ISSN: 2583-6285 ***Volume 3, Issue 3; June 2024***

INTERNATIONAL JOURNAL OF RESEARCH AND ANALYSIS IN COMMERCE AND MANAGEMENT

IJRACM

Web: https://www.iarj.in/index.php/ijracm/issue/archive

30. Is Digital Lending A Loan Trap? An Empirical Study Towards Customers Indebtedness

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ABSTRACT

Digital Banking has made remarkable revolution in the services of banking. Among all such digital services, Digital Lending has received utmost satisfaction among the customers of banking, where they find easy access to credit than traditional banks. However, due to improper borrowing, unaware terms and conditions, counterfeit platforms, etc., there is a potential risk of a Debt Trap for the customers, where their debt might turn into a vicious one. This study aims at studying the factors that might cause potential risks of a debt trap of a customer who borrow digitally. The results of the study reveal that customers are unaware of the interest terms and the potential risks on defaulting. The study has also provided various insights for a feasible borrowing decision.

KEYWORDS

Digital banking, Digital lending, Potential risks, Debt trap, Vicious debt, indebtedness.

Introduction:

During the advent of 21st century, Digital banking emerged as a ground breaking phenomenon in the financial industry. But its growth was not much evident. It was only during 2010s, it gained popularity, where technological advancements driven the growth faster. The invention of smart phones and devices, increased the use of online banking services, where by the customer's preferences on traditional banking were changed.

The decade after 2010, experienced even a significant widespread growth on one notable digital banking service that is Digital lending. This remarkable growth was propelled by the two main reasons: Government's emphasis on Financial Inclusion and through the establishment of Fintech companies. With well-established digital platforms, many financial start-ups joined the hands with banks and offered paperless, fast, hassle-free and convenient, financial services especially digital lending to a diverse range of customers.

The revolution also covered the Underbanked, which helped to drove their life significantly during COVID times. This wave on the other hand, drowned many lives due to fraud and unauthenticated lending by illegal loan applications. It is also due to less sensible borrowing by customers, paved way to fell into a loan trap. This study aims to study the factors that might lead to potential risks of digital borrowing customers, to fell into a loan trap.

Need For the Study:

The digital lending platforms has made easy access to credit, irrespective of the socioeconomic backgrounds. However, there are many known as well as hidden negative impacts. By analysing factors like borrowing habits, knowledge regarding transparency, repayment trends, this study intends to find out the impact of digital lending on customer's indebtedness.

Review of Literature:

- **Saritha M. (2023)[1]**: The study emphasizes the crucial need for the consumers of digital borrowing to remain alert throughout the process of obtaining loans. It insists the customers to have priority over transparency and adherence to RBI regulations. It uncovers the negativity due to the increase in digital lending through loan applications in India which has resulted in various tragic incidents like deaths of borrowers who became victims of unethical lending practices. Additionally, loan apps operators have misused the customers by using the loopholes in the regulatory framework. The urgent demand for convenient financing was the main reason to deceive and mistreat borrowers.
- **Modi, Avi and Kesarwani, Vaibhav (2023)[2]:** The study conceptually discusses the current regulatory framework digital credit in India, issued by the RBI Guidelines on Digital Lending, 2022. It also studies the difference between Indian regulations and international laws. The research emphasizes the existing regulatory deficiencies within Indian legislation and suggests improvements to enhance its efficiency and efficacy. The study's scope for its significance for policymakers, digital lending platforms, and consumers within the Indian context.
- **Nalom, Siagian., Hisar, Siregar., Roida, Nababan. (2023)[3]:** The paper discovers the illegal aspects prevailing in online lending business, with a specific focus on the billing system, which may be deemed unlawful under the Electronic Information and Transactions Law. It examines how individual collectors working for such online loan companies could face criminal charges for their unethical behaviour. The paper also lays down the steps involved in debt collection, from the beginning of the desk collection process, till the collectors remind borrowers of their financial obligations. It highlights the importance of adhering to legal collection practices and highlights the potential criminal responsibility of both desk collectors and company management.

- **Elina Kanungo (2022)[4]:** This study noted a significant disparity in satisfaction levels across different regions and age brackets on the utilization of digital banking techniques. The study clearly demonstrated that awareness and utilization of digital financial services differed significantly amongst individuals living in urban and rural areas within the Puri district of Odisha, India. The study also mentioned the influence of digitalization on the accessibility of financial services, particularly banking services, and its potential in promoting comprehensive development. The results of the study stress the necessity for targeted initiatives aimed at enhancing digital financial awareness and satisfaction, particularly among varying age groups and regions.
- **Carmel, Ann, Herington., Scott, Keith, W, Weaven. (2007)[5]**: The primary objective of the research was to examine the correlation between the quality of online services, the perceived trustworthiness of online banking services, customer satisfaction, and the level of the customer's loyalty with their bank. The study reveals that "the quality of online services alone does not directly influence customer satisfaction or trust in online services, or the enhancement of customer relationships. However, the aspect of "efficiency" within online service quality is linked to trust in online services which indirectly contributes to the strength of customer relationships through trust in online services".

Research Methodology

The study employed quantitative approach by conducting surveys using questionnaire among digital borrowers in India.

The gathered data is further scrutinized to explore their borrowing trends, levels of awareness, and satisfaction measures. The analysis led its quantitative insights into the correlation between digital lending and customer indebtedness.

Objectives of The Study

- To assess the impact of customer indebtedness attributable to digital lending in India.
- To examine the borrowing behaviours and patterns of individuals utilizing digital lending services.
- To evaluate the awareness levels of the customers regarding terms, conditions and associated risks.
- To examine the factors influencing customer satisfaction with digital lending services.
- To identify the potential measures for mitigating the risks of customer indebtedness associated with digital lending platforms.

Method of Sampling:

Judgmental sampling was utilized in this study to select participants according to specific criteria relevant to the research's objectives.

Customers of digital lending services were picked based on their borrowing frequency, level of debt, and geographical distribution to ensure representation across various demographics and borrowing habits.

Data Collection:

Data was collected using questionnaire method. It comprises of combination multiple-choice questions and Likert scale questions. Multiple choice-based questions were for quantifying the borrowing patterns and awareness levels. Likert scale inquiries were for assessing satisfaction and viewpoints.

Data Analysis and Interpretation:

The study received 334 responses, for which the data was duly processed, analysed, tabulated and interpreted using various statistical methods. They were,

- Descriptive analysis
- One-way ANOVA
- Test for Auto-Collinearity – Durbin Watson Test
- Multiple Regression
- Garret Ranking method

The results of the analysis are as follows,

Table 1: Analysis For Testing Auto- Collinearity Between Impacting Variables

Durbin Watson Test for Auto- Collinearity					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.426[a]	.181	.128	.631	1.637

Source: Primary Data

Table 2: ANOVA Table

ANOVA					
Model	**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Regression	13.500	10	1.350	3.386	.001
Residual	61.006	153	.399		
Total	74.506	163			

Source: Primary Data

Table 3: Analysis on Digital Borrowing Awareness

Variables on Awareness		Percentage
Knowledge on digital lending platforms	Through online advertisements	25.6
	Through friends or family recommendations	28.0
	Through social media platforms	39.6
	Through traditional banking institutions	6.7
	Total	100.0

Variables on Awareness		Percentage
Frequency of borrowing	Frequently	10.4
	Occasionally	34.8
	Rarely	54.9
	Total	100.0
Decisive factors for digital borrowing	Convenience of the application process	37.8
	Lower interest rates compared to traditional banks	18.3
	Quick access to funds	36.6
	Lack of other borrowing options	7.3
	Total	100.0
Terms of repayment	Through regular installments	64.0
	Lump sum payment at the end of the term	9.8
	Minimum payments to avoid penalties	22.6
	Unable to repay due to financial constraints	3.7
	Total	100.0
Difficulties faced in digital borrowing	Yes	44.5
	No	55.5
	Total	100.0
Measures to avoid falling into a debt trap	Borrowing only what is necessary	39.6
	Regularly monitoring debt levels	17.7
	Seeking financial advice before borrowing	20.1
	carefully reading the terms and conditions	22.6
	Total	100.0

Source: Primary Data

Table 4: Analysis on the Digital Borrowing Behaviour

Regression[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	**(Constant)**	1.405	.232		6.065	.000
	Awareness on the terms and conditions associated with digital borrowing	.217	.068	.366	3.210	.002

Regression[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	Awareness on the interest rates charged by digital lending platforms	-.028	.078	-.046	-.361	.719
	Regular monitor of overall debt level, including loans obtained through digital lending platforms	-.009	.075	-.013	-.115	.004
	Awareness regarding the potential risks associated with digital borrowing	.041	.073	.064	.562	.575
	Confidence in the ability to manage debt	.011	.074	.018	.146	.002
a. Dependent Variable: Frequency of Borrowing through digital lending platforms						

Source: Primary Data

Table 5: Analysis of Customer Satisfaction on Digital Borrowing

Factors	Mean	Ranks
Satisfaction with the interest rates and fees offered by digital lending platforms.	3.46	1
Satisfaction on customer service and support provided by digital lending platforms	3.33	2
clarity and transparency of terms and conditions provided by digital lending platforms	3.29	3
speed of fund disbursement by digital lending platforms	3.26	4
Ease of application process for digital borrowing	3.18	5

Source: Primary Data

Findings:

The findings of the study are confined to the above statistical analysis, and the results of the study are listed below:

a. The study used Descriptive analysis for analysing the frequency levels of digital borrowing, where 54.9% of the respondents borrow rarely and when it is needed, using digital lending platform.
b. The factors that drive for using digital lending platforms were, Convenient application process and Quick access of funds, which are faster than the traditional banking services.

c. More than 55% of the respondents faces No difficulties in borrowing from digital lending platforms
d. Nearly 39.6% of the respondents only borrow what is necessary, thereby assuring they do not fall into a Loan trap. Also, 22.6% of the respondents are fully aware of the terms and conditions of the digital lending policies.
e. The study used Durbin Watson test to check Auto- collinearity. The tests revealed the absence of multi-collinearity between variables. (1.637)
f. The results of Regression analysis reveals that the respondents are fully aware of the terms and conditions of the digital lending policies, regularly monitor their overall debt levels ($P= 0.002$; $P=0.004$; $P<0.005$). Also, they are confident in their ability in repayment of their debts in those digital lending platforms ($P= 0.002$; $P<0,005$)
g. But, further analysis on the variables awareness on the interest rates charged, awareness on potential risks on default in repayments of their digital borrowings were insignificant ($P= 0.719$; $P= 0.575$; $P>0.005$). This Proves that, the respondents are not fully aware of the consequences that they are at higher risk of falling into a debt trap.
h. Garret ranking analysis was used to Rank the satisfaction levels of the respondents, where the interest rates and fees offered by digital lending platforms, were ranked **First,** followed by customer service and support, Clarity and transparency of terms and conditions, speed of fund disbursement and Ease of application process were ranked subsequently.

Suggestions:

From the results of the study the following suggestions are made to enhance the awareness level of customers, thereby to avoid falling into a loan trap.

- Assessing the current financial situation must be given priority before obtaining a loan. Consideration for monthly income, expenditures and existing debts will aid in feasible borrowing decision
- The purpose of the loan must be clearly defined. Planning for a practical repayment method helps to prevent over borrowing and from falling into the vicious cycle of debt.
- Exploring and comparing the different loan options in the market helps better alignment to the current financial position and requirements.
- The terms and conditions of the loan agreement, such as interest rates, repayment schedules, and penalties, must be completely understood before committing to borrowing.
- Borrowing what one can comfortably afford, will pave way for prompt repayments and aids in avoiding impulsive borrowing habits. Prioritizing timely repayments helps in maintaining a positive credit history, which will ultimately reduce the burden of financial strain.

Conclusion:

The study aimed at exploring the impact factors that make customer’s debt a trap. The factors identified were lack of awareness in interest rates, lack of awareness about the potential risks due to default in repayment.

Though, 64% of the respondents repay their loan at regular instalments, more than 3.7% unable to repay due to financial constraints, which might turn into a vicious debt trap. Borrowing only what is necessary will eliminate the burden of repayment, where the terms and conditions of the digital platforms must be clear and concise. There are many numbers of cases reported legally, where people are allegedly harassed or threatened due to default in loan repayments. Assessing to a feasible borrowing decision, may help in consciously avoiding a debt trap.

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