

Centre Proposes Bill to Ban Unregulated Lending

Move follows action against several digital loan apps for unfair lending, recovery

Our Bureau

New Delhi: The government on Thursday proposed a new law which seeks to ban unregulated lending and slap a fine of ₹1 crore on offenders along with imprisonment of 10 years.

The move follows action against several digital loan apps for unregulated lending over the past two years and complaints about their unfair lending and predatory recovery practices.

A draft bill – Banning of Unregulated Lending Activities (Draft) Bill – was put out by the finance ministry for comments, which can be submitted till February 2025.

The bill proposes to ban any lending activity, barring one authorised by the RBI and law.

The draft law proposes to bar unregulated entities from making any deceptive or false claims persuading people to apply for loans. Offenders would face a prison term of up to five years.

The government has also proposed an online database that would list regulated lenders and facilitate reporting of illegal lenders. It seeks to include unregulated digital lending or any other lending activity, currently not regulated by any law for the time being, other than lending to relatives.

As per the bill public lending activity would mean business of financing by any person,

Key Proposals

COMPREHENSIVE MECHANISM TO BAN UNREGULATED LENDING ACTIVITIES

Imprisonment up to 10 years, Fine up to ₹1 crore

Includes digital lending or any other lending activity which is not regulated by any law at present

Set up an authority to maintain online database of regulated lenders and report illegal lending activities



whether by the way of making loans or advances or otherwise of any activity other than its own at an interest, in cash or kind, but does not include loans and advances given to relatives. "The draft bill appears a bit prescriptive in defining regulated lending activities. Adopting

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a principle-based approach may bode well for the Indian fintech sector, whose innovation momentum should not be stifled," said Soumitra Majumdar, partner, JSA Advocates & Solicitors. The bill follows a recommendation in this regard by an RBI working group on digital lending.

In August, the RBI said that in order to tackle issues arising from unauthorised digital lending applications it proposed to create a public repository of digital lending apps (DLAs) deployed by regulated entities.

"The RBI proposes to create a public repository of DLAs deployed by its regulated entities. The regulated entities will report

and update information about their DLAs in this repository. This measure will help the consumers to identify the unauthorised lending apps," said the then RBI governor Shaktikanta Das.

Earlier this year, the government had stated in the Rajya Sabha that as per the information received from the electronics and information technology ministry, during the April 2021-July 2022 period, Google had reviewed 3,500-4,000 loan apps and suspended or removed more than 2,500 loan apps from its Play Store. Similarly, during the September 2022-August 2023 period, more than 2,200 loan apps were removed from the Play Store.

Experts said that BULA, with the proposed central repository of all regulated lenders, intends to establish a foundation for ethical lending. "One of the main issues in the digital lending domain is that the consumers are not aware of the real lenders as there is no physical interaction in the lending transaction. Unregulated entities used this to camouflage as authorised lenders, affecting the entire ecosystem," said Mayank Arora, director-regulatory, Nangia Andersen India.