



Presentation on Digital Lending & FinTech

May 18, 2024, New Delhi

Digital Lenders Association of India

www.dlai.in

Synopsis of The Presentation

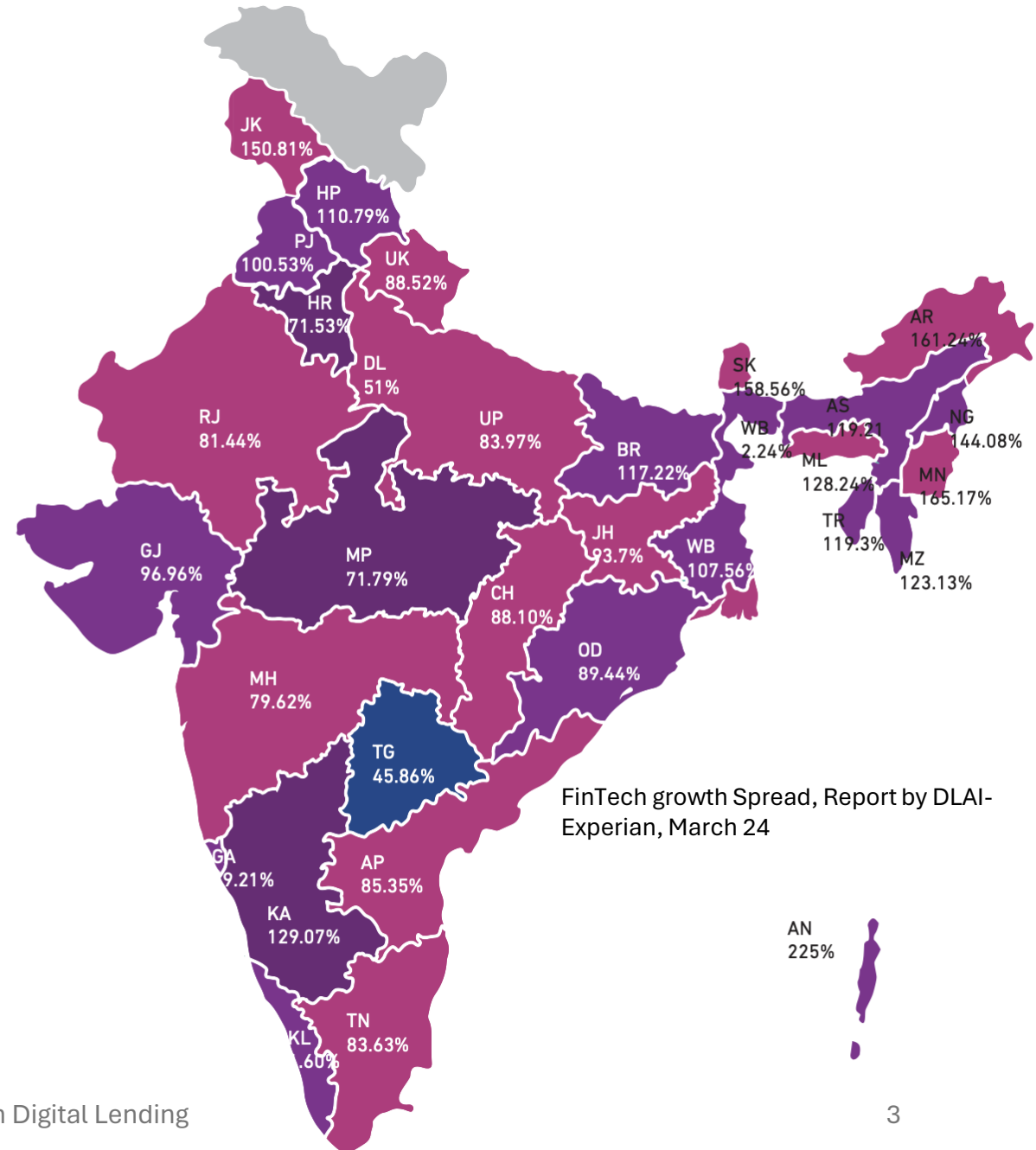


- About DLAI and the Status of The Lending-Tech Sector,
- Taxonomy,
- Regulations – DLGs & Other Pieces of regulation,
- Prominent Business Models in Digital Lending,
- Client Protection Measures & Disclosure Requirements,
- Law & Order related Issues regarding UALA & Sectoral Initiatives,
- Self-Regulatory Organizations & Standardization.

Sector Status

How Big is the Digital Lending Sector?

- There are approx. 150-200 LendingTechs (into Digital Lending) in India serving approx. xx Mn. End customers,
- Size of the sector is approx. USD 15 Billion (INR 1.3-1.5 Trillion), approx. 75-80% Consumer lending and 20-25% MSMEs,



Fintech lending



Constitution

- DLAs: ~250, 50% owned by NBFCs and 50% by Fintechs who partners with NBFCs/Banks
- Lending-tech/LSPs: ~120
- REs: ~ 200, NBFCs (100 fintechs, 20 P2P, 60 traditional) + 20 Banks
- A wider universe of fintechs/tech-fins integrating for various functions of digital lending

Plurality

- **Products:** MSMEs, personal, small business, health, education, ev, consumer, emergency
- **Ticket sizes:** retail Rs 5k-5L+, MSME ~20L
- **Customer segment:** income, risk profile, employment
- **Scale:** annual disbursement Rs 10-10k Cr

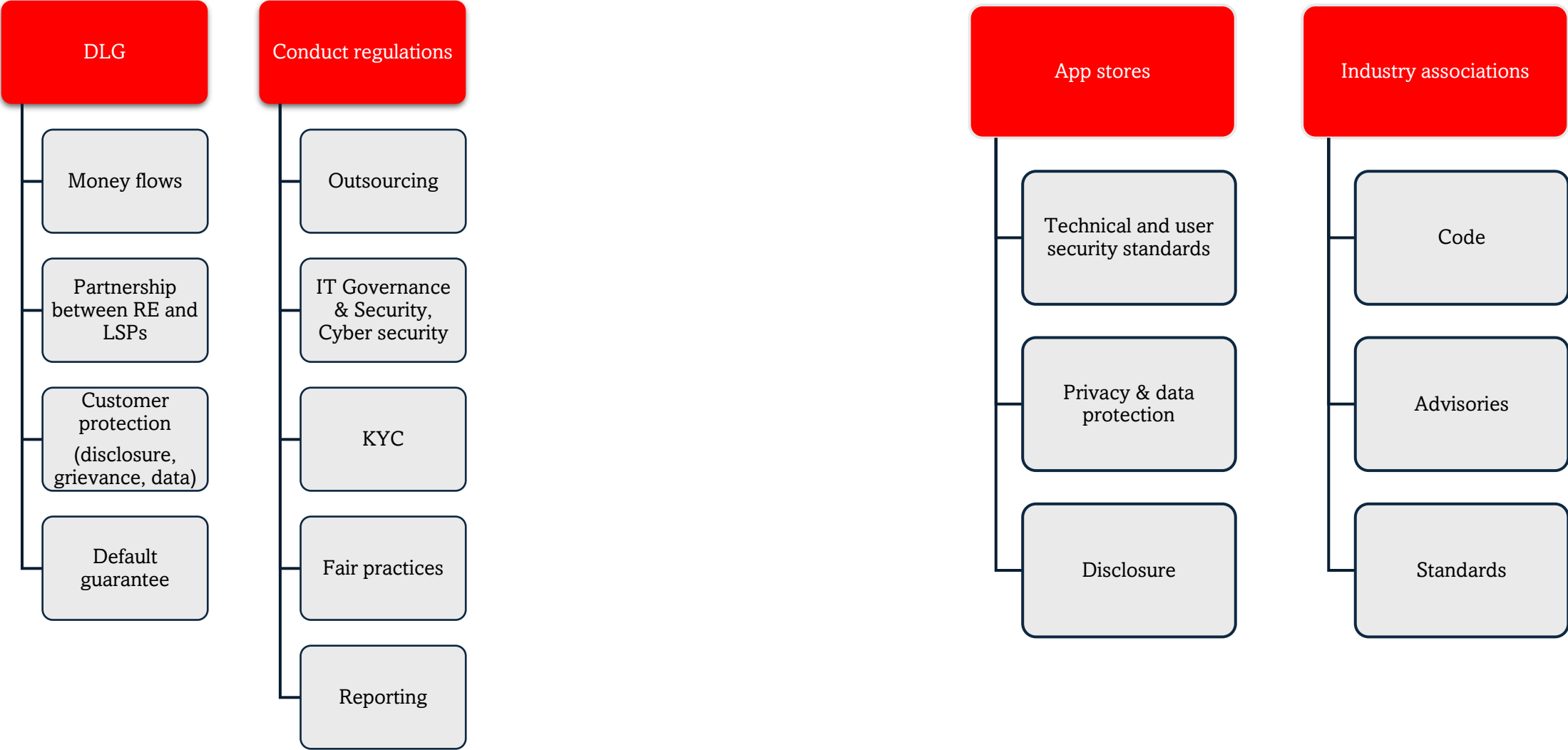
Tech & Data

- Digital journeys for customers
- Technology and data is the backbone, sourcing, on-boarding, KYC, underwriting, risk assessment, transactions, customer servicing etc

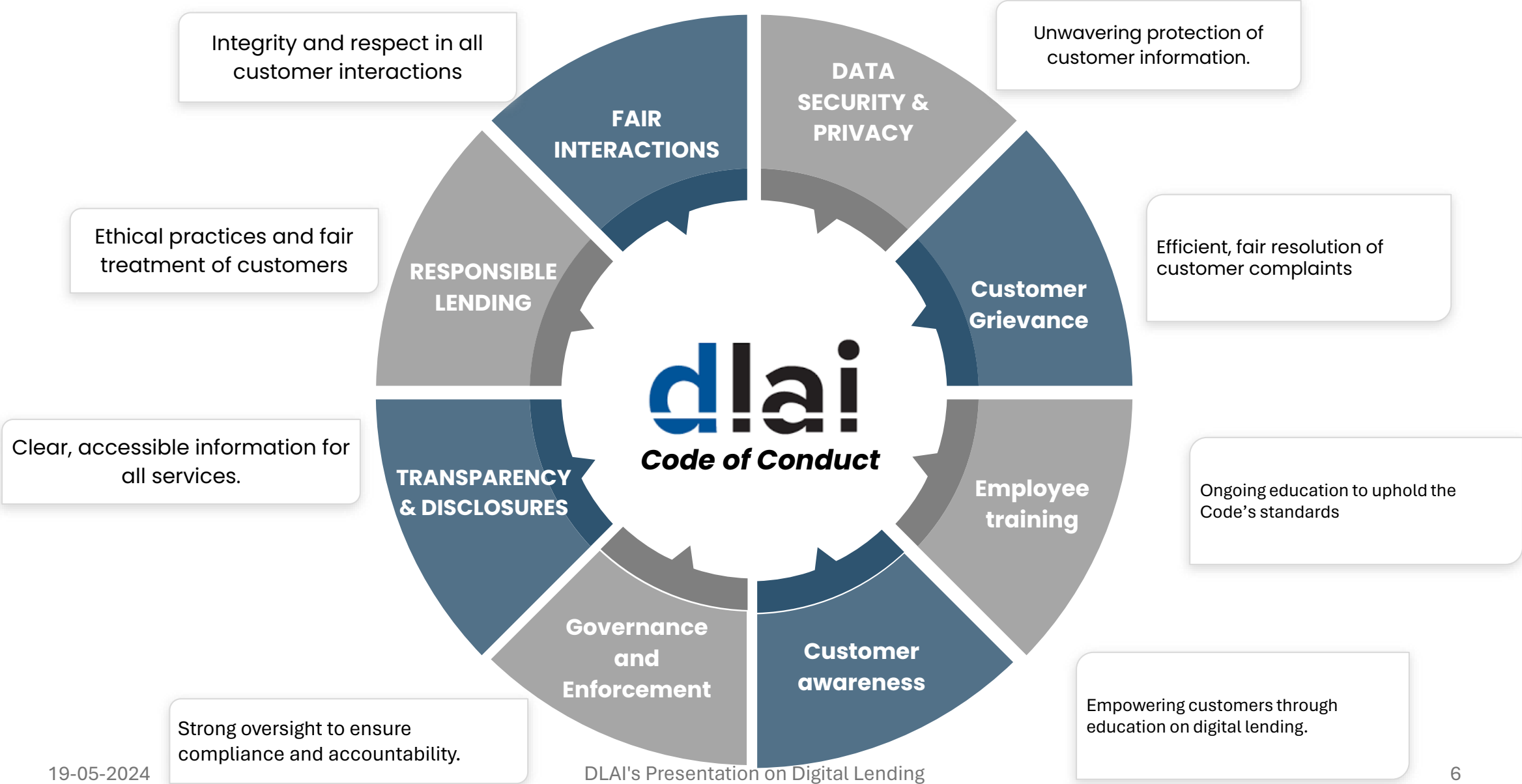
Regulations

- DLG: Transactions flows between customer and REs, Disclosure to customers – website, DLA, KFS, loan agreements, privacy and data security – consent, restriction on contact/photo gallery, encryption, disclosure etc, grievance redressal at multiple-level fintech, NBFC, RBI, recovery
- Outsourcing & Conduct
- KYC
- IT Governance and Security
- Fair Practice Code

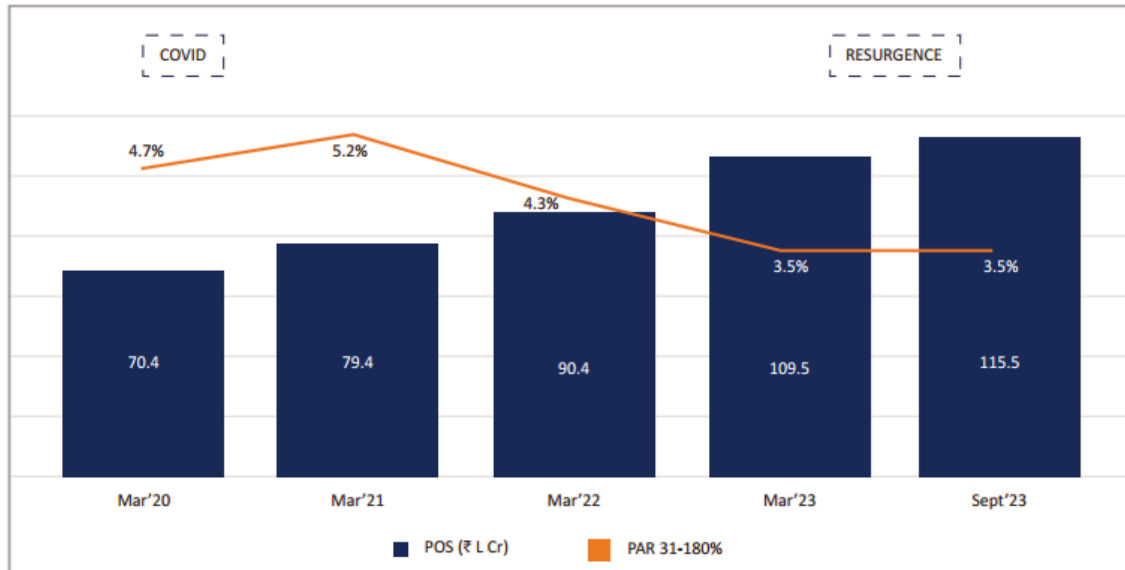
Governing framework, regulations & more



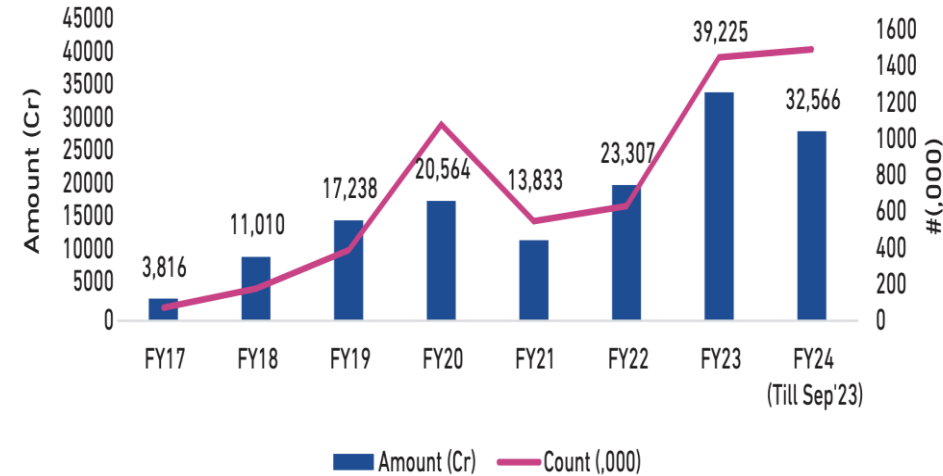
DLAI CoC – Responsible Business Conduct



Consumer Lending Universe



Business Lending FinTechs



Overall Consumer lending market rose from about 80 (L Cr.) from Mar 20 to almost 116 (L Cr.) in Sep 23.



Resurgence in Consumer Lending post-Covid with 64% growth in Portfolio outstanding from Mar'20 to Sept'23. Responsibly tapering to 21% from Mar'22 to Mar'23



Improvement was also seen in PAR 31-180% from 4.7% in Mar'20 to 3.5% in Sept'23

Fintechs currently own 77% of the market share in <1 lakh ticket size.

- Fintech growth in the core market was double that of the nearest competition
- Parallel can be drawn with how NBFCs grew niche product segments when they entered the lending scene.
- Fintech players dominate the volumes in < 1 lakh ticket size and have consistently grown their market share, currently making up 77% of the market.

Fig1.5-CAGR across lender categories (FY18 vs FY23)

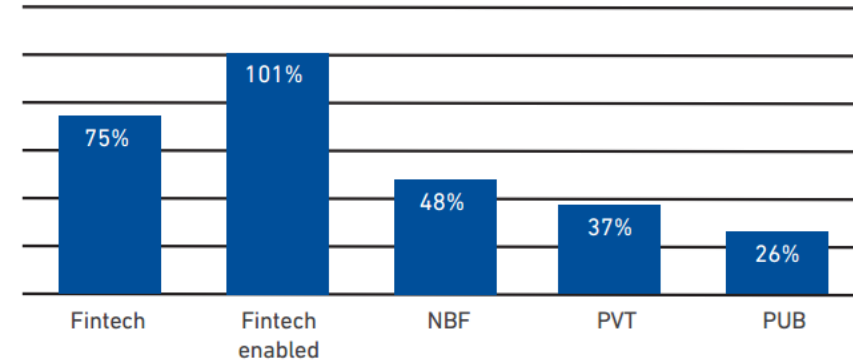
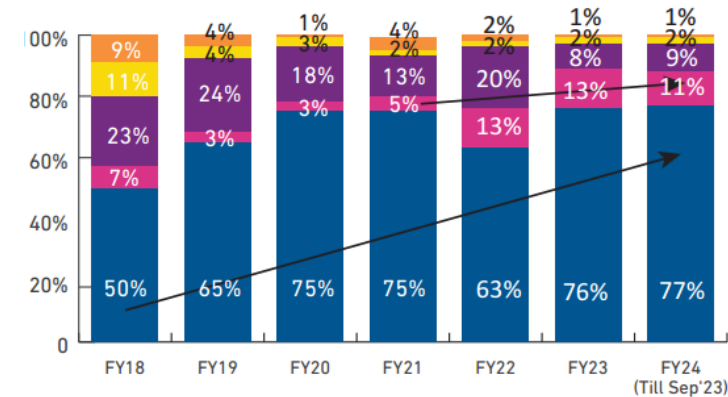
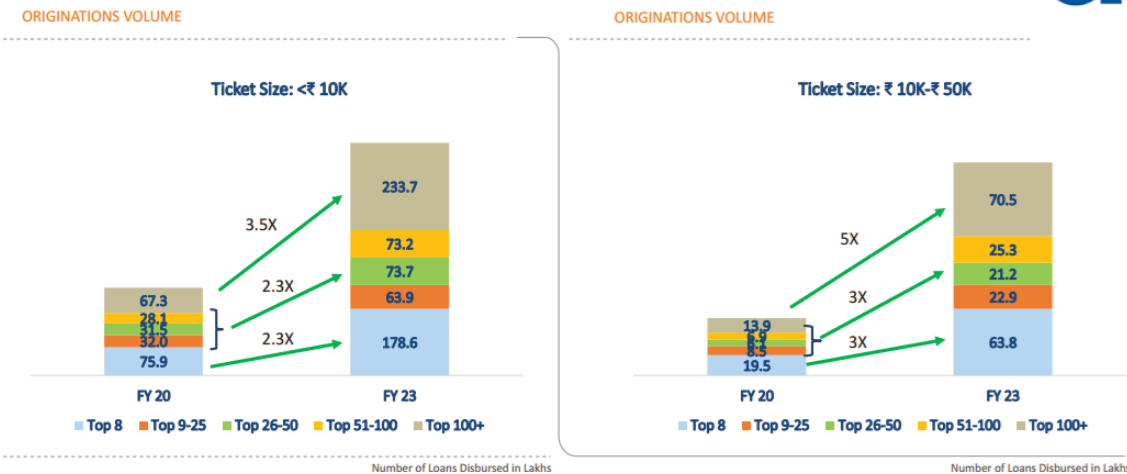


Fig.1.3-Market share across Lenders by count (< 1 Lakh)



Growth coming from Beyond Top 100 Cities



- Growth in STPL coming from Beyond Top 100 geographies. Newer geographies with less saturation are operating at similar risk.
- Differentiated risk markers will help increase sustainable lending.

- Fintechs have been able to create greater stickiness despite the absence of physical touchpoints in the onboarding journey



Traditional Lender

39% of customers opt for next Personal Loan in next 18 months with Fintech Enabled Bank

~6% of customers opt for next Consumer Durable Loan in next 18 months with Fintech Enabled Bank

40% of the PL base is retained, whereas 54% go to outside for subsequent PL Product funding



Fintech

>50% of customers opt for next Personal Loan in next 18 months with the same Fintech

10% of customers opt for Consumer Durable Loan within next 18 months

65% of the PLbase is retained, whereas 15% go for outside for next PL Loan

Sources:

- DLAI & Citigroup Highmark Fintech Barometer report – Vol 1
- DLAI & Experian report – Charting new directions for Fintech Lending – Mar 24

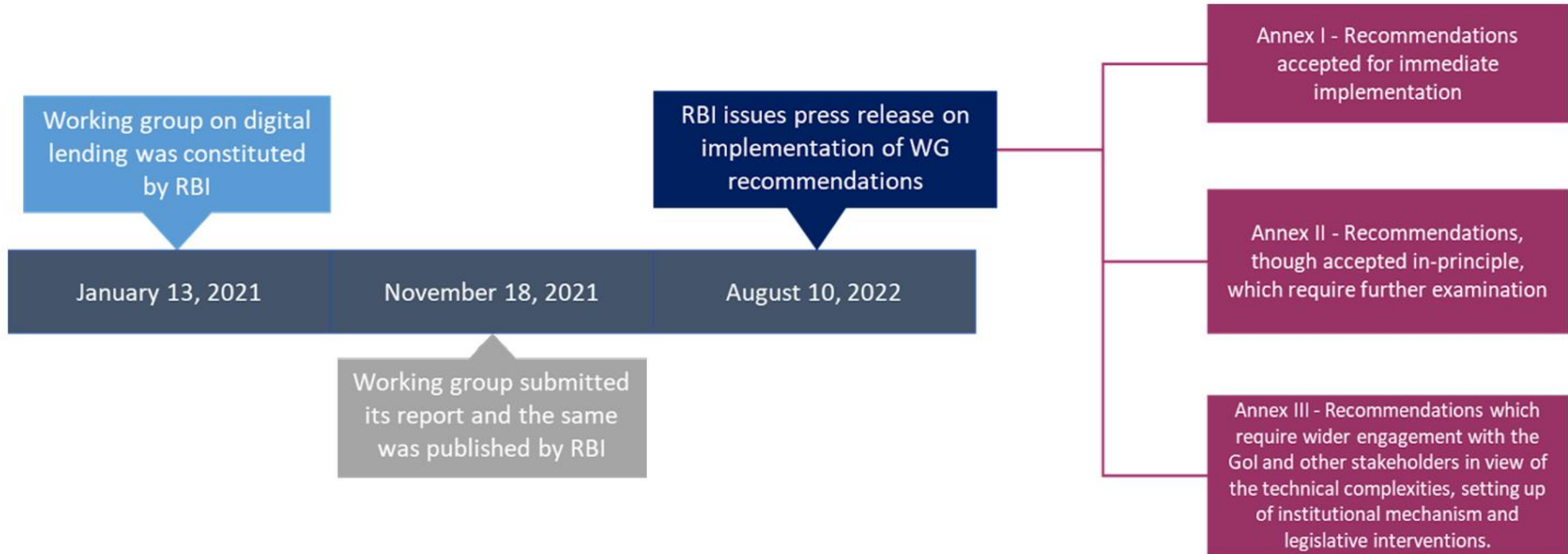
Emerging Context and The Taxonomy!



- **Digital Lending** as defined by RBI is “a remote and automated lending process, majorly by use of seamless digital technologies in customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service”.
- **Digital Lending Apps** are defined as “mobile and web-based applications with user interface that facilitate borrowing by a financial consumer from a digital lender”.
- **FinTech (Financial Technology)** is defined as “a broad category of software applications and different digital technologies deployed by the intermediaries that provide automated and improved financial services competing with traditional financial services”.

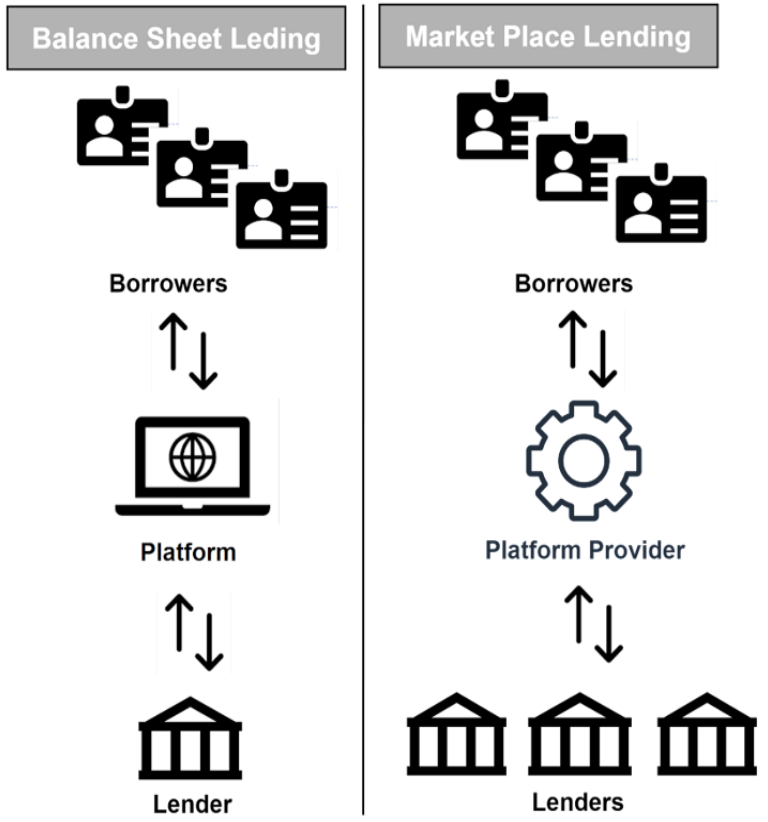
**Remote, Automated, Digital-Technology , Software,
Intermediaries**

RBI Regulations – Digital Lending Guidelines



“The regulatory framework for digital lending and as such would be mandatorily applicable on Regulated Entities (REs), their Lending Service Providers (LSPs), Digital Lending Apps (DLAs) of REs, **DLAs of LSPs engaged by R.Es.**”

Prominent Digital Lending Models



Digital Lending and Digital Lenders

Digital Lending has been defined as a remote and automated lending process, majorly by use of seamless digital technologies in customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service.

In this context, A **Digital Lender** may be defined as an entity that performs lending activity through the use of digital platforms (online or mobile based).

Digital Lenders include entities that provide credit on their own account effectively carrying the credit risk on their Balance Sheet (**Balance Sheet Lender**) or an entity (**Market Place Lender**) that provides a digital platform that matches the credit needs of a borrower with the lending objectives of a lender.



LSPs are **not** expected or permitted to “store personal information of borrowers except for some basic minimal data (viz. name, address, contact details of the customer, etc.) that may be required to carry out their operations. **Responsibility regarding data privacy and security of the customer’s personal information will be of the RE.**

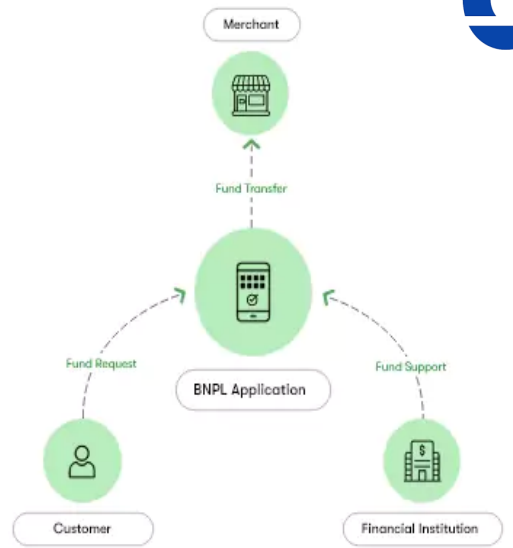
Meaning of Digital Lending and Digital Lenders

Models Cont..

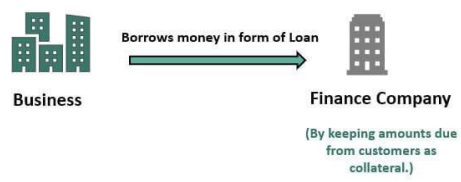
- **Buy Now Pay Later (BNPL)** : In the BNPL model, consumers are enabled to pay for their purchases in interest free (for the interest free period, after which interest is charged), installments over a specified period of time, i.e., either a few weeks or months.
- **Invoice Discounting** is like having an overdraft facility or a series of short-term loans secured on your accounts receivable ledger.
- **First Loss Default Guarantee (FLDG)** is an arrangement designed to mitigate the risks associated with lending and borrowing. In this scheme, a guarantee is provided to the lenders by a third party, typically a financial institution or government entity, if the borrower defaults on their loan
- **Co-lending** is coming together of entities in the financial sector – mostly, something that happens between banks and NBFCs, or larger banks and smaller banks for offering a loan/financial product.

BNPL Apps Act as Financial Intermediary

They facilitate transactions and may or may not collaborate with financial institutions to ensure smooth operations.



Invoice Discounting



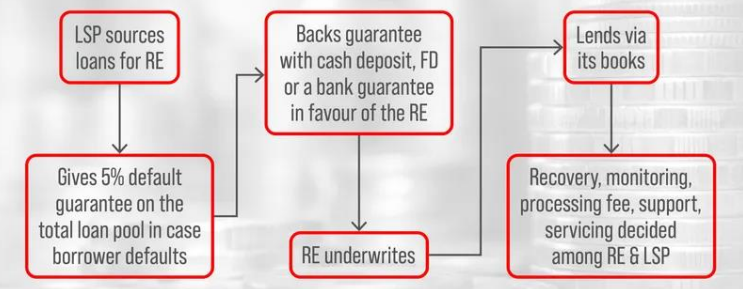
MODES OF COLLABORATION



FLDG (FIRST LOAN DEFAULT GUARANTEE)

A contractual arrangement between a bank (RE) and fintech (LSP) whereby the latter compensates the bank (up to a certain % of the loan) in case of defaults

THE MANDATE



Client Protection Measures

Key Fact Statement is to be provided to the borrower before executing the loan contract. Apart from other necessary information, the KFS must contain – Details of APR, **Terms and Conditions of recovery mechanism**, Details of **grievance redressal officer** designated specifically to deal with digital lending/ FinTech related matter, Cooling-off/ look-up period. **The format for KFS is recently prescribed by RBI.**

For grievance redressal issues, RBI has specified that the REs must ensure that they and the LSPs engaged by them shall have a suitable **nodal grievance redressal officer (GRO)** to deal with FinTech/ digital lending related complaints/ issues raised by the borrowers.

As per extant RBI guidelines, if any complaint lodged by the borrower is not resolved by the RE within the stipulated period (currently 30 days), he/she can lodge a complaint over the Complaint Management System (CMS) portal or other prescribed modes under the Reserve Bank Integrated Ombudsman Scheme (RB-IOS).

Disclosure requirements for Digital Lenders



On REs Website

- Publishing the list of LSPs (and the DLAs, if any) engaged by REs along with the details of the activities for which they have been engaged. Contact details of grievance redressal officer.

On the DLA's website

- Privacy policy to be disclosed at all times. Links to REs' website where further/ detailed information about the loan products, the lender, the LSP, particulars of customer care, link to Sachet Portal, privacy policies, etc. can be accessed by the borrowers. At the onboarding/sign-up stage, prominently display information relating to the product features, loan limit and cost, etc. so as to make the borrowers aware about these aspects. Information on the mode of lodging complaint. In the Key Fact Statement: already discussed above.

Law and Order Related Issues and Initiatives regarding Unauthorized Lending Apps

- ENGAGEMENT
- AWARENESS
- INFORMATION

Need for Industry X LEAs interaction : As L&O is a state subject and Digital Lending is fairly a new model there is need for further engagement with LEAs, especially with EOW units in states. Industry Associations like DLAI has taken up this with State Police Departments.



DLAI to engage with EOW to combat lending frauds

SACHIN KUMAR
Mumbai, March 7

THE DIGITAL LENDERS Association of India (DLAI) will reach out to economic offences wings (EOW) in different states to sensitise them about digital lending frauds. In this outreach, the association will hold regular workshops and meetings with EOWs to update them about the nature of frauds happening with digital lending customers.

EOW is a specialised unit of the police department that deals with offences which are of economic and financial nature. These crimes typically involve fraud, cheating, and misappropriation of funds.

"Digital lending is a relatively new sector and it changing rapidly due to advancement in technology. We want to make officials in the EOW aware about the menace of unauthorised digital lending apps which have become a major threat for customers' safety," Jatinder Handoo, CEO,

DLAI, told *FE*.

In the first phase, the association will cover EOW offices in Rajasthan, Uttar Pradesh, Telangana and Kerala and later it will expand this drive to other states, he added.

"We are starting with states where digital lending has become popular and more frauds are happening through unauthorised digital lending apps," said Handoo. The idea is to make customers aware that there is EOW which can be approached to report digital lending frauds, he added.

The outreach to EOW is part of DLAI's FinTech Suraksha campaign through which the association runs an awareness campaign about unauthorised lending apps and cyber fraud in digital financial services.

Sources in the fintech sector said currently frauds happening with customers via unauthorised lending apps are not in the priority of EOW because their officials mainly deal with financial crimes involving larger amount.

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Awareness

- **Generating Awareness Among Common Masses: SIDBI Supported Initiatives like FinTech Suraksha**

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Home / Finance / News / Fintech association launches awareness campaign about cyber fraud

Fintech association launches awareness campaign about cyber fraud

Spotting fake lending apps and reporting online financial fraud will be part of Fintech Suraksha

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Ajinkya Kawale | Mumbai
2 min read Last Updated : Jan 26 2024 | 6:06 PM IST

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List of legal digital lending apps in the works to curb menace of fake players

SACHIN KUMAR
Mumbai, December 12

WITH THE OBJECTIVE of controlling the menace of illegal digital lending apps, the Digital Lenders Association of India (DLAI) is creating a 'white list' with details of authorised digital lenders.

"We are also creating this list with details of digital lending apps of our members that follow the Reserve Bank of India's guidelines and DLAI code of conduct," Jatinder Handoo, CEO, DLAI told FE.

The list will be ready soon and will contain details about the app and the company. DLAI has over 100 members, accounting for nearly 80% of transaction volume of digital lenders in the country.

"It is difficult for a common person to differentiate between apps of authorised lending institutions and the one created by unauthorised actors or fake players. The list will help customers recognise apps released by regulated lending institutions and lending services providers (LSPs) that are members of DLAI," said Handoo.

"Once the list is ready, we will share it list with the RBI, Indian Cybercrime Coordination Centre of Ministry of Home Affairs, law enforcement agencies and economic offences wings in states where higher number of cases of cyber frauds and unauthorised lending apps are reported," Handoo said.

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Digital Lenders Association to release list of registered digital lenders

Updated - February 07, 2024 at 10:33 PM. | Mumbai

The list will help prospective borrowers from falling prey to scammers

Evolving Areas That Need to be Addressed



- **A tech-based KYC Regime which plugs in well with digital models**
- **Sector-specific Digital Lending FinTech SRO to usher Consensus-based conduct of business and other regulations,**
- **Unauthorised Lending Apps and Cyber/Digital Frauds**
- Master Direction on **Information Technology Governance, Risk, Controls and Assurance Practices** dated 7 November 2023 ("IT Directions"). RBI/2023-24/107 DoS.CO.CSITEG/SEC.7/31.01.015/2023-24 section 6(b)(ii) and (iii) , 12(f), 24 (c)
- RBI Master Direction - **Know Your Customer (KYC) Direction, 2016** - RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16
 - Categorization of CKYCR customers as low-risk and introduction of Aadhar+Pan+Liveness selfie
 - Verification of mobile number registered with UIDAI:
 - Challenges in obtaining positive confirmation for address verification, in the case of migrant workers,

Thanks.