

SOURCES OF FUNDS FOR LOAN APPS UNDER LENS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

The Reserve Bank of India (RBI) has begun looking into the sources of funds for app-based [instant loan](#) companies accused of harassing vulnerable borrowers, said a person aware of the matter.

Strong arm tactics to recover dues, including naming borrowers, have led to at least two suicides, according to media reports.

Also Read | [The race to take fashion retail online](#)

According to this person, RBI is likely to launch an investigation into whether some banks allowed funds to flow into these apps without conducting mandatory due diligence.

The RBI scrutiny follows a probe by the Enforcement Directorate, which has filed a [money laundering](#) case on the basis of first information reports registered by police against instant loan apps connected to overseas jurisdictions.

"The onus of verifying the end use of funds lies with the banks and RBI, in this case, wants to be certain whether the banks followed proper procedure before lending to some of these apps," said the person cited above.

"If the banks have implemented proper know your customer guidelines, then it's worth probing whether it was limited to just the customer or customers' clients," said a former RBI official who requested anonymity.

Mint reported in September that the government was investigating several fintech apps with Chinese links to check for data and privacy breaches.

On 24 June 2020, RBI said that banks and non-bank financiers, irrespective of whether they lend through their own digital lending platform or through an outsourced entity must adhere to fair practices guidelines in letter and spirit.

"These apps are circumventing the law by opening current account with banks without the NBFCs involved. The loan disbursement and the entire collection process is, therefore, happening through these current accounts. It is, therefore, important to understand whether banks are monitoring any instances of high volume transactions happening through these accounts. Since the transaction is going through a current account mechanism, these apps are circumventing the entire gamut of regulations, including KYC, and not reporting to credit bureaus," said Yogi Sadana, founder, fintech association for consumer empowerment.

Preliminary investigations by the Hyderabad police has revealed that close to 14 million transactions, worth nearly 21,000 crore, were made through payment gateways and bank accounts linked to these companies.

Most of the transactions have happened in the past six months. The money was routed through shell companies, multiple bank accounts, payment gateways and digital wallets to avoid detection.

A citizen collective named Cashless Consumer, engaged in raising awareness around digital payments, has released a list of 1,000 lending apps which showed that the majority of them did not have any payment gateway integration. Typically, digital lending apps have a payout account, usually IMPS service provided by a bank, through which they disburse the loan, and a collection interface.

Click here to read the [Mint ePaper](#) Mint is now on Telegram. Join [Mint channel](#) in your Telegram and stay updated with the latest [business news](#).

Log in to our website to save your bookmarks. It'll just take a moment.

Your session has expired, please login again.

You are now subscribed to our newsletters. In case you can't find any email from our side, please check the spam folder.

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

CrackIAS