

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA

UNSTARRED QUESTION NO. 3134

To be answered on the March 20, 2023/Phalgun 29,1944 (Saka)

Interest charged by Digital Lenders

3134. SHRI NATARAJAN P.R.:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government is having any guidelines to protect borrowers from levy of exorbitant interest and unethical recovery procedures in digital lending particularly with small agriculture loans/ education and loans borrowers;
- (b) if so, the details thereof;
- (c) whether there are any provisions for taking deterrent action on the concerns related to unbridled engagement of third party, misselling and breach of Data Privacy Act; and
- (d) if so, the details thereof?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(DR. BHAGWAT KARAD)

(a) to (d): Reserve Bank of India (RBI) has deregulated interest rates on loans and advances, and the same are governed by Board approved policy of the regulated lending institutions and the terms and conditions of the loan agreement.

Further, RBI has issued guidelines on digital lending *vide* its circular dated 2.9.2022 to firm up the regulatory framework for digital lending while enhancing customer protection and making the digital lending ecosystem safe and sound.

As per the said guidelines with respect to charging of interest, Regulated Entities (REs) are required to disclose upfront the effective annualised rate charged to the borrower of a digital loan as a part of the Key Fact Statement (KFS) and it should be based on an all-inclusive cost and margin including cost of funds, credit cost and operating cost, processing fee, verification charges, maintenance charges, etc., and exclude contingent charges like penal charges, late payment charges, etc. Any fees, charges, etc., which are not mentioned in the KFS cannot be charged by the REs to the borrower at any stage during the term of the loan.

The said guidelines, with respect to recovery procedure, requires KFS to contain the recovery mechanism and details of grievance redressal officer designated specifically to deal with digital lending/ FinTech related matter. REs should communicate to the borrower about the details of Loan Service Providers (LSPs) who is authorised to approach the borrower for recovery. REs are also required to impart necessary guidance to LSPs, acting as recovery agents, to discharge their duties responsibly and ensure that they comply with the extant instructions in this regard.

With respect to engagement of third party and misselling, the said guidelines require REs to prominently publish the list of their Digital Lending Apps/Platforms (DLAs), LSPs engaged by them and DLAs of such LSPs with the details of the activities for which they have been engaged, on their website. REs should ensure that their DLAs or DLAs of their LSPs at sign-up stage, prominently display information relating to the product features, loan limit and cost, etc., so as to make the borrowers aware of these aspects.

Further, with respect to data privacy, the guidelines necessitate REs to ensure that any collection of data by their DLAs and DLAs of their LSPs is need-based and with prior and explicit consent of the borrower having audit trail. The borrower should be provided with an option to give or deny consent for use of specific data, restrict disclosure to third parties, explicit consent on sharing personal information with any third party, data retention, revoke consent already granted to collect personal data and if required, make the app delete/ forget the data. The purpose of obtaining borrowers' consent needs to be disclosed at each stage of interface with the borrowers. REs should ensure that LSPs/DLAs engaged by them do not store personal information of borrowers except some basic minimal data. Biometric data cannot be stored/ collected in the systems associated with the DLA of REs/ their LSPs, unless allowed under extant statutory guidelines. Data can only be stored in servers located within India. REs are also required to have clear policy guidelines regarding the storage of customer data.
