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# Devious Menace: Digital Lending Apps and the Regulatory Vacuum

 THE HINDU

16 April 2026

ECONOMY

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# Devious Menace: Digital Lending Apps and the Regulatory Vacuum

 The Hindu

16 April 2026

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 The Hindu

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## INTERVIEW ANGLE



*"The suicide of Nithin Raj — harassed by an illegal loan app that misused his phone contacts — has again exposed severe regulatory gaps in India's digital lending ecosystem. The RBI has guidelines on digital lending, but enforcement against illegal apps operating outside regulated entities remains weak. How should India regulate fintech that serves financial inclusion while preventing predatory practices?"*

 Source: [Original editorial](#)


## EDITORIAL SUMMARY

The Hindu uses the Nithin Raj suicide — linked to predatory loan app harassment — to analyse the deep regulatory gaps in India's digital lending ecosystem. Illegal apps operating outside RBI's framework misuse borrower data for coercive recovery. The editorial calls for RBI-MeITY coordination, DPDPA enforcement operationalisation, and criminal liability for coercive recovery.

## RBI'S DIGITAL LENDING FRAMEWORK (2022)

PROVISION	REQUIREMENT
Regulated Entity (RE)	All digital lending must involve a bank/NBFC
Lending Service Provider (LSP)	Must be disclosed; cannot handle loan funds directly
Disbursement	Must go directly to borrower account (not via LSP)
Data collection	Limited to need-based; explicit consent required
Key Fact Statement	Must be provided before loan execution
Cooling-off period	3 days to exit the loan without penalty

**Illegal apps operate outside all of these provisions** — because they are not registered entities.

## THE HARM PATHWAY

User installs illegal loan app



App requests contacts, camera, storage access



User accepts (unaware of misuse risk)



Loan disbursed instantly



High interest accrues rapidly



Borrower unable to repay



App harvests contacts; sends abusive messages to family/employer



Coercive recovery; psychological harassment



[In worst cases] → Suicide

## THE DPDPA GAP

The **Digital Personal Data Protection Act 2023** (enacted August 2023) makes data misuse punishable. The **Data Protection Board of India (DPB)** — the enforcement body — would be the key tool. But as of early 2026, the DPDPA rules are still being finalised, and the DPB has not been constituted. This leaves a critical enforcement vacuum.

## UPSC RELEVANCE

PAPER	ANGLE
GS2 — Governance	RBI regulation; DPDPA; fintech governance; MeITY
GS3 — Economy	Digital lending; NBFC regulation; fintech; Jan Dhan
GS2 — Social Justice	Vulnerable borrowers; suicides; financial inclusion vs exploitation
GS4 — Ethics	Predatory lending ethics; corporate responsibility
Mains Keywords	Digital Lending Guidelines 2022, Regulated Entities, Lending Service Providers, DPDPA 2023, Data Protection Board, CERT-In, RBI, fintech regulation, coercive recovery, digital credit access

### • KEY ARGUMENTS AT A GLANCE

India's digital lending ecosystem has bifurcated into a regulated segment (RBI-supervised Regulated Entities and Lending Service Providers) and a largely unregulated "dark digital" segment of illegal loan apps that misuse borrower data, charge usurious rates, and employ coercive recovery — a gap that has cost lives and demands both technological and legal regulatory response.

#### ✓ SUPPORTING

- The RBI Digital Lending Guidelines (2022) and subsequent circulars require all digital lending apps to operate through Regulated Entities (REs); LSPs must be disclosed; loan

disbursals must go directly to borrower accounts; data collection must be limited to need-based. But illegal apps operating outside this framework simply evade these norms.

- India has seen hundreds of suicides linked to predatory loan app harassment since 2021 (Telangana, AP, Maharashtra, Karnataka being worst-affected states) — victims borrowed small sums (₹5,000–₹50,000) and faced contact harassment, morphed photos shared with contacts, and abusive phone calls as “recovery” tactics.
- Play Store and App Store delisting campaigns by RBI and MeITY have had partial success — hundreds of illegal apps were removed in 2023-24 — but new ones appear within days. The supply of illegal apps is essentially unlimited given low development cost and high-revenue potential.
- The Digital Personal Data Protection Act 2023 (DPDPA) provides tools to penalise data misuse — but enforcement requires the Data Protection Board (DPB) to be operational; as of early 2026, rules are still being finalised.

### **COUNTER**

Over-regulation of digital lending risks excluding underserved borrowers from credit access. Many digital lending apps — including questionable ones — serve populations with no access to formal bank credit.

A blanket regulatory crackdown without adequate formal credit alternatives could push borrowers toward even more informal (offline) moneylenders with no regulatory oversight at all.

### **WAY FORWARD**

Five-pillar approach: (1) RBI-CERT-In joint rapid-response mechanism to delist predatory apps within 48 hours of complaint verification; (2) Mandatory borrower consent audit — apps may only access contacts/photos for specific documented purposes; (3) Loan recovery code of conduct (similar to BCSBI) with criminal liability for coercive recovery; (4) Financial literacy campaign targeting informal credit users; (5) Accelerate DPDPA Data Protection Board operationalisation to enable data misuse penalties.

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**MAINS ANSWER FRAMEWORK**
**QUESTION**

*Predatory digital lending applications exploiting borrowers through data misuse and coercive recovery have become a serious social harm. Analyse the regulatory gaps in India's digital lending ecosystem and suggest a comprehensive governance framework. (250 words)*

**INTRODUCTION**

The suicide of Nithin Raj — a borrower driven to death by harassment from an illegal digital loan app — is a symptom of a deeper structural failure: India's digital lending ecosystem has expanded faster than its regulatory architecture. The RBI has guidelines; the gaps are in enforcement, coordination, and the legal framework's reach over non-entity operators.

**BODY**

**The regulated vs unregulated divide:** RBI's Digital Lending Guidelines (September 2022) created clear rules for Regulated Entities (REs — banks, NBFCs) and their Lending Service Providers (LSPs). But illegal apps operate outside this framework entirely — they are not registered entities, not subject to RBI supervision, and their operators may be based overseas.

Conventional regulatory tools cannot reach them. **The harm mechanism:** Predatory apps lure borrowers with instant disbursals (₹5,000–₹50,000) requiring only phone access permission. Once granted, they harvest contacts, photos, and location data — then use this for coercive recovery: threatening to send morphed images to employers/family, mass-calling contacts, 24-hour abuse. The psychological harm is severe; hundreds have died by suicide. **The data governance gap:** The Digital Personal Data Protection Act 2023 makes excessive data collection and misuse punishable — but the Data Protection Board (DPB) is not yet operational (rules under finalisation). Until the DPB is functional, DPDPA enforcement is effectively suspended. **Platform responsibility:** App stores (Google Play, Apple App Store) are a de facto regulatory chokepoint — but their delisting processes are slow and their verification of financial app legitimacy is inadequate.

A mandatory RBI-verified digital lending badge for app stores would prevent illegal apps from being listed in the first place. **Credit access concern:** Blanket restrictions risk excluding informal credit users; the solution must provide alternatives (Jan Dhan + PM SVANidhi + MUDRA + NBFC outreach) rather than simply eliminating digital credit.

**CONCLUSION**

Digital lending regulation must close the loop between RBI guidelines (which cover the formal segment), DPDPA enforcement (which penalises data misuse), App Store regulation (which is the entry point for illegal apps), and law enforcement (which is the last resort for coercive recovery). Each pillar exists partially; what is missing is institutional coordination.

A joint RBI-MeITY-CERT-In rapid-response task force, operational DPDPA enforcement, and loan recovery criminal liability would together address the “devious menace” that is claiming lives.

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