# CRITICAL ANALYSIS OF THE IMPACT OF DIGITAL FINANCING AND BUY NOW PAY LATER (BNPL) SERVICES ON THE INDIAN FINANCIAL LANDSCAPE

**Diya Pasari***

## ABSTRACT

*This research paper explores the impact of digital financing and Buy Now Pay Later (BNPL) services on the Indian financial landscape. The paper reviews the evolution of digital financing in India, its potential benefits, and the challenges and risks associated with this rapidly growing sector. In exploring these sub-topics, the paper considers several key themes. Firstly, the paper reviews the evolution of digital financing in India and its response to the COVID-19 pandemic, including the surge in demand for digital financial services and the challenges raised by the pandemic for the growth and stability of this sector. Secondly, the paper analyses the challenges raised by fintech companies in India, including regulatory compliance, data privacy, cybersecurity, and fraud. Thirdly, the paper examines the BNPL model in India and its potential risks and benefits for consumers and merchants. The paper also analyses the need for RBI intervention to regulate this sector and promote responsible lending practices. Fourthly, the paper reviews the recommendations of the Working Group on Digital Lending in India, including the need for improved consumer protection and financial literacy, data protection, and standardization of lending practices across different platforms. Finally, the paper offers recommendations for policymakers and industry stakeholders on how to promote responsible and sustainable digital financing practices in India. These recommendations include strengthening consumer protection and financial literacy, promoting interoperability and standardization, and fostering collaboration and dialogue between different stakeholders. Overall, the paper concludes that the COVID-19 pandemic has accelerated the growth of digital financing in India, but also raised important challenges for the stability and sustainability of this sector. It is essential to manage these risks through a collaborative and proactive approach that balances innovation with consumer protection and financial stability while promoting financial inclusion and economic growth. The paper also emphasizes the need for regulatory intervention to ensure*

*BBA LLB, FOURTH YEAR, AMITY UNIVERSITY, KOLKATA.

*responsible and sustainable growth of the BNPL sector and promote financial stability in the digital financing ecosystem.*

**Keywords:** Fintech, Regulation, Digital Banking, Fintech Platforms, Reserve Bank of India.

## INTRODUCTION

Digital financing refers to financial services that are delivered through digital channels, such as the internet, mobile phones, and other digital devices. It encompasses a range of financial products and services, including loans, savings, investments, payments, and insurance. Digital financing leverages technology to make financial services more accessible, affordable, and convenient for consumers and businesses. For example, digital lending platforms use algorithms and data analysis to assess the creditworthiness of borrowers, enabling them to provide loans to people who might not qualify for credit from traditional banks. Digital savings and investment platforms use automation and user-friendly interfaces to make it easy for people to manage their money, regardless of their level of financial literacy.

Digital financing is playing an increasingly important role in financial inclusion, helping to bring millions of people into the formal financial system who might otherwise be excluded due to a lack of access to traditional banking services. In many developing countries, where traditional banking systems are weak or non-existent, digital finance is providing financial services to people who would otherwise have no access to credit, savings, or insurance. In recent years, the growth of digital financing has been fueled by advancements in technology, including the widespread adoption of mobile phones and the internet, and a growing demand for more convenient and accessible financial services. The pandemic has made a marked impact on non-cash payments. In particular, the total value of non-paper-based or digital credit transfers grew strongly in both advanced economies and emerging markets, and developing economies[1].

## TYPES OF DIGITAL FINANCIAL INSTITUTIONS

In recent years, Digital Financial Institutions have emerged as major players in the Indian lending landscape, offering loan facilities to individuals, businesses, and organizations. These

[1] Anneke Kosse and Robert Szemere, 'Covid-19 accelerated the digitalisation of payments', (2021) < https://www.bis.org/statistics/payment_stats/commentary2112.htm > accessed on February 25, 2023

institutions leverage technology to streamline the loan application and disbursal process, making it easier and faster for borrowers to access credit. The following are two broad heads of Digital Financial Institutions in India that extend loan facilities:

Digital Banks: Banks engaged in digital banking are deposit-taking institutions that are members of a deposit insurance scheme and deliver banking services primarily through electronic channels instead of physical branches.[2] Digital banks are usually able to offer lower fees, higher interest rates, and better user experiences compared to traditional brick-and-mortar banks, due to their lower overhead costs. They may also provide faster and more convenient services as they eliminate the need for customers to physically visit a bank branch.

Fintech platform financing: Fintech platform financing is a digital form of financial technology that connects borrowers and investors through online platforms and mobile apps. The platforms act as intermediaries that facilitate lending, borrowing, and investing activities. Fintech platform financing typically uses algorithms and data analysis to assess the creditworthiness of borrowers and to match them with investors who are willing to lend funds. The platforms use digital channels to automate the loan origination process, from loan application to funding and repayment. They may also use data analytics and machine learning to monitor and manage risks associated with lending activities. Fintech Financing can be divided into two sub-heads: -



- Buy-Now-Pay-Later (BNPL) Platforms: BNPL platforms offer customers the ability to purchase goods or services and pay for them in installments over time, without incurring any interest charges. BNPL platforms assess the creditworthiness of borrowers and offer loans with flexible repayment options, making it easier for customers to purchase high-value items.
- Crowdfunding: Crowdfunding is a method of raising funds for a project, business, or cause by seeking small contributions from a large number of people, typically through an online platform. Crowdfunding enables individuals or organizations to bypass traditional funding sources, such as banks, venture capital firms, and angel investors, and tap into the collective efforts of a large number of people to raise the funds they

[2] Johannes Ehrentraud, Denise Garcia Ocampo and Camila Quevedo Vega, 'Regulating fintech financing: digital banks and fintech platforms' (2020) < https://www.bis.org/fsi/publ/insights27.pdf > accessed on February 25, 2023

need. Crowdfunding can take several forms, including reward-based crowdfunding, where backers receive a reward or perk in exchange for their contribution, such as a product or service related to the project being funded; equity crowdfunding, where backers receive a stake in the business or project being funded in exchange for their investment; and debt crowdfunding, where backers loan money to the project or business and receive interest on their investment.

**THE IMPACT OF COVID-19 ON THE GROWTH OF DIGITAL FINANCING IN INDIA**

The COVID-19 pandemic has been a catalyst for the shift from traditional financing to digital financing in India. The pandemic, subsequent lockdowns, and social distancing measures have accelerated the adoption of digital financial services, as people look for more convenient and accessible ways to manage their finances. Some of the factors driving the shift from traditional financing services to digital financing services in India post-COVID-19 are as follows: -

Increased Accessibility: One of the key drivers of the shift to digital financing is increased accessibility. Digital financing allows people to access financial products and services from the comfort of their homes, without having to visit a physical branch. This is particularly important during a pandemic when people are required to maintain social distancing and avoid crowded places. Digital financial services have made it easier for people to access credit, savings and investment products, insurance, and other financial services, regardless of their location or time of day.



Convenience: Another factor driving the shift to digital financing is convenience. Digital financial services are designed to be user-friendly and easy to use, making it possible for people to manage their finances on the go. With mobile apps and digital interfaces, people can check their account balances, make payments, and access loans and other financial services, all from the convenience of their mobile devices. This is particularly important for people who are busy or who do not live near a traditional bank branch.

Reduced Costs: Digital financing also offer reduced costs compared to traditional financing. Fintech companies can take advantage of economies of scale and technology to provide financial services at lower costs than traditional banks. This can translate into lower interest rates for borrowers and higher returns for investors, making digital financing services more attractive to consumers.

Improved Customer Experience: The shift to digital financing has also led to an improved customer experience. Digital financial use technology and data analysis to provide a more personalized experience for customers. For example, digital lending platforms use algorithms and data analysis to assess the creditworthiness of borrowers and provide loans more quickly and efficiently than traditional banks. Digital savings and investment platforms use user-friendly interfaces and automation to make it easy for people to manage their money, regardless of their financial literacy.

## EXAMPLES OF DIGITAL FINANCING SERVICES IN INDIA

Digital Lending: Digital lending platforms such as Paytm, Lendingkart, and Capital First have become increasingly popular in India post-COVID-19. These platforms use technology and data analysis to assess the creditworthiness of borrowers and provide loans more quickly and efficiently than traditional banks.

Digital Payments: Digital payment services such as Google Pay, Paytm, and PhonePe have seen a surge in popularity in India post-COVID-19. These services allow people to make payments, transfer money, and access other financial services from the convenience of their mobile devices.



Digital Savings and Investments: Digital savings and investment platforms such as Zerodha, Groww, and Upstox have become increasingly popular in India post-COVID-19. These platforms use user-friendly interfaces and automation to make it easy for people to manage their money, regardless of their financial literacy.

## CHALLENGES RAISED BY FINTECH COMPANIES IN INDIA

Fintech companies have revolutionized the financial sector in India by offering innovative and convenient financial services to consumers. However, the growth of fintech in India has also raised some important challenges and concerns, particularly in the areas of data security and privacy, regulatory framework, competition with traditional financial institutions, financial stability, and issues relating to a debt trap. One of the major challenges faced by fintech companies in India is data security and privacy. With large amounts of personal and financial data being collected, processed, and stored by these companies, there is a risk that this data could be misused or lost in the event of a security breach[3]. This has been a major concern for customers, particularly given the high levels of data theft and identity theft in India.

Another issue is the high-interest rates charged by fintech companies. Fintech companies often charge interest rates that are significantly higher than those charged by traditional financial institutions, which can make it difficult for consumers to repay the loan. This can result in a debt trap, with consumers struggling to repay the loan and incurring additional fees and interest charges. Debt traps occur when consumers borrow money from fintech companies and are unable to repay the loan due to high-interest rates, hidden fees, and unfavorable terms and conditions. This can lead to a cycle of debt, with consumers taking out additional loans to repay existing debts, ultimately resulting in a spiral of debt that is difficult to escape. The case of Dharanidhar Karimojji vs. Union of India[4] is a recent case related to high-interest rates charged by digital lenders doing business through mobile apps. The case was filed in the Delhi High Court by Dharanidhar Karimojji, a freelance digital marketer from Telangana who asserts that more than 300 mobile applications provide fast loans ranging from Rs 1,500 to Rs 30,000 for 7 to 15 days. Nevertheless, these online lending platforms only send the remaining funds to borrowers' bank accounts after deducting platform fees, service fees, or processing costs. The court directed the Ministry of Finance and the RBI to file a response to the borrower's allegations and directed to establish a maximum rate of interest that can be charged by online digital lenders, cease customer harassment by recovery agents, and set up grievance redressal mechanisms in every state to address issues experienced by borrowers promptly.



The lack of regulation in the fintech sector is also a problem, as fintech companies are not subject to the same regulatory requirements as traditional financial institutions. This lack of regulation can result in fintech companies engaging in predatory lending practices, such as charging exorbitant interest rates and hidden fees, which can trap consumers in a cycle of debt. In India, some traditional financial institutions have expressed concern that fintech companies are not subject to the same regulatory requirements and that this creates an uneven playing field. This has led to concerns that traditional financial institutions will be unable to

[3] Siddharth Vishwanath, Amol Bhat and Abhishek Chhonkar, 'Security challenges in the evolving fintech landscape' < https://www.pwc.in/assets/pdfs/consulting/cyber-security/banking/security-challenges-in-the-evolving-fintech-landscape.pdf > accessed on February 25, 2023

[4] Dharanidhar Karimojji v Union of India and Another [2023], SCC OnLine Del 378

compete with fintech companies, and that this will negatively impact their ability to provide financial services to consumers[5].

Finally, there are concerns that fintech companies could pose a risk to the stability of the financial system if they are not properly regulated and supervised. With the growth of the fintech industry in India, there is a risk that these companies could become too big to fail, and that a failure of one Fintech Company could have a negative impact on the entire financial system.

**BUY NOW PAY LATER (BNPL) MODEL**

The Buy Now Pay Later (BNPL) model is a type of financing option that enables customers to purchase goods or services and pay for them later, typically in installments. In India, the BNPL model has gained immense popularity in recent years, owing to the ease of use and convenience it offers to customers. BNPL operates through various digital platforms such as apps and websites. The process of availing of BNPL services is simple and straightforward. Customers can sign up for BNPL services and avail of them at merchants who have partnered with BNPL providers. Upon purchasing goods or services, customers can choose to pay for them later in installments, rather than paying the full amount upfront. The installments are usually due on a fixed date each month and can be paid through various modes such as credit/debit cards, net banking, UPI, etc.

One of the most popular BNPL providers in India is CRED, which was launched in 2018. CRED offers its services to credit cardholders and rewards them with rewards points for paying their credit card bills on time. Another popular BNPL provider in India is Simpl, which offers its services to customers who don't have credit cards and provides them with an alternative mode of financing. BNPL model operates on a risk-based pricing mechanism, meaning the interest rates offered to customers are determined based on their creditworthiness. BNPL providers assess the creditworthiness of customers by evaluating their credit scores, income, spending patterns, etc. Based on this assessment, BNPL providers offer different interest rates to customers, and customers with a higher credit score are offered lower interest rates.

[5] Antonio Garcia Pascual, Fabio Natalucci, 'Fast-Moving FinTech Poses Challenge for Regulators' (IMF Blog, 13 April 2022 ) < https://www.imf.org/en/Blogs/Articles/2022/04/13/blog041322-sm2022-gfsr-ch3 > accessed on February 25, 2023

## NEED FOR RBI INTERVENTION IN BNPL SECTOR

Entities engaged in BNPL services in India are broadly divided into two categories - Balance Sheet Lenders (BSLs) and Lending Service Providers (LSPs)[6]. BSLs are financial institutions that lend from their balance sheets, while LSPs are entities that partner with BSLs and facilitate BNPL transactions without lending from their balance sheets. Both types of entities have different business models and regulatory requirements. Balance Sheet Lenders (BSLs) are financial institutions that lend from their balance sheets. They are typically Non-Banking Financial Companies (NBFCs) or Banks that offer BNPL services to their customers. BSLs provide credit directly to customers and bear the risk of default. They have to comply with the RBI guidelines and regulations for NBFCs or Banks and are generally covered under the State Money Lenders Acts[7], Chit Funds Act[8], etc.

Lending Service Providers (LSPs) are entities that partner with BSLs to facilitate BNPL transactions. LSPs provide technology and other support to BSLs, such as underwriting, loan origination, and loan servicing. They do not lend from their balance sheets but earn fees for their services. LSPs may be independent entities or subsidiaries of BSLs. One example of an LSP partnering with a BSL in India is the partnership between ZestMoney, an LSP, and HDFC Bank, a BSL. ZestMoney provides technology and other support to HDFC Bank to facilitate BNPL transactions for the customer.

When LSPs act in partnership with regulated BSLs entities such as Bank and NBFC, their activities are governed by certain detailed guidelines, for instance in the case of partnership with Banks, 2006 RBI-issued Guidelines on Managing Risks and a Code of Conduct in Outsourcing Financial Services are applicable[9]. The guidelines governing partnerships between Loan Service Providers (LSPs) and regulated Business Service Providers (BSLs) such as banks and Non-Banking Financial Companies (NBFCs) cover a range of risks, including strategic, reputational, compliance, and operational risks. They also provide specific instructions on important issues like confidentiality, security, and the roles and



[6] Reserve Bank of India, ‘Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps’ (2021) < https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1189 > accessed on February 25, 2023

[7] Bengal Money-Lenders Act 1940

[8] The Chit Funds Act 1982

[9] Sarthak Gupta, ‘Buy Now Pay Later and Need for Regulation in India’ (JOLT, 16 Feb 2022) < https://jolt.richmond.edu/2022/02/16/buy-now-pay-later-and-need-for-regulation-in-india/ > accessed on February 25, 2023

responsibilities of recovery agents. However, there are no similar guidelines on outsourced activities by other BSLs (which are not regulated), thus precluding the LSPs from partnering with them from compliance with any rules and regulations[10]. Another major concern with BNPL services was that these transactions were not reported to Credit Information Companies in India, as they did not fall under the definition of 'credit' due to the absence of interest charges. This created a blind spot in lending and an environment of lack of transparency.

As per the Credit Information Companies (Regulation) Act[11], it is mandatory for credit institutions to join any of the four Credit Information Companies in India and provide details with respect to the credit facilities granted, or to be granted, by a credit institution to any borrower. However, BNPL transactions were not affected by these provisions. This created a situation where regulated credit providers did not get a complete picture of a customer's financial position when assessing affordability, which could lead to serious financial crises in the long run. Furthermore, there are several other issues associated with BNPL services such as the lack of a first-loss default guarantee and grievance redressal measures. These issues remain unresolved, adding to the lack of transparency and the risk of financial distress for consumers. Therefore, on 20 June 2022, the Reserve Bank of India (RBI) issued a circular to all Non-Bank Prepaid Payment Instrument Operators (PPIs) to cease the loading of their prepaid-issued instruments with credit lines[12]. The circular aims to prohibit PPIs from issuing credit lines to their customers through prepaid instruments, such as overdrafts, personal loans, or any other credit products. This circular has implications for BNPL companies, which have been partnering with banks or non-banking financial companies (NBFCs) to extend co-branded credit cards.



In another press release on August 10, 2022, the Reserve Bank of India (RBI) also introduced the need that all banks, NBFCs, and lending service providers that offer short-term, unsecured/secured credits or deferred payments on merchant platforms must report these transactions to Credit Information Companies (CICs)[13]. This directive will help improve

[10] ibdi.
[11] Credit Information Companies (Regulation) Act 2005
[12] Reserve Bank of India, 'Master Directions on Prepaid Payment Instruments (PPIs)' (2021) < https://rbidocs.rbi.org.in/rdocs/notification/PDFs/82MDPPIS2708202181CF0A6FCD1B47B88CAE8E92A228B160.PDF > accessed on February 25, 2023
[13] Reserve Bank of India, 'Recommendations of the Working group on Digital Lending – Implementation' (2022) < https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54187 > accessed on February 25, 2023

credit underwriting practices and reduce the risk of default by borrowers. By reporting all digital lending transactions to CICs, the credit history of the borrower will be captured in a centralized database, making it easier for lenders to assess the borrower's creditworthiness.

## RECOMMENDATIONS OF THE WORKING GROUP ON DIGITAL LENDING

The Reserve Bank of India (RBI) constituted a Working Group on Digital Lending (WGDL) in July 2020 to study all aspects of digital lending activities in the regulated financial sector, including the implications for financial stability, consumer protection, and data privacy. The working group submitted its report to the RBI in January 2021[14], and on August 10, 2022, the Reserve Bank of India (RBI) released a press release implementing certain recommendations of the working group on digital lending, which includes lending through online platforms and mobile apps. One of the key recommendations that have been implemented is related to data localisation. This means that all data related to loan transactions must be stored on servers located within India to ensure that sensitive data is subject to Indian laws and regulations. The press release also highlights that data collected by digital lending platforms should only be based on the borrower's explicit consent and must have clear audit trails to maintain transparency. Borrowers should be given the option to accept or deny the consent for specific data usage or sharing with third parties and must be allowed to revoke previously granted consent. Additionally, borrowers should have the option to delete data collected from digital lending platforms and other service providers.



Furthermore, digital lending platforms are prohibited from accessing mobile phone resources such as files and media, contact lists, call logs, telephony functions, etc., except for one-time access required for onboarding/KYC requirements with explicit consent from the borrower. No biometric data should be stored or collected by digital lending platforms unless permitted by regulatory guidelines. Another significant recommendation of the working group was the need for greater disclosure and transparency by Digital Lending Platforms (DLPs). The group recommended that digital lenders provide clear and concise information to borrowers about the terms and conditions of their loans, including the interest rates and other charges, the repayment schedule, and the total cost of the loan. The RBI has introduced measures to increase transparency in the digital lending sector by requiring lending platforms to disclose

[14] Reserve Bank of India, 'Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps' (2021) < https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1189 > accessed on February 25, 2023

the all-inclusive cost of digital loans in the form of an annual percentage rate (APR). This will help borrowers better understand the true cost of the loan and make more informed decisions. In addition, lending platforms must provide a key fact statement (KFS) to borrowers before executing the loan contract. The KFS must contain important details such as the APR, recovery mechanism, details of the grievance redressal officer, and the cooling-off period. Any fees or charges that are not disclosed in the KFS cannot be charged by the lending platform during the term of the loan.

The WGDL also recommended that DLPs should comply with the Fair Practices Code (FPC) prescribed by the RBI. The FPC sets out the principles that banks and other financial institutions must follow to ensure that they treat their customers fairly. The RBI has now extended the FPC to DLPs, making it mandatory for them to follow the code. The working group also recommended that the RBI examine the role of digital lending platforms in determining interest rates for loans. It suggested that the RBI consider the implementation of an interest rate cap on digital lending platforms, as well as the use of a benchmark rate to determine interest rates. While the RBI has not yet implemented this recommendation, it has indicated that it is examining the issue of interest rate determination on digital lending platforms.

**PENDING RECOMMENDATIONS**

The Recommendations of Working Group on Digital Lending, set up by the Reserve Bank of India (RBI) in January 2021, submitted its report in June 2021. The report contained several recommendations for the regulation of digital lending platforms in India. While some of these recommendations have been implemented by the RBI, others are yet to be implemented.



One of the significant recommendations of the working group that is yet to be implemented is the First-Loss-Default-Guarantee (FLDG) mechanism[15]. The FLDG mechanism is a risk-sharing model in which a part of the credit risk is shared by the platform with the lender. Under this mechanism, the digital lending platform is required to retain a small portion of the risk of each loan originating on the platform. This would incentivize the platform to conduct proper due diligence before disbursing a loan and ensure that only creditworthy borrowers are given loans. In case of default, the lender's principal is protected up to a certain extent by the

[15] Probir Roy Chowdhury and Nikhil George, 'RBI implements recommendations of the working group on digital lending' (2022) < https://www.lexology.com/library/detail.aspx?g=2e94d700-622f-4a05-bee0-6e5ecf0acd1e > accessed on February 25, 2023

first-loss guarantee. This mechanism is expected to bring more transparency and accountability to the digital lending sector.

Another important recommendation of the working group is the establishment of a Digital India Trust Agency (DIGITA)[16]. The DIGITA would be a self-regulatory organization (SRO) for the digital lending industry, responsible for setting industry standards, monitoring compliance, and resolving disputes. The DIGITA is expected to bring in more transparency, promote ethical lending practices, and protect the interests of both lenders and borrowers.

The working group is also of the opinion that the RBI should formulate a code of conduct for digital lending platforms to ensure that they follow fair practices while dealing with borrowers. The code of conduct is expected to prevent practices such as high-interest rates, hidden charges, and coercive recovery practices by digital lenders.

The working group has also recommended that the RBI should set up a central loan contract registry to prevent multiple lending by digital lenders to the same borrower. This would ensure that borrowers do not take multiple loans from different digital lenders and get trapped in a debt cycle.

Further, the working group has also suggested that the RBI should take steps to improve financial literacy among borrowers to ensure that they understand the terms and conditions of the loan and make informed decisions. This is particularly important as many borrowers in India, especially those in rural areas, are not familiar with the nuances of borrowing and are vulnerable to exploitation by digital lenders.

While the recommendations made by the working group are commendable and are expected to bring more transparency and accountability to the digital lending sector, their implementation is critical to their success. It is important to note that the digital lending sector in India has been marred by irregularities and malpractices, with several cases of harassment and exploitation of borrowers by digital lenders. The implementation of the FLDG mechanism and the establishment of the DIGITA, in particular, would require a concerted effort from the RBI and the digital lending industry.

Moreover, the working group has not addressed the issue of regulating unlicensed digital lending platforms. In recent years, several unlicensed digital lending platforms have emerged

[16] Ibid

in India, operating without any regulatory oversight. These platforms often charge exorbitant interest rates and engage in coercive recovery practices, leading to the harassment and exploitation of borrowers.

## CONCLUSION AND SUGGESTION

In conclusion, digital financing and Buy Now Pay Later (BNPL) services have emerged as popular and innovative financial products in India, offering consumers greater convenience and access to credit. However, there are also potential risks associated with these products, including over-indebtedness, fraud, and consumer protection issues. Therefore, it is essential to promote responsible and sustainable digital financing practices that balance the benefits of innovation with the need to protect consumers and the broader economy.

To achieve this, policymakers and industry stakeholders should consider several measures. Firstly, there is a need to strengthen consumer protection and financial literacy through education and awareness programs. This would ensure that consumers have access to clear and transparent information about digital financing products and the risks involved, allowing them to make informed decisions. Additionally, there is a need to establish strong regulatory and supervisory frameworks to monitor digital financing activities and prevent fraud, scams, and other malpractices.

Secondly, interoperability and standardization across different digital financing platforms and services could be promoted to increase competition, lower costs, and improve convenience for consumers and merchants. This could be done by establishing a common set of technical and business standards to promote interoperability and collaboration across different players in the digital financing ecosystem.

Thirdly, policymakers and industry players should focus on promoting financial inclusion by leveraging digital financing technologies to reach underserved and remote populations. This could involve partnering with technology companies to develop innovative financial products and services that can better meet the needs of these communities. Additionally, efforts should be made to ensure that digital financing products are affordable and accessible to all, regardless of socioeconomic status or location.

Finally, collaboration and dialogue between different stakeholders are crucial for promoting responsible and sustainable digital financing practices. This could involve establishing platforms for regular consultation and engagement between policymakers, industry players, consumer groups, and other stakeholders to exchange views, identify emerging risks, and promote best practices.

In conclusion, digital financing and BNPL have the potential to significantly transform the financial landscape in India, opening up new opportunities for economic growth and financial inclusion. However, it is essential to manage the risks and challenges associated with these products and services through a collaborative and proactive approach that balances innovation with consumer protection and financial stability.