

A realty check on Fintech Money Lending apps

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Abstract

The financial market in India is fast changing with the growth of internet access to a very large population. The last development is the emergence of large number of financial money lending apps to feed the financial need of the Indian customers. Indian financial market has both formal and informal money lending business going for long time. The Informal financial providers such as money lenders are getting replaced to some extent by these fintech money lending apps especially in urban India. Thousands of such apps are available in the google play store and other app download options. It is high time government of India comes out with proper rules and regulation for this segment of financial service.

Key Words:

Financial services, Fintech apps, Interest rate, Terms and conditions.

Introduction

The Indian financial market is fast growing due to its huge population and the requirement for loan for a variety of reasons. The formal sector caters to only a small portion of the population who are influential. The common man is left with no choice to approach the moneylenders of various forms for their immediate requirements.

Formal Banking Systems consists of Commercial Banks both Public Sector and Private Sector Banks, Foreign Banks Branches in India, Cooperative Banks both Urban and Rural, Non-Banking Financial Institutions for specific purposes. The Informal banking consists

mainly of Money lenders of various shades and names. Most of the Small Business people and people who are daily wage earners, people who are working in MSME's, Informal sector employees depend on the local money lenders and Non-Banking Financial institutions registered as Societies. These individuals and societies charge exorbitant interest from their customers. One such type of financing is by these financial institutions in collaboration with the producers for selling the consumer durable items.

Non-Banking Financial Companies ("NBFCs"), are one of the most critical pillars for financial services in India. They play an important role in reaching out to a hitherto under / un-served and thereby broad-basing the formal lending ecosystem, and at the same time, bringing the benefits of formalization to the 'Bharat' we know. NBFCs cater to the needs of both retail as well as commercial sectors and, at times, develop strong niches with their specialized credit delivery models that even larger players including banks have found hard to match. They play a critical role in supporting economic growth across income levels, sectors as well as geographies, and in doing so, leading to more employment opportunities and greater wealth creation.

Various loan options available to an individual are : 1. Personal Loans, 2. Auto Loans, 3. Student Loans, 4. Debt consolidation Loans, 5. Pay day Loans, 6. Small Business Loans, 7. Gold Loan, 8. Loan Against property, 9. Agricultural Loan, 10. Consumer Loan.

The informal money lending business is mostly controlled by the black-money holders and the

politicians are also not interested in controlling this industry since their money is getting circulated in this sector. The technology development has helped these money lenders to expand their reach and scope to extract huge profits in this field.

Fintech Apps:

1. PaySense:

This is an instant loan app available in the google play store which can be downloaded by the lenders and the application process is simple. The individuals can apply for loan even if they are not employed since there is no requirement for salary slip for applying this loan. The platform had made arrangement for picking up the loan application from the lenders house. The application does not insist for collateral or credit score and does quick approvals and disbursals. The app provides loan to first time loan applicants and with zero credit history but after verification of documents only.

2. Money Tap

The individual in need of money based on the credit score loans are approved on instantly after downloading, registering and KYC verification. The whole process is paperless and online approval process. The loan is also collateral free for any purpose. If the individual is able to provide the basic required documents and on auto verification through online process the loan is sanctioned.

3. Dhani

This company started as drug store has expanded to financial services business. The app is especially designed for the part time working students for availing personal loans with simple documents but without the need for salary slip. The loan is also attractive since it offers 2% cash back for every transaction which can be used for future redemptions and services. The app promises no processing fee or other charges for the loan services offered by it.

4. Nira

On downloading of the app, the individuals with good credit score can get instant loan through this app.

The app verifies the credit score automatically through your PAN card number and once satisfied with the credit score and bank KYC the loan is processed fast and approvals are done online. The loan is processed on line as paper less documentation process.

5. CASH e

This is the one of the personal loan apps available for individuals. The person in need of money can login and register on the app. The app provides all the information required to be fulfilled for getting the loan. They have tie-ups with Flipkart, Amazon, Big Basket and others for Buy Now Pay Later partnerships as a loan option for their regular customers who have availed loans earlier. Good credit score is insisted by the app for granting of loan.

6. Home Credit

The app on downloading and registering requires for PAN Numbers based on which the credit score will be obtained and loan is mostly sanctioned only people with good credit scores. The loan sanctioned is for only 26 months making it a short-term loan option for the individuals with high credit scores. The app generates best offers after evaluating various options as best fit offers. The individual need to study the terms and conditions of the offer carefully while applying for the loan.

7. PayMe India

The loan app on downloading and registering offers wide variety of loans for last minute rent payment, utility bills, medical emergency, loss of work and salary etc., to tide over short term financial crisis faced by individuals. The loan is available only for maximum period of 2 years. The interest charged depends on the credit score of the individual. Corporate loans are also available for business purpose with fulfilling the right documents even for long term purpose.

8. India Lends

This is a loan platform which processes application for loan from different financial institutions like banks and NBFCs. The app processes application on behalf of these financial institutions and recommends to

them and they extend the loans. Based on the individuals PAN Number, the app processes the application and finds out credit score, based on the credit score and credit history of the applicant the app recommends various options available to an individual for loan.

9. Money View

The app is a 100% cashless and paperless procedure processing the applications digitally with good credit rating. The app provides loans up-to 5 years tenure. Once the documentation is completed money gets credited to the individual's bank account. The app is having Built-in expense tracker system, Bill Payment reminders, integration with third-party payment apps and with processing fees ranging from 2.5 to 4% of the loan amount.

10. mPokket

This is a website through which students and salaried individuals can get loan very fast. Normally the credit score is not considered for sanction of loan since they are extending for students and part time workers. They extend smallest amount starting from Rs 500 to students who need money for emergencies with high interest rates. Some loans are sanctioned with guarantors.

A Comparative statement of major terms and conditions of the above money lending apps are given below:

Loan App Name	Interest Rate (p.a)	Max Loan Amt	Min Loan Amt
Pay Sense	12.96 to 27.96	Rs. 5 Lakhs	Rs 5 Thousand
Money Tap	12.96 to 27.6	Rs. 5 Lakhs	Rs 3 Thousand
Dhani	12 to 38.04	Rs. 5 Lakhs	Rs 1 Thousand
Nira	18 to 30	Rs. 5 Lakhs	Rs 3 Thousand
CASH e	From 21	Rs. 5 Lakhs	Rs 5 Thousand
Home Credit	28.8 to 39.60	Rs. 2 Lakhs	Rs 10 Thousand
PayMe India	24 to 72	Rs. 1 Lakhs	Rs 1 Thousand
India Lends	10.8 to 36	Rs. 50 Lakhs	Rs 15 Thousand
Money view	24	Rs. 5 Lakhs	Rs 5 Thousand processing fees of 2.5 % to 4%,
mpokket	From 42		Rs. 500 onwards (Student Loans)

Documentation : Aadhar Card, PAN Card, Passport, Driving License, Bank Statement, Form 16A, Voter ID, Photograph etc. is collected for proof of Person and Address.

Usually, these apps disburse smaller loans after deducting interest for the period of loan which had to be paid in a very short period of time i.e., not more than 3 months. They disburse rotational loan for repayment of the old loan at a higher interest rate. Normal loan size will be very small limiting to exposure in thousands only. If the requirement of the loan is in lakhs, they refer them to NBFCs for disbursement so that these loan apps are safe by taking exposure of smaller amounts. These loan apps ask for permission in the Android phones for access to all the information in the Mobile phone. They get access to Contact details, Photos and all other apps installed in the Mobile. Once the individual fails to pay the due amount they resort to all types of intimidation techniques with the access to all information from the mobile. Since they are provided with the PAN, they get the credit history of the individual and they can charge high interest rates for the customers based on the track record.

Google App store is flooded with these types of apps and they get installed when the individual install other apps or they send advertisement messages which when clicked will install these apps on an Android Mobile. Chinese firms use Cloud services to host their apps in the Indian Mobile market with their Apps by sending messages for various purposes which when clicked will get these apps downloaded to the mobiles. When downloaded they get to access all the information of the individual sometimes including their bank account details. With the help of bank account details, either they siphoned the bank balance available in that account or they credit some loan to the individual's bank account without consent of the customer. After lapse of sometime these apps start demanding payment from the customer, when the customer refuses, they use all illegal methods for collection.

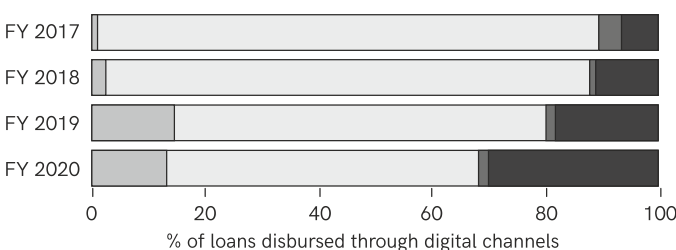
Many of these apps are capitalizing on the lack of financial illiteracy of the borrowers and charging very high interest up-to 500% annualized and mostly employ illegal methods for collection of over-dues or settled accounts leading to suicides by the borrowers.

A panel set up by Reserve bank of India found that more than half of about 1,100 digital loan providers were operating illegally.

The following table shows the growing influence of these informal lenders in Indian context. This will keep on increasing unless RBI comes out with proper regulations to control them. Micro Financing companies and Self-help group formations have

Share of Lenders

Shadow banks have increased their presence in India's digital space
 ■ State lenders ■ Private Lenders ■ Foreign Banks ■ Shadow Lenders



helped to some extent to help the marginalized from access of banking finance. The Micro Finance Companies lend up-to Rs. 50,000 to the small and

medium business people for their financial requirements. The Government is encouraging village people to form SHG's to get finance from the banks to implement their dreams jointly to form a business and get finance from the formal banking system.

- a) What are the various finance apps available to individuals?
- b) What advantages and the problems faced by individuals from Fin Tech Apps?
- c) What type of controls the regulator RBI can implement to streamline these Fin-tech Apps?

Teaching Notes:

Learning Objectives:

The student should learn about the financial market in general.

The financial market segmentation like Scheduled Commercial banks, Pubic Sector Banks, Private Sector Banks, Foreign banks, Urban Cooperative banks, Rural Cooperative Banks, Non-Banking financial Corporations registered with Reserve bank of India, Registrar of Companies, and Securities Exchange Board of India

The students must be made aware of various options available for the common man for meeting their financial requirements through the Fin Tech Apps.

The students need to appreciate the concept of Fin Tech App Loans and how it works. The students should be aware the advantages and adverse effects of using these apps.

- a) What are the various finance apps available to individuals?

Ans: The 10 apps most commonly used apps are (1) Pay Sense (2) Money Tap (3) dhani (4) Nira (5) CASHe (6) Home Credit (7) PayMe India (8) India Lends (9) Money View (10) mpocket.

- b) What advantages and the problems faced by individuals from Fin Tech Apps?

Ans: Advantages: They offer quick loans for meeting emergencies, Less Paper work, Online

Processing, No collateral required for the loan, Flexible end usage. Problems: High Interest Rates, Interest based on Credit Rating, High Penalty for delayed payments, Initial Processing Fees charged, illegal methods used for delayed payments.

- (c) What type of controls the regulator RBI can implement to streamline these Fin-tech Apps?

Ans: Like NBFCs government should bring in rules to streamline the working of these fin tech apps. The Reserve bank of India can appoint a body like SEBI to regulate and frame rules for the orderly growth of these fin tech companies. RBI should make it mandatory to register all the fin tech app companies to operate in India. Any Fin Tech App not registered should not be allowed to operate and they should be declared illegal. RBI should regularly issue information about the legal apps and take action against illegal apps regularly.