Guidelines on Digital Lending in India - digital lending trends
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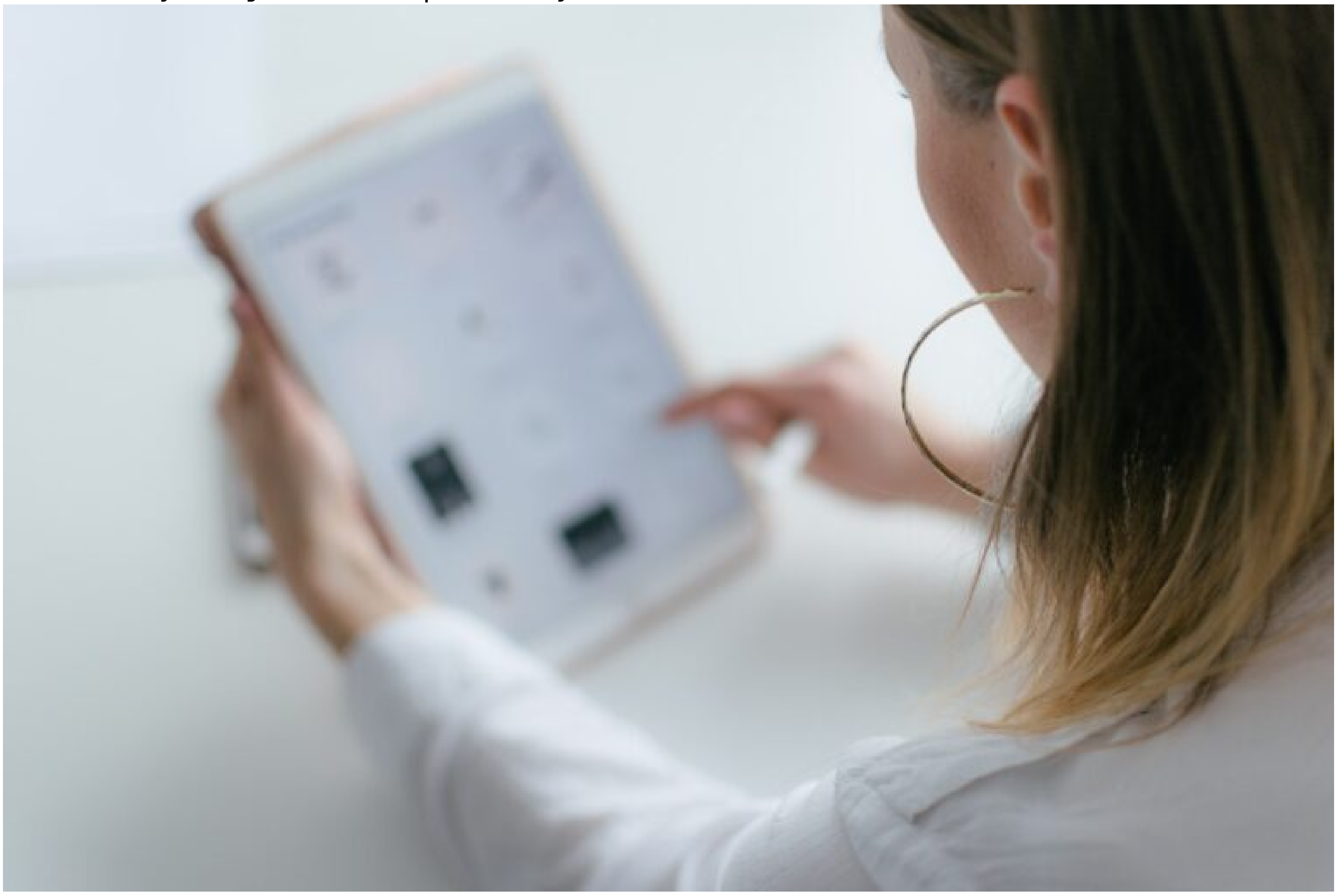
Digital lending is a process that provides financial institutions an opportunity to make borrowings and raise productivity in order to facilitate lending services. Technology becomes considerably advantageous in digital lending since confidential information and sensitive details are kept un-disclosed. The pre-existing lending system has been drastically altered by the introduction of digital lending in India. From opening an account to loan application procedures, paperless transactions, and providing loans to no-credit customers, the lending sector has undergone a significant transformation as a result of digital lending. With the advent of digital lending, FinTech companies are encouraging paperless lending, which has opened up new and better opportunities and accessibility for the Indian lending market.

RBIs Guidelines on Digital Lending

The Reserve Bank of India (RBI) published "Guidelines on Digital Lending" (Guidelines) to banks and non-banking finance firms (NBFCs) on September 2, 2022. This is in response to the press release the RBI made on August 10, 2022, on the implementation of the Working Group on Digital Lending's recommendations.[1]

- These guidelines are applicable to regulated lending entities (RE) to digital loans provided by Commercial Banks, District Central Co-operative Banks, State Co-operative Banks, Primary (Urban) Co-operative Banks; and Non-Banking Financial Institutions (NBFCs).
- For current customers who apply for new loans and new customers who sign up starting on September 2, 2022, as well as for current digital loans, REs has until November 30, 2022, to comply with the Guidelines.
- All loan payments and disbursements must only be made through the borrower's

and RE's respective bank accounts. The lending service providers (LSP) or any other third party are not allowed to have any passthrough or pool accounts. There are certain limited exceptions to the norm, including payments made between REs for co-lending transactions, payments made for particular end uses, and payments made as long as the loan is transferred into the end-bank beneficiary's account.

- The provisions of collection of fees and charges are also stated in addition to disclosure requirements to borrowers.
- The key fact statement provided by a RE with a standardized format is also given in the guideline.
- Borrowers must be provided a cooling-off or look-up time, as decided by the RE board, in order to exit digital loans by paying the principal and corresponding APR without incurring any fees. For loans with a term of seven days or more, the cooling-off period cannot be less than three days; for loans with a term of fewer than seven days, it cannot be shorter than one day.
- Data collection is only authorized by Digital Lending Apps(DLAs) when it is necessary and with the borrower's express prior authorization. Access to mobile phone resources including files and media, contacts, call records, etc. is not allowed for DLAs. Only with the borrower's express permission may one-time access be granted for a camera, microphone, location, or any other facility required for onboarding or KYC needs. Data storing is also not permitted except with minimal data for carrying out operations. The borrower must be given the choice of agreeing or disagreeing with the use of specific data, restricting disclosure to third parties, limiting data retention, and rescinding previously given consent to collect his personal information. If necessary, the borrower may also request that the app delete or forget the data. Before disclosing a borrower's personal information to any third party, the borrower's express consent must be obtained, unless doing so is required by law or regulation.
- The Guidelines state that REs should abide by the provisions of the Master Direction - Reserve Bank of India (Securitization of Standard Assets) Directions, 2021 dated September 24, 2021 (Securitization Directions), particularly the directions on synthetic securitization found in the Securitization Directions, with regard to contractual arrangements for First loss default guarantees(FLDGs)

Regulatory tightening in the Booming India digital lending sector

The RBI had raised concerns pertaining to unauthorized digital lending in India back in 2020. Subsequently, in a press release, it was clarified that the high numbers of such unauthorized DLAs, excessive interest rates, hidden payment charges, and unethical loan recovery practices raise the requirement of disclosure of the NBFC and banks involved in digital lending. With this pretext, the RBI issues a report in 2021 addressing the concerns in customer protection and business conduct and gave recommendations to enhance protection norms in online borrowing.

The latest guidelines issued in the year 2022, which were implemented from December 1st of 2022 provide for a protectionist framework for customers. Additionally, it strengthened the technology and data requirements which address several issues in the digital lending platform. These guidelines enable and ensure transparency and compliance and help in understanding the way forwards.

Impact on FinTech Companies acting as loan facilitators

Digital lending trends have evolved to become much more borrower friendly. The loan offering criteria where a credit score alone determined the creditworthiness of an individual has become much more expansive. In addition to this, there is more accuracy in the assessment of risk due to greater transparency. The advantage of an automated and data-centric loan approval process allows lenders to make informed decisions.

The eligibility and accessibility criteria allow security in lending transactions. Utilizing Fintech models such as APIs, to assist lenders in making quicker, more informed loan choices is known as fintech lending. This might involve weighing loan risk using different data sources and linking digital platforms to increase the pace of data exchange. By offering an alternate source of capital, fintech lending empowers P2P and business borrowers in enhancing their financial well-being and independence.

Global Trends in digital lending

Digital lending trends are anticipated to find a number of prospects for the expansion of the field. India Lends introduced Digital Lending 2.0 in April 2020, a selection of touchless and contactless goods that includes loans, insurance, and a line of credit.

The fast adoption of digitalization in the BFSI sector has caused a significant shift in the lending environment over time. Some of the most well-known businesses in the financial sector that have made significant AI investments include Aire, Kabbage, and Kasisto. For instance, Kabbage employs AI algorithms to evaluate all the risks associated with lending money to a specific consumer, allowing managers to approve loans quickly.

The two fintech firms, UI Enlyte and Exaloan, announced in April 2022 that they are establishing a strategic organization. The corporations will connect their loan and digital asset platforms through this project. Digital lending companies like Finserv, FIS, Newgen Software, Nucleus Software, Pega, Temenos, and many of Indian, US, and Swiss origin companies have adopted various digital lending trends to grow in the global market.

Protecting Consumers

The RBI regulates digital lending in India and its operations as a result of unchecked third-party participation, misspelling, data privacy violations, unethical recovery techniques, and high-interest rates. The 2022 guidelines also lay down the procedure for grievance redressal in addition to the procedure for the appointment of an officer. It was mandated that such suitable nodal grievances redressal offices have the competency to deal with complaints. The guidelines help in keeping data and customers open to transparent loan execution.

These disclosure norms promote consumer interests. The BI has also mandated reporting of loans to the credit Bureau irrespective of their nature or tenure. It additionally ensures that loan agreements do not contain unfavorable terms. REs also are required to ensure that the credit limits which are automatically increased must have the consent of the borrowers before such increases are taken on record.

Conclusion

The implementation of Fintech business models takes an experienced team that assists in compliance and abidance of the current legal framework. The team at KSK ensures that these requirements are met and ensures all that is required in the legal regime. KSK can also ensure digital lending companies have all requirements to be met.

FAQ

Is digital lending legal in India?

The RBI as on September 2022 has published regulations for online lending applications. According to the central bank's instructions, the objective is to shield borrowers against dishonest lending practices

What is digital lending in India?

Digital lending is the process of disbursing and collecting loans via websites or mobile apps. It enables prompt disbursal and aids in cost reduction. Non-Banking Financial Companies (NBFCs) and Lending Service Providers (LSPs) work together to provide credit to consumers using the latter's platform.

When did digital lending start in India?

Digital lending is the process of disbursing and collecting loans through websites or mobile apps. It enables prompt disbursal and aids in cost reduction. Non-Banking Financial Companies (NBFCs) and Lending Service Providers (LSPs) work together to provide credit to consumers using the latter's platform.

[1] https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12382&Mode=0