



## **ANALYSIS BY LAWKNIT: RBI'S STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES - DECEMBER 2023**

Reserve Bank of India (RBI) has released '*Statement on Developmental and Regulatory Policies*' on December 8, 2023 ("**Statement on Regulatory Policies**")<sup>1</sup>, thus listing various developmental and regulatory policy measures relating to Financial Markets, Regulation, and Payment Systems. This constitute a significant document providing insight into the upcoming changes in the regulatory space.

Herein below LawKNIT has captured and analyzed in brief the highlights from the Statement on Regulatory Policies particularly relevant to the Fintech Sector:

### **1. Framework for Connected Lending:**

*"Connected lending or lending to persons who are in a position to control or influence the decision of a lender can be of concern, if the lender does not maintain an arm's length relationship with such borrowers. Such lending can involve moral hazard issues leading to compromise in pricing and credit management. The extant guidelines on the issue are limited in scope and are not applicable uniformly to all regulated entities. It has accordingly been decided to come out with a unified regulatory framework on connected lending for all the regulated entities of the Reserve Bank."*

**LawKNIT Analysis:** Broadly, the issue of connected counterparties under Non-Banking Financial Companies (NBFCs) has been covered from the perspective of exposure norms and corporate governance. The connected counterparties are majorly determined on the touchstone of factors namely *Control Relationship* and/or *Economic Interdependence*. The new guidelines on this subject may widen the scope and applicability. The impact of this on NBFCs and Lending Service Providers (LSP) needs to be continually evaluated with the evolving shift towards unified norms.

### **2. Regulatory Framework For Web Aggregation of Loan Products (WALP):**

*"WALP entails aggregation of loan offers from multiple lenders on an electronic platform which enables the borrowers to compare and choose the best available option to avail loan from one of the available lenders. Based on the recommendation of the Working Group, it has been decided to bring such loan aggregation services offered by the Lending Service Providers (LSPs) under a comprehensive regulatory framework."*

**LawKNIT Comments:** The Working Group has suggested that the web aggregators of loan products need to be subjected to discipline and code of conduct issued by RBI/Self-Regulatory Organization (SRO). The *Web Aggregator Guidelines* would provide uniformity to the data aggregation products of LSPs and plausibly be classified as separate business line.

### **3. Enhancing UPI Transaction Limits for the Specified Categories**

*"To encourage the use of UPI for medical and educational services, it is proposed to enhance the limit for payments to hospitals and educational institutions from ₹1 lakh to ₹5 lakh per transaction."*

**LawKNIT Analysis:** This is pro-consumer and service-providers friendly measure and opens the further scope of usage of UPI in medical and educational services. There would also be an upside

<sup>1</sup> [Reserve Bank of India - Press Releases \(rbi.org.in\)](https://www.rbi.org.in)



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for the health tech and edu tech companies. Consumer consent would be a requirement and need of apparent limit approval is most likely.

#### 4. Establishment of Cloud Facility for the Financial Sector in India

*“The Reserve Bank is working on establishing a cloud facility for the financial sector in India. The proposed facility would enhance the security, integrity and privacy of financial sector data. It is also expected to facilitate scalability and business continuity. The cloud facility will be set up and initially operated by Indian Financial Technology & Allied Services (IFTAS), a wholly-owned subsidiary of RBI. Eventually, the cloud facility will be transferred to a separate entity owned by the financial sector participants. This cloud facility is intended to be rolled out in a calibrated fashion in the medium term.”*

**LawKNIT Comments:** The Master Direction on Outsourcing of Information Technology Services issued in 2023 covers the guidelines over the selection of cloud services by financial institutions. The guidelines also provide the security measures to protect data of financial institutions. It would be vital to understand the guidelines of such cloud services and the way competitiveness for the same is ensured. We expect that the RBI would conduct public consultation over the subject and consider varied views and suggestions.

#### 5. Setting up of Fintech Repository

*“Today, FinTechs are using emerging technologies like Distributed Ledger Technology (DLT), Artificial Intelligence / Machine Learning (AI / ML), and so on. For better understanding of the developments in the FinTech ecosystem with an objective to appropriately support the sector, it is proposed to set-up a Repository for capturing essential information about FinTechs, encompassing their activities, products, technology stack, financial information etc. FinTechs would be encouraged to provide relevant information voluntarily to the Repository which will aid in designing appropriate policy approaches.”*

**LawKNIT Comments:** The FinTech companies would be required to provide their essential information in the repository on a voluntary basis to aid regulator in designing appropriate policy. The success of this repository would likely depend on there being a two-way communication enabling Fintech industry players with a platform to convey their concerns and share their best practices on.

In case of any queries/clarifications, please feel free to reach out to Mr. Arunabh Choudhary at [arunabh@lawknit.co](mailto:arunabh@lawknit.co) or Mr. Amol Apte at [amol.apte@lawknit.co](mailto:amol.apte@lawknit.co) or Ms. Tanvi Muraleedharan at [tanvi.muraleedharan@lawknit.co](mailto:tanvi.muraleedharan@lawknit.co)

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