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**TOPIC :- DIGITAL LENDING IN INDIA: GROWTH, REGULATORY
FRAMEWORK AND ITS ROLE IN FINANCIAL INCLUSION**

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Abstract :- Digital lending, the origination and servicing of credit through mobile applications and online platforms rather than physical bank branches, has become one of the fastest-growing segments of India's financial sector. This study, "Digital Lending in India: Growth, Regulatory Framework and Its Role in Financial Inclusion," examines three linked aspects of that growth: the scale and pace of market expansion, the regulatory response of the Reserve Bank of India (RBI), and the sector's contribution to financial inclusion. Drawing on RBI notifications, National Payments Corporation of India (NPCI) transaction data and industry research, the study finds that India's digital lending market expanded from about Rs. 0.15 trillion in FY21 to about Rs. 2.2 trillion in FY26, a period during which the RBI moved from the Digital Lending Guidelines issued in 2022 and the DLG framework issued in 2023 to the consolidated Digital Lending Directions, 2025. Over the same period, the RBI's Financial Inclusion Index rose from 53.9 to 70.0, and monthly UPI transaction volume crossed 24.5 billion. The study argues that this growth has been largely additive rather than substitutive, extending formal credit to MSMEs and first-time borrowers, while noting that unregulated lending applications, asset-quality stress in unsecured retail credit and uneven borrower literacy remain unresolved risks. The study is descriptive and analytical, based entirely on secondary data, and concludes with suggestions for strengthening enforcement, borrower literacy and differentiated prudential norms for small-ticket digital credit.

Keywords :- *Digital Lending, Financial Inclusion, RBI Digital Lending Directions, Default Loss Guarantee, UPI, MSME Credit, NBFC.*

INTRODUCTION :-

Background of the study :-

Until roughly a decade ago, a small business owner in a Tier-2 town who needed a working-capital loan had few options beyond a branch visit, a stack of paperwork and a wait that could run into weeks. Aadhaar-based e-KYC, the Unified Payments Interface (UPI) and the Account Aggregator framework, together often described as the India Stack, have changed that calculus for a large part of the borrowing population. Loan origination, credit assessment and disbursal can now happen inside a mobile app, drawing on a borrower's transaction history rather than a physical credit file.

This shift, generally termed digital lending, has grown quickly enough to draw sustained regulatory attention. India's digital lending market sanctions expanded from about Rs. 0.15 trillion in FY21 to about Rs. 2.2 trillion in FY26 [1], growth that has run alongside rising concern over coercive recovery practices, unregistered lending applications and borrower data misuse. In response, the RBI moved from the Working Group on Digital Lending constituted in January 2021 to the Digital Lending Guidelines issued in September 2022, the Default Loss Guarantee (DLG) Guidelines issued in June 2023, and the consolidated Reserve Bank of India (Digital Lending) Directions, 2025 [2].

This study examines these developments together rather than in isolation, asking how fast the sector has grown, what the regulatory perimeter established through the 2022–2025 framework looks like, and whether the growth has translated into measurable gains in financial inclusion.

RATIONALE :-

Digital lending has scaled far faster than most other segments of Indian finance, yet growth, regulation and inclusion are usually studied separately. Market reports describe size, legal commentary describes rules, and inclusion indices describe access, but few studies read the three together for India or distinguish clearly between the 2022–23 framework and the 2025 Directions that now govern the sector. Understanding how these strands relate is essential because rapid credit expansion delivers inclusion benefits only where borrowers are protected, lenders are supervised and unregistered players are kept out of the system. The rationale of this study lies in bringing these three strands into one analysis and placing India's experience briefly alongside China and Indonesia.

STATEMENT OF THE PROBLEM

India's digital lending market has grown roughly 13 times between FY21 and FY26 (about 14.7 times on the rounded figures), and the RBI has responded with successive guidelines culminating in the consolidated 2025 Directions. However, the pace of growth has been faster than the pace of regulatory response. Unregistered lending apps continue to operate outside the RBI's perimeter, delinquencies have risen in unsecured small-ticket loans, and borrower literacy remains uneven. It is therefore unclear how far digital lending has genuinely widened formal credit access, as opposed to merely redistributing existing bank relationships, and whether the present regulatory design is sufficient to sustain that gain.

OBJECTIVES OF THE STUDY

1. To examine the growth of digital lending in India between FY21 and FY26.
2. To review the RBI's regulatory framework, with particular attention to the consolidated 2025 Directions.
3. To assess the sector's contribution to financial inclusion, especially for MSMEs and first-time borrowers.
4. To place India's growth and regulatory approach briefly alongside China and Indonesia.
5. To identify the principal risks that remain unresolved and to suggest measures to address them.

Research Questions

RQ1: How has the scale of digital lending in India changed between FY21 and FY26, and what does this imply for its share of overall personal credit by FY31?

RQ2: How has RBI regulation evolved from the 2022–23 guidelines to the 2025 Directions, and what gaps remain outside the regulatory perimeter?

RQ3: Is the evidence consistent with digital lending expanding the pool of formally served borrowers, rather than merely substituting for existing bank credit?

RQ4: How does India's regulatory posture compare with China's and Indonesia's?

HYPOTHESES OF THE STUDY

H1: The growth of digital lending in India is positively associated with improvement in financial inclusion over FY21–FY26.

H0: The growth of digital lending in India is not associated with improvement in financial inclusion over FY21–FY26.

Note: As the study uses only aggregate secondary data, the hypotheses are assessed through a directional comparison of independently published series (market size and the RBI Financial Inclusion Index), not through an inferential statistical test.

SCOPE OF THE STUDY

The study covers digital lending in India for the period FY21 to FY26, with a forward-looking reference to FY31 projections by industry sources. It reviews the RBI’s regulatory instruments from the 2021 Working Group to the 2025 Directions, uses the RBI Financial Inclusion Index and UPI transaction data as inclusion and enablement indicators, and includes a brief comparison with China and Indonesia.

LIMITATIONS OF THE STUDY

1. **Secondary data only:** The study does not include a primary survey of borrowers or lenders; conclusions about borrower behaviour are drawn from industry-reported aggregates rather than data collected directly for this study.
2. **Definitional differences:** Market-size and forecast figures come from private research firms that may define “digital lending” differently from one another and from the RBI, so cross-source comparisons, including the India–China–Indonesia comparison, should be read as indicative.
3. **General-purpose inclusion measure:** The RBI’s Financial Inclusion Index cannot, on its own, isolate the specific contribution of digital lending to inclusion outcomes.
4. **Recency of the Directions:** Because the RBI (Digital Lending) Directions, 2025 are recent, their practical enforcement effect, as distinct from their text, cannot yet be assessed and would be a natural subject for future research.

REVIEW OF LITERATURE :-

1. Market and industry literature

Market-research literature on Indian digital lending is dominated by a small set of consulting houses. Redseer’s 2026 report documents the rise in digital lending sanctions from Rs. 0.15 trillion in FY21 to Rs. 2.2 trillion in FY26 and reports that digital lending has expanded formal credit access for previously underserved borrowers [1]. Nexdigm’s market report frames this growth against an MSME credit shortfall of roughly Rs. 20–25 trillion, alongside an

addressable credit demand of about Rs. 69.3 trillion against a formal supply of about Rs. 14.5 trillion [3]. Global market-sizing work by Mordor Intelligence places the worldwide digital lending market at USD 566.52 billion in 2026, projected to reach USD 985.03 billion by 2031 [5].

2. Regulatory literature

On the regulatory side, legal commentary from Vinod Kothari & Co., JSA and Legal 500 traces the RBI's path from the 2022 Guidelines and 2023 DLG norms to the consolidated 2025 Directions, and is broadly consistent in describing the 2025 instrument as a consolidation with targeted new provisions rather than a wholesale rewrite [4]. The RBI's own Financial Inclusion Index offers an independent, non-lending-specific check on how inclusion has moved over the same period [6].

3. Cross-country literature

A wider, cross-country literature situates India's experience within a global pattern. The Bank for International Settlements' hand-constructed database of fintech and big-tech lending across 79 countries finds that such credit reached USD 223 billion and USD 572 billion respectively by 2019, with China accounting for the largest share in absolute terms [7]. Work published in the Journal of Banking & Finance using the same database shows big-tech credit alone equal to roughly 2 per cent of the stock of total private credit in China in 2018, with fintech and big-tech lending also large relative to credit stock in economies such as Kenya and Korea [8]. More recent reporting on Indonesia's peer-to-peer sector shows an outstanding loan book of about IDR 98.5 trillion (approximately USD 5.8 billion) as of January 2026, growing at about 25.5 per cent year-on-year, with 95 licensed platforms and 951 illegal lending entities identified and shut down in January–February 2026 alone [9]. Read together with the RBI-centred literature above, this suggests that India's approach, consolidation of regulated-entity-anchored regulation rather than an outright ban of a lending model, sits between China's post-2018 crackdown on peer-to-peer platforms and Indonesia's continuing struggle to close the gap between licensed and unlicensed lenders.

4. Research gap

Taken together, this literature is strong on market size and on the text of individual regulations, but rarely brings growth, regulation and inclusion indicators into one analysis for India specifically, or distinguishes clearly between the 2022–23 framework and the 2025 Directions that now govern the sector. This study attempts that synthesis and places it briefly alongside two comparable Asian markets.

RESEARCH METHODOLOGY

5.1 Research Design

The present study adopts a descriptive and analytical research design to examine the growth, regulation and inclusion outcomes of digital lending in India.

Type of Research

- **Descriptive Research:** To describe the scale of digital lending, the structure of the regulatory framework and the movement of inclusion indicators.
- **Analytical Research:** To analyse the relationship between market growth, regulatory change and inclusion outcomes, and to compare India with China and Indonesia.

Approach

- **Quantitative Approach:** Published figures on market size, growth rates, UPI volumes and the Financial Inclusion Index are tabulated and compared.
- **Qualitative Support:** Regulatory texts and legal commentary are interpreted to trace the evolution of the framework.

5.2 Population and Sampling

The study does not draw a sample of respondents. Its unit of analysis is the Indian digital lending sector as a whole, observed over FY21–FY26 through published aggregate data. No primary survey or interview data was collected.

5.3 Data Collection Methods

Secondary Data

- RBI circulars, directions and press releases, including the Digital Lending Guidelines (2022), DLG Guidelines (2023), Digital Lending Directions (2025) and the Financial Inclusion Index releases.
- NPCI transaction data as reported in the financial press.
- Industry reports from Redseer, Nexdigm and Mordor Intelligence.
- A BIS working paper and an associated peer-reviewed article for the international comparison.
- Legal commentary from Indian law firms, and World Bank indicators.

All material figures used in this study are accompanied by a source and, where available, a date, so that readers can verify them independently. Market-size projections from private research

firms are treated as indicative estimates, since firms differ in how they define “digital lending.” Where a figure is a calculation made by the author rather than a quoted statistic, this is stated explicitly.

5.4 Research Instrument

As the study relies entirely on secondary data, no questionnaire or interview schedule was used. Sources were selected for being official (RBI, NPCI, World Bank), peer-reviewed or published by recognised research and legal firms.

5.5 Data Analysis Tools

Statistical Tools

- Percentage and growth-multiple analysis
- Compound annual growth rate (CAGR) comparison
- Trend analysis of time-series indicators (UPI volume, FI-Index)

Techniques

- Tabulation and comparison of regulatory instruments
- Graphical representation using bar and line charts
- Qualitative interpretation of regulatory texts and commentary

DATA ANALYSIS AND INTERPRETATION

1. Growth of the Digital Lending Market (FY21 vs FY26)

Sr. No	Year	Market size (Rs. trillion)
1	FY21	0.15
2	FY26	2.2
	Growth multiple	~13 times (14.7 on rounded figures)

Source: Redseer Strategy Consultants [1]; Redseer reports ~13 times; 14.7 times is the author’s calculation from the rounded figures

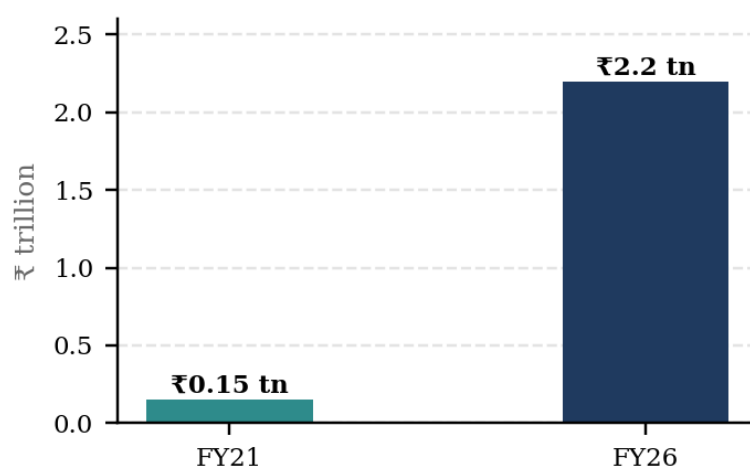


Fig. 1. India's digital lending market, FY21 vs FY26. [1]

Interpretation: India's digital lending market grew roughly 13 times between FY21 and FY26, as reported by Redseer, or about 14.7 times on the rounded figures in the table. On the rounded figures, the author's calculation implies a compound annual growth rate of about 71 per cent, showing how quickly digital channels have scaled from a very small base.

2. Projected Growth: Digital vs Non-Digital Personal Lending (FY26–FY31)

Sr. No	Segment	Projected CAGR (%)
1	Digital lending	26–27
2	Non-digital personal lending	16–18

Source: Redseer Strategy Consultants [1]

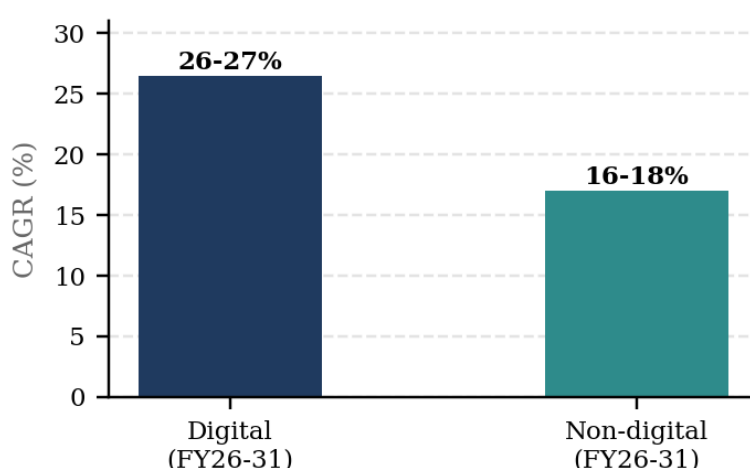


Fig. 2. Projected CAGR, digital vs. non-digital personal lending, FY26–FY31. [1]

Interpretation: Redseer projects the digital share of personal-loan sanctions to reach 20–21 per cent by FY31. Digital lending is expected to keep outgrowing conventional personal

lending, but its share remains about one-fifth. Globally, Mordor Intelligence estimates the digital lending market at USD 566.52 billion in 2026, growing at a CAGR of 11.68 per cent to USD 985.03 billion by 2031, with the Asia-Pacific region, led by India's UPI ecosystem, accounting for the largest regional share [5].

3. UPI Monthly Transaction Volume

Sr. No	Month	Volume (billion transactions)
1	Aug. 2025	19.63
2	May 2026	23.20
3	Jun. 2026	22.72
4	Jul. 2026	23.66
5	Aug. 2026	24.51

Source: NPCI official UPI Product Statistics [10]

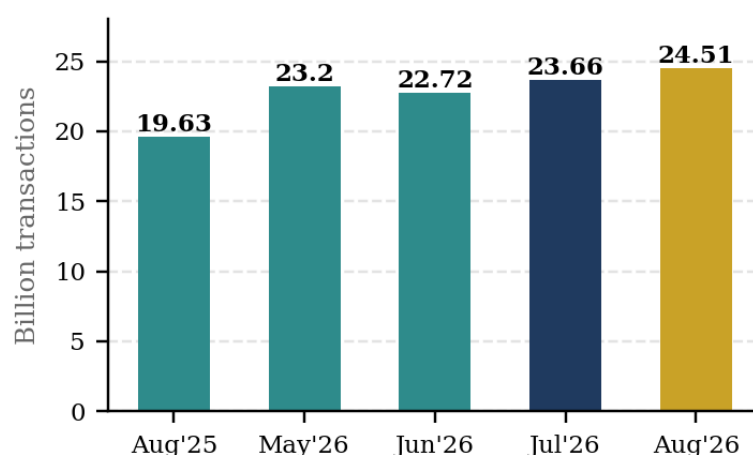


Fig. 3. UPI monthly transaction volume, Aug. 2025 to Aug. 2026. [10]

Interpretation: UPI, run by the NPCI, generates the transaction-level data that underwriting models increasingly rely on. Volume reached a record 24.51 billion transactions in August 2026, worth Rs. 29.82 lakh crore [10]; NPCI data show this is roughly 22 per cent higher than in August 2025 (the 19.63 billion base is as cited in the 2026 comparison; August 2025 was first reported as 20.01 billion). Digital KYC and other digital onboarding mechanisms can reduce friction in loan origination; however, a precise average onboarding-time estimate is not established by the sources used in this study.

4. Digital Lending Models Operating in India

Sr. No	Model	Description
1	Balance sheet	NBFC/digital lender lends from its own books
2	Marketplace	Aggregator matches borrowers with multiple lenders

Sr. No	Model	Description
3	Co-lending	Bank and NBFC jointly fund a loan
4	Embedded	Credit offered inside a non-financial app
5	Peer-to-peer	RBI-registered platform links retail lenders to borrowers

Source: Author's compilation, [3]

Interpretation: Identity verification, payment data and consent-based data sharing have lowered the cost of assessing and serving small borrowers, which is what makes small-ticket digital credit commercially viable across all five models.

5. Regulatory Framework of the RBI

Concerned by coercive recovery practices and the spread of unregistered lending apps, the RBI constituted a Working Group on Digital Lending in January 2021; based on its report, the RBI issued the Digital Lending Guidelines on September 2, 2022, followed by the DLG Guidelines on June 8, 2023 [11]. The 2022 Guidelines required disbursal and repayment to flow directly between the borrower and the Regulated Entity (RE), without a Lending Service Provider (LSP) pass-through account, and mandated a standardised Key Fact Statement disclosing the Annual Percentage Rate before a loan is accepted. The 2023 Guidelines permitted DLG arrangements, in which an LSP absorbs a share of loan losses, subject to a cap of 5 per cent of the loan portfolio and defined disclosure norms [12].

On May 8, 2025, the RBI consolidated these instruments, along with the 2020 outsourcing and fair-practices circular, into the Reserve Bank of India (Digital Lending) Directions, 2025 (RBI/2025-26/36) [2]. Legal commentary describes the Directions as largely a consolidation, with two significant additions: a public reporting requirement for all Digital Lending Apps (DLAs) on the RBI's CIMS portal, due by June 15, 2025, and new disclosure obligations for LSPs that work with multiple lenders, effective November 1, 2025 [4]. The tables below summarise the key milestones and compare the 2022–23 framework with the 2025 Directions.

Sr. No	Date	Development
1	Jan. 2021	Working Group on Digital Lending constituted
2	Sep. 2, 2022	Digital Lending Guidelines issued
3	Jun. 8, 2023	DLG Guidelines issued
4	Dec. 13, 2024	Draft BULA Bill released
5	May 8, 2025	Digital Lending Directions, 2025 notified
6	Jun. 15, 2025	DLA reporting deadline (CIMS)
7	Nov. 1, 2025	Multi-lender LSP rules effective

Source: Author's compilation, [4]

Sr. No	Aspect	2022–23 Framework	2025 Directions
1	Structure	Two separate circulars	Single consolidated instrument
2	App visibility	No public register	Mandatory CIMS reporting
3	Multi-lender LSPs	Not addressed	Disclosure & unbiased offers
4	DLG cap	5% of portfolio	Retained (5% cap)

Source: Author's compilation, [4]

Interpretation: Regulation moved from disclosure-focused guidelines in 2022–23 to a single instrument in 2025 that adds public visibility of lending apps. A continuing challenge is the presence of unregulated or unauthorised lending apps operating outside the regulated-entity framework. To address this, the Department of Financial Services released a draft Banning of Unregulated Lending Activities (BULA) Bill on December 13, 2024, proposing a prohibition on public lending by any entity not authorised by a financial regulator; as a draft, its final form and legislative status should be checked independently before it is relied upon.

6. Role in Financial Inclusion

Nexdigm reports an MSME credit shortfall of roughly Rs. 20–25 trillion and, separately, formal supply of about Rs. 14.5 trillion against addressable demand of about Rs. 69.3 trillion; these are distinct estimates that do not reconcile arithmetically and should be read as indicative [3]. Digital lenders have used GST returns, bank-statement data and invoice discounting to underwrite loans that would be uneconomical for branch-based lending at that scale. Redseer's 2026 findings suggest that most of the resulting demand is additive, drawing previously informally-financed borrowers into the formal system rather than migrating existing bank customers [1].

A broader, lending-agnostic check comes from the RBI's Financial Inclusion Index (FI-Index), a composite of 97 indicators across banking, investment, insurance, postal and pension services, weighted 35 per cent Access, 45 per cent Usage and 20 per cent Quality.

Sr. No	Period	FI-Index (0–100)
1	Mar. 2021	53.9
2	Mar. 2022	56.4
3	Mar. 2024	64.2
4	Mar. 2025	67.0
5	Mar. 2026	70.0

Source: RBI Press Releases [6], [13]

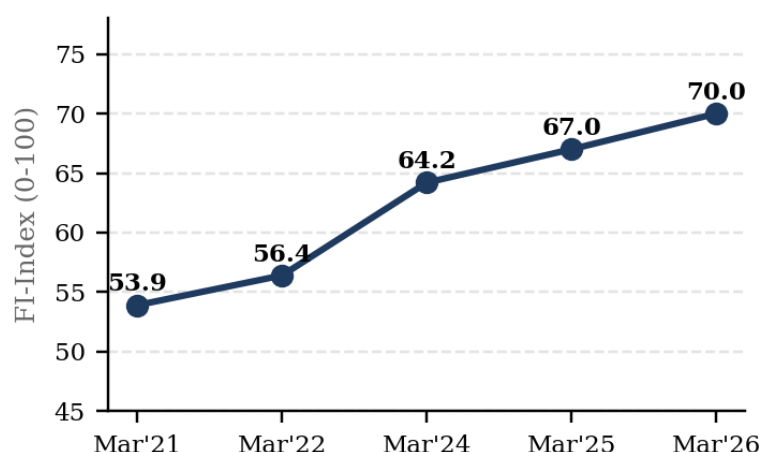


Fig. 4. RBI Financial Inclusion Index, March 2021 to March 2026. [6]

Interpretation: The index rose from 53.9 in March 2021 [13] to 70.0 in March 2026, with the RBI attributing the latest gain mainly to higher Usage [6]. It should be read as a general inclusion indicator rather than proof that digital lending specifically drove the increase. The two series move together over the same period without one being derived from the other, which is consistent with, though it does not prove, the hypothesis H1.

7. Challenges and Risks

Sr. No	Growth Drivers	Risks
1	Aadhaar e-KYC, UPI data	Unregistered lending apps
2	Account Aggregator	Rising NPAs, unsecured credit
3	Co-lending, embedded finance	Data privacy exposure
4	CIMS app directory (2025)	Uneven borrower literacy

Source: Author's compilation, [4]

Interpretation: Four risks stand out. First, delinquencies in unsecured, small-ticket loans have risen in segments where underwriting leans heavily on thin-file alternate data. Second, unregistered apps operate outside the RBI's perimeter, which is the gap the draft BULA Bill targets. Third, the scale of data that lending apps collect raises privacy and cybersecurity exposure. Fourth, financial and digital literacy among new-to-credit borrowers remains uneven, raising the risk of over-borrowing or misreading loan terms.

8. International Comparison: India, China and Indonesia

Sr. No	Aspect	India	China	Indonesia
1	Regulatory approach	RE-anchored licensing; 2025 Directions	Severe post-2018 P2P crackdown	OJK licensing; large illegal fringe

Sr. No	Aspect	India	China	Indonesia
2	Licensed platforms	REs report DLAs on CIMS	P2P platforms fell from ~3,600 to 343 (2015–19)	95 licensed; 951 illegal shut (Jan–Feb 2026)
3	Credit-to-GDP	~50–55%	~114%	~25%

Source: Author’s compilation, [8], [9], [14]

Interpretation: China allowed big-tech and peer-to-peer lending to scale rapidly through the mid-2010s, with big-tech credit alone equal to roughly 2 per cent of the stock of total private credit in 2018, before P2P platform numbers fell from a peak of about 3,600 in November 2015 to 343 by December 2019 [8]. Indonesia has taken a licensing-based approach broadly similar to India’s, but its 95 licensed platforms coexist with a large illegal fringe (951 illegal entities shut down in January–February 2026 alone), and its outstanding P2P debt of about USD 5.8 billion is small in an economy where private credit is only about 25 per cent of GDP, well below Malaysia (108 per cent), Thailand (84 per cent) and China (114 per cent) [9]. India’s ratio of roughly 50–55 per cent sits between these extremes [14], suggesting more headroom for formal credit growth than Indonesia but less pre-existing depth than China. The figures come from different sources and years and should be read as broadly indicative.

FINDINGS AND DISCUSSION

1. Rapid Growth, Largely Additive

Digital lending in India has grown roughly 13 times between FY21 and FY26 (about 14.7 times on the rounded figures) and, on the evidence available, largely by drawing in borrowers previously served by informal sources rather than by reshuffling existing bank credit. Enablers such as e-KYC, UPI and the Account Aggregator framework have made small-ticket lending commercially viable.

2. Regulatory Framework Has Evolved Alongside Market Growth

The regulatory framework evolved through successive measures from 2022 to 2025, culminating in a consolidated instrument in 2025. This lag is consistent with the RBI’s own stated rationale for issuing the 2025 Directions, namely borrower-confidence concerns that had built up under the earlier, more fragmented framework.

3. Inclusion Has Improved, Attribution Remains Limited

The FI-Index, measured independently of lending, improved from 53.9 to 70.0 over the same period. The additive nature of demand documented by Redseer is consistent with, though not proven by, this rise; the two data series strengthen rather than confirm the inclusion argument.

DISCUSSION

1. The Growth–Regulation Gap

Credit expansion that outruns supervision creates room for coercive recovery, data misuse and unregistered apps. The 2025 Directions narrow this gap through public app reporting on CIMS and multi-lender disclosure rules, but their practical enforcement effect cannot yet be assessed.

2. India’s Position between China and Indonesia

India’s regulatory posture, licensing and disclosure rather than prohibition, appears closer to Indonesia’s model than China’s. However, India’s CIMS app directory and multi-lender disclosure rules, introduced only in 2025, address precisely the enforcement gap that continues to trouble Indonesia’s market. Whether India’s directory closes that gap more effectively than Indonesia’s licensing regime remains an open, empirical question that current data cannot yet settle.

3. Unresolved Risks Require Targeted Measures

Asset-quality stress in unsecured retail credit, unregistered apps, data privacy exposure and uneven borrower literacy indicate that the sector may require calibrated, multi-dimensional measures that protect borrowers while allowing responsible digital credit to develop.

CONCLUSION AND RECOMMENDATIONS

Digital lending has expanded rapidly, reaching reported sanctions of about Rs. 2.2 trillion in FY26, while the RBI’s regulatory framework has evolved through successive measures and was consolidated in the Digital Lending Directions, 2025. The evidence reviewed here supports the view that this growth has extended formal credit to MSMEs and first-time borrowers rather than simply redistributing existing bank relationships, and that regulatory oversight has evolved through successive RBI measures, most recently consolidated in the 2025 Directions. The available evidence is consistent with H1, although the study cannot establish causation. Enforcement against unregistered apps and borrower financial literacy remain the areas where policy attention is still catching up with market growth.

RECOMMENDATIONS

1. Strengthen Enforcement Against Unregistered Apps

- Closer coordination between the RBI, app stores and state police to act against apps outside the CIMS directory, an area where Indonesia’s experience with a large illegal fringe is instructive.

2. Improve Borrower Financial Literacy

- Regional-language, in-app financial-literacy disclosures at the point of loan sanction.

3. Widen Use of the Account Aggregator Framework

- Wider use of the framework to improve underwriting without compromising consent.

4. Differentiated Prudential Norms

- Differentiated prudential treatment for small-ticket unsecured digital loans, calibrated to contain asset-quality stress without discouraging genuine inclusion.

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