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THE CURRENT INDIAN FINTECH INDUSTRY: EXPLORING THE EXPANSION, CONFUSIONS, AND OPPORTUNITIES FOR MSME'S

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ABSTRACT

Over the years, access to finances has been one of the key issues faced by MSMEs, especially considering that the emerging companies lack a proper CIBIL score, or the required credit history, making it difficult for them to secure loans, especially through the traditional methods of Banking. Regulatory and privacy concerns continue to surround the growing plans of the sector, leading to a precarious situation of unclear regulations and frequent changes. While it might be argued that the precarious situation shall only pave way for a robust ecosystem of lending in India, however, it cannot be denied that the current stage of confusion is capable of having a negative effect on the growth of MSMEs, especially considering the various regulations that are coming in and going out related to digital lending.

Therefore, this article shall aim to highlight the regulatory concerns with the current digital lending regime, especially in the context of MSMEs, considering that they shall be the first to bear the brunt of the unclear fintech landscape. The first part of the article shall provide a brief summary about the historical transformation from traditional lending to digital lending in India, through a discussion on the shortcomings of traditional lending and the advantages of digital lending. The second part shall discuss the growth of fintech industries and digital lending, along with a discussion on Budget 2023. The third part of the article shall discuss RBIs digital lending regulations. The fourth part shall discuss the concerns with the current regime of digital lending, and the last part shall provide some recommendations for the government to provide a suitable lending mechanism for MSMEs in India.

INTRODUCTION

India has been one of the fastest growing fintech industries, not just in the Asian continent, but all over the world. In a recent study published by the Robocash Group, India has topped the rankings for providing technological finance solutions through 541 fintech's, even surpassing its Asian counterparts, including Singapore and Indonesia.[112] According to BLinC Insights, the Fintech ecosystem in India is the third largest in the world, only behind the US and China.[113] It might not be wrong to say that the fintech revolution in India would be on the rise in the coming years. In fact, digital lending is expected to surpass traditional avenues by 2030 as per a report by Experian.[114]

[112] Tom Bleach, 'Southeast Asia sees number of fintechs rise by 3588% since 2000; reveals RoboCash Group' (The Fintech Times, 11 February 2023) <https://thefintechtimes.com/southeast-asia-sees-number-of-fintechs-rise-by-3588-since-2000-reveals-robocash-group/> accessed 1 April 2023

[113] Ishwari Chavan, 'India's FinTech market size at $31 billion in 2021, third largest in world: Report' (BFSI, 10 January 2022) <https://bfsi.economictimes.indiatimes.com/news/fintech/indias-fintech-market-size-at-31-billion-in-2021-third-largest-in-world-report/88794336> accessed 1 April 2023

[114] 'Fintech-led Digital Lending: Coming of Age' (Experian) <https://www.experian.in/fintech-led-digital-lending> accessed 1 April 2023

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The growth of digital lending in India is expected to especially benefit the Micro, Small, and Medium Enterprises (MSMEs), which is beneficial for the Indian economy considering that MSMEs significantly contribute to India's Gross Domestic Product (GDP). Over the years, access to finances has been one of the key issues faced by MSMEs, especially considering that the emerging companies lack a proper CIBIL score, or the required credit history, making it difficult for them to secure loans, especially through the traditional methods of Banking, Financial Services and Insurance (BFSI). However, the financial technology is capable of revolutionizing the MSME financing landscape, hence, creating more opportunities for the growth of MSMEs. A recent scheme which has been beneficial for MSMEs has been the Pradhan Mantri Mudra Yojana (PMMY), through which it is possible for MSMEs to get loans and obtain credit guarantees. The Budget 2023 has further raised expectations for the exponential growth of the sector, considering that a Rs. 9000 crore capital has been infused in the sector, with a spectrum of opportunities available, like the entry of Entity DigiLocker for MSMEs, concessions and deduction of taxes for fintech companies, establishment of a National Financial Information Registry, etc.

While the growth of fintech companies and the diverse options available for digital lending have been a great source of happiness for the MSMEs, however, regulatory and privacy concerns continue to surround the growing plans of the sector. One of the main concerns in digital expansions, is the maintenance of Quality Assurance (QA), especially considering the dynamic nature of technology. An inadequate regulatory framework, lack of safeguarding mechanism, resource gaps due to frequent application changes, and lack of prioritization within the digital world, are some of the concerns that are capable of having a negative affect over QA. Further, when we analyse the situation from the Banking side, a lack of clarity on the critical aspects of modern technology, such as Application Performing Interfaces (APIs), Banking-as-a-service (BaaS), and platform banking, have also been areas that require thinking.

While Reserve Bank of India's (RBI) new framework for the regulation of digital lending in India has been a welcome change, however, it has given rise to its own set of issues and doubts, especially in relation to the ban on first loss default guarantee (FLDG) arrangements, along with the prohibition on prepaid payment instrument (PPI) operators to load PPIs with credit lines, hence, putting the Buy Now Pay Later (BNPL) services in a precarious situation of disruption and unclarity. To add insult to injury, the Digital Personal Data Protection (DPDP) Bill is further expected to cause behavioural changes in the way platforms interact with consumers. Therefore, while the digital lending guidelines along with the DPDP Bill are expected to be the major milestones for the growth of digital lending in India, however, it is important for the government to take into account the concerns on their recommendations.

THE HISTORICAL TRANSFORMATION FROM TRADITIONAL LENDING TO DIGITAL LENDING IN INDIA

In the recent years, the lending business in India has been disrupted by the rising digital transformations. These digital transformations have resulted in a more competitive environment, considering that the lending business is now expected to provide a more superior customer experience, a faster turn-around time, incorporation of the emerging business models, and the adoption of Artificial Intelligence and Machine Learning.[115] The government reforms may be seen at the forefront of these transformations, considering the emergence of a reformed digital ecosystem in the form of verification data at source mechanisms. Some examples include the Central Registry of Securitisation of Asset

[115] Vinay Narkar, 'Changing face of lending business' (KPMG) <https://kpmg.com/in/en/home/insights/2021/08/digital-lending-ecosystem-business-mantra-intelligent-automation-surrogate-data.html> accessed 1 April 2023

Reconstruction and Security Interest (CERSAI)[116], along with the introduction of e-mandate, e-signatures, e-stamping, and the Aadhaar-based e-KYC.

The COVID-19 pandemic had further accelerated this digital shift, considering that routes were explored to help MSMEs secure instant credit. In May 2020, many digital lending platforms were seen to be working in partnerships with various banks, and helping MSMEs to sign up for the Emergency Credit Line Guarantee Scheme (ECLGS). Through this scheme, Rs. 3 lakh crores of unsecured loans were provided to the MSMEs, to help them mitigate through the losses suffered during the pandemic.[117]

Some of the key shortcomings of traditional lending, which the digital lending has overcome, are as follows:[118]

1. Reduced documentation → Traditional lending was equivalent to the preparation of hard-copy paperwork in banks. This meant the preparation of details business plans, financial data, investment information, business summaries, and many others. However, digital lending platforms have helped ease the process through an assessment of the creditworthiness of the borrower. The use of predictive algorithms and models are now used to predict the situation of the borrower.
2. Reduced time → The wait time under traditional lending, especially for the authenticity check of hard-copy documents and approvals required, meant that the borrower was put in a precarious situation during the process. However, digital lending has provided us with the possibility to complete the then complicated procedure, now within minutes. One of the best examples for this would be the Buy Now Pay Later payment method.
3. Location is no longer important → Traditional lending meant that the borrowers had to also invest their time in commuting between the bank and their homes. However, now you just require the existence of an internet connection, mobile application or a computer, and that's it.
4. Easy to compare between vendors → Traditional lending meant that you had to go from bank to bank to compare the available deals in the market. However, through digital lending, you can compare between vendors with the click of your fingers.

While there are many other advantages that the digital lending platforms has provided us with. However, this article shall now focus on the status of digital lending in India.

THE GROWTH OF FINTECH INDUSTRIES AND DIGITAL LENDING IN INDIA

Over the years, the Indian digital lending industry has seen an exponential growth, and is now playing a key role in the economic development of the country. According to a report by EY, India's fintech industry is expected to be worth $200 billion by the year 2030, from $50 billion in 2021.[119] The evolving digital lending landscape comprises of tech-driven Non-Banking Finance Companies (NBFCs), Fintechs and Neo banks. To add to the competition, there are many commercial banks coming in collaboration with NBFCs or aggregators and providing lending services.

[116] Established as a company under Section 8 of the Companies Act, 2013, the Government of India has created this database as a repository of information, and it contains details about all of India's mortgaged properties. The main aim behind CERSAI is to identify any fraudulent lending transactions against equitable mortgages. Therefore, the system is existing to prevent anyone from taking multiple loans on the same property or asset, from different banks, at the same time.

[117] 'Emergency Credit Line Guarantee Scheme (ECLGS)' (Bajaj Finserv) <https://www.bajajfinserv.in/eclgs-emergency-credit-line-guarantee-scheme> accessed 1 April 2023

[118] KMS Solutions, 'Digital Lending vs. Traditional Lending: Key Differences' (KMS Solutions, 24 February 2022) <https://blog.kms-solutions.asia/digital-lending-vs-traditional-lending> accessed 1 April 2023

[119] Nilesh Naker, 'Seven key trends shaping the future of FinTech industry' (EY, 31 October 2022) <https://www.ey.com/en_in/consulting/seven-key-trends-shaping-the-future-of-fintech-industry#:~:text=India%20is%20leading%20the%20FinTech,billion%20in%20revenue%20by%202030> accessed 1 April 2023

Some of the common reasons why digital lending is becoming an end-to-end ecosystem and accelerating the financial services transformation are:[120]

- Hyper-personalised communication services
- Enhanced consumer engagement
- Proactive automation through credit decisions
- Prominence on cybersecurity and fraud detection
- Effective Software-as-a-service (SaaS) delivery models

Budget for FY 2023-24

Presented on 1st February 2023 by the Finance Minister of India, Ms. Nirmala Sitharaman, the budget was made inclusive of revamped digital lending practices. The following are some additions brought in by the Budget:[121]

1. Extension of the MSME-friendly Schemes → While the scheme was started to get past the COVID period, the government has decided to infuse Rs. 9000 crores, and further extend the application until 31st March 2023. The government has also infused Rs. 6000 crores in the Raising and Accelerating MSME Performance (RAMP) scheme, and has extended a credit of Rs. 2 trillion under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme.[122]
2. Digilocker → The made-in-India cloud-based platform was provided considerable emphasis in the 2023 budget, where the platform shall now support more documents. Further, it can be used to store, share, and verify documents online, and would help users to digitally submit their official documents to the government and other institutions. Therefore, the Digilocker services have now been extended to fintechs and MSMEs.
3. Promotion of Neobanks → Also known as digital-only banks were widely promoted by the government. Neobanks shall offer increased innovative solutions to customers for digital banking, including credit cards and loans, financial planning, savings and investments, and payments and remittances.

These significant changes have reflected that the government has profoundly embraced the digital revolution of the fintech sector.

RBI'S DIGITAL LENDING REGULATIONS

The Reserve Bank of India (RBI) came up with a framework agreement related to the regulation of digital lending in India.[123] The main aim of these regulations was to deal with the emerging challenges of digital lending such as the engagement of third parties, breach of data privacy, unethical recovery practices by lending platforms, etc. The framework is sourced from the recommendations provided by the "Working Group on Digital Lending" in January 2022.[124]

The current lending scenario involves the engagement of lending service providers (LSP) and NBFCs, between whom a lending transaction occurs using digital lending applications. It is often seen that LSPs end up misusing their dominant position in the transaction, by awarding credit beyond a borrower's repayment capability.[125] This

[120] Abhay Bhutada, 'Digital Lending and accelerated transformation of Financial Services in India' (Indian Express, 9 March 2023) <https://indianexpress.com/article/business/sponsored-business/digital-lending-and-accelerated-transformation-of-financial-services-in-india-8477759/> accessed 1 April 2023
[121] 'Impact of Union Budget 2023 on Fintech-Based Digital Lending' (Precisa, 25 February 2023) <https://www.precisa.in/blog/impact-union-budget-fintech-based-digital-lending/> accessed 1 April 2023
[122] 'Union Budget 2023: Fintech sector up for a period of growth as Sitharaman expands DigiLocker services' (Times of India, 2 February 2023) <https://timesofindia.indiatimes.com/business/budget/union-budget-2023-fintech-sector-up-for-a-period-of-growth-as-sitharaman-expands-digilocker-services/articleshow/97549391.cms?from=mdr> accessed 1 April 2023
[123] Reserve Bank of India, 'Guidelines on Digital Lending' (RBI, 2 September 2022) <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/GUIDELINESDIGITALLENDINGD5C35A71D8124A0E92AEB940A7D25BB3.PDF> accessed 1 April 2023
[124] Reserve Bank of India, 'Recommendations of the Working group on Digital Lending – Implementation' (RBI, 10 August 2022) <https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR689DL837E5F012B244F6DA1467A8DEB10F7AC.PDF> accessed 1 April 2023
[125] 'Multi-crore Chinese loan app fraud and extortion racket busted, 8 held' (Business Standard, 3 April 2022) <https://www.business-standard.com/article/current-affairs/multi-crore-chinese-loan-app-fraud-

phenomenon may be understood as "charge higher rates of interest and to periodically increase credit limit of customers without their permission".[126] This means that the borrowers eventually become a part of a debt trap.

To deal with these situations, the new regulations have aimed to bring transparency within the digital lending ecosystem. The framework may be divided between customer protection and data regulation.

Customer Protection

RBI regulations have now made it mandatory for all loans to be directly transferred to the borrower's account, with the complete absence of an intermediary in the process. Further, when the loan is to be repaid, the repayment amount is expected to directly come from the borrower's account, instead of having the engagement of LSPs nodal pass-through or pool account. Usually, these accounts are used by LSPs to delay the transfer, leading to an increased interest rate, which shall be avoided through a direct transfer.[127]

Additionally, prior to the execution of the contract, it has become mandatory for the lenders to inform the borrowers about the Key Fact Statement (KPS).[128] This statement includes details about the charges, fees, annual percentage rate charged,[129] and other important information related to the digital lending, such as penalties and processing fees. This means that the borrowers shall now have a chance to better compare their options within the competing lending spaces.

Another significant change is the complete prohibition on the practice of automatic increase in credit limits. The repayment of loan is an important component of the lending process, considering that it also helps banks maintain their financial liquidity through a reduction in the non-performing assets (NPAs). Therefore, it is the duty of the banks to take into account the credit score of the individuals, which includes details about a borrower's ability to repay the loan, based on their past track records.[130] However, the unfair practice of unilaterally increasing the credit limits of the customers, has resulted in an increased creation of NPAs.[131] Therefore, the new guidelines have explicitly put a ban on such practices, and the customers must be mandatorily consulted and they must provide their explicit consent for an increased credit limit. This move means that intermediaries shall be subject to RBI supervision, putting a stop to the exorbitant lending activities.

Lastly, a dedicated 'grievance redressal mechanism' is now to be established, wherein the entities must appoint a grievance redressal officer. They are expected to make the necessary mechanism for the speedy resolution to grievances, within 30 days of having receipt of any complaint. In case they fail to resolve the complaint, the grievance shall be referred to the ombudsman, who shall be directly appointed by the RBI under their Reserve Bank Integrated Ombudsman Scheme.[132]

Data Regulation

extortion-racket-busted-8-held-ld-122040300502_1.html> accessed 1 April 2023

[126] 'Unfair Method In Digital Lending And Rbi's New Norms On It' (IP & Legal Filings, 10 March 2023) <https://www.ipandlegalfilings.com/unfair-method-in-digital-lending-and-rbis-new-norms-on-it/> accessed 1 April 2023

[127] 'RBI tightens digital lending norms to prevent charging of exorbitant rates' (Business Standard, 10 August 2022) <https://www.business-standard.com/article/finance/rbi-to-implement-some-recommendations-of-working-group-on-digital-lending-122081000784_1.html> accessed 1 April 2023

[128] Arpita Sarkar and others, 'Key Facts Statements: A simple way to protect consumers' (World Bank Blogs, 19 October 2021) <https://blogs.worldbank.org/psd/key-facts-statements-simple-way-protect-consumers#:~:text=What%20is%20a%20Key%20Facts,easy%2Dto%2Dunderstand%20manner.%20[ix]%20https://www.investopedia.com/terms/a/apr.asp> accessed 1 April 2023

[129] Jason Fernando, 'Annual Percentage Rate (APR): What It Means and How It Works' (Investopedia, 9 February 2023) <https://www.investopedia.com/terms/a/apr.asp> accessed 1 April 2023

[130] 'What is a credit score?' (Consumer Finance, 17 October 2022) <https://www.consumerfinance.gov/ask-cfpb/what-is-a-credit-score-en-315/> accessed 1 April 2023

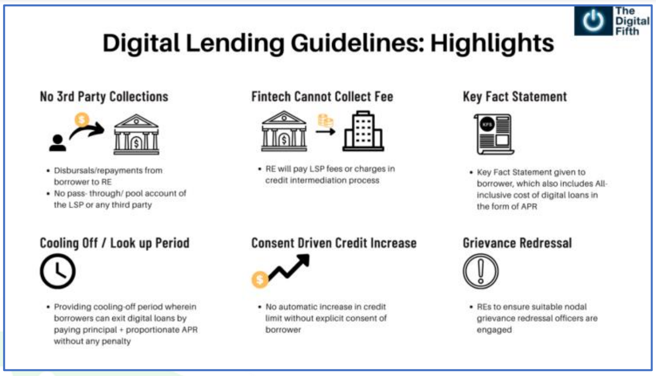
[131] 'Credit card fraud on the rise in Hyderabad, victims lose Rs 50,000 to Rs 2 lakh' (Times of India, 15 January 2020) <https://timesofindia.indiatimes.com/city/hyderabad/credit-card-fraud-on-the-rise-in-hyderabad-victims-lose-rs-50000-to-rs-2-lakh/articleshow/73261738.cms> accessed 1 April 2023

[132] 'The Reserve Bank - Integrated Ombudsman Scheme, 2021' (Reserve Bank of India, 12 November 2021) <https://www.rbi.org.in/commonman/English/Scripts/PressReleases.aspx?Id=3340#:~:text=The%20Scheme%20integrates%20the%20existing,Scheme%20for%20Digital%20Transactions%2C%202019> accessed 1 April 2023

In the past, LSPs were free to collect the data of the customers, including but not limited to details of their cards, messages, mails, etc. Due to the mismanagement of data, and the further selling of sensitive information to third parties, the platforms were prone to privacy violations and fraudulent activities.[133] The regulations now expect the platforms to collect only 'need based' data, through the explicit consent of the borrower. Further, the borrowers are now free to revoke their consent at any point of time. It is expected for the privacy policy of the platform to be disclosed to the borrower before the transaction, and the platforms are not allowed to share any data to further third parties.

Issue of further clarification on the digital lending guidelines

While the guidelines were issued in September 2022, further clarifications on the guidelines were released by the RBI on 14th February 2023, in the form of frequently asked questions.[134] This was mainly because the confusion persisted for BNPL schemes, since payment aggregators could no longer facilitate loan transactions due the direct deposit of money in the borrower's account. It had been clarified that payment aggregators who are only providing payment aggregating services are exempted from the ambit of the guidelines. However, those that also act as LSPs fall within the guidelines. Other clarifications included details about the applicability of the guidelines on corporate loans, the appointment of grievance redressal officers, who shall come within the ambit of LSPs, and others.[135]



136

CONCERNS WITH THE CURRENT REGIME OF DIGITAL LENDING

The digital expansion has led to many companies facing challenges of unethical business practices, data privacy concerns, and many more. Importantly, the maintenance of Quality Assurance (QA) helps ensure the protection of both money and customer details.[137] However, there are potential QA risks in the lending market, which include:

- The lack of communication and the lack of interaction between the lender and borrower. While this may be argued to be resolved by the RBI regulations, however, due to the lack of checking mechanisms and the timeline, there remain concerns about the proper implementation of these requirements.
- The frequent changes in applications, depending on customer requirements is another factor. The changes are so frequent that it leads to an exhaustion of available resources, and giving rise to resource gaps. Therefore, organizations are expected to maintain their product quality, throughout the updates.
- The lack of prioritization is another concern, that mostly results in the shifting of focus towards the insignificant aspects. Further, the lack of monitoring

[133] Aritra Sarkhel & Neha Alawadhi, 'How data brokers are selling all your personal info for less than a rupee to whoever wants it' (Economic Times, 28 February 2017) <https://economictimes.indiatimes.com/tech/internet/how-data-brokers-are-selling-all-your-personal-info-for-less-than-a-rupee-to-whoever-wants-it/articleshow/57382192.cms?from=mdr> accessed 1 April 2023

[134] 'Digital Lending Guidelines' (Reserve Bank of India) <https://www.rbi.org.in/Scripts/FAQView.aspx?Id=155> accessed 1 April 2023

[135] Sarvesh Mathi, 'Summary: RBI Issues Clarifications On Digital Lending Guidelines' (Medianama, 16 February 2023) <https://www.medianama.com/2023/02/223-rbi-faqs-digital-lending-guidelines/> accessed 1 April 2023

[136] Sameer Singh Jaini, 'Analysis of the Digital Lending Guidelines | The Digital Fifth Newsletter' (LinkedIn, 28 March 2023) <https://www.linkedin.com/pulse/analysis-digital-lending-guidelines-fifth-newsletter-jaini/> accessed 1 April 2023

[137] 'Is India's digital lending market equipped to manage the QA risk for appropriate digital experience?' (Yethi, 20 May 2022) <https://yethi.in/indias-digital-lending-market-managing-the-qa-risk-for-appropriate-digital-experience/> accessed 1 April 2023

mechanisms, as discussed in the first point, do not make the situation better. It is important to prioritize the main functionality, as well as the product highlights, along with creating a mechanism to monitor the core functionality of these platforms.

To deal with issues related to QA, the use of several technologies, including alternate data models, data analytics, as well as data-based underwriting models, which are mostly used by financial institutions for the creation of a digital database, is important. The proper utilization of emerging technologies at their infancy itself, can lead to a proper coordination between them and the fintech industry.

The banks have been facing some other concerns as well. According to an Annual Banking Priorities Survey, conducted by CSI, the critical aspects of technology, such as APIs, BaaS, and platform banking, are one of the main concerns for bankers.[138] APIs are the backbone of the open banking ecosystem, and they help in the smooth transfer of information between the financial service providers and businesses. One of the common examples of APIs are Paypal and Siri, wherein the services and tools of banks are made available to these third parties through APIs. The main difference between API and BaaS is that while API allows the third party to access customer data, BaaS only allows the third party to access the bank's functionality.[139] Usually, a combination of them is what is strived to be achieved by the digital regulators. Platform Banking, on the other hand, is a digital marketplace in the form of a software or an application, which is owned by a bank or non-bank entity and is used to provide banking and non-banking services to the customers of the bank.[140]

Notably, API and BaaS require more attention from bankers, and as per the study, bankers still find themselves at odds with the understanding of the advantages of these services. Therefore, the streamlining of technology integrated systems is capable of improving the operations of these issues. Further, once a proper training is provided to the caretakers of these models, they would be able to leverage them and further help in the introduction of digital products and services to access new revenue streams.[141]

Another key hassle experienced by fintech is the RBI ban on FLDG arrangement. Prior to the release of RBI regulations, the fintech's and the banks had created a FLDG model, which was a credit-sharing agreement between the digital lending platforms and the partner banks/NBFCs. According to these agreements, the digital lending platforms provide credit guarantees for the compensation of their partners to a certain extent, in case of default.[142] The said arrangement was beneficial for the banks since it protected them against a default, since fintech took on a part of the risk.

However, this arrangement was not supported by the RBI, since a fintech or the digital lending platform was not regulated by RBI. Therefore, this meant that the agreement between a regulated and unregulated entity posed potential risks. Therefore, according to the regulations, FLDG practice was equated to

138 '2023 Banking Priorities Executive Report' (CSI, 2023) <https://csi.foleon.com/bp-2023-doc/bp23/contents> accessed 1 April 2023

139 Ankit Agarwal, 'The Differences Between Application Programming Interface, Open Banking And Banking As A Service' (Forbes, 26 April 2022) <https://www.forbes.com/sites/forbesbusinesscouncil/2022/04/26/the-differences-between-application-programming-interface-open-banking-and-banking-as-a-service/?sh=13cbd10129f4> accessed 1 April 2023

140 'Platform Banking: A Powerful Way to Grow, Digitalize, and Differentiate in 2022' (Sila Money) <https://www.silamoney.com/ach/platform-banking-a-powerful-way-to-grow-digitalize-and-differentiate-in-2022#:~:text=banking%20competitive%20marketplace.-,What%20is%20Platform%20Banking%3F,enable%20and%20amplify%20each%20other> accessed 1 April 2023

141 Tara Schultz, 'Bankers' Top 3 Challenges, Priorities and Concerns for 2023' (CSI, 23 February 2023) <https://www.csiweb.com/what-to-know/content-hub/blog/bankers-top-3-priorities-2023/> accessed 1 April 2023

142 'Digital Lending Apps' (Byju's) <https://byjus.com/free-ias-prep/digital-lending-apps-upsc-notes/#:~:text=FLDG%20is%20a%20lending%20model,amount%20in%20case%20of%20default> accessed 1 April 2023

'synthetic securitisation', which was not allowed under the rules.[143]

Due to this ban, the fintech players are exploring other options for the division of risks. However, they are cautious in their adoption since they are expecting a clarification on FLDG from the RBI soon. The current uncertainty surrounding FLDG has further put fintech in a precarious situation.

RECOMMENDATIONS AND CONCLUSION

Taking into account the uncertainties surrounding the digital lending ecosystem, it is imperative to make MSMEs the centre of the establishment of an efficient system. Some of the important things that must be taken note of are:

- Distribution → Our first priority should be to address the estimated $240 billion credit gap available in the MSME sector. Rural India is particularly underserved in the existence of banks. The inclusion of rural population shall provide a larger digital base, in comparison to the urban population of the country. It is possible for the SaaS-based delivery systems to resolve the problem of distribution.[144]
- Underwriting ability → In June 2021, CIC published a report according to which half of India's working population doesn't have any credit history.[145] Here, the adoption of machine learning based credit scoring may be capable of creating an alternate credit scoring mechanism. Therefore, we may use electricity bills, telephone bills, and other similar bills, to assess the creditworthiness of an individual.

In addition to this, clarification regarding FLDG must be provided by RBI at the latest. It cannot be denied that FLDG helped in the creation of innovation and encourages partnerships between Fintech's and Banks and NBFCs. A complete ban on FLDG is capable of putting a stop to such innovations, which would be for the disadvantage of the current peak of digital revolution in India. Therefore, RBI may try to cap FLDG's to say 10% maximum, instead of putting a complete ban on such practices.

Additionally, the bankers need a proper training manual and workshops to be organized for the understanding of their capabilities; and users (especially MSMEs) need to be provided an understanding of their rights in a comprehensible manner, considering that the frequent changes in the regulations are capable of creating conflicting situations for the already struggling enterprises. The growth of digital lending is expected to see an exponential growth in the coming years, and putting critical thought on the smallest of miscarriages, is important to bring a further revolution in the regime.

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