

Chapter 10

FinTech Credit Using CBDC: Transformation of Lending Market

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ABSTRACT

The advancement of financial technology and the development of central bank digital currency (CBDC) are revolutionizing the lending market. FinTech credit and CBDC have disrupted traditional lending practices, providing new channels of financing for borrowers and increasing access to credit. This chapter explores the transformation in the lending market due to the advent of FinTech credit and CBDC. It analyses the impact of these developments on the lending market, borrowers, and financial institutions. The chapter also evaluates the challenges and opportunities presented by these innovations and the implications for regulators. Financial technology (FinTech) credit has rapidly emerged as a disruptive force in the lending market, and the use of central bank digital currency (CBDC) has the potential to further transform the lending market. This chapter aims to examine the potential impact of FinTech credit using CBDC on the lending market, analyse the benefits and challenges of this model, and provide recommendations for policymakers and market participants to foster its adoption.

1. INTRODUCTION

The world with diverse economic conditions and a common challenge of a credit gap, particularly for small and medium-sized enterprises (SMEs) and individuals. The emergence of FinTech credit has provided a new alternative to traditional lending channels, leveraging technology to streamline the lending process and provide access to credit for underserved segments of the market. However, the use of traditional currencies, such as cash or bank deposits, still presents challenges for FinTech credit providers, such as high transaction costs and risks. The use of CBDC, which is a digital form of fiat currency

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issued by central banks, has the potential to address these challenges and further transform the lending market. This research paper aims to examine the potential impact of FinTech credit using CBDC on the lending market, analyse the benefits and challenges of this model, and provide recommendations for policymakers and market participants to foster its adoption. The advancement of financial technology (FinTech) and the development of Central Bank Digital Currency (CBDC) are transforming the lending market. FinTech credit and CBDC have disrupted traditional lending practices, providing new channels of financing for borrowers and increasing access to credit. This literature review aims to explore the transformation in the lending market due to the advent of FinTech credit and CBDC.

1.1 FinTech Credit

FinTech credit is an innovative financing solution that uses technology to automate the loan origination process, assess creditworthiness, and provide access to credit. According to a study by the World Bank, FinTech credit can improve access to credit for borrowers who are excluded from the traditional banking system (Qian et al., 2017). FinTech credit platforms use alternative data sources and algorithms to assess creditworthiness, reducing the reliance on traditional credit scores and collateral. This enables borrowers who would have been rejected by traditional lenders to access credit (Yao et al., 2018).

FinTech credit has disrupted traditional lending practices, providing new channels of financing for borrowers. FinTech credit platforms offer loans at lower rates than traditional lenders by reducing the cost of originating and servicing loans using technology. This has increased access to credit for borrowers, especially for small and medium-sized enterprises (SMEs) that were previously underserved by traditional lenders (De Nicolò et al., 2019).

1.2 CBDC

CBDC is a digital form of fiat currency issued by the central bank, which can be used as a means of payment and store of value. CBDC has the potential to transform the financial industry by improving the efficiency and security of payment systems, enhancing financial inclusion, and providing new tools for monetary policy. According to a study by the Bank for International Settlements (BIS), CBDC can enhance the efficiency and safety of payment systems, reduce transaction costs, and improve financial inclusion (BIS, 2020).

CBDC can also provide a new channel of financing for borrowers. CBDC can be used as collateral for loans, reducing the reliance on traditional collateral such as real estate and inventory. This can enable borrowers to access credit without having to provide traditional collateral, increasing access to credit (Rosenberg et al., 2018). CBDC can also reduce the risk of default and enable borrowers to access credit at lower rates, as it provides a more secure form of collateral than traditional collateral (BIS, 2020).

1.3 The Process of FinTech Credit Using CBDC

- a. Customer applies for FinTech credit using a digital platform.
- b. The FinTech platform verifies the customer's identity and creditworthiness.
- c. The platform sends the customer's information to the lender.
- d. The lender evaluates the customer's information and decides whether to approve the loan.

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