



Digital Lending

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Why in News

Recently, the **Reserve Bank of India (RBI)** cautioned individuals and small businesses against falling prey to the growing number of **unauthorised digital lending platforms and mobile applications** on promises of getting loans in quick and hassle-free manner.

Key Points

- **Digital Lending:**
 - It consists of lending **through web platforms or mobile apps**, by taking advantage of technology for authentication and credit assessment.
 - **India's digital lending market has seen a significant rise** over the years. The digital lending value increased from USD 33 billion in FY15 to USD 150 billion in FY20 and is expected to hit the USD 350-billion mark by FY23.
 - **Banks** have launched their **own independent digital lending platforms** to tap in the digital lending market by leveraging existing capabilities in traditional lending.
- **Significance of Digital Lending:**
 - **Financial Inclusion:** It helps in meeting the huge unmet credit need, particularly in the microenterprise and low-income consumer segment in India.
 - **Reduce Borrowing from informal channels:** It helps in reducing informal borrowings as it **simplifies the process of borrowing**.
Indians continue to borrow from family and friends, and moneylenders, sometimes at unreasonably high interest rates, primarily because these loans are more flexible and convenient.
 - **Time Saving:** It decreases time spent on working loan applications in-branch. Digital lending platforms have also been known to **cut overhead costs by 30-50%**.

- **Issues with Digital Lending Platforms:**

Growing number of **unauthorised digital lending platforms** and mobile applications as:

 - They charge **excessive rates of interest** and **additional hidden charges**.
 - They adopt **unacceptable and high-handed recovery** methods.
 - They **misuse agreements** to **access data on mobile phones** of borrowers.
- **Steps Taken by RBI:**
 - **Non-Banking Financial Companies (NBFCs)** and **banks** need to **state the names of online platforms** they are working with.
 - RBI has also **mandated that digital lending platforms which are used on behalf of Banks and NBFCs should disclose the name of the Bank(s) or NBFC(s)** upfront to the customers.
 - The central bank had also **asked lending apps to issue a sanction letter to the borrower on the letter head of the bank/ NBFC concerned** before the execution of the loan agreement.
 - Legitimate public **lending activities can be undertaken by banks, NBFCs registered with the RBI** and other entities who are regulated by state governments under statutory provisions.
- **India's Digital Ecosystem:**
 - Banks have partnered with **Fintechs** to serve their customers better.
 - Government of India has taken many initiatives such as **Unified Payments Interface, Jan dhan yojana, Aadhaar enabled Payment System**, etc. to promote digital environment in the country especially after demonetization.

Way Forward

- India is on the verge of a **digital lending revolution and making sure that this lending is done responsibly** can ensure the fruits of this revolution are realized.
- As several players have access to sensitive consumer data, **there must be clear guidelines around, for example, the type of data that can be held, the length of time data can be held for, and restrictions on the use of data.**
- Digital lenders should proactively develop and commit to a **code of conduct that outlines the principles of integrity, transparency and consumer protection**, with clear standards of disclosure and grievance redressal.
- An **agency can be created that tracks all digital loans and consumer/lender credit history.**
- Apart from establishing technological safeguards, **educating and training customers to spread awareness about digital lending is also important.**

Source: TH