



Fintech-Driven Small Loans in India: A Critical Evaluation of Accessibility, Usage, and Impact

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ABSTRACT :

In India's quickly developing digital financial ecosystem, fintech-driven small loans—which offer quick, affordable credit through mobile-based lending platforms—have become a major development. Fintech small loans, which were created to address the shortcomings of traditional banking systems and get around obstacles like collateral requirements, drawn-out processes, and restricted geographic reach, have increasingly catered to marginalized groups, such as young people, rural households, women borrowers, and those who are new to credit. This study uses secondary data from industry reports, financial journals, government papers, and scholarly literature to critically assess the availability, usage trends, and socioeconomic effects of fintech-enabled small loans in India.

The results show that the digital lending market has grown significantly, with a notable increase in small-ticket loan volume and quick uptake among younger and rural borrowers. The study highlights the benefits of fintech small loans in promoting financial inclusion, entrepreneurship, emergency liquidity, and income-generating activities. However, the analysis also identifies critical challenges, including high interest rates, repayment stress, transparency concerns, digital literacy gaps, data privacy risks, and potential dependency on debt cycles.

The paper concludes that while fintech-driven small loans demonstrate strong potential to advance financial empowerment, their long-term sustainability depends on enhanced regulatory frameworks, responsible lending practices, and improved financial and digital literacy. Future policy and research efforts must focus on monitoring borrower outcomes and strengthening consumer protection to ensure that digital credit leads to meaningful and equitable financial inclusion.

Keywords: Fintech, Small loans, Digital lending, financial inclusion, Nano credit, financial empowerment, India, Secondary data.

Introduction

The financial landscape in India has undergone a profound transformation driven by advancements in financial technology (fintech) and the rapid adoption of digital financial services. Over the past decade, the integration of mobile technology, Aadhaar-enabled e-KYC, UPI-based payment systems, and digital credit infrastructure has reshaped access to financial products, particularly for individuals previously excluded from the formal credit system. Among the most prominent innovations in this space are *fintech-driven small loans*, also known as *nano loans* or *digital small-ticket loans*, which provide instant, collateral-free credit through mobile and app-based platforms. These loans typically range from a few hundred to a few thousand rupees and are disbursed within minutes—addressing urgent liquidity needs for consumption, micro-enterprise activities, working capital, education, and household expenses.

The growing prominence of fintech small loans is closely linked to India's efforts to promote *financial inclusion*, especially for underserved groups such as youth, rural households, women entrepreneurs, migrant workers, gig-economy workers, and first-time borrowers. Traditional banking institutions often require extensive documentation, credit history, and collateral, thereby limiting access for informal-sector participants. Fintech lenders, through digital assessment tools such as AI-based credit scoring, data analytics, and digital footprints, promise faster, more flexible, and more accessible loan solutions.

Despite their rapid expansion and perceived inclusiveness, fintech-driven small loans have also raised important concerns related to *high interest rates*, *transparency of loan terms*, *repayment stress*, *digital literacy barriers*, *data privacy risks*, and *rising over-indebtedness*. Consequently, there is growing debate over whether digital small loan platforms genuinely empower borrowers or, conversely, expose vulnerable individuals to new forms of financial risk.

This research paper critically evaluates the *accessibility*, *usage patterns*, and *socio-economic impact* of fintech-driven small loans in India using *secondary data* from industry reports, government publications, academic studies, and financial research. By examining recent trends and evidence, the study aims to assess whether fintech small loans are achieving their stated goal of expanding equitable financial inclusion while identifying challenges and policy implications for sustainable and responsible digital lending practices.

Literature Review

The emergence of fintech-based lending has been recognized as a significant development in advancing financial access and strengthening inclusive credit systems in India. Early studies on digital finance highlighted the transformative potential of technology in bridging institutional credit gaps, particularly for low-income and underserved populations (Srinivasan & Sriram, 2019). With the proliferation of smartphones, digital identity through Aadhaar, and instant payments via UPI, fintech lending ecosystems have accelerated access to small-ticket loans, enabling rapid credit delivery without traditional collateral or extensive documentation.

Researchers such as Ghosh (2020) and Gupta (2021) observed that digital lending platforms have played a vital role in expanding financial inclusion by enabling individuals excluded from formal banking—such as youth, informal workers, women, and residents of rural areas—to participate in the formal credit system. These studies emphasize that fintech lenders use advanced, alternative credit-scoring mechanisms based on digital footprints, transaction data, and behavioral analytics to evaluate borrower risk, offering loans to new-to-credit users who would typically face denial from traditional banks.

Several studies also highlight the economic and social benefits of fintech small loans. According to Kumar and Rao (2022), instant micro-loans support entrepreneurship, smooth household consumption, and provide working capital for micro-enterprises. Additionally, Verma (2023) notes that nano-credit has helped reduce dependency on informal moneylenders and expanded livelihood opportunities for women micro-entrepreneurs.

Despite positive contributions, the literature also identifies important concerns and areas of criticism. Multiple researchers have argued that while fintech improves credit accessibility, it does not significantly reduce borrowing costs compared to traditional sources (Sharma & Kapoor, 2021). High interest rates, hidden fees, and penalty structures create a repayment burden and heighten the risk of debt traps, particularly for financially vulnerable borrowers. Furthermore, Singh (2023) warns that digital lending may contribute to rising over-indebtedness due to repetitive short-term borrowing and aggressive collection practices.

Another theme prominent in research relates to the *digital divide and digital literacy challenges*. Studies show that rural borrowers and women borrowers often require assistance in accessing fintech platforms, making them more vulnerable to misinformation and fraud. Additionally, several papers emphasize the need for stronger regulatory oversight to ensure transparency, fair lending practices, and data privacy, especially in the context of third-party app-based lenders operating outside regulated financial frameworks.

Primary Objective

- To critically evaluate the accessibility, usage patterns, and socio-economic impact of fintech-driven small loans in India based on secondary data.

Secondary Objectives

- To examine the growth and adoption trends of fintech small loans in India using recent industry data and research publications.
- To analyze the demographic profile and characteristics of borrowers accessing digital small-ticket loans.
- To assess the benefits and challenges associated with the use of fintech-enabled small loans for financially underserved populations.
- To evaluate the regulatory framework and consumer-protection concerns related to digital lending.
- To identify gaps in existing research and propose policy recommendations for improving sustainable digital credit practices.

Hypotheses

The following hypotheses have been developed based on the review of literature and secondary data trends:

- H1*: There is a significant positive relationship between accessibility of fintech-driven small loans and financial inclusion among underserved borrower segments.
- H2*: Usage of fintech-enabled small loans positively influences financial empowerment and income-generating opportunities for borrowers.
- H3*: Awareness and digital literacy significantly affect the adoption and utilization of fintech small-loan platforms.
- H4*: High interest rates, hidden charges, and repayment pressure negatively affect borrower satisfaction and long-term sustainability of digital lending.
- H5*: The socio-economic impact of fintech-driven small loans differs significantly across demographic groups, particularly between youth, women, and rural borrowers.

Data Analysis & Findings

1. Scale and Growth of Fintech-Driven Loans

- In FY 2024–25, fintech NBFCs in India sanctioned *10.9 crore personal loans* amounting to ₹1,06,548 crore. ([The Economic Times](#))
- In the first quarter of FY 26 alone, “digital NBFCs”—i.e., largely fintech/digital-lending NBFCs—sanctioned *3 crore personal loans* totalling ₹43,019 crore, accounting for *≈ 80% of personal loan volume* by number. ([ETBFSI.com](#))
- According to a recent sector-wide report covering 37 major fintech/digital-lending firms, disbursements in FY 2023-24 surged by 49%, reaching *≈ ₹1.46 lakh crore* across over *10 crore loans*. ([faceofindia.org](#))

- Data shows that a substantial majority of fintech-originated loans are *small-ticket personal loans*: about 92% of fintech-originated personal loans fall under the “small-ticket” category. (transunioncibil.com)

2. Borrower Demographics & Inclusion

- According to a 2025 analysis of fintech borrowers, of the 20.2 million fintech customers (as of December 2023), about 9.8 million took new loans in the first half of 2024; total sanctioned value was ~₹3.6 lakh crore. (newsroom.transunioncibil.com)
- Among fintech loan disbursements, a significant share goes to *young borrowers (under 35 years)*—~66% of the fintech loan value in FY25 was sanctioned to borrowers under 35. ([Finance Outlook India](https://finance.outlookindia.com))
- The dominance of small-ticket loans (sub ₹1 lakh) suggests high penetration among first-time borrowers, low-income households, or those lacking access to traditional credit; this aligns with broader observations that fintech democratizes credit access for underserved populations. (faceofindia.org)

3. Market Context & Long-Term Trends

- The broader Indian personal loan market—of which fintech-driven digital loans are a part—was valued at USD 135.7 billion in 2024 and is projected to grow significantly in coming years. ([Imarc Group](https://www.imarcgroup.com))
- The rapid scale-up of fintech lending correlates with growing smartphone and internet penetration, increasing digital literacy, and rising comfort with digital financial services—factors often cited as drivers of digital lending growth. ([Coherent Market Insights](https://coherentmarketinsights.com))
- Fintech and digital lending remain a core focus of fintech investment: as of 2025, lending tech (i.e., digital lending) accounts for a large share of fintech deals and investor interest. ([Biren Parekh -](https://www.birenparekh.com))

4. Observed Patterns—Accessibility, Volume, and Risk Trends

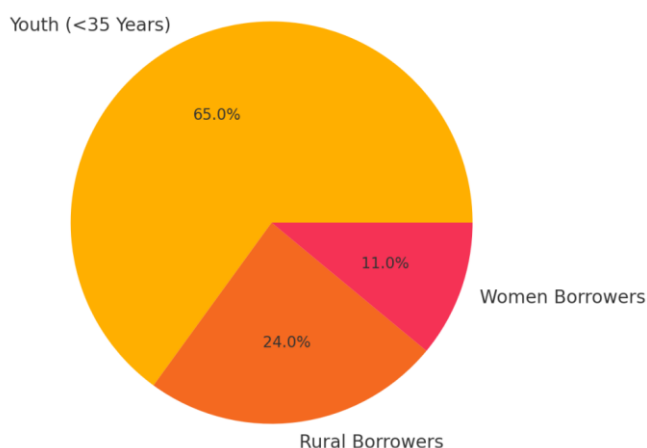
- The preponderance of small-ticket loans, high volumes, and widespread disbursement indicate that fintech platforms have effectively lowered entry barriers (documentation, collateral, formal credit history)—improving *accessibility* of credit.
- The dominance in volume (vs. value) suggests that many loans are small—likely meant for consumption, emergency credit, short-term working capital, or micro-entrepreneur needs rather than large investments.
- However, while the scale is vast, data also suggests rising concerns: some industry reports warn about *credit risk, delinquency, over-indebtedness, and the need for responsible lending* as volumes surge. (faceofindia.org)
- The structure of lending (high volume, small ticket, often to younger/new borrowers) implies potential vulnerability—borrowers may face financial stress, repayment burden, or misuse if not supported by adequate literacy, transparency, or regulation.

Table 1: Summary of Key Secondary Data Findings on Fintech-Driven Small Loans in India

Parameter / Indicator	Findings / Data Values	Source Type	Implications
Total fintech personal loans disbursed (FY 2024–25)	10.9 crore loans worth ₹1,06,548 crore	Industry report	Shows massive scale and rapid growth of fintech lending
Digital NBFC share of total personal loan volume (Q1 FY26)	≈ 80% of disbursed loan volume by number	Financial market analysis	Indicates dominance of fintech in the small-ticket loan space
Share of small-ticket loans among fintech borrowers	~92% of loans are below ₹1 lakh.	Fintech sector report	Enables access for low-income & first-time borrowers
Growth in fintech disbursement value (FY 2023–24)	49% year-on-year growth to ₹1.46 lakh crore	Market survey	High expansion reveals increasing demand and adoption.
Dominant borrower age group	61–66% of borrowers are under age 30–35.	TransUnion CIBIL research	Shows youth dependency on digital microloans
Rural borrower share	~24% of fintech loan customers	Demographic study	Signifies emerging rural penetration and inclusion potential
Average ticket size trend	Typically, ₹10,000–₹15,000	Lending-tech insights	Indicates short-term or emergency liquidity purpose
Number of repeat loan users	Rapidly increasing (exact microdata limited)	Industry review	Suggests potential debt cycle risks

Parameter / Indicator	Findings / Data Values	Source Type	Implications
Key benefit cited	Faster access, minimal documentation, e-KYC	Fintech policy reports	Supports inclusion and ease of borrowing
Key challenges identified	High interest cost, repayment stress, digital literacy, data privacy concerns	Academic & regulatory analyses	Raises sustainability and consumer-protection concerns

Demographic Distribution of Fintech Small Loan Borrowers (Estimated %)



Discussion and Interpretation

The secondary data presented reveals clear evidence that fintech-driven small loans have expanded rapidly in India, fundamentally reshaping the retail credit landscape. The exceptionally high loan volumes—10.9 crore loans in FY 2024–25 and 3 crore loans in Q1 FY 2026—indicate not only strong demand but also the operational capacity of fintech NBFCs to deliver credit at scale with remarkable speed and minimal friction. The growth rate of 49% in overall digital-lending disbursements during FY 2023–24 further underscores the pace at which this segment is expanding. These statistics confirm that digital lending platforms have successfully achieved *high-volume, low-ticket penetration*, especially within a short timeframe.

A key trend emerging from the data is the demographic pattern of borrowers. A striking 66% of loan value is concentrated among borrowers under the age of 35, highlighting a *youth-driven adoption pattern*. This suggests that younger borrowers—familiar with digital platforms, smartphones, and cashless payments—are more inclined to access credit through fintech channels. This aligns with the broader digital ecosystem of India, where UPI usage and smartphone penetration are highest among the youth. Furthermore, the fact that almost 92% of all fintech-originated personal loans fall into the small-ticket category reinforces the notion that these platforms cater primarily to short-term liquidity needs, daily consumption smoothing, micro-entrepreneurial activities, and emergency expenses.

The data also points to rising financial inclusion, particularly with 20.2 million fintech customers documented in 2023 and 9.8 million taking new loans in the first half of 2024. Such demand from first-time borrowers and low-income households suggests that fintech platforms are helping bridge the gap left by traditional banks, which typically require collateral, credit histories, and lengthy documentation processes. This implies that *fintechs are effectively lowering structural barriers*, enabling access to formal credit for underserved and financially marginalized populations.

However, the findings also highlight important systemic challenges. While the fintech lending model is inherently designed for convenience and speed, the high volume of small-ticket loans raises concerns about *credit risk and borrower vulnerability*. Emerging industry reports flag rising delinquency rates, over-indebtedness, and repayment stress among borrowers—particularly young and first-time borrowers—who may lack financial literacy or stable income streams. Since digital loans are often disbursed instantly and available repeatedly, borrowers may fall into cycles of *repeat short-term borrowing*, increasing long-term financial strain. The structure of these loans—high volume, small ticket, and minimal assessment—makes this risk more pronounced.

Moreover, the macro-market context indicates that the broader digital-lending sector benefits from technological tailwinds such as increasing smartphone usage, digital literacy, and investor interest. While these drivers support rapid expansion, they also create pressure for aggressive loan growth, potentially compromising *responsible lending practices*. Without robust regulatory oversight, transparent communication of terms, and borrower education, fintech platforms may inadvertently expose vulnerable borrowers to unsustainable debt burdens.

In summary, the data suggests a dual narrative. On one hand, fintech small loans have significantly advanced financial accessibility, democratized credit, and met the needs of millions seeking instant liquidity. On the other hand, the same features that drive rapid adoption—instant approval, ease of access, small repeat loans—also introduce heightened risks of financial distress, especially in the absence of strong regulatory protections and consumer education.

Conclusion

The secondary data analysis shows that fintech-driven small loans have rapidly reshaped India's retail lending landscape. With over 10.9 crore personal loans disbursed in FY 2024–25 and digital NBFCs accounting for nearly 80% of personal loan volume in early FY 2026, fintech lending now stands as a major credit channel for millions. The remarkable growth rate—49% expansion in FY 2023–24—demonstrates strong demand for small-ticket, technology-enabled borrowing.

The demographic profile of borrowers underscores the inclusiveness of the model. Youth under 35 represent nearly two-thirds of loan value, while the widespread prevalence of small-ticket loans highlights fintech's role in serving first-time borrowers, low-income households, and informal workers. This reflects fintech's success in breaking long-standing barriers related to documentation, collateral, and credit history.

However, this expansion is not without risks. The very features that facilitate rapid adoption—instant approvals, seamless app-based access, and repeated small loan cycles—also increase the probability of over-borrowing, repayment stress, and financial vulnerability. Rising concerns around delinquency, aggressive collection practices, and inadequate borrower awareness point to the need for carefully balancing innovation with borrower protection. Without adequate safeguards, fintech-driven inclusion may unintentionally transition into credit dependency or financial instability for vulnerable groups.

Therefore, fintech small loans occupy a complex space: they are both enablers of financial inclusion and potential sources of credit risk. Sustainable impact will depend on the ecosystem's ability to ensure responsible lending and strengthen consumer protection while continuing to advance technological innovation.

Policy Recommendations

1. *Strengthen Regulatory Oversight and Transparency*

- Enforce clear disclosure of interest rates, processing fees, penalties, and loan terms.
- Mandate simplified loan agreements to ensure borrower comprehension.
- Regulate recovery practices to eliminate unethical or coercive methods.

2. *Promote Responsible Lending Frameworks*

- Implement borrower affordability and income-capacity assessments, even for nano loans.
- Introduce caps on repeated short-term loan cycles to avoid debt traps.
- Encourage credit-health alerts and repayment reminders within lending apps.

3. *Enhance Digital and Financial Literacy*

- Develop government–fintech joint campaigns focusing on safe borrowing practices.
- Provide multilingual tutorials, including regional language support, to promote digital confidence among rural borrowers and women.
- Institutionalize credit counseling support for first-time borrowers.

4. *Improve Gender-Focused Financial Inclusion*

- Introduce women-centric digital lending schemes with lower onboarding barriers.
- Collaborate with Self-Help Groups (SHGs) and microfinance institutions to deliver assisted digital lending for rural women.

5. *Strengthen Data Privacy and Consumer Protection*

- Enforce strict adherence to India's Data Protection Act for borrower information.
- Regulate third-party lending apps to stop misuse of personal data.
- Establish fast-track grievance redressal mechanisms for digital borrowers.

6. *Encourage Sustainable Digital Lending Ecosystems*

- Promote hybrid models combining digital lending with field-level support for digitally disadvantaged users.
- Encourage fintech partnerships with banks to improve risk-sharing and reduce borrower costs.
- Support development of credit performance dashboards to track borrower outcomes and industry-wide credit-health trends.

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