.

Example: Muthoot Finance, Manappuram Finance, Rupeek.

13. Small Ticket Loans

Description: These are short-term loans, often for small amounts, which are provided with minimal documentation and fast approval. They cater to individuals who need immediate, small amounts of money for emergencies.

Example: CASHe, Bajaj Finserv, MoneyTap.

ADVANTAGES OF DIGITAL LENDING

Convenience and Accessibility

24/7 Availability: Digital lending platforms are available online around the clock, allowing consumers to apply for loans at any time, from anywhere, without needing to visit a physical branch.

Wider Reach: These platforms enable access to financial products for people in remote or underserved areas who may not have easy access to traditional banks or financial institutions.

Faster Loan Processing and Disbursement

Instant Approval: Many digital lenders use algorithms and automated processes to approve loans quickly. Borrowers can often get loan approvals within minutes or hours, compared to the days or weeks it may take through traditional channels.

Quick Disbursement: After approval, funds are typically disbursed to the borrower's bank account within a short period, often on the same day or the next.

Minimal Documentation

Simplified Application Process: Digital lending platforms typically require less paperwork compared to traditional banks. Borrowers may only need to submit basic identification and income information, reducing the time and effort needed to apply.

Alternative Data Use: Some digital lenders also leverage alternative data sources like mobile usage, social media activity, and transaction histories, allowing those without a traditional credit history to qualify.

Transparency and Clarity

Clear Terms and Conditions: Digital lending platforms usually provide clear and transparent loan terms, including interest rates, fees, and repayment schedules, helping borrowers make informed decisions.

No Hidden Fees: Unlike some traditional lending methods, digital lenders are often more transparent about costs and fees, reducing the risk of hidden charges.

Personalized Loan Offers

Tailored Products: Many digital lending platforms use advanced data analytics to customize loan offers according to the borrower's financial situation, credit score, and past behavior, providing more personalized and suitable loan products.

Flexible Loan Terms: Borrowers can choose from various loan amounts, interest rates, and repayment schedules that best suit their financial needs.

Lower Interest Rates and Fees

Cost-Effective Loans: Digital lenders often have lower overhead costs compared to traditional banks due to their online-only nature. This can translate into lower interest rates and fewer fees for consumers.

Competitive Rates: The rise of fintech lenders and peer-to-peer lending platforms has increased competition, helping to drive down the cost of borrowing for consumers.

Increased Financial Inclusion

Access to Credit for the Unbanked: Digital lending platforms have played a key role in improving financial inclusion by providing access to credit for individuals who may not have access to traditional banking services, such as those in rural areas or with limited credit history.

Microloans for Low-Income Groups: Platforms offering small-ticket loans, especially in emerging markets, can provide microloans to low-income individuals or small businesses that would otherwise be excluded from traditional credit markets.

Simplified Repayment Options

Flexible Repayment Plans: Many digital lenders offer flexible repayment schedules, allowing borrowers to choose terms that align with their income and budget. This could include options for weekly, monthly, or even customized repayment plans.

Auto-Debit and Online Payments: Digital lending platforms often offer automated repayment options, ensuring that borrowers never miss a payment and can easily manage their finances through online channels.

Improved Credit Scoring

Alternative Credit Scoring: Digital lenders use alternative data, such as mobile phone usage or social media activity, to assess creditworthiness. This can benefit individuals with little or no traditional credit history, increasing their chances of loan approval.

Credit Building: Timely repayments through digital loans can help borrowers improve their credit scores, which can lead to better access to future loans at more favorable terms.

Enhanced Customer Experience

User-Friendly Platforms: Digital lending platforms are often designed to be user-friendly and intuitive, making the borrowing process more efficient and less stressful for consumers.

Real-Time Support: Many digital lenders offer live chat, AI-driven support, and responsive customer service, improving the overall customer experience and resolving issues quickly.

No Geographical Barriers

Nationwide Access: Digital lending platforms are not restricted by geography, so individuals from different cities, states, or even rural areas can apply for loans, unlike traditional banks that may have limited reach outside urban centers.

Global Opportunities: For some digital lending platforms, such as peer-to-peer lending, people from different parts of the world can participate as both lenders and borrowers, enabling a more globalized lending ecosystem.

Scalability and Flexibility for Lenders

Lender Diversification: Digital lending platforms allow a wide range of lenders, from traditional financial institutions to individual investors, to participate in the lending process, diversifying the sources of capital.

Scalable Growth: Digital platforms can scale rapidly, accommodating a large number of borrowers and expanding lending opportunities without the need for significant physical infrastructure.

DISADVANTAGES OF DIGITAL LENDING

Data Privacy and Security Concerns

Risk of Data Breaches: Digital lending platforms collect a significant amount of personal and financial data from borrowers. If these platforms are not properly secured, there is a risk of data breaches, which could lead to identity theft, fraud, or financial loss for consumers.

Privacy Risks: Borrowers' data could be misused or sold to third-party companies without consent, violating consumer privacy rights.

Over-Indebtedness

Easy Access to Credit: The ease of obtaining loans through digital platforms can sometimes lead to irresponsible borrowing. Consumers might overestimate their ability to repay, leading to over-indebtedness, especially when the loans are small and easy to access.

High-Interest Rates on Small Loans: Short-term loans, like payday loans or microloans, offered via digital lending platforms often come with high-interest rates, which could trap borrowers in a cycle of debt.

Lack of Financial Literacy

Informed Decision-Making: Many digital lending platforms target individuals with limited financial knowledge. Borrowers may not fully understand the terms of the loan, including interest rates, fees, and the consequences of late payments, leading to poor financial decisions.

Misleading Marketing: Some digital lenders may use aggressive marketing tactics, promoting loans with low-interest rates without disclosing high fees or hidden charges, confusing borrowers about the actual cost of borrowing.

Limited Human Interaction

Absence of Personal Touch: Digital lending platforms typically operate online, which means borrowers may not have the opportunity to speak directly with a loan officer or financial advisor. This can be a disadvantage for people who prefer personalized support or need more guidance in making financial decisions.

Difficulty in Resolving Issues: In the case of disputes or issues, users might face delays or frustrations when trying to contact customer support, especially when dealing with AI-driven systems or automated responses.

Eligibility Criteria and Credit Scoring

Exclusion of Low-Income Individuals: Digital lending platforms often rely on credit scores and other data analytics to assess loan eligibility. This can leave out individuals with limited or no credit history, especially those in lower-income brackets or from rural areas, who may have difficulty obtaining credit through traditional or digital means.

Bias in Algorithms: The algorithms used to evaluate creditworthiness may not always be transparent and could unintentionally favor certain groups over others. This might lead to discrimination based on incomplete data or historical biases embedded in the credit models.

Higher Interest Rates for Riskier Borrowers

Interest Rates Based on Risk: Borrowers who have poor credit scores or are seen as high-risk by digital lending platforms may face significantly higher interest rates, making borrowing more expensive and further worsening their financial situation.

Penalties for Late Payments: Many digital lenders impose heavy penalties for missed or delayed payments, which can significantly increase the cost of borrowing for those who struggle to make timely repayments.

Lack of Regulation

Unregulated Platforms: In many countries, digital lending is still a relatively new industry, and regulatory frameworks may not be fully developed. This lack of regulation can lead to fraudulent or unethical practices, such as charging exorbitant interest rates, providing loans to unqualified borrowers, or not fully disclosing loan terms.

Legal and Compliance Risks: Without adequate regulations, some digital lenders may engage in predatory lending practices, potentially putting borrowers at financial risk

DEPENDENCE ON TECHNOLOGY

Access Issues for Non-Tech-Savvy Individuals: Older adults, individuals with limited internet access, or those not familiar with digital platforms may find it difficult to navigate the online application process. This can lead to exclusion for certain groups of people, particularly in rural areas.

Technical Glitches: Issues like website crashes, slow processing times, or failed transactions can disrupt the lending process, causing frustration for consumers and potentially delaying access to funds.

Lack of Customer Trust

Skepticism About Digital Lenders: Many consumers may be hesitant to trust digital lending platforms, especially when they are new or unregulated. They may be concerned about the security of their personal data or the legitimacy of the platform.

Negative Perceptions: Some consumers associate online lenders with high-risk loans or dubious practices, leading to a lack of confidence in digital lending products, particularly payday or short-term loans.

Potential for Fraud and Scams

Fraudulent Platforms: The rise of digital lending has led to an increase in fraudulent schemes and scams. Some fake lending platforms may collect personal data or upfront fees from consumers without providing the loans, resulting in financial loss and privacy violations.

Impersonation and Phishing: Fraudsters may impersonate legitimate digital lending platforms through phishing emails, phone calls, or fake websites, tricking consumers into revealing sensitive information.

Regulatory and Legal Challenges

Varying Regulations: The regulatory environment for digital lending varies significantly between countries. In many cases, the absence of clear and consistent regulations makes it difficult for digital lenders to operate in full compliance with local laws. This lack of regulatory clarity can lead to legal risks for both borrowers and lenders.

Consumer Protection Issues: Without strong consumer protection laws in place, borrowers may find themselves exposed to unfair terms, deceptive practices, or aggressive collection methods from digital lenders

CHALLENGES

Data Privacy and Security:

Consumers are often concerned about the privacy and security of their personal and financial information when engaging with digital lenders. Concerns about data breaches and unauthorized access to sensitive information can negatively affect satisfaction levels.

Eligibility and Approval Issues:

Despite the speed and convenience of digital lending, some consumers may find themselves denied access to loans due to

strict eligibility criteria or incomplete data. This can lead to frustration and dissatisfaction, especially if the platform's decision-making process is perceived as opaque or unfair.

Limited Human Interaction:

Some consumers may still prefer human interaction, especially when it comes to financial matters. The lack of face-to-face communication in digital lending can be a drawback for individuals who value personal service and expert advice.

Lack of Physical Presence:

For some individuals, especially older consumers or those in rural areas, the absence of a physical branch or location can be a barrier to digital lending. These consumers may feel more comfortable visiting a bank or credit institution in person to handle financial matters.

CONCLUSION & SUGGESTIONS

The rise of digital lending has significantly transformed the financial services landscape, offering consumers greater convenience, speed, and transparency. By addressing modern needs for instant, user-friendly, and cost-effective credit, digital lending platforms are enhancing consumer satisfaction. However, challenges like data privacy concerns, limited human interaction, and potential access issues must be addressed to further improve the consumer experience. As digital lending continues to grow, understanding and optimizing these factors will be key to maintaining and boosting consumer satisfaction in an increasingly digital world. Digital lending shall become more popular and robust with the advent of more technological innovations. The borrower shall have to remain cautious and alert in order to keep all rogues out of credit market. Regulators have to keep a vigil regulation and monitoring.

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