

Digital Lending and Default Risk: Evidence from FinTech Platforms

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Abstract: The high pace of the growth of digital lending platforms has changed access to credit, especially among underserved populations. Nonetheless, the financial technology lending, when scaled, poses serious questions of the risk of default since little history of borrowing exists, there is the possibility of algorithmic bias, and behavioral uncertainty. This research is an in-depth empirical study of the factors of default risk in digital lending using a panel dataset of FinTech lending platforms between 2016 and 2024. Using the credit risk theory and information asymmetry models, the paper discusses the predictive value of borrower attributes, alternative data use, features of a loan and macroeconomic factors in declaring the probability of default. Results on the application of logistic regression, panel fixed effects models show that other data variables including digital footprint and use of transactions data enhance prediction of default substantially. Also, the default risk is related positively with shorter loan tenure, increased interest rates and macroeconomic volatility. The research adds to the existing FinTech body of literature incorporating both behavioral and algorithmic predictors of credit risk and providing policy recommendations on mitigating risks and regulating them.

Keywords: Digital Lending, FinTech, Default Risk, Credit Scoring, Alternative Data, Information Asymmetry

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