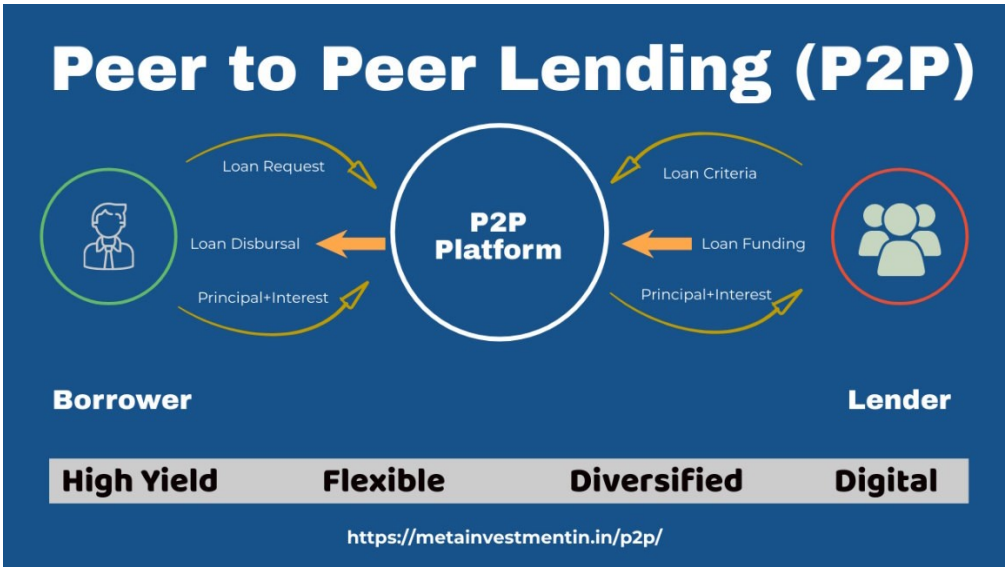
# NBFC-P2P Lending Platform

## 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).<br>• **Mandate registration**- *Only NBFCs can register as P2P lenders* with permission and must obtain *a certificate* of registration.<br>• **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?



- **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 m*ust 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 |
|---|---|---|
| • Those who invested with the expectation of liquidity or early exits will face cash flow disruptions.<br>• Previously, liquidity was managed by transferring loans between lenders. | • Some P2P platforms, have adjusted by ending partnerships that relied on such liquidity mechanisms.<br>• They now only offer maturity-based products. | • 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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