RBI Intensifies Scrutiny on P2P Lending Platforms

Source: BS

The Reserve Bank of India (RBI) has intensified its regulatory scrutiny on Non-Banking Financial Company–Peer to Peer Lending Platform (P2P) lending platforms following the discovery of multiple **regulatory violations,** including high levels of non-performing assets (NPAs).

- RBI identified violations, including unauthorised deposit acceptance and **unusually high balances in** escrow accounts raised concerns during RBI's review.
- Some P2P platforms **allowed lenders to recall funds prematurely,** replacing them with new lenders who were **unaware of the loans they were taking over,** mimicking **Ponzi schemes.**
  - A Ponzi scheme is an investment fraud that pays existing investors with funds collected from new investors.
    - The Ponzi scheme is named after **Charles Ponzi,** who in 1919 in Boston, United States ran a fraudulent investment scheme promising to double investment in 90 days.
- P2P lending platforms **enable individuals to lend directly to borrowers** via RBI-regulated NBFCs, facilitating quick loan disbursements for short-term needs.
- RBI's guidelines state that NBFC-P2P entities should only act as **intermediaries without assuming any credit risk,** a norm that was found to be violated.
  - P2P platforms cannot promote peer-to-peer lending as an investment product with features like assured minimum returns or liquidity options.

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