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Regulation of the P2P Lending Platforms in India

The Reserve Bank of India (RBI), has issued a notification which was published in official gazette of India on September 18th 2017 to cover within its ambit all peer-to-peer (P2P) lending platforms, which shall be treated as Non- Banking Financial Companies (NBFC). The notification is a precursor to the upcoming guidelines which is likely to be laid down soon by the apex bank in order to regulate the activities related to P2P transaction in India.

The gazette notification which will bring all the P2P lending platforms under the realm of the banking regulator, stated that, "The Reserve Bank of India, on being satisfied that it is necessary to do so, in exercise of the powers conferred on it by...the Reserve Bank of India Act, 1934 (2 of 1934) with prior approval from the government, hereby specifies, a non-banking institution that carries on the business of a peer-to-peer lending platform to be a non-banking financial company".

Earlier in April 2016, RBI floated a consultation paper on P2P lending in order to receive opinions from analyst, investors, customers, entrepreneurs, etc. The RBI has categorised P2P lending as a form of crowd funding used to raise loans that are paid back with interests. Crowd funding generally refers to a method of funding a project or venture through small amounts of money raised from a large number of people, typically through a portal acting as an intermediary. While, crowd funding will remain under the domain of SEBI, P2P lending would fall under the purview of the Bank.

The P2P lending makes use of the online platform to bout the borrowers with the lenders who can provide for unsecured loans. The borrower herein can either be a legal person or an individual requiring a loan.The interest rate may either be fixed by the platform or through a mutual agreement between the borrower and the lender. However, the fees related to the P2P transaction has to be paid by both the lender (administration fee) and the borrower (origination fee), which shall cover the costs related to these services as well as the general business costs.

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