

## Analysis of Digital Lending Guidelines

Digital Lending Guidelines, released by the RBI on 2nd September 2022, were focused on safeguarding customers and boosting transparency into previously opaque processes. The impact of this change has been immense, and many digital lending fintechs are implementing new initiatives to thrive in this dynamic landscape.

The guidelines directed Registered Entities (RE i.e. Financial Institutions) and Lending Service Providers (LSP), including their Digital Lending Apps (DLA), to implement the following:

- Banks/NBFCs must collect from and disburse money/fees to customers. Fintechs cannot participate in this. (However, this doesn't take into consideration the case of fintechs that provide other services like e-commerce, travel, etc to their customers.)
- Key Fact Statement is mandatory to be shared with customers and will outline details of APR, Terms and Conditions of Recovery, Look-up Period as well as Grievance related guidelines.
- A Look-Up Period is offered to customers during which they can exit by paying Principal + Proportionate APR with no penalty (the period must be a minimum of 3 days for a loan of tenure 7+ days and 1 day for a tenure of fewer than 7 days.)
- There is an increased focus on Consumer Consent and Data Privacy. Consumers must grant consent before their data can be shared with third parties.
- Borrower's consent must be availed before increasing their credit limit.
- Banks and NBFCs must conduct enhanced due diligence before onboarding any Lending Service Provider. This is also particularly important as they are responsible for the actions of the LSP.
- All loans regardless of size or tenure must be reported to Credit Bureaus (this has impacted their credit scoring algorithm.)
- DLAs must reflect all details of the product at the onboarding stage, as well as the details of Lender, LSP, privacy policies, customer care, etc.
- Biometric data cannot be stored with the Digital Lending App of the RE or LSP.

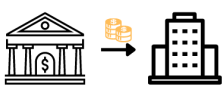
### Digital Lending Guidelines: Highlights

#### No 3rd Party Collections



- Disbursements/repayments from borrower to RE
- No pass-through/pool account of the LSP or any third party

#### Fintech Cannot Collect Fee



- RE will pay LSP fees or charges in credit intermediation process

#### Key Fact Statement



- Key Fact Statement given to borrower, which also includes All-inclusive cost of digital loans in the form of APR

#### Cooling Off / Look up Period



- Providing cooling-off period wherein borrowers can exit digital loans by paying principal + proportionate APR without any penalty

#### Consent Driven Credit Increase



- No automatic increase in credit limit without explicit consent of borrower

#### Grievance Redressal



- REs to ensure suitable nodal grievance redressal officers are engaged

These directives have impacted all the stakeholders i.e. Banks / NBFCs, LMS/LOS players, Fintechs and Credit Bureaus, and propelled them to upgrade their technology and processes.

Digital Lending Fintechs in particular have been impacted the most, and should ideally implement the following to grow:

- Apply for an NBFC license or buy an existing NBFC
- If entity already has an NBFC license, then they must build co-lending powered books rather than FLDG ones
- Follow Digital Lending Guidelines with 100% adherence (and have the company audited as well)
- Build compliance skills at scale
- Reduce costs and focus on customer-level profitability, even for the first loan
- Avoid short-term credit (i.e. loans with tenure less than a month)
- Integrate into the Account Aggregator Framework on an immediate basis
- Widen lending partners (every product should have 3 partners supporting)
- Try to reduce FLDG as much as possible
- Raise as much funding as possible
- Reduce dependence on the B2C model and focus on Value Chains for offering credit backed with underlying data
- Focus on niche segments, for both customers and products
- Prepare to set up branches

*Disclaimer: This blog is neither a legal interpretation nor a statement of the RBI's directive. All information is posted merely for educational and informational purposes. It is not intended as a substitute for professional advice. Should you decide to act upon any information in this blog, you do so at your own risk.*

### Download the report for indepth analysis of the Digital Lending Guidelines

[Click here to Download the Report](#)

### Knowledge Session

## DIGITAL PRODUCT MANAGEMENT

Get Deep insights on the role of Product Manager

- Basic Concept
- Customer Centricity
- Critical Success factor
- Product Management Tools
- Emerging Roles

### Our Speakers



**Sameer Singh Jaini**  
Founder & CEO  
The Digital Fifth



**Shashank Shekhar**  
Co-founder & Head of Consulting  
The Digital Fifth

Live on: ZOOM

**THURSDAY, 30TH MARCH**  
**03 PM - 04 PM**

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## MARKET NEWS

### UBS to buy Credit Suisse for nearly \$3.25B to calm turmoil

Banking giant UBS is buying troubled rival Credit Suisse for almost \$3.25 billion, in a deal orchestrated by regulators in an effort to avoid further market-shaking turmoil in the global banking system.

Swiss authorities pushed for UBS to take over its smaller rival after a plan for Credit Suisse to borrow up to 50 billion francs (\$54 billion) failed to reassure investors and the bank's customers. Shares of Credit Suisse and other banks plunged this week after the failure of two banks in the U.S. sparked concerns about other

potentially shaky institutions in the global financial system.

Source: Economic Times

### Aadhaar-based e-KYC: Govt onboards NBFCs, fintechs

The government, which has been looking to expand the coverage of Aadhaar to the private sector, has onboarded several small and mid-sized NBFCs and fintech companies that are now using the Aadhaar based e-KYC for onboarding customers. Using the Aadhaar based e-KYC process enables easy onboarding and authentication of customers by businesses and also brings down the cost of customer acquisition. The Unique Identification Authority of India (UIDAI) is seeking to add credibility to the Aadhaar ecosystem through upgradation of technology and adding new security features. On an average, over 200 crore Aadhaar-based authentications take place every month.

Source: Times of India

## WEEKLY FUNDING

COMPANY	ROUND	AMOUNT
	Seed	\$ 1.3 Mn

## KNOWLEDGE SESSION



The slide features the logo for Bharat Fintech Summit '23 at the top. Below it, the title "Digital Lending Vision for 2030" is centered. Three speakers are listed: Rohan Juneja (MD & CEO, TruCap Finance Limited), Nishant Jasapara (Chief Business Officer, Credit Saison), and Ashish Singhal (Startup evangelist and Angel investor, SVC Bank). A central play button icon is also present. At the bottom left, it says "Event by The Digital Fifth". Below the slide is a video player interface with a progress bar and control icons.

## FOUNDERS SPEAK

### What next for Digital Lending Fintechs?

- Go forward with NBFC license (apply for a license or buy an existing NBFC but don't wait)
- If you already have NBFC license, then build colending powered books rather than FLDG ones
- Follow Digital Lending Guidelines with 100% Adherence (Get yourself audited as well)
- Build compliance skills at scale
- Reduce costs and focus on customer level profitability even for the first loan
- Avoid short term credit (less than a month)
- Integrate into Account Aggregator Framework on immediate basis
- Widen your lending partners - every product should have 3 partners
- Try to reduce FLDG as much as possible
- Raise more funds as much as possible
- Reduce dependence on B2C model and focus on Value Chains for offering credit backed with underlying data
- Focus on niche segments - customers as well as products
- Be ready to set up branches

Basic stuff to survive and scale in the ecosystem.

Sameer Singh Jaini

Founder & CEO

The Digital Fifth

