
DIGITAL LENDING IN INDIA: FORCES DRIVING GROWTH AND RBI'S 2025 DIRECTIONS

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ABSTRACT

The digital age had brought significant changes in various sectors. India's lending sector had undergone a transformation from traditional lending services. Indian Fintech market is expected to reach \$2.1 trillion by 2030 with a revenue between \$190-250 billion. Digital lending is expected to contribute 53% of revenue. The Advent of technologies like AI, block chain, cloud computing had revolutionized the digital lending sector. Rise in smartphone users, digital MSME loan, use of alternative credit scoring, instant credit and Covid 19 pandemic are some of the factors which fuels the growth of digital lending in India.

RBI's digital lending directions 2025 provides a regulatory framework on digital lending. It focuses on the data privacy of borrowers, contractual agreement between regulated entities and lending service provider, grievance redressal mechanisms, default loan guarantee and reporting requirements. This new direction consolidate 2022 digital lending guidelines and 2023 guidelines on default loan guarantee. This paper explores various factors driving the growth of digital lending in India and RBI's 2025 directions on digital lending.

Keywords: digital lending, digital MSME loans, Covid 19 pandemic, Reserve Bank of India, Default loan Guarantee.

INTRODUCTION

The digital age had brought significant changes in various sectors like manufacturing sector, financial sector, health sector and so on. Specifically in India's lending sector, it had undergone a transformation from traditional lending services. The technology had revolutionized the lending sector by enhancing financial inclusion, cost reduction, better transparency and increased efficiency through use of technologies like artificial intelligence, block chain technology, cloud computing and machine learning.

With regard to global Fintech funding, India leads the third position globally. In Fintech industry, the digital lending market is witnessing an expansive growth. According to the **digital lending market growth analysis (2025-2034) report**, the global digital lending market was valued at **USD 8.89 billion in 2024**. During the period of 2025 to 2034, the Industry is expected to grow at a **CAGR of 15.50%**. This paper evaluates the factors driving the growth of digital lending in India and RBI's 2025 direction.

GROWTH OF DIGITAL LENDING MARKET

Digital lending means providing loans or credit services through online platforms to the customers or borrowers. It reflects a shift from traditional lending methods, that it includes online methods of borrowing and lending money. According to the **State of Indian Fintech Report H1 2025**, Indian Fintech market is expected to reach **\$2.1 trillion by 2030** with a revenue between **\$190-250 billion**. Digital lending is expected to contribute **53%** of revenue.¹

According to the **India digital lending platform market – Industry trends and forecast report 2029**,² India's digital lending market is projected to reach a value of **USD 148 million by 2029**. The major growth drivers of digital lending market includes use of technology like Artificial intelligence, Expeditious loan processing, innovative business models.

A revenue of **USD 502.1 million** revenue was generated by India's digital lending market – **Grand view research**.³ The India's digital lending market is predicted to generate a revenue of **USD 2377.1 million in 2030**. The Digital lending platform market is too expanding globally.

¹ Biren parekh, state of indian fintech report H1 2025, Birenparekh.com, 2nd august 2025, birenparekh.com/technology/state-of-indian-fintech-report-h1-2025/

² India digital lending platform market – industry trends and forecast report 2029, blueweave consulting (nov 2023), blueweaveconsulting.com/report/india-digital-lending-platform-market

³ India digital lending platform market size & outlook, Grandview horizon, <https://tinyurl.com/2ja9svax>

The reason for the growth is due to Fintech companies, internet penetration, p2p lending growth, financial inclusion initiatives. **The digital lending platform global market report 2025⁴** states that the size of digital lending market grow at a rate of **CAGR of 21.6%** from **\$15.85 billion in 2024 to \$19.27 billion in 2025**. India accounts for **4.8%** with respect to revenue in the global digital lending platform market in 2024.

FACTORS FUELING THE GROWTH OF DIGITAL LENDING IN INDIA

RISE IN SMARTPHONE USERS

The rise in smartphone users had led to the growth of digital lending in India. Globally there are **5.28 billion** smartphone users, in which India had **659 million** smartphone users. The smartphone penetration in India is **46.5%** in 2025. India is the second largest smartphone market in the world next to china.⁵ According to the **comprehensive modular survey: telecom 2025⁶**, **85.5%** of households have atleast one smartphone. the number of smartphone users in urban areas and rural areas are **97.6% and 95.5%**.

The government initiatives plays an important role in internet penetration in India. Digital India Initiative plays a key role in rising the number of internet users. According to the **press information bureau posted on 30th June 2025** states that the Internet connection increased from **25.15 crore in 2014 to 96.96 crore in 2024⁷**. **India's Bharat Net Programme⁸** was introduced to increase the internet connectivity in rural areas. In December 2024, the mobile connectivity is extended to 6,25,853 villages through this initiative. The increase in smartphone usage along with affordable data plans act as a critical role in India's digital lending platform.

DIGITAL MSME LOAN

⁴ Digital lending platform global market report 2025, business research company (January 2025), thebusinessresearchcompany.com/report/digital-lending-platform-global-market-report

⁵ Pareeshti rao, smartphone usage statistics and trends in 2025, grabon, oct 17 2025, grabon.in/indulge/tech/smartphone-usage-statistics/

⁶ Ministry of statistics and programme implementation, results of comprehensive modular survey:telecom 2025, (29th may 2025), pib.gov.in/pressreleasesframepage.aspx?PRID=2132330

⁷ Ministry of electronics and information technology, ten years of digital progress, 30th june 2025, pib.gov.in/pressNotedetails.aspx?moduleId=3&NotId=154788

⁸ Ministry of communication, Bharat net, 21st april 2025, pib.gov.in/pressreleasesframepage.aspx?PRID=2123137

According to the **press information bureau (posted on 26th june 2025)⁹**, MSME contributes **30%** of India's GDP and over **45%** to exports. According to the report from **association of chartered certified accountants 2021¹⁰**, out of **63.4 million** MSME in India, **50.7 million** MSME lacks access to traditional lending channels. The report states that in the last five years, there is a credit gap of **USD 380 billion** in Indian MSME.

The MSME faces difficulty in securing formal credit due to –

- Lack of formal data for credit assessment
- Complex application procedure
- Long time for disbursement of loan
- Higher interest rates

Hence the individuals opt for digital MSME loan which is a component of digital lending in which the loan process and disbursement of loan is done through online platforms and thereby avoiding the need to visit physically or paper work.

The government in order to support the digital lending of loans to MSME, introduced the **DIGITAL MSME SCHEME** to provide financial incentives to the MSME. The process of availing digital MSME loan is simple and user friendly that it involves the following processes:

- Online application
- Document submission
- Automated verification
- Quick disbursal

According to the **report of CRIF high mark¹¹** - The MSME credit in India crossed **40 trillion**

⁹ Press information bureau, udyami diwas – msme day 2025, 26th June 2025, pib.gov.in/PressNoteDetails.aspx?Noteld=154772&ModuleId=3#

¹⁰ Bismah malik, ACCA report, the new indian express, 2nd June 2021, <https://tinyurl.com/3dw7nh8f>

¹¹ Msme credit top Rs 40 trillion as of march 2025 grows 20% annually, business standard, 27th June 2025, https://www.business-standard.com/industry/banking/msme-credit-top-rs-40-trillion-as-of-march-2025-grows-20-annually-125062700712_1.html

in March 2025 due to the digitalization of lending which improved the lending capacity and credit accessibility.

ALTERNATIVE CREDIT SCORING

Emerging technologies like machine learning and artificial intelligence modernized the traditional credit scoring in India. The use of alternative credit scoring in India marks a shift from traditional credit scoring. The traditional credit scoring is used as a tool to take financial decisions that is to determine the creditworthiness of borrower. This system relies on traditional data like payment history, outstanding debts, employment income and bank account transactions. But the alternative credit scoring transformed the traditional credit scoring by the use of ML and AI technology to access diverse data sets. The types of alternative data includes¹²

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- **Bank account data** – bank account data like account balance, transaction history and overdraft patterns is used to decide the financial stability of borrower.
- **Bill payment** – the bills include payment of utility bills like electricity and water bills, rental payments, insurance payments, payment for subscription services. These payments show the financial responsibility of the borrower and regular payment made by him
- **Income of gig economy** – income earned by the individuals who work in the gig platforms like uber, ola demonstrates the financial ability of borrower.
- **Social media data** – social media data shows the individual's profile and career which is used by the lenders to assess the financial behaviour and risk.
- **E commerce data** – e commerce data is the data on online purchases made by the borrower. This data provides information to the creditor about the payment methods, transaction times of the borrower including his cart abandonment rates.
- **Location data** – by analysing the location data from mobile phones it allows the lenders

¹² Alternative data for credit decisioning :what lenders need to know in 2025, defi solutions, defisolutions.com/answers/alternative-data-for-credit-decisioning/

to verify the borrower's residency and mobility.

The report of **FINTECH ASSOCIATION FOR CONSUMER EMPOWERMENT 2025**¹³ – states that **84%** of Fintech and NBFC lenders used both traditional and alternative credit scoring to analyse the borrower risk. The report also shows that the credit bureau report (**70%**) was mostly relied on by the lender and the alternative data is used to create a comprehensive view of the borrower. **77%** of lenders use the alternative data to reduce the risk of fraud.

INSTANT CREDIT

Traditional lending process is a time consuming process and it hinders the borrowers to avail instant loan because of the following reason –

- **KYC process** – the traditional KYC process depends on the paper or manual based work. Hence the customers have to visit the branches and to submit the documents for identification and then it is thereby verified by the staffs. Whereas in the digital lending which involves the e-KYC process uses digital technologies to determine the identity of the customers. Hence the customers could complete the verification process through online.¹⁴
- **Loan approval** – approval process for loan in traditional lending takes 3-7 working days. In digital lending like digital lending platforms loan approval process could be completed within few minutes to few hours.
- **Loan disbursement** – on approval of loan, the loan amount is disbursed to the customer's bank account or digital wallet within the time period of 10 minutes to 24 hours in digital lending. In traditional lending, the loan is disbursed through NEFT or cheque which involves delayed loan disbursement.¹⁵ Rise in loan disbursement in digital lending is evident from the report published in **IBEF** that, the digital lending

¹³ Anshul, FACE report, CNBC TV 18, 17th April 2025, <https://www.cnbctv18.com/business/finance/84-pc-lenders-use-alternative-data-alongside-traditional-credit-checks-face-19590422.htm>

¹⁴ e-KYC documentation and importance, bajaj, 22nd May 2025, <https://www.bajajfinserv.in/insights/what-is-ekyc>

¹⁵ Harsh kumar & saumya vatsayan, rise of digital lending platforms and their impact on traditional banking, vol 6, IJRPR, 7180 (2025)

reported a surge of **49%(rs.1.46 lakh crore)** in loan disbursement during the financial year 2023-24.¹⁶

AGRICULTURE SECTOR

Digitalization transformed the agricultural sector. The farmers are using the digital agriculture technologies like robotics, internet of things, Artificial Intelligence in their agricultural practices to enhance the agriculture inputs and crop production and to reduce the waste. The Agriculture sector also paves the way for the growth of digital lending in India. Farmers in remote locations opt for digital lending due to easy disbursement of loan digitally. Moreover the lenders by using digital technologies could able to verify the land, land ownership and crop data.¹⁷

Digital agriculture mission approved on September 2024 is an initiative in which farmer's registry is a part of the mission. The farmer's registry is a digital identity of the farmers which enables the lenders in assessing the farmer and gives information as to crops and land ownership.¹⁸ This Aadhaar linked digital identity helps the farmers to access the financial services and various government schemes. By March 28, 2025, **4.85 crore farmer identities** were issued under the digital agriculture mission. The government also aims to issue **11 crore farmers identities** by the end of 2026-27.¹⁹

COVID – 19 PANDEMIC

The covid 19 pandemic act as a major factor leading to the growth of digital lending in India. Social distance and lockdown in pandemic period compels the financial institution and customers to resort to digital lending from traditional lending. The customers could able to process loan through online platforms without physical visit to bank branches. In post pandemic, the number of internet users in India increased which triggers the demand for digital lending. According to the **media report**, compared to **21%** in 2017 the number of household

¹⁶ IBEF, Digital loans up 49% in FY24 by value rs 1.46 lakh crore disbursed: industry body, June 29 2024, <https://www.ibef.org/news/digital-loans-up-49-in-fy24-by-value-us-17-53-billion-rs-1-46-lakh-crore-disbursed-industry-body>

¹⁷ Sonu gupta, rise of digital loans in India: transforming finance and agriculture, tractor karvan, 26th august 2025, <https://tractorkarvan.com/blog/digital-lending-in-india>

¹⁸ Press information bureau, ministry of agriculture and farmers welfare, digital agriculture mission: tech for transforming farmer's life, 4th September 2024, <https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=2051719>

¹⁹ Press information bureau, ministry of agriculture and farmers welfare, digital identities to farmers, 1st april 2025, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2117390>

using internet rose to **61%** in 2021.²⁰ The **digital lending report of RBI's working group in 2022** states that the volume of disbursements by the private sector banks and NBFC through digital mode showed a growth from Rs.11,671 crore to Rs.1,41,821 crore in 2017 and 2020. The report also states that the private sector banks and NBFC is the major entities in Indian digital lending ecosystem contributing **55% and 30%** share.²¹

GOVERNMENT INITIATIVES

The government initiatives plays a key role in boosting the India's digital lending market. The UPI have been used by the digital lending platforms to regulate the lending process. On approval of loan, the loan amount is instantly disbursed to the account of borrower using UPI. The lenders could able to track the loan repayment through UPI and it is also cost effective. Another initiative of government is Aadhaar e-KYC. The integration of Aadhaar in the lending process helps the lenders to access the creditworthiness of borrower instantly and thereby speeding the loan approval.²²

The government introduced various alternative data sources to help the borrowers who lacks a credit history. **Grameen credit score** helps to take credit decisions thereby enabling the rural population 's assess to formal credit.²³ In 2025, a **new digital credit assessment model for MSME** was introduced to enhance the assessment of MSME. This credit assessment enables the public sector bank to assess the MSME by using the data of GST filing, utility payments and income tax return.²⁴

NEW DIRECTIONS ON DIGITAL LENDING

RBI (DIGITAL LENDING) DIRECTION 2025

On **May 8, 2025** Reserve Bank of India issued the Reserve Bank of India (Digital Lending)

²⁰ Monit Khanna, 61% Indians use internet in 2021, India times, Nov 15 2021, <https://www.indiatimes.com/technology/news/india-internet-usage-report-554181.html#:~:text=61%20percent%20of%20households%20in%20India%20used,came%20online%20due%20to%20the%20COVID%2D19%20crisis.>

²¹ Loan disbursed digitally rose 12 fold between 2017 and 2020, the news minute, 31st march 2023, <https://www.thenewsminute.com/news/loans-disbursed-digitally-rose-12-fold-between-2017-and-2020-rbi-panel-report-175319>

²² Uditha sharma, code to credit: an extensive insight into India's digital lending boom, the unlisted intel, oct 23, 2024, <https://unlistedintel.com/blogs/code-to-credit-an-extensive-insight-into-indias-digital-lending-boom/>

²³ Press information bureau, ministry of rural development, grameen credit score, 18th march 2025, <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2112198>

²⁴ Press information bureau, ministry of finance, new digital credit assessment model for msme's leverages real time digital data to fast tract loan approval, 28th July 2025.

Directions 2025. To ensure transparency, consumer protection and accountability in digital lending sector, the RBI issued the directions. These directions came into effect immediately except the multi lender platform rules which came into effect on **1st November 2025** and reporting requirements pertaining to digital lending apps which came into effect by **June 15, 2025**. These directions were issued by the RBI to consolidate the **Guidelines on digital lending September 2, 2022** and the **guidelines on default loan guarantee on June 8, 2023**.²⁵

APPLICABILITY – PARA 3

The provisions of the directions applies to all the regular entities operating in India. It applies to the following:

- a. Commercial banks
- b. Non- banking financial companies (housing finance companies)
- c. All India financial institutions
- d. State and central co-operative banks, urban cooperative banks.²⁶

CONTRACTUAL AGREEMENT BETWEEN RE AND LSP – PARA 5

The Lending Service Provider act as an agent of Regulated Entities and it is engaged by the Regulated entities to perform the functions of lender like acquisition of customer, loan disbursement, loan recovery and loan underwriting. The direction states the RE engaging LSP can carry their digital lending by contractual agreement between the RE and LSP. The agreement which defines the rights and obligations of each party. The RE can conduct due diligence before entering into agreement with the LSP. A periodic review can be conducted by the RE over the conduct of LSP in relation to the agreement.²⁷

PROTECTION OF DATA - PARA 12

The data collected by the digital lending app of RI or LSP was need based and with the consent

²⁵ Sourabh jain, RBI (digital lending) direction 2025, lawrbit, 23rd may 2025, <https://www.lawrbit.com/article/reserve-bank-of-india-digital-lending-directions-2025/>

²⁶ Reserve Bank of India, RBI digital lending directions 2025, RBI/25-26/36, para. 3 (may 8 2025)

²⁷ Id., para. 5

of borrower. This has to be ensured by the regulated entities. The digital lending apps should not access the personal data of borrower like telephony functions, call logs, media and files, contact list. For the purpose of KYC requirements, one time access can be taken for camera or location.²⁸

STORAGE OF DATA – PARA 13

The basic data of borrower required for services only to be stored and not the personal data. The regulated entities are responsible for the data privacy of borrower's personal information. The regulated entities or the lending service provider can store and collect the biometric data of customer if allowed by statutory guidelines.²⁹

NODAL GRIEVANCE REDRESSAL OFFICER – PARA 11

To deal with the complaints raised by the borrowers related to digital lending, a nodal grievance redressal officers to be set by RE and LSP. The complaint should be able to file in the digital lending apps or the website of the RE and LSP. It is within the RE, the responsibility of grievance redressal vest. If there is no response to the complaint by borrower or the complaint is not resolved then the borrower can make a complaint in the CMS portal (complaint management system) of RBI or physical complaint. The complaint has to be made within thirty days of not receiving any response as to the complaint.³⁰

COOLING OFF PERIOD – PARA 10

The direction gives the borrower an option to exit from a digital loan by paying the principal amount and proportionate APR without paying the penalty at the initial cooling off period. This new directions allows the lenders to provide the cooling off period of one day.³¹

CREDIT WORTHINESS OF BORROWER – PARA 7

To access the credit risk of the borrower, the RE can access information related to borrower's economic status, age and income. There should be no automatic increase of the credit limit

²⁸ Id., para. 12

²⁹ Id., para. 13

³⁰ Id., para. 11

³¹ Id., para. 10

without any request received, evaluated and kept on record from borrower. This has to be ensured by the RE.³²

MULTILENDER PLATFORM REQUIREMENTS – PARA 6

Each RE should follow the guidelines below in case if LSP partners with various RE's:

- The LSP had to display all the loan offers and also the list of names of lenders which do not match with the borrower's request.
- The LSP should follow the consistent method for matching the request of borrower to the lender to offer loans.
- The matched loan had to disclose the terms of loan to the borrower like Regulated entities name, annual percentage rate, key fact statement.³³

REPORTING REQUIREMENTS – PARA 17

All the Digital lending apps used by the RE and LSP must be reported to RBI via CIMS (centralised information management system) portal. It must be reported by June 15 2025. The chief compliance officer certifies data's accuracy in the CIMS portal.³⁴

DEFAULT LOAN GUARANTEE

The default loan guarantee is a contractual agreement between the third party and the regulated entity. The third party under the agreement guarantees to compensate the RE in case of any loss due to the default of loan upto certain percentage of portfolio. The guarantee can be explicit or implicit. The directions mandate that the DLG cap on the total loan portfolio should not exceed 5%.³⁵

CONCLUSION

With the rise of new digital lending models like p2p lending, co lending and embedded lending,

³² Id., para. 7

³³ Id., para. 6

³⁴ Id., para. 17

³⁵ Jitendra soni & abhirami retheev, RBI (digital lending) directions 2025-an overview, mondaq, 28th may 2025, <https://www.mondaq.com/india/financial-services/1629916/rbi-digital-lending-directions-2025-an-overview>

the digital lending sector shows a significant rise. The advent of technologies like robotic process automation, cloud computing, Artificial intelligence and block chain technology plays a key role in driving the growth of digital lending in India. Besides the growth of digital lending sector, the cybersecurity is a major concern. Since Digital lending platforms uses more personal and financial data for loan disbursement and hence data breaches, theft, fraud and compliance with the data protection laws are the major concern. The Digital Personal Data protection Act 2023 provides provisions related to protection of digital data of the borrowers. The Act requires the digital lenders to collect data with a lawful consent of borrowers and penalties are also imposed on data breaches or mishandling of personal data of borrowers.