

FAQs on Guidelines on Default Loss Guarantee in Digital Lending

[\[Guidelines on Default Loss Guarantee in Digital Lending\]](#) were issued vide Circular DOR.CRE.REC.21/21.07.001/2023-24 dated June 08, 2023]

Q.1 As per Para 6 of the [Guidelines on Default Loss Guarantee \(DLG\) in Digital Lending dated June 08, 2023](#), RE shall ensure that total amount of DLG cover on any outstanding portfolio which is **specified upfront** shall not exceed five per cent of the amount of that loan portfolio. How to ensure that the portfolio on which DLG has been given is specified upfront?

Ans: The portfolio over which DLG can be offered shall consist of identifiable and measurable loan assets which have been **sanctioned (the 'DLG set')**. This portfolio will remain fixed for the purpose of DLG cover and is not meant to be dynamic. *Kindly see [illustrations](#) at the end.*

Q.2: On which amount will the cap of five per cent be calculated?

Ans: The cap is applicable on the total amount disbursed out of the DLG set at any given time (read with answer to Q.1 above). *Kindly see [illustrations](#) at the end.*

Q.3 In case DLG is invoked due to a default occurring in portfolio, can the subsequent recoveries made from the borrowers on the defaulted amount be added back to the DLG cover?

Ans: No. DLG amount once invoked by the RE cannot be reinstated, including through loan recovery. Please also refer to our answer to Q.1. *Kindly see [illustrations](#) at the end.*

Q.4 Is the name of the RE also required to be published along with the disclosure in terms of Para 11 of the Guidelines?

Ans: No. Not required.

Q.5 In case an RE functioning as an LSP is providing DLG, does it also need to have a Board approved policy.

Ans: While the Guidelines mandate the REs accepting DLG cover to have a Board approved policy in place, the REs acting as DLG providers shall also put in place Board approved policy as a prudent measure.

Q.6 Whether the guidelines on DLG are also applicable for loans sourced by REs under arrangements outside the scope of the Digital Lending Guidelines?

Ans: No.

Q.7 Whether DLG is permitted for loans arranged on the NBFC-P2P platforms?

Ans: No. DLG is not permitted on loans arranged on NBFC-P2P platforms.

Q.8 Para 12.3 of guidelines require a declaration from DLG provider, certified by the statutory auditor. Whether the same is required to be certified by the statutory auditor of the RE or the DLG provider?

Ans: The declaration has to be certified by the statutory auditor of the DLG provider.

Q.9 Whether REs are allowed to enter into DLG arrangements for credit cards as defined under [Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022](#)?

Ans: No. DLG arrangements for credit cards are not permitted.

Q.10 Whether REs are allowed to enter into DLG arrangements for revolving credit facilities offered through Digital Lending channel?

Ans: No.

Q.11 In case the DLG provider is a Regulated Entity (RE), what will be the applicable capital requirement?

Ans: RE providing DLG shall deduct full amount of the DLG which is outstanding from its capital.

Illustrations

Note: Illustrations are provided for ease of understanding and are merely indicative and not exhaustive.

Illustration 1

Assume that as on April 1, 2024 the RE earmarks a portfolio of ₹40 crore (out of the total **sanctioned** loans) under a DLG arrangement (DLG set). This portfolio shall remain "frozen" for the purpose of the specific DLG arrangement - meaning that no loan assets can be added or removed from it, except through loan repayment/ write-off. The RE can have such multiple DLG sets.

The ceiling for DLG cover on such portfolio shall be fixed at ₹2 crore (5% of ₹40 crore), which shall get activated proportionately as and when the loans are **disbursed**.

Illustration 2

Assume that out of the above DLG set, loans amounting to ₹10 crore are disbursed immediately. Then as on April 1, 2024, the DLG cover available for the portfolio shall be ₹0.5 crore (5% of disbursed).

Subsequently, if loans of ₹10 crore are further disbursed on April 15, 2024, the DLG cover shall proportionately increase to ₹1 crore effective April 15, 2024.

(Refer table below also for summary of each case)

Case 1: As on June 30, 2024, loans worth ₹5 crore mature without any default. In this case, the outstanding portfolio in the books of the RE would be ₹15 crore and the DLG cover shall remain at ₹1 crore.

Case 2: Subsequently, there is a default of ₹2 crore during Q2-2024 and consequently the RE invokes the entire DLG (₹1 crore¹). In this case, as of Sept 30, 2024 the outstanding portfolio in the books of the RE shall be ₹15 crore (*₹20 crore original portfolio less ₹5 crore loans matured without default*) but no headroom for DLG will be available as the maximum permissible DLG cover of ₹1 crore (5% of disbursed) has been exhausted.

Case 3: Going further, let's assume that recovery worth ₹1 crore is made by the RE during October 2024 on the defaulted loans of ₹2 crore. In such a case, the amount of the outstanding portfolio in the books of the RE as on October 31, 2024 shall come down to ₹14 crore (*₹20 crore original portfolio less ₹5 crore loans matured without any default less ₹1 crore loans which were in default and recovered*). However, the recovery amount of ₹1 crore cannot be added to reinstate the DLG cover.

¹ It has been assumed that till date zero principal/interest have been received towards these loans.

(figures in ₹ crore)

Period	Disbur sed	Loan maturing without default	Default Amount	DLG Invoked	Recovery/ Write-off	Outstanding Portfolio	Available DLG Cover
Initial Position	10	-	-	-	-	10	0.5
Further disbursement	10	-	-	-	-	20	1
Case 1	20	5	-	-	-	15	1
Case 2	20	5	2	1	-	15	0
Case 3	20	5	2	1	1	14	0