RBI Norms For Banks And NBFC's Engaging Digital Lending Platforms

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What are the RBI Guidelines For Digital Lending?

Conventionally Banks and NBFC's[1] are considered as the ultimate source for availing loans or any other forms of financial assistance.

However, it is not easy to avail loans from them since it involves a lot of paperwork and other related procedures. Ultimately, it becomes a burden to the Borrowers[2] since their purpose will not be fulfilled if they do not have access to finance whenever it is required. In order to reduce the burden of the Borrowers, digital lending platforms came in as a rescue for the Borrowers.

What Is Digital Lending?

Digital lending refers to the process of offering loans to the Borrowers in need of finance through online platforms after analyzing the credit-worthiness through the digital data of the Borrower made available. It enables the Borrower ease of access to finance since it is faster when compared to traditional sources of availing loans from Banks and NBFC's.

Under this type of arrangement, the prospective Borrower will be required to provide basic information and upload documents related to KYC("Know Your Customer") norms online on the website of the digital lending company. On receipt of information, the credit-worthiness of the Borrower will be assessed by a digital lending company through the Loan Organisation System ("LOS") of the digital lending company. If the digital lending company is satisfied with regard to the credit-worthiness of the Borrower then the loan will be disbursed to the Borrower through an automated sanction.

Digital lending platforms are gaining popularity in India and we have many start-ups such as Capital floats, Lending cart, Kredx, Insta cash, etc. The popularity of these digital lending platforms is expected to be higher in future since there has been an increase in the use of digital platforms in almost every sector in this modern era of digitalization. Further, it is also observed that certain banks and NBFC's have engaged these digital lending platforms as their intermediaries.

These digital lending platforms are of various models which are as follows[3]:

- Online Lenders- Here the services are offered by the lenders online via website or mobile applications and the process will be designed in such a manner that there is no need for the Borrower s to come face to face contact with Lenders.

- P2P Platforms- It is also called as Peer to Peer platforms which acts as an intermediary between the Borrower and lender
- E-commerce and social platforms- It is a platform where offering of credit is not the core business but is involved in leveraging of digital distribution, strong brand and rich customer data to offer credit products to their customer base.
- Marketplace platforms- These platforms are involved in introducing lenders to the borrowers for which it will collect an origination fees from the lenders. After this, the funds are to be disbursed to borrower by the lenders. The role of such platform will come to an end once the Borrowers and Lenders come face to face, they will not act as an intermediary unlike P2P platforms.
- Supply chain Lenders- These platforms provide short-term working capital loans for micro-enterprises to purchase inventory from distributors or for pay-as-you-go financing of an asset purchase.
- Mobile money Lenders- These platforms partner with mobile network operators to offer loans to their customer base, leveraging phone data for credit scoring.
- Tech-enabled Lenders- These are the lenders who adapted digital technologies to their businesses which were previously involved in manual lending process.

Regulatory Norms Of RBI[4]For Banks And NBFC's Engaging The Service Of Digital Lending Platforms

The Banks and NBFC'S have partnered with the digital lending platforms to provide loan to it's borrowers and in some cases to recover loan from the Borrowers. This is advantageous to Banks and NBFC's since it will enable the Banks to strengthen the customer base. On the other hand, RBI has noticed the following issues with respect to digital lending platform which offer loans to such Borrowers[5]:

- Non-disclosure of lender

The digital lending platforms although are intermediaries in some cases they try to portray themselves as lenders which becomes problematic for the customers since there is no grievance redressal mechanism for consumers for matters such as charging exorbitant rate of interest, non-transparent methods to calculate interest, harsh recovery methods, unauthorized use of personal data and bad behavior.

- Violation of norms

These digital platforms when being outsourced by Banks or NBFC's violate certain such guidelines which are applicable to all Banks and NBFC's, which engage as a digital lending platform for the purpose of recovery or for recovery of loans or for any other purpose.

In order to tackle the issue faced by the Borrowers due to digital lending platforms, the RBI as issued the following guidelines to the banks and NBFC's engaged in the service of digital lending[6]:

- Banks and NBFC's should display the name of digital lending platforms, those of who they have engaged as agents on their website.
- Digital lending platforms are required to disclose the name of the Bank/NBFC on whose behalf they are acting as agents, to the customer.
- Sanction letters must be given by the Bank/NBFC on their letter head to the Borrower, immediately after the sanction of loan but before execution of the loan agreement.
- A copy of loan agreement along with the copy of all enclosures quoted in the

agreement shall be furnished to all borrowers by all Banks/NBFC’s

- Banks or NBFC’s should effectively monitor and oversight the digital lending platforms engaged by them.
- Adequate efforts should be made by banks and NBFC’s to create awareness about the grievance redressal mechanism.

Conclusion

Digital lending platforms indeed have been advantageous to both the Lenders[7] and the Borrowers however these platforms have certain shortcomings such as lack of regulatory enactments, no proper grievance redressal mechanism, violation of regulatory norms, probabilities of misuse of consumer data, lack of transparency, etc. As a result, the Borrower would not approach the Digital Lending Platforms and would rather approach Banks and NBFC’s to avail loans since it is considered a safer option in terms of legal remedies. Although RBI has interfered and has laid down regulatory norms to ensure adherence to fair practices by digital lending platforms, it is applicable only to banks and NBFC’s.

If this situation persists, it will not only encourage consumer exploitation but also lead to diminishing of the fintech sector to some extent and since this is a part of fintech sector, the following steps should be taken:

- Digital lending platforms should be brought under strict supervision of RBI.
- Consumer protection laws should be made applicable to all digital lending platforms.
- Statutory norms or regulations should be enacted with respect to establishment and operations of the digital lending platforms.

The above suggested measures should be taken during this stage, since these companies have emerged mostly as start-ups and it will be easy for implementation

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- [1] Non-banking finance companies
- [2] Borrowers refers to all kinds of borrowers including retail individuals, small traders.
- [3] International journal of scientific and technology research
- [4] Reserve Bank of India
- [5] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11920&Mode=0
- [6] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11920&Mode=0
- [7] Lenders include all kinds of lenders including Banks and NBFC’S

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