# "THE ROLE OF DIGITALISATION IN LENDING PROCEDURE: DIGITAL LENDING VS TRADITIONAL LENDING"

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## ABSTRACT

*This research paper exhibits how Banks have discovered new ways to provide flexible lending procedures as a result of the digitalization revolution. Today, the digital medium has emerged as the most promising means of improving the system in any field. Banks are also improving their methods of attracting customers by offering a greater variety of options. As a result, this paper focuses on how consumers were drawn to digital lending over traditional lending during the revolution of digitalization in lending procedure. This paper will also identify the factor that is most concerning for today's people and is influencing their preference for digital lending over traditional lending. This paper also focuses on customer satisfaction toward Digital Lending.*

***Keywords:*** *Digitalization, Lending Procedure, Digital Lending, Traditional Lending*

## INTRODUCTION

Since digital technologies have such an impact on all aspects of our lives, the current evaluation phase is also known as the "digital age."  With the appearance of calculating advances and computerized hardware around five decades ago, the digitalization procedure began. Today, digitalization can be viewed as a change agent that affects everything from our way of life to how we execute, connect, and lead a business. Innovative technology is increasingly being used in all areas, including correspondence, media, social insurance, retail, and assembly. The scene of this digitized world is increasingly being driven by advancements in e-commerce, online business, and the consistently expanding sending of the web to make economies reliant on high innovation, massive correspondence, information creation, and advancement.

It is critical to comprehend and welcome the elements that are bringing about such changes, as well as how these are affecting advanced business. Banks are boosting the revolution in digital lending just as much as fintech firms are. However, reinventing borrowing in the digital age can still feel like a wild west adventure. Industry experts identify three major trends in digital lending and offer advice on how to capitalize on them. As digitization accelerates, the scope of banks' digital aspirations varies by segment and product. For retail payment processes, digitization is becoming the norm. Personal loan applications can now be submitted with a few swipes of a smartphone, and the time to cash can be as little as a few mins. Due to the regulatory constraints, mortgage lending has become more complex, but banks in many developed markets have managed to digitalize large portions of the lending journey. More than one bank has set a goal of automating 95% of retail underwriting decisions. The reasons are obvious: costs are high, and there are numerous opportunities to improve customer experience. Furthermore, both traditional banks and fintech already provide compelling digital propositions in SME lending, with significantly shorter approval and disbursement times—an important factor for customers when selecting a lender. Corporate lending is also advancing digitally, though corporate banks are moving with greater caution and less urgency (given the relatively lower transaction volumes in this segment). Rather than redesigning the entire customer experience, banks are improving common processes, such as digitizing credit proposal papers and automating annual reviews,

to improve both times to agree and "quality of yes." (Gerald Chappell, n.d.)

As a result of the preceding argument, it is necessary to determine how Digitalization upheaval is an abstract component in and of itself, because it may be accepted that going before the wording 'innovation diffusion theory' simply implied granting basic information.

## LITERATURE REVIEW

(Brands, 2002) studies on A Technical Overview of Digital Credentials concludes that Privacy can only be properly protected in a computerized world if it is built into the architectural style of communication and payment systems. Anonymous communication channels are necessary to guarantee that users of the Internet and other electronic networks cannot be tracked at the data transport layer. Anonymous communication is insufficient in applications where individuals must prove their authority to perform certain actions. Individuals can be identified at the application layer, for example, by using electronic identity papers and other digital proofs of authorization. They provide the strongest guarantee of privacy possible: even if all verifiers, smartcards, and CAs collaborate in an active attack, collectively establish secret information in a preparation stage, and have unlimited computing power, they cannot gain knowledge more than what can be derived from the attribute properties that Digital Credential holder's voluntary basis disclose. The Digital Credential protocols were meticulously designed to achieve multiple security goals at the same time. However, the demonstration in this introductory paper glosses over many of the security nuances and dependencies. As a result, the compactness of the policies and procedures may lead one to genuinely think that Digital Credentials have really simple security properties; however, seemingly innocuous changes may have much further security implications.

A study by Dearmine and Jeans say that when it comes to loan funding, the internet has made P2P and marketplace funding possible. Besides that, the environment for peer-to-peer lending has been extremely favorable, owing to ultra-low interest rates and an expansion of economic activity. This hospitable atmosphere for marketplace funding may not last. Furthermore, nothing prevents a traditional bank from providing a similar loan brokerage service online. Investors will choose among safe non-maturing bank deposits, more dicey tranches of securitization loan portfolios, and direct lending from digital platforms based on their risk avoidance for credit or liquidity risks. Public policy, as with securitization, should make sure a minimum level of transparency for borrowers and investors. It must identify and monitor shadow banking with maturities that are out of sync, which is a major cause of a liquidity crisis. Banks play a unique role in providing liquidity as well as funding higher credit risk assets, that are characterized by opacity and as such illiquidity. (Dermine, 2017)

(Andreas Fuster, 2019) examine the vanguard of technology-based lenders to provide new evidence on how technology is restructuring the US mortgage market. FinTech lenders, they discovered, provide a faster incorporation procedure that is less delicate to capacity constraints. FinTech lending is also linked to an increase in the propensity to refinance, particularly among borrowers who will benefit from it. Because banks are more highly regulated and organizational complex, as well as having complex legacy processes and information systems, they are likely to become less agile than specialist non-bank mortgage lenders. Banks, on the other hand, have a strong competitive advantage, including low-cost access to capital. The Importance of Technology in Mortgage Lending deposit funding, cross-selling possibilities, and branch availability for borrowers who prefer a mix of online and face-to-face interactions Given the economies of scale affiliated with creating and sustaining an online lending platform, the shift to online lending poses unique challenges for smaller lenders from an industrial organization standpoint. As a result, the mortgage market may become more concentrated, dominated by firms that really can afford to keep innovating and investing in technology. Their findings suggest that technological diffusion will accelerate mortgage origination and reduce the impact of capacity constraints during peak demand periods, thereby strengthening the effect of fiscal policy on households via the mortgage market. Their findings also suggest that technological diffusion may result in more efficient refinancing decisions, which could benefit US households significantly.

(Hendriyani & Raharja, 2019) concludes that P2P lending companies have a wide potential in Indonesia because only 36% of the Indonesian population has a bank account. Key developments include a shift in lifestyle and the availability of low-cost technology. Because there aren't many binding government rules yet, P2P lending companies are more mobile and agile. The driving force for increasing competitiveness and dominating market

share is innovation and differentiation, as well as their convenience. Suggestion: Because P2P lending is a new product on the market, P2P lending companies should improve their communication programmes and establish continuous education programmes to increase customer trust. The government, as the regulator, is anticipated to continue to boost the development of P2P lending companies in order for them to grow and help distribute the P2P lending programme as a government-supported programme. As a startup, a P2P lending company should improve aggressive cooperation to develop and always enhance fast response with consumer engagement.

## DATA ANALYSIS AND INTERPRETATIONS
### Descriptive

Descriptives (Table 1)

|  | Gender | Marital Status | Highest Educational Level | Profession | Age group | Income structure slab | Area |
|---|---|---|---|---|---|---|---|
| N | 213 | 213 | 213 | 213 | 213 | 213 | 213 |
| Missing | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Table 1 shows there are total 213 respondents.

### Frequencies

Frequencies of Gender (Table 2.1)

| Levels | Counts | % of Total | Cumulative % |
|---|---|---|---|
| Female | 72 | 33.8 % | 33.8 % |
| Male | 141 | 66.2 % | 100.0 % |

Frequencies of Marital Status (Table 2.2)

| Levels | Counts | % of Total | Cumulative % |
|---|---|---|---|
| Divorced | 3 | 1.4 % | 1.4 % |
| Married | 54 | 25.4 % | 26.8 % |
| Single | 156 | 73.2 % | 100.0 % |

Frequencies of Highest Educational Level (Table 2.3)

| Levels | Counts | % of Total | Cumulative % |
|---|---|---|---|
| Bachelor Degree | 39 | 18.3 % | 18.3 % |
| CA | 3 | 1.4 % | 19.7 % |
| Diploma | 3 | 1.4 % | 21.1 % |
| Doctorate | 6 | 2.8 % | 23.9 % |
| M.phil. | 3 | 1.4 % | 25.4 % |
| Masters | 153 | 71.8 % | 97.2 % |
| PhD Student | 3 | 1.4 % | 98.6 % |

Frequencies of Highest Educational Level (Table 2.3)

| Levels | Counts | % of Total | Cumulative % |
|---|---|---|---|
| Schooling | 3 | 1.4 % | 100.0 % |

Frequencies of Profession (Table 2.4)

| Levels | Counts | % of Total | Cumulative % |
|---|---|---|---|
| Businessman | 6 | 2.8 % | 2.8 % |
| Doctor | 3 | 1.4 % | 4.2 % |
| Government Officer | 15 | 7.0 % | 11.3 % |
| Private Job | 105 | 49.3 % | 60.6 % |
| Professional | 6 | 2.8 % | 63.4 % |
| Student | 72 | 33.8 % | 97.2 % |
| Unemployed | 3 | 1.4 % | 98.6 % |
| ofiice supdt. in college | 3 | 1.4 % | 100.0 % |

Frequencies of Age group (Table 2.5)

| Levels | Counts | % of Total | Cumulative % |
|---|---|---|---|
| 25-40 | 141 | 66.2 % | 66.2 % |
| 41-60 | 27 | 12.7 % | 78.9 % |
| < 25 | 45 | 21.1 % | 100.0 % |

Frequencies of Income structure slab  (Table 2.6)

| Levels | Counts | % of Total | Cumulative % |
|---|---|---|---|
| 1,60,000 – 5,00,000 | 108 | 50.7 % | 50.7 % |
| 5,00,000 – 8,00,000 | 42 | 19.7 % | 70.4 % |
| < 1,60,000 | 36 | 16.9 % | 87.3 % |
| >8,00,000 | 27 | 12.7 % | 100.0 % |

Frequencies of Area (Table 2.7)

| Levels | Counts | % of Total | Cumulative % |
|---|---|---|---|
| Rural | 18 | 8.5 % | 8.5 % |
| Semi-Urban | 30 | 14.1 % | 22.5 % |

Frequencies of Area (Table 2.7)

| Levels | Counts | % of Total | Cumulative % |
|--------|--------|-----------|--------------|
| Urban | 165 | 77.5 % | 100.0 % |

It can be derived from the above tables that

- The majority of the feature's users are Male. (As per Table 2.1)
- The feature's majority of users are Single. (As per Table 2.2)
- The majority of users have a Master's degree. (As per Table 2.3)
- The majority of users are having private jobs. (As per Table 2.4)
- The majority of users have age between 25 and 40. (As per Table 2.5)
- The majority of users have Income structure slab of 1,60,000 – 5,00,000. (As per Table 2.6)
- The majority of users belong to the Urban Area. (As per Table 2.7)

## Frequencies

Frequencies of Have you ever availed loan through Digital Lending? (Table 3.1)

| Levels | Counts | % of Total | Cumulative % |
|--------|--------|-----------|--------------|
| No | 57 | 26.8 % | 26.8 % |
| Yes | 156 | 73.2 % | 100.0 % |

Descriptives (Table 3.2)

| | Satisfaction Level |
|--------|--------|
| N | 156 |
| Missing | 57 |
| Mean | 2.88 |
| Median | 3.00 |
| Standard deviation | 0.936 |
| Minimum | 1 |
| Maximum | 5 |

Frequencies of Rate the satisfaction Level (Table 3.3)

| Levels | Counts | % of Total | Cumulative % |
|--------|--------|-----------|--------------|
| Least | 12 | 7.7 % | 7.7 % |
| Less | 36 | 23.1 % | 30.8 % |
| Neutral | 72 | 46.2 % | 76.9 % |
| More | 30 | 19.2 % | 96.2 % |
| Most | 6 | 3.8 % | 100.0 % |

Multiple Response Test (Table 4)

| Factors | Frequency | % |
|---------|-----------|---|
| **Flexibility** | 44 | 14% |
| **Web and mobile compatibility** | 47 | 15% |
| **Third party integration** | 38 | 12% |
| **Customer service support** | 48 | 15% |
| **Authenticated access** | 48 | 15% |
| **User friendly** | 50 | 16% |
| **Broader coverage** | 47 | 15% |
| | **322** | |
| **Total Respondents** | **213** | |

As per Table 3.1, We can say that 57 candidates have not availed the loan through Digital lending. It can be derived from table 3.3 that the majority of candidates are neutral about the Digital lending procedure.

As per Table 4, A multiple response test was conducted to understand which factors can attract consumers to choose Digital Lending. It can be derived from table 4. that Candidates are more attracted to user-friendly factors and least attracted toward 3rd Party integration. As we can see, 2nd preference is authenticated access and service support. Candidates are less attracted toward 3rd Party integration and flexibility.

### Contingency Tables

The Chi-square test of association is used to find out the association between two variables.

Contingency Tables (Table 5.1)

| Marital Status | Which lending procedure will you recommend? | | Total |
|----------------|-----------------|--------------------|-------|
| | Digital Lending | Traditional Lending | |
| Divorced | 0 | 3 | 3 |
| Married | 30 | 24 | 54 |
| Single | 96 | 60 | 156 |

| Total | 126 | 87 | 213 |
|-------|-----|-----|-----|

$\chi^2$ Tests (Table 5.2)

|            | Value | df | p     |
|------------|-------|----|-------|
| $\chi^2$   | 5.00  | 2  | 0.082 |
| N          | 213   |    |       |

As per table 5.2, We can see the value of p is higher than 0.05, so we can interpret there is relevance between Marital status and their recommendation on Lending Type. It can be derived from table 5.1 that Divorced candidates are more attracted to traditional methods rather than digital procedures. Through the analysis, we can see Majority of Single and Married prefer Digital Lending.

Contingency Tables  (Table 6.1)

|        | Which lending procedure will you recommend? | | |
|--------|-----------------|--------------------|-------|
| Gender | Digital Lending | Traditional Lending | Total |
| Female | 36              | 36                 | 72    |
| Male   | 90              | 51                 | 141   |
| Total  | 126             | 87                 | 213   |

$\chi^2$ Tests  (Table 6.2)

|            | Value | df | p     |
|------------|-------|----|-------|
| $\chi^2$   | 3.77  | 1  | 0.052 |
| N          | 213   |    |       |

As per table 6.2, We can see the value of p is higher than 0.05, so we can interpret there is relevance between Gender and their recommendation on Lending Type.

It can be derived from table 6.1, those Male candidates are more attracted to Digital Lending and they prefer to recommend it rather than the Tradition procedure. Through the analysis, we can see the Women candidates are recommending both choices in the same numbers.

## CONCLUSION
This research paper explains that selection decisions of digital lending procedures relate to user-friendliness, customer service support, and authenticated access. The selection of course type decision varies from gender factor. Divorced candidates are not attached to digital lending procedures. Because of the vast availability of Lending sources in a digital platform, consumers from an urban area mostly go with the most beneficial option like free certification courses. This survey raises questions about the future of traditional banks which are not moving forward with user-friendly digital lending procedures.

## LIMITATIONS
The collected data is based on quantitative research, which may have an impact on the subjects' responses. Even

The majority of individuals came from cities. Larger studies are required to examine the preliminary findings of the study, particularly in some regional categories. It is suggested that future surveys employ an open-ended question format.

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