In-Pro: Quarterly Dispatch on Financial Inclusion & Social Protection

IN FOCUS: DO NEW-TO-CREDIT CUSTOMERS DECIDE THEIR FIRST LENDER RANDOMLY?

5 mins read

Water, water everywhere but where must one look to drink?

Digital lending in India has been registering unprecedented growth. It translates in the 'sudden' uptick in lenders. A typical borrower is under 35 years, most likely a male and potentially from a tier III town. It appears that this borrower- type who was previously 'invisible' by a lack of credit history is now suddenly on the radar of several formal lenders. How does this borrower decide whom to borrow from, in a market that suddenly seems all-too- eager to serve them?

New-to-credit borrowers think from the heart

In the absence of any first-hand experience to rely on, new-to-credit borrowers look for several markers that feel right. These markers help them identify a borrower they can 'trust'. When they think of trust, they think of the rare privilege of making themselves vulnerable to the lender, with the confidence that the lender won't use it against them. They have created several proxies to help them gauge the lenders' exploitative tendencies. These proxies or markers include:

- **The experience of their peers:** Trust is transitive. People attach great salience to the recommendations of their trusted peers. If a trusted friend recommends a lender, it is likely to influence the decision of the new-to-credit customer.
- **The advertisements of the lender:** People report to pay attention to the tone of the advertisements of the lender, looking for soft attributes like respect for the borrower and measurable aspects such as completeness of information.
- **Compare lenders on quantifiable parameters:** People use parameters for comparison such as the interest rate, the turn-around time of the loan, processing fee if any, documentation needed etc.

### The customer is never in lock, stock and barrel

Customers' decision to borrow from a lender is neither an indisputable vote of confidence, nor an irreversible decision. Once the borrower receives the loan, they enter what we loosely call the 'trust spiral'. In each interaction with the borrower automated SMS reminders for repayments, grievance calls, push notifications, post-payment receipts etc are used by the borrower to measure the actual conduct of the lender against its promises.

The customers' trust in the lender intensifies when the lenders' actions match their promises. It dwindles when lenders diverge from their promises to the detriment of the customer (like levying hidden charges). Most customers seem to have a certain, though hard-to-define tolerance for the lenders' errant behaviour. While most customers would close the loan despite the lenders' conduct, in some rare, egregious incidents, customers have reported to prematurely close the loan to rid themselves of the relation. Not all customers may be as affluent to afford this.

Trust is a gift that keeps giving, as is betrayal

After successfully repaying the loan, the borrowers may walk away with a happy experience with the lender, which intensifies their trust in the lender. They endorse the lender to others among their peers or even return to the lender for another loan. However, when the borrowers leave feeling betrayed, they caution their peers against transacting with the lender. Some experiences may also alter their perception of digital lending as a whole, turning them away from it.

Theorising Borrowers' Trust in Digital Lending
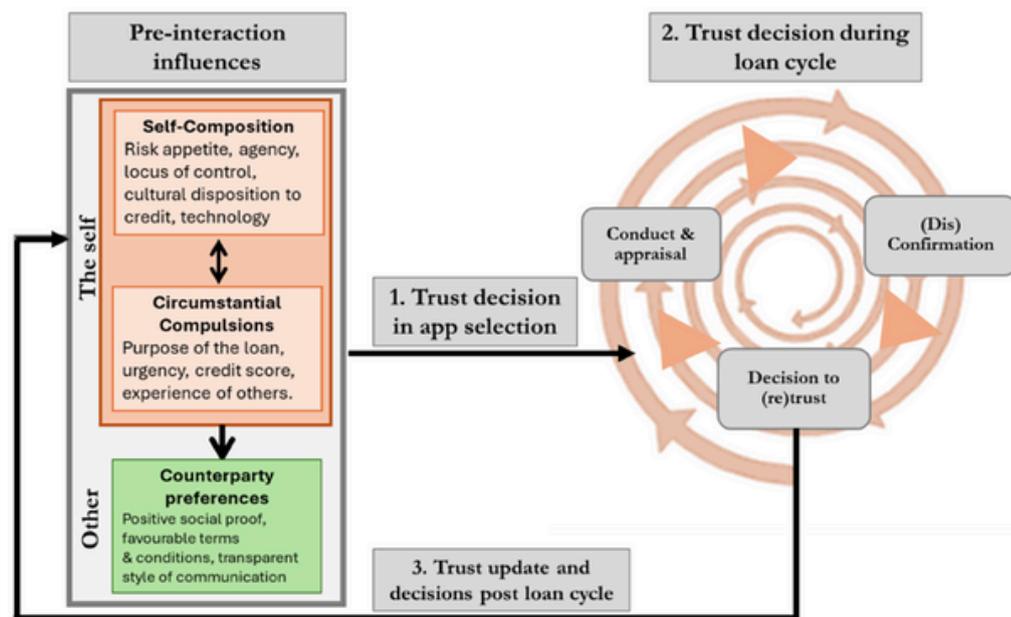
*Based on a mixed-method study of 65 users and intended users of digital financial services, with annual household income of less than Rs 5 lacs.

RELATED READINGS

- The Making of Trust
- Unpacking Customers' Trust: How do Customers come to Trust Digital Lenders?
- Is lack of trust keeping customers away from digital financial services? Understanding the contours of trust- Part 1
- Is lack of trust keeping customers away from digital financial services? – Understanding the contours of trust - Part 2
- Responsible and Trustworthy AI in Digital Lending: From Principles to Practices

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PUBLICATIONS FROM THE QUARTER (JULY- SEPTEMBER 2025)

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- Financing the Unseen: Blended Finance for Nano Enterprises
- Understanding CMIE-CPHS Data: A handbook
- Towards Customer-Centric KYC: RBI's 2025 Amendments from a Financial Inclusion Lens

Consultation Responses:
- Response to the Department of Post's DHRUVA Policy Document
- Comments to the Consultation Paper on Guidelines for Responsible Usage of AI/ML In Indian Securities Markets, dated 20 June 2025

Papers In Peer Reviewed Journal
- Credit Demand of FPOs – A Credit Market Estimation Exercise

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> " We believe that our work under 'Making of Trust' will spark new ideas on what borrowers perceive as trustworthy, and how lenders can align their practices to earn and deepen that trust. It is also a powerful reminder that genuine borrowers value being treated with respect, dignity, and transparency. "

Beni Chugh
Head - Future of Finance