# FAQs

## Digital lending

### Why is it in News?

Digital lending has been on the rise in India. However, there are several concerns about the model.

### What are various models of Digital lending?

Presently, there are **three digital-lending models**, seen through the regulatory-approach lens:

1) Bank/NBFC-owned **digital platforms operating** under the direct regulatory purview of RBI.

2) **Fintech companies' proprietary digital platforms**, working in partnership with banks/NBFCs.

   - Being mere intermediaries, these platforms are not required to seek any registration with RBI, and are only indirectly regulated through RBI's outsourcing guidelines applicable to Banks/NBFCs.



3) **Peer-to-peer (P2P) lending platforms,** which usually involve the otherwise unregulated retail lenders.

   - RBI has mandated such platforms to seek registration as NBFC-P2P; thus, they are directly regulated by RBI.

### What are issues with digital lending?

- The specific issues are unauthorised lenders, exorbitant rates of interest, use of coercive repayment methods, and non-consensual collection or use of user data.
- These issues entail serious adverse implications for borrowers and have systemic implications, hampering the rise of legitimate fintech players.

### What are the steps taken to regulate digital lending?

- With a view to curb such practices, RBI, in 2020, issued a notification to Banks/NBFCs mandating additional disclosures/compliances, and an advisory to borrowers warning them against such platforms.
- Following the notification, Google removed several such loan apps from its PlayStore.

# FAQs

- The Digital Lenders' Association of India (DLAI) also issued guidelines to help borrowers identify such unscrupulous platforms.
- In the regulatory pipeline on this front is the report of the working group on digital lending, constituted by RBI in January 2021.

## What can be its Solution?

- Given the significant contribution of legitimate fintech players, it is important to ensure that any policy solutions to address such issues do not impede the growth of such players.
- The key to this lies in adoption of light-touch regulation, along with the effective implementation of the already proposed regulatory initiatives.
- For instance, the primary cause of the rising supply of unauthorised lending platforms is the existing credit information asymmetry that genuine lenders face in respect of small borrowers.
- Here, operationalising and on-scale implementation of RBI's proposed 'Public Credit Registry' and the 'Open Credit Enablement Network' would lead to increased participation of legitimate players and curb proliferation of unauthorised lenders.
- Another foundation for framing effective policy solutions lies in leveraging the interdependence and impact of each individual constituent of the digital lending ecosystem, on other constituents.
- Apart from lenders/platforms/borrowers, these constituents also include the digital lending industry associations, consent managers and technology developers.
- Regulators and industry associations working together can provide the necessary foundations for addressing these issues.