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Digital Lending: Its Advantages And Problems.

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Abstract: High consuming world and non-stop usage of information communication tools in every sphere are inevitable. In the period of modern technology and fast changing demand of customers, the need for digitization of the banking sphere is ever increasing. The article outlines the significance of digital lending in modern era of customer's new banking experience. Some of significant benefits of lending digitally are shown and advantages for both banks and consumers are provided in the article. In addition, some problems appearing during the lending process and obstacles clients face in developing countries in the example of Uzbekistan, some solutions to tackle away the problems are suggested.

Keywords: digital lending, digital credit, online platform, transparency, automated process, digital access.

In today's modern innovations in technology, it is not hard to feel that artificial intelligence have become inseparable part of our daily life. We can complete actions with simple commands and save time with making comfort for ourselves. We simply order services and pay for them without leaving our house or workplace.

The word "digital" became more significant and widespread since the early mid twentieth century. Today there is no field in the economy without intervention of information technologies. Digital services are appearing in the banking field as well. Until recently, commercial banks are offering variety of online services and products: from opening account and making bill-payment online to taking loans.

Digital services are such as e-deposits, digital lending are the most popular among customers. Digital lending can start with simply filling the online loan application offered by a bank or credit union on its website. Digital lending refers to

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using online, digital platforms to originate loans directly to customers, usually consumers and small to mid-size enterprises. Online loan origination platforms may automate some or all components (in entirely automated platform) of loan applications, such as electronic data and document capture, automated underwriting and e-signatures. Advanced analytic models automate credit decisions for faster, more precise and targeted underwriting. This automation can be delivered through a technology platform that is bank-developed or bought to reside on the bank's own IT infrastructure, or it can be leased as a software-as-a-service offering, securely accessed from the cloud. With either delivery method, automation enables banks to deliver loans more efficiently while maintaining their traditional underwriting, pricing and compliance practices. [1]

Why digital lending is the most attractive in the world banking? (Figure 1)

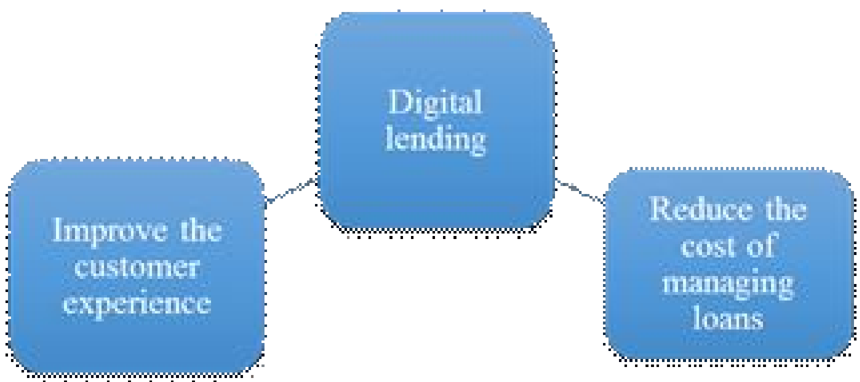

Figure 1.The reasons why digital lending is becoming more popular. [2]

✓ Digital lending improves the customer experience: For customers, non-digital loan processes translate into slow turnaround time, low transparency and low predictability. In a 2016 Federal Reserve survey, 45 percent of respondents complained of long waits for a credit decision, and 42 percent felt the application process was difficult. In contrast, online lenders far outperformed traditional banks on both counts, with only 17 percent complaining about long waits and 26 percent a difficult process. Digital lending gives them more convenience and saves their time.

✓ It reduces the cost of managing loans: Operating expense as a percentage of outstanding loans run at approximately 6 percent at banks that use traditional processes, compared to less than 2 percent at the non-bank alternative lenders. Automation can also reduce the time banks spend to underwrite loans, so they can make more loans and offer more products. Borrowers can receive loan approval and funds more quickly.

The American Bankers Association mentioned digital lending in its recent report as offering financial institution that improves productivity, closes more loans and increases revenue per loan with cheaper, faster and automated services.

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Digital lending is expanding and ever increasing as a business. Boston Consulting Group in his Digital Lending Report research in India forecasts that the total value of digital lending business in the country will exceed 1 trillion USD over the next five years. (Figure 2)

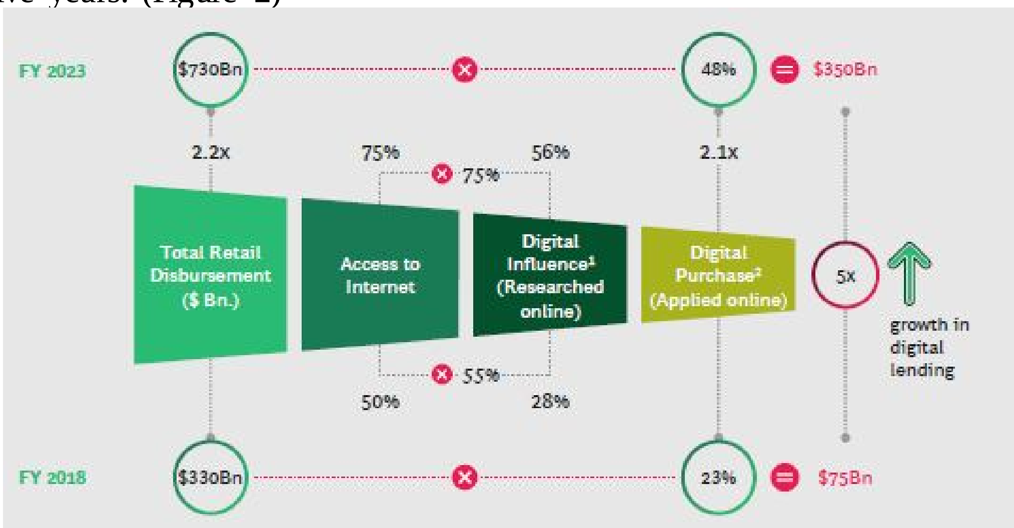

Figure 2. The growth in digital loan purchases in next 5 years[3]
*1 Percentage buyers who used internet during purchase process for any product,
*2 Percentage buyers who applied online (Survey question: did you use any online medium for applying or acquiring the loan)
*3 Conversion rate: 1USD= 65 INR

Retail lending growth has been robust witnessing 30 percent annual growth in enquires hitting the bureaus. Contrary to corporate lending, bad debts in retail lending have held up well and the bureau score profile of consumers receiving loans has broadly been stable. With rising affluence levels and a burgeoning middle class with higher disposable incomes, demand for retail credit is expected to be robust in the next five years driven by consumption growth across sectors like housing, automobiles and white goods. These trends are expected to drive a ~2.2x growth in overall retail loan disbursement, taking it from approximately 330 billion USD today to approximately 730 billion USD by 2023. [4]

Although digital lending is outstanding with its advantage, it has some drawbacks as well. According to the result of the research carried by Newcastle University researchers, it may cause several problems. The speed and ease of access to digital credit produces and reinforces financially harmful behaviors, such as impulsive borrowing and spending. Easy access to credits may motivate customers to waste money or use the loan without thinking. Digital access to credit increases instances of borrowing because it gives consumers a heightened sense of anonymity, privacy and agency around money matters. The use of personal devices is also significant and can reinforce secretive behaviors relating to money matters that can be financially and emotionally harmful to consumers. [5] From banks prospective, it

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is hard to satisfy all customers demand for loans all the time. Because it has own requirements and obligations to fulfill such as liquidity coefficient.

There is a strong competition going between banks and other financial institutions even regarding the lending. Some are competing to give out low-interest rates because, in the end, they will still make profits. Digital banking will make it easier for customers to access loans online, and this will increase the number of borrowers. In some parts of the world, for example in developed countries, there are neobanks[1] started launching financial products far beyond simple digital lending, while in some developing countries there is only some banks that offer such services. In Uzbekistan digital lending experience is yet only contains filling online application to take loans. After filling the application the customer need to go bank with his or her document portfolio to take loan. Not many banks offer online microcredit, in addition the interest rate for microcredit is much higher and requirements are superior. For instance in The Joint-Stock Commercial "Aloqabank" online microloan's interest rate is 109.5 percent annual, while it is 32-35 percent for simple microcredit. For taking microloan the debtor should not have overdue indebtedness on other loans, a bank card must have at least 9 times wage in the last 12 months, and have a continuous payroll for the last 3 months. The loan amount is not more than 50% of the average salary of the debtor. Only a few banks offer online microloans.

In addition to high interest rates, in developing countries one of the barriers for making digital lending popular is low financial literacy, access to technological tools and of course the low rate of IT development. Using digital loans and financial literacy are significantly related. In general, the usage of digital financial product creates the potential to make financial services available to a wider range of consumers and enterprises, promoting financial inclusion and access to financial products. For giving online loans the platform should check the clients' credit history and score its return ability and in this turn there should be cloud database that collects all the information about client, its workplace, salary, previous debts and loans. Developing countries need these kind of cloud database to implement digital lending, so that the platform itself will assess the client and decide whether to give loan or not in minutes.

Regarding the competent usage of online credits, special reminder that sends notifications and warnings about the over usage and prevent them from wasting to customers who took loan from bank may result in effective management of online credits. In small banks or banks in developing countries can achieve continuous money resources for credits by raising the deposit base by attracting more deposits

[1] A neobank is a kind of digital bank without any branches. Rather than being physically present at a specific location, neobanking is entirely online. Definition from Article: "What is a neobank?" by Harshitha Rao

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especially, savings and time deposits. Banks also may regulate liquidity of the bank every day and set special requirements on allocating its funds to lending.

To conclude, digital lending is the use of online technology to originate and renew loans in order to deliver faster and more efficient decisions. Although it may cause some problems, it improves the customer experience in multiple ways, by speeding up the process and increasing transparency. The automated process allows better decisions making through digital credit scores and rule engine.

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