



Proposed Norms for Digital Lending: RBI

Why in News

Recently, the [Reserve Bank of India \(RBI\) Working Group \(WG\)](#) Committee has made recommendations pertaining to Digital Lending, including a separate legislation to prevent illegal digital lending activities.

- The RBI constituted a WG on digital lending including lending through online platforms and mobile apps in January, 2021.
- The panel was set up in the backdrop of business conduct and customer protection concerns arising out of the spurt in digital lending activities.

Key Points

▪ About:

- The RBI says **lending through digital mode** relative to physical mode is **still at a nascent stage in the case of banks** (Rs 1.12 lakh crore via digital mode against Rs 53.08 lakh crore through the physical mode).
- Whereas for [Non-Banking Financial Companies \(NBFCs\)](#), a higher proportion of lending (Rs 0.23 lakh crore via digital mode against Rs 1.93 lakh crore through the physical mode) is happening **through digital mode**.
- While banks have been increasingly adopting innovative approaches in digital processes, NBFCs have been at the forefront of partnered digital lending.

▪ Key Proposals:

- Digital lending apps should be **subjected to a verification process by a nodal agency** to be set up in consultation with stakeholders.
- To set up a **Self-Regulatory Organisation (SRO)** covering the participants in the digital lending ecosystem.
 - The use of unsolicited commercial communications for digital loans to be **governed by a code of conduct** to be put in place by the proposed SRO.
 - The maintenance of a **'negative list' of lending service providers** by the proposed SRO.
- Disbursement of loans should **be directly into bank accounts of borrowers**.
- All data to be stored in **servers located in India**.
- Algorithmic features used in digital lending to be documented **should ensure necessary transparency**.

Digital Lending

▪ About:

- It consists of **lending through web platforms or mobile apps**, by taking advantage of technology for authentication and credit assessment.
- Banks have launched their own independent digital lending platforms to tap in the digital

lending market by leveraging existing capabilities in traditional lending.

▪ **Significance:**

- **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.**
- 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%.

▪ **Challenges:**

- 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.
- **Ease Reforms.**

▪ **India's Digital Ecosystem:**

- Nearly 72% of financial transactions of Public Sector Banks (PSBs) are done through digital channels, with doubling of customers active on digital channels from 3.4 crore in FY 2019-20 to 7.6 crore in FY 2020-21.
- The share of financial transactions undertaken through home and mobile channels has increased from 29% in FY 2018-19 to 76% in FY 2020-21.

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](#)