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Regulatory delays affect P2P lenders' operational efficiency

By [Pratik Bhakta](#), ET Bureau | Updated: Nov 03, 2016, 02:52 PM IST[Post a Comment](#)

MUMBAI: Peer-to-peer (P2P) lending, tipped to be the next big thing in the online lending space in India not long ago, is struggling with operational inefficiencies, as the government is still to wrap up its deliberations, delaying the final set of guidelines to regulate the sector.

The Reserve Bank of India (RBI) had notified about the need to regulate P2P lending platforms in April this year and six months on, P2P players are still waiting for the final nod. While investor interest had picked up in this sector, clearing way for multiple players to enter, the platforms are finding it difficult to expand operations and smoothen systems without regulatory guidelines in place.

As a private limited company is not allowed to take money from someone and disburse it to someone else, P2P platforms are now taking cheques from individual investors drawn in the favour of borrowers directly.

"As of now, we are having to call up individuals to check whether the money has moved from one party to the other. This not only makes it time consuming, but also inefficient as sometimes cheques are not deposited on time," said Shankar Vaddadyi, founder of Hyderabad-based P2P startup i-Lend.

Another problem for the sector is lack of clarity on the rules for foreign direct investment (FDI). The RBI talking about FDI in the automatic route for companies engaged in 'Other Financial Services' has created more confusion. Startups, like Faircent, which has already raised funds from Singapore-based investors, are in a lurch as to what the regulator has to say about foreign money coming into these lending platforms.

"The way investment can come into a non-banking finance company (NBFC) and the way it comes into a P2P player cannot be the same. As in case of an NBFC, it is used for lending, but in our case, it is not for lending as we do not lend from our books," said Rajat Gandhi, co-founder of one of the oldest P2P platforms, Faircent.

Various players are reaching out to banks to allow them to make payments through them. But due to lack of clarity on the issue of nodal accounts from the regulator, banks are hesitant in tying up with these online lending platforms.

"I am currently using the services of the IDBI Trusteeship Services and all payments are currently being routed through them which makes the process simple," said Mukesh Bubna, founder of Chennai-based P2P platform Monexo.

However, trusteeship services tend to be very expensive and push up lending costs for borrowers, killing the growth prospects for this sector, say industry insiders.

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