

FAQs

Digital Lending: What is it, its significance and suggestion by RBI?

Why is this in news?

- Recently, the **Reserve Bank of India (RBI)** had cautioned individuals and small businesses against falling victim to the mushrooming **unauthorised digital lending platforms and mobile applications** on promises of getting loans in quick and hassle-free manner, all this in the backdrop of as recently, a woman employee of Telangana Agriculture Department and a software engineer committed suicide after they were humiliated and blackmailed by tele-callers and recovery agents of a mobile app instant loan company. Their personal details were posted by the company on social media and labelled them defaulters and used abusive language.

What is 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.

What are the 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.**
- **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%.**

What are some of the 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.**

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- They adopt **unacceptable and high-handed recovery** methods.
- They **misuse agreements to access data on mobile phones** of borrowers.

What are the steps taken by RBI in this regard?

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.

Way Forward

- Since, India is on the verge of a **digital lending revolution and making sure that this lending is done responsibly only** can ensure the success of this revolution.
- Thus, 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.
- Moreover, an agency can be created that **tracks all digital loans and consumer/lender credit history.**