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EDITORIAL ANALYSIS

The App That Lends You Money to Repay the App That Lent You Money

MINT

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INTERVIEW ANGLE

"If app-based lending both expands credit access for thin-file borrowers and pushes some of them into a repay-with-new-debt cycle, is the correct regulatory response tighter rate caps, a borrowing-frequency limit, or something that targets the app design itself, the instant re-borrow, rather than the price of credit?"

Every fact web-verified against primary sources

THE LIFT LINE

The loan officer used to walk to your door. Now the debt walks to you, instantly, and asks to be renewed.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Financial-inclusion answers often credit fintech lending with expanding access and stop there. This editorial supplies the harder point: expanded access and a debt-trap pattern can be true of the same market at the same time, and a strong answer has to propose a fix that targets the re-borrowing mechanism specifically rather than choosing between “regulate it away” and “leave it alone.”

GS Paper 3: Inclusive growth and issues arising from it; mobilisation of resources; effects of liberalisation on the economy; regulation of the financial sector.

CONCEPT	MEANING	WHY IT IS TESTABLE
Digital lending app / LSP	A fintech platform (Loan Service Provider) that originates and services loans on behalf of an RBI-regulated bank or NBFC	Distinguishes the visible app from the regulated entity actually lending the money
First Loss Default Guarantee (FLDG)	A risk-sharing arrangement where the loan-service-provider guarantees to cover a capped share of a regulated lender's defaults	RBI capped it at 5 per cent of the outstanding portfolio in June 2023
Debt-trap borrowing	Taking a new loan specifically to service an existing one, so debt compounds rather than reduces	The core mechanism this editorial identifies, distinct from simply "being in debt"
RBI Digital Lending Guidelines, 2022	Framework governing the relationship between regulated lenders and their app-based service providers	Issued 2 September 2022; Prelims-testable date
Andhra Pradesh MFI crisis (2010)	Over-indebtedness and coercive recovery in door-step microfinance lending, which prompted emergency state regulation	The direct historical precedent for the current app-lending pattern

BACKGROUND AND CONTEXT

India's app-based consumer lending market has grown rapidly: it is now reported at close to 23 billion dollars a year, roughly two and a half times its size three years ago, and app-based lenders originate an estimated four out of five personal loans in the country, with more than 130 million loans sanctioned in the most recent fiscal year, averaging around Rs 16,000 each.

The **RBI's Digital Lending Guidelines** (2 September 2022) were the first comprehensive framework for this sector, followed by the **Default Loss Guarantee (FLDG) Guidelines** of 8 June 2023, which permitted, and capped, risk-sharing arrangements between regulated lenders and their app-based loan-service-provider partners. The RBI has also periodically acted against apps operating outside this regulated perimeter, including the 2026 removal of dozens of unauthorised lending apps from the Play Store for excessive interest charges and improper recovery practices, and it began operating a public directory of authorised Digital Lending Apps from July 2025.

India has been here before, in a different channel. The **2010 Andhra Pradesh microfinance crisis** saw widespread over-indebtedness among small borrowers, largely women in self-help groups, linked to coercive door-step recovery by microfinance institutions; the state government responded with an Ordinance, promulgated 15 October 2010 and subsequently enacted into law, regulating microfinance money-lending, mandating registration and public disclosure of interest rates, and penalising coercive recovery.

THE ANALYSIS

1. The debt-trap mechanism is specific, not just "too much debt." The editorial's concern is not simply that borrowing has grown, it is that a meaningful share of new app loans are taken specifically to service an existing loan, a pattern that compounds cost with every cycle rather than resolving the original shortfall.

2. Short repayment windows are the trigger. Many app loans require repayment within one to two weeks. A borrower who cannot meet that deadline, given stagnant wages against rising living costs, faces an app that can approve a fresh loan in minutes, which is precisely the point at which one missed payment becomes a spiral rather than a one-time shortfall.

3. Regulation exists but targets lender-to-app risk-sharing, not borrower-level exposure. The 2022 Guidelines and 2023 FLDG framework are genuine regulatory achievements, they discipline how a bank or NBFC shares default risk with its app partner, but neither limits how many concurrent loans one borrower can hold across different apps, which is the specific exposure driving the debt-trap pattern.

4. The Andhra Pradesh precedent is instructive on mechanism, not just on outcome. The 2010 crisis is usually remembered for coercive recovery and borrower distress. Its more transferable lesson for app lending is upstream of recovery: it was the ease and speed of taking a new microloan to cover an old one, enabled by multiple MFIs competing for the same borrower without visibility into each other's exposure, that built the over-indebtedness recovery later made violent. An app removes the recovery visit but reproduces, and arguably accelerates, that same upstream dynamic.

5. The counter-argument is substantial and must be engaged. App-based lending is the main reason many thin-file, no-collateral borrowers have any access to formal credit at all. A blunt restriction risks pushing exactly this population toward informal moneylenders operating with none of the RBI's disclosure or FLDG safeguards, a worse outcome for the same borrower.

6. The fix belongs at the level of concurrent exposure, not the price of credit alone. Rate caps address only one dimension. The mechanism identified here, new debt to service old debt, is better addressed by visibility into a borrower's total concurrent app-loan exposure and a cooling-off requirement before a fresh loan can be extended to someone still repaying a recent one, an intervention closer to microfinance over-indebtedness safeguards than to a simple interest-rate ceiling.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

- App-based lenders originate an estimated four out of five personal loans in India; market size close to 23 billion dollars annually, up roughly 2.5 times in three years
- Loans sanctioned in the most recent fiscal year: over 130 million, averaging around Rs 16,000 each
- Regulated-app rates: roughly 10 to 36 per cent annually; unregulated apps documented charging far higher effective rates
- RBI Digital Lending Guidelines: issued 2 September 2022
- Default Loss Guarantee (FLDG) Guidelines: issued 8 June 2023; DLG cover capped at 5 per cent of the outstanding loan portfolio
- RBI's public Digital Lending Apps (DLA) directory: operational from 1 July 2025
- Andhra Pradesh microfinance crisis: Ordinance promulgated 15 October 2010, later enacted, regulating MFI money-lending after over-indebtedness and coercive recovery linked to borrower distress

WATCH THE TRAP: DO NOT WRITE THAT APP-BASED LENDING IS UNREGULATED. THE RBI HAS ISSUED DETAILED GUIDELINES GOVERNING LENDER-TO-APP RISK-SHARING SINCE 2022; THE REGULATORY GAP THIS EDITORIAL IDENTIFIES IS NARROWER AND MORE SPECIFIC, BORROWER-LEVEL CONCURRENT EXPOSURE AND INSTANT RE-BORROWING, NOT THE ABSENCE OF ANY FRAMEWORK AT ALL.

THE DEBATE

Argument FOR tighter regulation of app lending. The debt-trap pattern, new loans taken specifically to repay old ones, compounds cost for exactly the low-income borrowers least able to absorb it, and the existing FLDG and Digital Lending Guidelines frameworks do not address concurrent borrower exposure at all, leaving the mechanism that produces the trap effectively unregulated even as the lender-side risk-sharing is well regulated.

Argument AGAINST broad restriction. App-based lending is the primary channel through which thin-file, low-income borrowers have gained any access to formal credit in the first place, and a blanket restriction risks pushing this population toward informal moneylenders operating outside any RBI safeguard, disclosure requirement or FLDG discipline, a demonstrably worse outcome for the same borrower.

Balanced verdict. The right target is the specific mechanism, concurrent multi-app borrowing and instant re-borrowing to service prior debt, not the channel as a whole. Building borrower-level exposure visibility across apps and requiring a cooling-off step before re-lending to an already-indebted borrower preserves the access gains while closing the debt-trap pathway, echoing the disclosure-and-registration approach Andhra Pradesh eventually took with microfinance, applied earlier and at app speed rather than after a crisis has already formed.

HOW TO THINK ABOUT THIS

The transferable pattern: **when a new delivery channel makes an old financial product faster and lower-friction, ask whether it removed the risk that channel used to carry, or only removed the visible warning signs of that risk.**

Door-step microfinance recovery was visible, a loan officer at the door, a queue outside a branch, which meant an over-indebtedness crisis eventually became impossible to ignore. An app removes that visibility entirely: the same borrower can carry multiple concurrent loans across several platforms with no single institution, and often no regulator, able to see the aggregate exposure until repayment fails. Faster and more convenient is not the same as safer, and a regulatory framework built for the old channel's failure mode, in this case lender-to-app risk-sharing, can miss the new channel's actual failure mode, which is borrower-level, cross-platform and largely invisible until it is already a crisis.

This same structure recurs in credit-card debt cycles in mature markets, where multiple concurrent card balances produce a comparable minimum-payment spiral invisible to any single issuer; in buy-now-pay-later lending, where a purchase split across several providers can leave no single lender aware of a borrower's total short-term obligation; and in payday lending more generally, wherever short tenure and instant approval combine to make re-borrowing faster than the underlying income shortfall can be resolved.

DIAGRAM-IN-WORDS

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THE DEBT-TRAP CYCLE

BORROWER takes App Loan 1 (7-14 day tenure, 10-36%+ APR)
        ↓
repayment due, income shortfall
        ↓
App Loan 2 taken TO REPAY Loan 1 (new app, minutes to approve)
        ↓
repayment due on Loan 2, PLUS accrued cost
        ↓
App Loan 3 taken TO REPAY Loan 2 ... cycle compounds
        ↓
no single lender/regulator sees TOTAL CONCURRENT EXPOSURE

REGULATION TODAY (2022 Guidelines, 2023 FLDG)
  → governs LENDER-to-APP risk sharing
  → does NOT cap borrower's concurrent loan count
  → does NOT slow instant re-borrowing

MISSING LAYER: borrower-level exposure visibility + cooling-off
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(the layer Andhra Pradesh's 2010 MFI regulation targeted,
 applied to door-step lending, now needed for app lending)
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TAKEAWAY BOX

Andhra Pradesh regulated the loan officer's visit. App lending needs regulation of the loan officer's speed.

app lenders originate roughly **four in five** *personal loans; market near* **23 billion dollars**, *up* **2.5x** *in three years;* **130 million+** *loans in FY, averaging* **Rs 16,000**; *RBI* **Digital Lending Guidelines, 2 September 2022**; **FLDG Guidelines, 8 June 2023**, *capped at* **5 per cent**; *DLA directory from* **1 July 2025**; **Andhra Pradesh MFI Ordinance, 15 October 2010**.

when a lending product is engineered to approve a new loan in minutes to a borrower who is visibly still repaying an old one, does responsibility for the resulting debt spiral sit with the borrower who accepted it, the platform that offered it, or the regulator that permitted the design?

UPSC has repeatedly examined financial inclusion, microfinance and NBFC regulation; this editorial updates the over-indebtedness theme with the app-lending channel and a direct, testable link back to the 2010 Andhra Pradesh precedent.

"App-based lending has reproduced the over-indebtedness pattern of India's 2010 microfinance crisis at a faster speed and with less visibility." Examine, and suggest regulatory measures that target borrower-level exposure rather than the lending channel itself.

Sources: Mint, Reserve Bank of India, PRS Legislative Research

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KEY ARGUMENTS AT A GLANCE

Mint's Andy Mukherjee column (7 August 2026) argues that India's app-based consumer lending market, now expanding rapidly and originating a large majority of personal loans, is pushing a growing share of low-income borrowers into a debt trap in which a new loan is taken specifically to service an existing one, and that this fintech-fuelled consumption-credit boom needs firmer regulatory intervention before it does at app-speed what the 2010 Andhra Pradesh microfinance crisis did at door-step speed.

✓ SUPPORTING

- The scale is large and growing fast: app-based lenders now originate roughly four out of five personal loans in India, in a market reported at close to 23 billion dollars annually that has expanded about two and a half times over three years, with over 130 million loans sanctioned in the most recent fiscal year, averaging around Rs 16,000 each, small individually but repeated frequently.
- The rate structure makes repeat borrowing likely rather than incidental: RBI-regulated apps typically charge annual rates in the range of 10 to 36 per cent, while apps operating outside that regulated perimeter have been documented charging effective annualised rates far higher, in some reported cases 200 to 700 per cent, and short repayment windows of seven to fourteen days push borrowers who miss a deadline toward an immediate fresh loan rather than a renegotiated one.
- The regulatory scaffolding exists but targets the wrong layer of the transaction: the RBI's Digital Lending Guidelines, issued 2 September 2022, and the June 2023 Default Loss Guarantee (FLDG) framework, which caps a loan-service-provider's guarantee at 5 per cent of the outstanding portfolio, govern the contractual relationship between a regulated lender and its app-based service provider, and a July 2025 RBI directory of authorised Digital Lending Apps helps borrowers verify legitimacy, but none of this caps how many loans a single borrower can carry at once or restricts instant re-borrowing to repay a prior loan.

⚠ COUNTER

App-based lending did not create India's underserved-borrower problem; it partially solved one dimension of it. Thin-file borrowers with no credit history and no collateral were largely shut out of formal bank credit before instant-approval apps existed, and a blanket restriction on app lending risks pushing exactly this population back toward unregulated informal moneylenders, who charge comparable or higher effective rates with none of the RBI's disclosure, grievance-redress or FLDG safeguards and considerably rougher recovery methods.

→ **WAY FORWARD**

Regulate the borrowing pattern, not only the lender: require credit bureaus and the RBI's Digital Lending Apps directory framework to flag borrowers carrying multiple concurrent app loans, the way over-indebtedness metrics are tracked in microfinance; mandate a cooling-off or restructuring option before a lender can extend a fresh loan to a borrower who is still repaying a prior one from the same or an affiliated platform; tighten enforcement against apps operating outside the RBI-regulated perimeter, building on the periodic removal of unauthorised apps from app stores; and require every app-based lender to disclose the effective annualised rate prominently before disbursal, since short-tenure, small-ticket loans obscure true cost behind a headline processing fee.

MAINS ANSWER FRAMEWORK

QUESTION

App-based digital lending has expanded credit access to previously underserved borrowers even as it has been linked to a debt-trap pattern of new borrowing to service old loans. Discuss the regulatory response needed, drawing on India's earlier experience with microfinance over-indebtedness. (250 words)

INTRODUCTION

India's digital lending market has grown from a niche convenience into the dominant channel for personal credit, with app-based lenders now originating a large majority of personal loans and disbursing well over a hundred million loans a year, most of them small, short-tenure and approved within minutes. Mint's 7 August 2026 column by Andy Mukherjee argues that this growth has a darker underside: a rising share of borrowers is taking new app loans specifically to service old ones, a pattern with a direct and troubling precedent in India's own credit history.

BODY

The mechanics are straightforward. Regulated apps typically charge annual rates of 10 to 36 per cent, and unregulated ones considerably more, on loans that must often be repaid within one to two weeks.
A borrower facing stagnant wages and rising living costs who misses that short window has little practical alternative but a fresh loan, frequently from a different app, to cover the first, and each cycle adds cost without adding capacity to repay. The RBI has built real regulatory infrastructure around this market: the 2022 Digital Lending Guidelines and the 2023 Default Loss Guarantee framework govern how regulated lenders share risk with their app-based loan-service-provider partners, and a 2025 directory helps borrowers distinguish authorised apps from unauthorised ones.
None of this, however, limits how many loans one borrower can carry simultaneously or slows the instant re-borrowing that turns a single missed payment into a spiral. The structural parallel to the 2010 Andhra Pradesh microfinance crisis, when coercive door-step recovery on over-extended small loans was linked to borrower distress and prompted the state to enact emergency regulation of microfinance institutions, is close: the delivery channel has moved from a human loan officer to an app, which makes re-borrowing faster and the resulting debt harder to see building up, since there is no queue outside a branch, even though the underlying economic mechanism, servicing old debt with new debt at a real cost that compounds, is unchanged.

CONCLUSION

The honest position credits app-based lending with a genuine achievement, extending credit to thin-file borrowers who formal banking largely ignored, while treating the debt-trap pattern as a design flaw in how re-borrowing is permitted rather than an argument for shutting the channel down. Restricting app lending across the board risks returning vulnerable borrowers to worse, informal alternatives; the more precise fix is to regulate concurrent borrowing and instant re-borrowing directly, the specific mechanism through which old debt becomes the reason for new debt, while preserving the access gains the sector has delivered.

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