

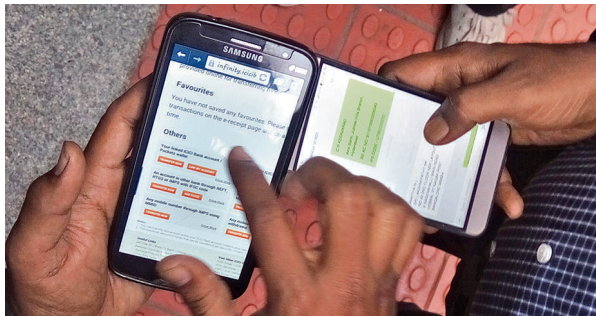
RBI targets unfair methods in digital lending with new norms

Lending business to be carried out only by regulated entities, says central bank

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The Reserve Bank of India (RBI) on Wednesday issued the first set of guidelines for digital lending, to crack down on illegal activities by certain players. This follows the recommendation of a Working Group on Digital Lending that had submitted its report recently.

As per the new norms, all loan disbursements and repayments will be required to be executed only between the bank accounts of the borrower and the Regulated Entities (RE) - such as a bank or a non-banking financial company - without any pass-through or pool account of the Lending Service Provider



Larger good: A cooling-off period allows borrowers to repay principal and APR without penalty. ■ G.R.N. SOMASHEKAR

ers or any third party.

Stating that digital lending channels had become prominent recently, the RBI said concerns had also emerged which, "if not mitigated, may erode the confidence of members of the public in the

digital lending ecosystem."

The concerns relate to 'unbridled engagement of third parties, mis-selling, breach of data privacy, unfair business conduct, charging of exorbitant interest rates, and unethical recov-

ery practices', it said.

"A standardised Key Fact Statement must be provided to the borrower before executing the loan contract," the RBI said in a circular. The norms prohibit any automatic increase in credit limit without borrowers' consent.

They also allow a cooling-off period in which borrowers can exit loans by paying the principal and the proportionate annual percentage rate (APR) sans penalty.

The framework is based on the principle that the lending business can be carried out only by entities regulated either by the Reserve Bank or entities permitted to do so under any other law, RBI added.