

# FINTECH FLYER

SEPTEMBER – NOVEMBER  
2024

## END-OF-THE-YEAR LEARNINGS

In our previous editions of the Fintech Flyer, over the past year, we have undertaken a review of the penalties imposed by the Reserve Bank of India (**RBI**) on various Regulated Entities (**REs**) for various violations. Now that we have a consolidated set of information on these penalties and the circumstances of their imposition, it may be useful to do a recap of what was critical to the safety and security of the financial system to the RBI in 2024.

The principal set of regulatory impositions has been on the following categories of REs:

- Bank
- Non-Banking Financial Company (**NBFC**)
- Pre-paid instrument (**PPI**) Issuer
- Card Network
- Peer to peer (**P2P**) Lending Platform

Among these, the following are the principal causes for regulatory action against these REs:

- (a) non-compliance with Know Your Customer (**KYC**) obligations;
- (b) non-compliances in information technology (**IT**) systems and information security (**IS**);
- (c) non-compliances with the Payment and Settlement Systems Act, 2007 (**PSSA**);
- (d) failure to ensure implementation of consumer centric requirements.

### **REGULATORY ACTION**

On a closer examination of such regulatory actions, the following seems to become clear:

- (i) Premium placed on compliance with KYC obligations, especially for scheduled commercial banks and ubiquitous fintech players;
- (ii) 'Innovative' use-cases that are not consistent with the regulatory environment shall receive a pre-emptive pushback;
- (iii) Reinforcement of the requirement that outsourcing of core decision making functions related to KYC, credit assessment, etc. cannot be outsourced;
- (iv) Non-compliances in IT systems and IS governance is a significant red flag;
- (v) Undertaking credit risks by NBFC P2P and breaches of guidelines on digital lending;
- (vi) Prioritizing the consumer with action against entities charging exorbitant rates of interest.

The measure of penalties imposed for such actions have included cancellation of registration, suspension of functions and imposition of fines in the crores. *(For a detailed report on this, please get in touch with us separately.)*

On the other hand, the failure to procure permission from the RBI for a significant change such as a change in management by an NBFC – Base Layer has been allowed with a slap on the wrist of INR 1,00,000.

**PENALTIES / FINES**  
**CANCELLATION OF REGISTRATION**  
**SUSPENSION OF FUNCTIONS**

	Penalty amounts above INR 1,00,00,000 or suspension of functions
	Penalty amounts between INR 1,00,00,000 – INR 10,00,000
	Penalty amounts upto INR 10,00,000

<p><b><u>Scheduled Commercial Bank</u></b></p> <ul style="list-style-type: none"> <li>IT Security</li> <li>KYC norms</li> <li>Loan sanction</li> </ul> <p><b><u>NBFC</u></b></p> <ul style="list-style-type: none"> <li>Non-disclosure for credit assessment</li> <li>Digital Lending</li> </ul> <p><b><u>PSOs</u></b></p> <ul style="list-style-type: none"> <li>PPI compliances</li> </ul>	<p><b><u>Scheduled Commercial Bank</u></b></p> <ul style="list-style-type: none"> <li>Credit card guidelines</li> <li>KYC norms</li> <li>Unauthorized operation of internal/office accounts</li> </ul> <p><b><u>NBFC</u></b></p> <ul style="list-style-type: none"> <li>KYC norms</li> </ul> <p><b><u>PSOs</u></b></p> <ul style="list-style-type: none"> <li>KYC norms</li> <li>PPI compliances</li> </ul>	<p><b><u>NBFC</u></b></p> <ul style="list-style-type: none"> <li>KYC norms</li> </ul>
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# PART ONE

## MONETARY PENALTIES BY RBI ON NBFCs AND BANK

In the months of September - November 2024, the RBI, basis the statutory inspections conducted by it, has levied several monetary penalties on various regulated entities, due to their non-adherence with its several regulations, as summarised in the table below:

Name of entity	Penalty Amount (in INR)	Reason
<b><u>NBFC</u></b>		
<b>GoCapital</b>	INR 1,00,000	Failure to take prior written permission of RBI for effecting change in management resulting in change of more than 30% of its directors, excluding independent directors, thus, resulting in non-compliance with provisions of 'Master Direction (MD) - RBI (NBFC - Scale Based Regulation) Directions, 2023'.
<b>Hewlett Packard</b>	NR 10,40,000	Non-compliance with the: (i) 'MD - KYC Direction, 2016' (KYC MD); (ii) MD - NBFC - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 (NBFC SI Directions); (iii) MD - IT Framework for the NBFC Sector since Hewlett Packard failed to:  (a) put in place a system of periodic review of risk categorization of accounts;  (b) disclose and explicitly communicate the rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers in the loan application form and in the sanction letter; and  (c) form an IT Strategy Committee and an IT Steering Committee.

Name of entity	Penalty Amount (in INR)	Reason
<b><u>NBFC</u></b>		
<b>Muthoot Vehicle &amp; Asset Finance Limited (MVAFL)</b>	INR 7,90,000	<p>Non-compliance with: (i) Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies; (ii) NBFC SI Directions since MVAFL failed to:</p> <p>(a) disclose the information on Liquidity Coverage Ratio on its website;</p> <p>(b) submit data with respect to its gold loan customers to the 4 CICs; and</p> <p>(c) convey in writing the amount of loan sanctioned along with the terms and conditions, in the vernacular language.</p>
<b><u>BANK</u></b>		
<b>Axis Bank</b>	INR 1,91,00,000	<p>Contravention of certain provisions of the Banking Regulation Act, 1949 (<b>BR Act</b>) and non-compliance with certain directions issued by the RBI on 'Interest Rate on Deposits', KYC and 'Credit Flow to Agriculture - Collateral free agricultural loans', based on the following grounds:</p> <p>(a) opening certain savings deposit accounts in the name of ineligible entities;</p> <p>(b) allotment of multiple customer identification code to certain customers instead of a Unique Customer identification Code (<b>UCIC</b>) for each customer;</p> <p>(c) obtaining collateral security for agricultural loans upto INR 1,60,000 in certain cases; and</p> <p>(d) undertaking business of technology service provider, by its a wholly owned subsidiary, which is not a permissible business that can be undertaken by a banking company under Section 6 of the BR Act.</p>
<b>Mehmadabad Urban People's Co-operative Bank Ltd., Gujarat (MUP)</b>	INR 60,000	<p>Non-compliance with the: (i) KYC MD; (ii) Membership of Credit Information Companies (<b>CICs</b>) by Co-operative Banks since MUP had failed to:</p> <p>(a) submit data to 3 CICs and submitted incomplete data to 1 CIC; and</p> <p>(b) carry out periodic review of risk categorisation of accounts at least once in 6 months.</p>

## LEX TAKEAWAY

The quantum of penalties imposed by the RBI is also dependant on the systemic importance of the NBFCs, and the nature of the non-compliance. As an example, GoCapital, being an NBFC falling under the base layer, is privy to a much lesser fine of INR 1,00,000 for breaching approval requirements from the RBI.

**MONETARY PENALTY**

**STATUTORY INSPECTION**

**KYC**

RBI has issued a statement dated 9 October 2024 that provides for various developmental and regulatory policy measures relating to:

**(i) Regulations**

(1) Responsible Lending Conduct – levy of foreclosure charges/ pre-payment penalties on loans: As per the existing regulations, banks and NBFCs are not permitted to levy foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned to individual borrowers with or without co-obligant(s). The RBI seeks to broaden the scope of such regulations to include loans to Micro and Small Enterprises (MSEs) within its ambit in order to safeguard customers' interest through better transparency and customer centricity by lenders.

**(ii) Payment Systems**

(1) Enhancement of United Payments Interface (UPI) limits: The limits for the following products of UPI have been enhanced to encourage wider adoption of UPI:

(a) UPI123Pay - The per transaction limit in UPI123 has been enhanced from INR 5,000 to INR 10,000 with the intent to widen its use-cases.

(b) UPI Lite - The 'Framework for facilitating small value payments in offline digital mode' will be amended to change UPI Lite wallet limit from INR 2,000 to INR 5,000, to widen the scope of usage of the product. The per-transaction limit has been decided to be increased from INR 500 to INR 1,000.

(2) *Introduction of beneficiary account name look-up facility*

The RBI is considering to introduce a 'beneficiary account name look-up facility' to enable remitters in RTGS and NEFT to verify the name of the beneficiary account holder before initiating funds transfer. The remitters will have to input the account number and the branch IFSC code of the beneficiary, following which the name of the beneficiary will be displayed. This move is considered reduce the possibility of wrong credits and frauds and increase customer confidence.

**FORECLOSURE CHARGES / PRE-PAYMENT  
PENALTIES,  
ENCHANCEMENT OF UPI LIMITS  
CUSTOMER CONFIDENCE  
WRONG CREDITS / FRAUDS.**

## PART THREE

## ACTION AGAINST SELECT NBFCs INCLUDING NBFCs-MFIS

In October 2024, the RBI, through its detailed supervisory orders has issued directions to the following 4 NBFCs, namely: (i) Asirvad Micro Finance Limited; (ii) Arohan Financial Services Limited; (iii) DMI Finance Private Limited; and (iv) Navi Finserv Limited, to cease and desist from sanction and disbursement of loans, effective from close of business of 21 October 2024. These directions were issued citing the following concerns:

- (i) usurious pricing, i.e., the pricing policy was excessive and not in adherence to the: (a) Master Direction – RBI (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022 (updated as on July 25, 2022); and (b) Master Direction – RBI (Non-Banking Financial Company–Scale Based Regulation) Directions, 2023.
- (ii) non-adherence with the regulatory guidelines on assessment of household income and consideration of existing / proposed monthly repayment obligations in respect of their microfinance loans.
- (iii) deviations in respect of ‘Income Recognition & Asset Classification (IR&AC)’ norms resulting in evergreening of loans, etc.

The business restrictions are only applicable to new transactions, and the NBFCs can continue servicing the existing customers and carrying out collection and recovery processes as per the existing regulations. The RBI will review these restrictions once the NBFCs confirm that suitable remedial actions have been taken by them to align with regulatory norms, more particularly their pricing policy, risk management processes, customer service and grievance redressal aspects, to the satisfaction of the RBI.

These directions were issued by the RBI, after RBI observed the prevalence of such unfair and usurious practices despite its repeated efforts in sensitizing the REs to ensure fair, reasonable and transparent pricing.

Vide order 02 December 2024, the RBI removed the supervisory restrictions imposed on Navi Finserv Limited, after the RBI was satisfied with the company's submissions for rectification of its earlier deficiencies.

## **CEASE AND DESIST**

## **REGULATORY ACTION**

## **SUPERVISORY ORDER**

## **EXCESSIVE PRICING POLICY**

## LEX TAKEAWAY

RBI has always been concerned with maintaining a balance to enable REs grow and expand, while also ensuring that they are scrutinised enough to ensure that such growth and expansion do not result from unfair practices or prejudice the interests of other stakeholders. Hence, the RBI has, time and again, been sensitizing its REs on the need to use their regulatory freedom responsibly and ensure fairness, reasonableness and transparency. It has been seen that only after issuing several warnings, RBI has resorted to taking extreme measures such as issuing cease and desist orders.

### FAIR

#### REASONABLE AND TRANSPARENT PRICING

#### USURIOUS PRICING

#### MICROFINANCE LOANS

#### EVERGREENING OF LOANS

#### REPEATED EFFORTS IN SENSITIZING

The RBI has amended the KYC MD (KYC Amendments) to align the same with recent amendments to the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, Procedure for implementation of Section 51A of the Unlawful Activities (Prevention) Act, 1967 and other existing regulations. The KYC Amendments seek to: (i) reinforce customer due diligence (CDD) protocols and regulatory compliance; (ii) enhance data sharing via the Central KYC Records Registry (CKYCR); (iv) improve monitoring of high-risk accounts; and (iv) streamline processes.

Following is a summary of the key amendments:

- (1) **Customer Acceptance Policy:** The CDD procedure are to be conducted at the Unique Customer Identification Code (UCIC) level, thus ensuring that existing KYC compliant customers of an RE can open new accounts or access additional services without undergoing a fresh CDD process, unless there is a change in their identification details.
- (2) **Enhanced Monitoring for High-Risk Accounts:** High-risk accounts should be subjected to more intensified monitoring.

- (3) Periodic KYC Updates: The term “updation” has been updated to “periodic updation” across relevant clauses, ensuring consistency and aligning timely and regular KYC updates with statutory and operational norms.
- (4) Integration with CKYCR and streamlining KYC Identifier Usage: REs shall update all customer KYC data to the CKYCR within 7 days, enabling real-time updates for all reporting entities. They are required to incrementally update KYC data for both individual and legal entity (LE) customers during periodic updates or whenever new information is received. Using the KYC Identifier, REs can now retrieve KYC records directly from CKYCR, minimizing the need for customers to resubmit documents. Additional verification is required only for discrepancies, outdated records, or due diligence, and REs must update their records promptly when notified by CKYCR.

## **PERIODIC KYC UPDATION**

## **CUSTOMER DUE DILIGENCE**

## **HIGH RISK ACCOUNTS**

## LEX TAKEAWAY

The KYC Amendments reflect RBI's commitment to fostering a secure and transparent financial ecosystem. The move follows recent penalties on entities, including Manappuram Finance Limited, Ola Financial Services, and Visa Worldwide, for KYC violations, underscoring the urgent need for stronger compliance mechanisms. By streamlining KYC processes through the CKYCR and emphasizing enhanced due diligence for high-risk accounts, the changes not only simplify compliance for REs but also ensure better customer experience and trust.

### **CENTRAL KYC RECORDS REGISTRY**

### **STREMLINING PROCESS**

### **AVOID KYC DUPLICATION.**

## PART FIVE

# SEBI CRACKS DOWN ON UNREGISTERED FINANCIAL INFLUENCERS

SEBI has collaborated with technology platforms to remove over 15,000 unregulated content sites operated by finfluencers, in the past 3 months.

In a circular dated 22 October 2024, SEBI made it abundantly clear that persons regulated by SEBI and the agents of such persons will not have any direct/indirect association with any other person who, directly or indirectly, provides advice, recommendation or makes explicit claim of return/performance in respect of a security, unless the person is registered with or permitted by SEBI to make such advice, recommendations or claims.

*Background:* On 25 August 2025, SEBI had released a consultation paper to regulate and restrict the association of SEBI registered intermediaries/regulated entities with unregistered 'finfluencers' and to curb the flow of undisclosed compensation to finfluencers in return of their endorsed financial products, services or securities.

## FINFLUENCERS

## LEX TAKEAWAY

SEBI's crackdown on unregistered influencers reinforces its commitment to investor protection and a transparent financial ecosystem. By mandating registration, ensuring accountability, and collaborating with technology platforms, SEBI curbs misinformation, promotes investor education and builds a regulated advisory framework. These efforts strengthen trust, aligning investor education, technology, and regulatory oversight in India's financial markets.

**MISINFORMATION**

**ACCOUNTABILITY**

**TRANSPARENCY**

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