

The Role of Alternative Data in Expanding Credit Access: A Study on Fintech Innovations in India

Abstract

The rapid growth of fintech in India has ushered in significant changes in the financial services landscape, particularly in expanding credit access to underserved populations. This study explores the role of alternative data in enhancing financial inclusion, focusing on how fintech innovations are leveraging non-traditional data sources to bridge the credit gap. Traditional banking models in India have long relied on conventional credit scoring mechanisms, which often exclude individuals without formal financial histories. However, the proliferation of alternative data, such as mobile phone usage, social media activity, transaction patterns, and utility bill payments, has enabled fintech companies to assess creditworthiness more comprehensively.

This study examines the impact of these fintech-driven innovations on expanding credit to low-income and underserved segments in India. It explores how alternative data is being used to create more inclusive credit-scoring models, thus mitigating the risk for lenders while increasing credit accessibility for individuals and small businesses previously excluded by formal financial systems. The study also highlights the challenges associated with the use of alternative data, including privacy concerns, regulatory constraints, and the potential for data biases.

Through a combination of case studies, interviews with industry experts, and an analysis of regulatory frameworks, this research provides a nuanced understanding of the opportunities and limitations of alternative data in transforming India's credit landscape. The findings suggest that while alternative data offers immense potential to democratize credit access, a robust regulatory and ethical framework is essential to ensure responsible usage and protect consumer rights. The study concludes by offering recommendations for policymakers, fintech companies, and financial institutions to optimize the use of alternative data in expanding credit inclusion in India.