

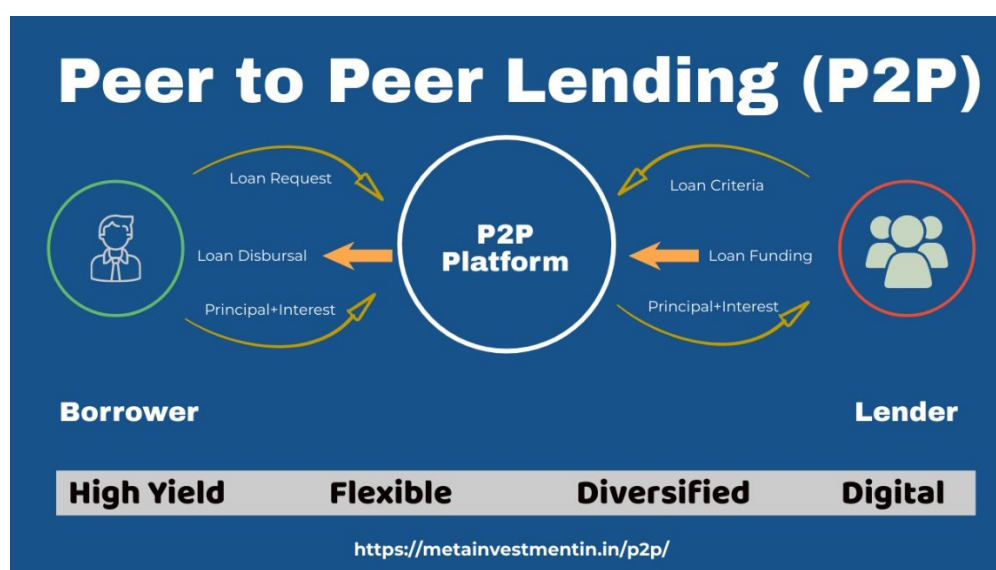
NBFC-P2P Lending Platform

Why in news?

The Reserve Bank of India (RBI) has launched a crackdown on some P2P lending platforms for regulatory breaches, including Ponzi-like schemes, illegal deposit-taking, and aggressive recovery methods.

What is NBFC-P2P lending platforms?

- **NBFC-P2P**- It is the Non-Banking Financial Company - Peer-to-Peer lending platforms are financial intermediaries.
- **Role** - It *enables direct borrowing and lending* between individuals, bypassing traditional financial institutions.
- It offers accessible *credit to underserved groups* and attractive investment options for lenders.
- **Tech-Driven credit solutions**- They *use technology* to assess the creditworthiness of borrowers, match them with suitable lenders, and facilitate loan transactions.



Regulation in India

- It is regulated *by the Reserve Bank of India (RBI)*.
- **Mandate registration**- *Only NBFCs can register as P2P lenders* with permission and must obtain a *certificate* of registration.
- **Capital limit**- The RBI sets a minimum capital requirement of *Rs. 2 crores* to set up a P2P platform.

What are the concerns highlighted by RBI?

- **Breaching of regulations** - They significantly have *high balances in escrow*

accounts.

An escrow account is a bank account that holds money or assets until certain conditions are met by the parties involved in a transaction.

- There has been high non-performing asset (NPA) levels.

A NPA is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

- **Delayed disbursement** - Funds transferred by lenders not being immediately disbursed to borrowers, kept in escrow accounts for long periods while assured returns were provided.
- **Non-compliance**- There is a violation in net owned fund and disclosure requirements.
- Operating models allowing premature recall of funds by lenders, which were replaced by new lenders without transparency.
- **Profit Margins and High Interest**- No cap on interest charged to borrowers, leading to exorbitantly high rates.
- Platforms profiting from the spread between the returns paid to lenders and the interest charged to borrowers.
- **Capital diversion**- Risk of capital diversion from banks and similar financial institutions due to the appeal of high assured interest rates and immediate liquidity options.

What are the new guidelines by RBI?

WHAT TO EXPECT FROM RBI REGULATIONS

In its consultation paper released in April 2016, some of the RBI suggested regulatory framework for P2P lenders were:

- P2P platforms should be set up as a company
- Minimum capital of Rs2 crore may be required
- Funds should move directly from lender's bank account to borrower's bank account to remove threat of money laundering
- Leverage ratio may be prescribed
- Need a business continuity plan
- P2P firms will be responsible for maintaining confidentiality of customer data
- Prohibit P2P firms from guaranteeing extraordinary or assured returns
- They will have to set up proper grievance redressal mechanisms
- Make adequate disclosures to RBI
- Their loan recovery practices may be aligned with existing NBFCs

- **Deposit controls** - They are prohibited from accepting public deposits, lending directly, or arranging guarantees for lenders.
- **Loan Disbursement Rules**- Loans should not be disbursed unless lenders and borrowers are matched according to a board-approved policy.
- Transactions between lenders are now prohibited.
- **Monitoring transactions** - All fund transfers between lenders and borrowers must be *conducted through escrow accounts*.
- Funds in escrow accounts must not remain there for more than one day beyond the date of receipt (**T+1 rule**).
- **Prohibition on early withdrawals**- They can *no longer offer early withdrawals* or liquidity options that allowed lenders to exit before the maturity of loans.
- **Disclosure of losses**- The RBI mandates full disclosure of any losses incurred by lenders on principal or interest which aims to enhance transparency and risk awareness.
- **No investment product promotion**- They *must not promote peer-to-peer lending as an investment product* offering features like assured minimum returns or liquidity options.
- **Prohibition on Cross-Selling**- NBFC-P2P platforms are *prohibited from cross-selling insurance products* that act as credit enhancement or credit guarantees.

Impact of New RBI Guidelines

Lenders	Platforms	Fintechs
<ul style="list-style-type: none"> • Those who invested with the expectation of liquidity or early exits will face cash flow disruptions. • Previously, liquidity was managed by transferring loans between lenders. 	<ul style="list-style-type: none"> • Some P2P platforms, have adjusted by ending partnerships that relied on such liquidity mechanisms. • They now only offer maturity-based products. 	<ul style="list-style-type: none"> • Fintech players offering liquidity and pre-maturity withdrawals will need to cease such services.

What lies ahead?

- A robust regulatory framework is essential to ensure the stability and credibility of the P2P lending market.
- Refining guidelines to safeguard both borrowers and lenders.
- Educating potential borrowers and lenders about the P2P lending model, its benefits, and its risks is crucial.
- Building and maintaining trust is crucial for the success of P2P lending platforms.
- Adopting best practices and leverage new age technologies to overcome challenges and achieve sustainable growth.

References

1. [Business Standard| Issues with P2P Lenders](#)
2. [Business Standard | New Norms for P2P lending platforms](#)
3. [Business Today| Impact of new Rules on P2P Lenders](#)



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