### ANNEX- II

**Recommendations accepted in-principle which require further examination**

<table>
<thead>
<tr>
<th>Para of the WGDL Report for Reference</th>
<th>Status and future course of action</th>
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<tbody>
<tr>
<td><strong>A: Customer Protection &amp; Regulatory Conduct Requirements</strong></td>
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<tr>
<td>(3.4.1.4)</td>
<td>Each access/ enquiry of credit information by any RE or LSP from Credit Information Companies shall be conveyed to the borrower through email/ SMS.</td>
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<tr>
<td>(5.4.2.2)</td>
<td>Scope of the Financial Literacy Centres, Centre for Financial Literacy and Electronic Banking Awareness and Training Programmes (E-baat) to be expanded to include digital lending.</td>
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<td><strong>B: Technology &amp; Data Requirements</strong></td>
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</table>
| (3.4.3.3) | i) ‘Travel rules\(^{10}\)’ need to be refined for better comprehension of the payment transaction.  
  
  ii) Banks shall monitor accounts regularly operated from a different/ overseas IP address which is not consistent with the KYC profile of the account holder. |
| (4.4.2.1) | i) RBI to lay down baseline technology standards for DLAs which will include:
  
  a. Secure application logic i.e. technical specifications of the DLA to ensure security of applications running on mobile phones, proper authentication, input validation, clear access rules, measures to ensure protection of sensitive data, etc.
  
  b. Keeping auditable log of every action that user performs along with their IP address and device information
  
  c. Monitoring of transactions being undertaken through DLA
  
  d. Multi-step approval for critical activities undertaken on the DLA
  
  ii) DLAs should mandatorily reflect these standards in the terms of |

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\(^{10}\) Narration of payment transactions through any digital mode i.e. information collected, retained and involved in fund transfer transactions initiated on behalf of customer
Further it should be ensured that apps have specific technological safeguards to prevent frauds like sanction of loans on stolen identity, data breaches, etc.

| (4.4.2.3) | i) REs to ensure that the algorithm used for underwriting is based on extensive, accurate and diverse data to rule out any prejudices. Further algorithm should be auditable to point out minimum underwriting standards and potential discrimination factors used in determining credit availability and pricing.  

   ii) Digital lenders should adopt ethical AI which focuses on protecting customer interest, promotes transparency, inclusion, impartiality, responsibility, reliability, security and privacy. |

| (4.4.3.2) | REs to ensure measures related to data privacy and security at the end of SMS gateways/ SMS service providers before onboarding them. |

**C: Regulatory Framework**

The recommendation pertaining to First Loss Default Guarantee (FLDG) is under examination with the Reserve Bank. Meanwhile, REs shall ensure that financial products involving contractual agreement, in which a third party guarantees to compensate up to a certain percentage of default in a loan portfolio of the RE, shall adhere to the extant guidelines laid down in [Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021 dated September 24, 2021](https://rbidocs.rbi.org.in/rdocs/other çıfs/0a1984d3-88dd-478d-a414-dda29963f26f.pdf). Boards of REs shall ensure that the extant regulatory instructions are complied with in both letter and spirit.

**D: Legal & Institutional Framework**

In order to pre-empt any unscrupulous practice by NBFCs, who have been granted Certificate of Registration with provision of digital lending but who have not been carrying out such activity for a reasonably long period, their Certificate of Registration may be reviewed with an appropriate supervisory follow-up.

Appropriate periodical returns from REs may include digital lending data and (attempted) frauds in digital lending space so as to specifically capture crucial MIS.

A Self-Regulatory Organisation ("SRO") covering REs and DLAs/LSPs in the digital lending ecosystem to be set up which will take up following
| 5.4.1.1, 5.4.1.3, 5.4.4.2, 5.4.4.3) | functions along with others as specified:  
  
  i) framing a code of conduct for recovery  
  ii) framing a model standardised LSP agreement for balance sheet lenders  
  iii) to put in place a Code of Conduct for responsible advertising and marketing standards, to be adopted by all the DLAs.  
  iv) frame institutional mechanism for training and accreditation of recovery agents in consultation with RBI.  
  v) maintaining 'negative list' of LSPs which are non-compliant with regulatory and statutory provisions, engaged in unfair practices including but not limited to use of false statements, harassment, unauthorized sharing of credit information, etc.  

| (5.4.4.3) | REs are required to report LSPs engaged in unfair practices or in breach of regulatory norms to SRO for inclusion in negative list.  

| (5.4.1.1) | DLAs are required to adopt responsible advertising and marketing standards and should refrain from making misleading claims. |