
DIGITAL DEBT TRAPS: LEGAL ACCOUNTABILITY OF CHINESE LENDING APPS IN INDIA

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ABSTRACT

This paper investigates the criminal responsibility of online lending applications while examining their effects upon consumers in the backdrop of digital lending platforms emerging in India. Technological advancements combined with a supportive regulatory environment have driven digital lending to grow rapidly, resulting in an unmatched level of credit accessibility. The quick growth of digital lending services has been accompanied by a significant rise in predatory behaviours, which include harassment cases and reports of fraudulent charges alongside unethical recovery methods. Mobile-based Chinese loan applications have emerged as a principal worry because they exploit regulatory loopholes and employ advanced digital methods to trap vulnerable borrowers. The business model of these platforms relies on minimal disclosure while imposing high interest rates and utilizing forceful recovery strategies through threats and public shaming. The Reserve Bank of India (RBI) established the 2022 Digital Lending Guidelines to regulate digital lending, but enforcement proves difficult because these platforms operate across borders and use complex technologies. The research examines India's current legal and regulatory conditions for digital lending services and points out major consumer protection deficiencies that demand immediate regulatory improvements. The paper examines possible mitigation strategies, including blockchain integration and AI-driven fraud detection systems, to address the dangers presented by illicit lending applications.

Keywords: Loan Apps, Digital Lending, Aggressive Recovery, Online Fraud.

INTRODUCTION

Digital lending technologies have transformed India's financial services sector by providing unique credit access opportunities for consumers across underserved societal segments. As smartphones and internet access expand in India, digital lending platforms allow millions of low-income residents and small businesses to receive loans through simplified documentation processes with immediate fund availability and adaptable payment schedules.¹ Government pro-fintech measures, including the Unified Payments Interface (UPI) and India Stack, have accelerated this sector's growth by simplifying digital identity verification processes and expanding financial services access.² Digital lending now plays an essential role in India's approach to financial inclusion by providing access to credit for people lacking formal banking access.³

The quick growth of digital lending brought about the development of negative consequences, revealing multiple weaknesses in the system. Among the most concerning are the fraudulent Chinese loan apps that have infiltrated the Indian market. These apps, often disguised as legitimate lending platforms, have gained massive traction by capitalizing on the absence of stringent oversight and regulatory measures. These platforms often operate in a grey area, circumventing traditional financial regulations by exploiting loopholes and manipulating consumers with deceptive practices. They lure borrowers with promises of quick, no-collateral loans, only to impose exorbitant interest rates, hidden fees, and aggressive recovery tactics once the loan is disbursed.⁴ Loan apps target customers who face financial hardship by exploiting the economic struggles of low-income and migrant workers who need money during tough times. Borrowers stuck in debt cycles experience difficulties meeting the repayment deadlines for high-interest loans from these platforms. The collection process includes a range of harassing methods from public shaming to physical threats, which leads to significant

¹ RupeeBoss "How Digital Lending Platforms Are Changing the Loan Landscape in India," RupeeBoss (Feb. 25, 2025, 10:00 AM), <https://rupeeboss.com/how-digital-lending-platforms-are-changing-the-loan-landscape-in-india/>.

² Yan Carrière-Swallow, Manasa Patnam & Vikram Haksar, *India Stack: Financial Access and Digital Inclusion*, Int'l Monetary Fund (July 2021), <https://www.imf.org/external/pubs/ft/fandd/2021/07/india-stack-financial-access-and-digital-inclusion.htm>.

³ World Bank, *Financial Inclusion Overview*, World Bank (Feb. 25, 2025), <https://www.worldbank.org/en/topic/financialinclusion/overview>.

⁴ Anil Kumar Tiwari, *The Dark World of Illegal Loan Apps in India*, Al Jazeera (Dec. 25, 2023), <https://www.aljazeera.com/economy/2023/12/25/the-dark-world-of-illegal-loan-apps-in-india> (last visited Feb. 25, 2025).

emotional and psychological harm.⁵ Some borrowers have taken their own lives after enduring excessive stress and shame from collection agents working for these apps. The extreme psychological and financial burdens these platforms place on users demonstrate clear ethical and regulatory issues within digital lending.⁶ These fraudulent practices extend beyond financial exploitation to include additional forms of misconduct. These fraudulent practices expand to include data misuse and violations of privacy.⁷ Chinese loan applications gather sensitive borrower data that they sell to outside parties or exploit to coerce borrowers into obtaining additional loans. Numerous platforms operate beyond the bounds of data protection and cybersecurity laws, which exposes consumers' personal information to risk. The current situation has generated worries about digital transaction security, the extensive possibilities of identity theft, and financial fraud.⁸ New research findings about Chinese loan platforms show they belong to international cybercrime networks operating beyond borders. Digital platforms function globally, enabling operators to stay hidden because most reside in areas beyond Indian regulatory authority. The inability to track illicit funds and take legal action against these operations makes it extremely hard for Indian authorities to shut them down.⁹ Moreover, the anonymity provided by digital transactions and encrypted communication channels further complicates efforts to identify the perpetrators of these crimes. The challenges law enforcement agencies face are compounded by the lack of a cohesive legal framework that addresses the specific nature of digital lending scams.¹⁰

In response to the growing concern over digital lending fraud, the Indian government and regulatory bodies, notably the Reserve Bank of India (RBI), have started to mitigate the risks associated with digital lending. In 2022, the RBI introduced comprehensive Digital Lending

⁵ Econ. Times CIO, *Reserve Bank of India Tightens Noose on Fraudulent Chinese Lending Apps*, Econ. Times CIO (Aug. 18, 2022), <https://cio.economictimes.indiatimes.com/news/government-policy/reserve-bank-of-india-tightens-noose-on-fraudulent-chinese-lending-apps/93630875> (last visited Feb. 25, 2025).

⁶ Kritti Bhalla, *Digital Lending Turns into Nightmare: Loan Recovery Harassment Blamed in Recent Suicides*, Inc42 (Oct. 30, 2020), <https://inc42.com/buzz/digital-lending-turns-into-nightmare-loan-recovery-harassment-blamed-in-recent-suicides/> (last visited Feb. 25, 2025).

⁷ EconomicTimes, *Chinese Syndicates to Keep Hurting India via Loan App Scams: Cyber Expert*, Econ. Times (Feb. 17, 2024), <https://m.economictimes.com/tech/technology/chinese-syndicates-to-keep-hurting-india-via-loan-app-scams-cyber-expert/articleshow/107026203.cms> (last visited Feb. 25, 2025).

⁸ Sunaina Chadha, *Loan Apps: How to Protect Yourself from Such Scams*, Times of India (May 11, 2022), <https://timesofindia.indiatimes.com/business/india-business/loan-apps-how-to-protect-yourself-from-such-scams/articleshow/91487086.cms> (last visited Feb. 25, 2025).

⁹ Financial Action Task Force (FATF), *Illicit Financial Flows from Cyber-Enabled Fraud*, FATF (June 2023), <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Illicit-financial-flows-cyber-enabled-fraud.pdf> (last visited Feb. 25, 2025).

¹⁰ Prajwal D'Souza, *No Clues on Loan App Scam Suspects in 37% of Cases*, Deccan Herald (Jan. 2024), <https://www.deccanherald.com/india/no-clues-on-loan-app-scam-suspects-in-37-of-cases-2998790>

Guidelines to improve transparency, protect consumers, and regulate the relationship between lenders, borrowers, and third-party service providers. The guidelines require digital lenders to follow a set of compliance measures, including disclosing loan terms, ensuring that funds are disbursed directly to the borrower's bank account, and preventing the involvement of unregulated third parties in loan recovery. The guidelines require the formation of grievance redressal systems and encourage consumer education regarding digital lending risks.¹¹ The regulatory measures represent progress, yet show critical shortcomings in enforcement and monitoring systems. Chinese loan apps operate covertly, which prevents authorities from executing efficient regulatory measures.¹² The disjointed legal system and weak global cybercrime collaboration obstruct measures designed to control the damage caused by fraudulent applications. Chinese syndicates benefit from their country's legal protections, which complicates cross-border operations because Indian authorities have few options to respond.¹³

Through this analysis, we aim to explore the legal consequences of digital lending fraud by examining the criminal accountability of Chinese loan applications within India. The paper will analyse existing regulatory measures to determine their success in preventing fraud and suggest improvements to consumer protection and legal enforcement systems. The research emphasises that international collaboration needs to increase to combat cross-border cyber dangers and to protect vulnerable individuals from predatory digital lending operations.

BACKGROUND AND LITERATURE REVIEW

DIGITAL LENDING IN INDIA

The Indian digital lending market has grown unprecedentedly during the last ten years because more people have access to smartphones and the internet. The expansion of digital lending platforms has enabled formal and informal organisations to offer quick and easy credit access to individuals from financially excluded communities. Digital lending stands out as a strong

¹¹ Reserve Bank of India, *Guidelines on Digital Lending*, RBI (Sept. 2, 2022), <https://www.rbi.org.in/commonman/english/scripts/FAQs.aspx?Id=3413> (last visited Feb. 25, 2025).

¹² EconomicTimes, *Chinese Syndicates to Keep Hurting India via Loan App Scams: Cyber Expert*, Econ. Times (Feb. 17, 2024), <https://m.economictimes.com/tech/technology/chinese-syndicates-to-keep-hurting-india-via-loan-app-scams-cyber-expert/articleshow/107026203.cms> (last visited Feb. 25, 2025).

¹³ Financial Action Task Force (FATF), *Illicit Financial Flows from Cyber-Enabled Fraud*, FATF (June 2023), <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Illicit-financial-flows-cyber-enabled-fraud.pdf> (last visited Feb. 25, 2025).

mechanism to close the credit accessibility gap by providing loans to individuals who lack traditional banking eligibility because of missing formal credit records or collateral requirements.¹⁴ The convenience of obtaining loans through mobile apps, with minimal paperwork and swift disbursements, has positioned digital lending as an essential component of India's financial ecosystem. The introduction of government initiatives like the Unified Payments Interface (UPI) and the India Stack has streamlined financial services, which allow millions of Indians to access credit more conveniently. The quick growth of the sector brought attention from unethical entities who take advantage of technological gaps and unclear regulations, leading to substantial consumer dangers.¹⁵

EMERGENCE OF CHINESE LOAN APPS

The fast-growing presence of Chinese loan applications within India's digital lending market is one of the most concerning developments. These applications misrepresent themselves as genuine digital lending services that attract borrowers with the offer of fast and simple credit access. These lenders practice illegal activities through predatory lending methods while imposing exorbitant interest rates that establish unsustainable debt traps for vulnerable consumers.¹⁶ Al Jazeera's investigative reports show these applications operate with little regulatory compliance and manage to evade existing financial laws.¹⁷ Without regulatory oversight, these platforms manipulate consumers by preying on those in desperate financial situations, including migrant workers and low-income groups. Borrowers who take out loans face harsh terms and undisclosed fees, which trap them in an almost unavoidable cycle of debt.¹⁸ The rising popularity of these apps allows them to take advantage of their customers' financial distress by employing extreme debt collection methods, including public shaming and threats alongside physical harassment. There have been reports that borrowers have taken their

¹⁴ Preshit Mendhekar & Venkatesh Sakkaji, *Digital Lending in India: Changing the Outlook of Loans & Credits in India with Pega and LTI*, Whitepaper (2023), <https://www.ltimindtree.com/middle-east/assets/solutions/Digital-Lending-WP.pdf> (last visited Feb. 25, 2025).

¹⁵ Munnu Prasad V, *Digital Lending Financial Apps – Issues, Challenges and Risk faced by the Users* (2022), Jain College (last accessed Feb. 25, 2025)

¹⁶ Adwait Jain, *How has Digital Lending Impacted the Indian Banking Market*, SSRN (2024), <https://ssrn.com/abstract=4582480> (last accessed Feb. 25, 2025)

¹⁷ Anil Kumar Tiwari, *The Dark World of Illegal Loan Apps in India*, Al Jazeera (Dec. 25, 2023), <https://www.aljazeera.com/economy/2023/12/25/the-dark-world-of-illegal-loan-apps-in-india> (last visited Feb. 25, 2025).

¹⁸ Munnu Prasad V, *Digital Lending Financial Apps – Issues, Challenges and Risk faced by the Users* (2022), Jain College (last accessed Feb. 25, 2025)

own lives because aggressive recovery practices have caused severe psychological and emotional distress.¹⁹

INSIGHTS FROM MEDIA AND ACADEMIC SOURCES

Various media outlets have extensively reported on the increasing threat posed by fraudulent digital loan apps, which the Economic Times also discusses alongside their continuing challenges. An article examines how Chinese syndicates work to destabilise India's financial system through advanced digital loan app scams. The article attributes the persistence of these fraudulent practices to the evolving strategies employed by cybercriminals, who continuously adapt to bypass regulatory safeguards.²⁰ Another Economic Times report details the Reserve Bank of India's (RBI) efforts to tighten regulations and clamp down on fraudulent lending platforms, illustrating the urgency and complexity of addressing this issue.²¹ While these regulatory measures are a step in the right direction, enforcing them remains daunting, especially in the face of rapidly evolving digital platforms and the cross-border nature of the crime.²² Local news outlets like The Hindu deliver a detailed examination of the personal consequences faced by users of fraudulent loan applications. The article details how unscrupulous lending practices create a "dark debt trap" which captures financially vulnerable people while highlighting the serious emotional and psychological consequences of these practices. Victims' accounts illustrate how these loans harm individuals and families while showing the human side of wider financial and legal repercussions.²³ During this period, academic studies from Harvard Business School provide theoretical insights into digital lending trends while examining the broader market dynamics and potential risks associated with digital finance growth.²⁴ The government report from Sansad provides a critical

¹⁹ Akhileshwari Anand, Aaron Kamath & Huzefa Tavawalla, *Digital Lending in India: Analysis and Implications*, Nishith Desai Associates (2023) (last accessed Feb. 25, 2025)

²⁰ EconomicTimes, *Chinese Syndicates to Keep Hurting India via Loan App Scams: Cyber Expert*, Econ. Times (Feb. 17, 2024), <https://m.economictimes.com/tech/technology/chinese-syndicates-to-keep-hurting-india-via-loan-app-scams-cyber-expert/articleshow/107026203.cms> (last visited Feb. 25, 2025).

²¹ Econ. Times CIO, *Reserve Bank of India Tightens Noose on Fraudulent Chinese Lending Apps*, Econ. Times CIO (Aug. 18, 2022), <https://cio.economictimes.indiatimes.com/news/government-policy/reserve-bank-of-india-tightens-noose-on-fraudulent-chinese-lending-apps/93630875> (last visited Feb. 25, 2025).

²² Pedro J. Cuadros-Solas, Elena Cubillas & Carlos Salvador, *Does Alternative Digital Lending Affect Bank Performance? Cross-Country and Bank-Level Evidence*, Int'l Rev. Fin. Analysis, 90, 102873 (2023), <https://doi.org/10.1016/j.irfa.2023.102873> (last accessed Feb. 25, 2025).

²³ Shreyas H.S., *Fraudulent Loan Apps: The Dark Debt Trap*, *The Hindu* (Dec. 6, 2023), <https://www.thehindu.com/news/cities/bangalore/fraudent-loan-apps-the-dark-debt-trap/article67068472.ece> (last accessed Feb. 25, 2025).

²⁴ Akhileshwari Asamani & Jayavani Majumdar, *An Empirical Study of Digital Lending in India and the Variables Associated with its Adoption*, BAR – Braz. Adm. Rev., 21(3), e230132 (2024), <https://doi.org/10.1590/1807-7692bar2024230132> (last accessed Feb. 25, 2025)

examination of the legal challenges of digital lending in India while suggesting policy solutions to tackle consumer protection and financial regulation issues.²⁵

This combined analysis delivers a complete perspective on the risks and challenges of digital lending in India while showcasing its advantages and vulnerabilities within this fast-developing field.²⁶ While digital lending platforms have undoubtedly revolutionized access to credit, they have also opened the door for exploitation, creating a need for stronger regulatory frameworks, consumer protection measures, and international cooperation to combat cross-border financial crime.²⁷

LEGAL FRAMEWORK AND REGULATORY ENVIRONMENT

India's legal framework has several statutory provisions addressing fraudulent digital lending practices. However, the rapid evolution of technology and the global nature of digital financial services have highlighted several regulatory challenges that have yet to be fully addressed.²⁸ The key statutes in place include the Indian Penal Code (IPC) (now Bharatiya Nyaya Sanhita), the Information Technology Act, 2000, and regulations by the Reserve Bank of India (RBI). Together, these provisions lay a foundation for curbing fraud in digital lending, but some gaps leave consumers vulnerable to exploitation.

First, the Indian Penal Code (IPC) (now Bharatiya Nyaya Sanhita) provides broad provisions related to fraud, criminal breach of trust, and cheating, all of which apply to fraudulent digital lending practices. Legal actions can be taken against individuals who commit fraudulent lending under sections 420 and 406, which deal with cheating and criminal breach of trust. The standard framework of the IPC fails to tackle digital financial fraud's distinctive characteristics completely.²⁹ The digital lending sector functions within a virtual space that merges online and

²⁵ Ministry of Finance, *Fraudulent Loan Apps: Rajya Sabha Unstarred Question No. 2462*, Gov't of India (Dec. 17, 2024), https://sansad.in/getFile/annex/266/AU2462_GV6qmW.pdf?source=pqars (last visited Feb. 25, 2025).

²⁶ Harvard Business School, *Digital Lending: Challenges and Opportunities*, https://www.hbs.edu/ris/Publication%20Files/23-076rev11-13-23_b3ecc663-8dbd-4446-9059-115f511e612c.pdf (last visited Feb. 25, 2025).

²⁷ Akhileshwari Anand, Aaron Kamath & Huzefa Tavawalla, *Digital Lending in India: Analysis and Implications*, Nishith Desai Associates (2023) (last accessed Feb. 25, 2025).

²⁸ Economic Laws Practice (ELP), *Balancing Regulation and Accessibility: Addressing Unregulated Lending in India with a Comprehensive Approach*, ELP (2025), <https://elplaw.in/wp-content/uploads/2025/01/Balancing-Regulation-and-Accessibility-Addressing-Unregulated-Lending-in-India-with-a-Comprehensive-Approach.pdf> (last visited Feb. 25, 2025).

²⁹ Bharatiya Nyaya Sanhita, 2023, §§ 316, 318, No. 5 of 2023, India Code (2023), https://bprd.nic.in/uploads/pdf/BNS_English_30-04-2024.pdf (last visited Feb. 25, 2025).

physical fraud boundaries, and enforcement becomes difficult because of the massive size of online platforms. The IPC does not have specific legislative measures that target digital lending crimes, including predatory interest rates, unethical collection methods, and encrypted systems that hide illegal activities.³⁰

The Information Technology Act of 2000 delivers vital instruments to tackle cybercrimes like unauthorised access, data breaches, and identity theft cases, which often occur during digital lending operations. This Act allows the prosecution of fraudulent lending apps that access borrowers' data without permission or manipulate transaction records.³¹ The segments of law concerning hacking and cyber fraud establish the legal foundation for examining and prosecuting digital loan fraud cases when borrowers' personal and financial data are exploited.³² The IT Act is essential in tackling digital lending fraud through technology and cybercrime laws, but it faces criticism for failing to match the quick advancements in digital finance.³³ The legal framework of the Act targets broad cybercrimes without establishing detailed rules for digital lending fraud that require specific financial transaction regulations.³⁴

The Reserve Bank of India (RBI) has implemented substantial measures against digital lending fraud as the central regulatory authority. The RBI regulates digital financial services through its guidelines and directives to protect consumers and preserve market stability.³⁵ The introduction of the Digital Lending Guidelines in 2022 was a critical step in this direction, requiring digital lenders to disclose clear terms, ensure transparent disbursement of funds, and set up grievance redressal mechanisms for consumers. These regulations represent the government's commitment to curbing fraudulent practices, particularly in light of the rise of

³⁰ Pedro J. Cuadros-Solas, Elena Cubillas & Carlos Salvador, *Does Alternative Digital Lending Affect Bank Performance? Cross-Country and Bank-Level Evidence*, Int'l Rev. Fin. Analysis, 90, 102873 (2023), <https://doi.org/10.1016/j.irfa.2023.102873> (last accessed Feb. 25, 2025).

³¹ Information Technology Act, 2000, No. 21, Acts of Parliament, 2000 (India), available at <https://finlawassociates.com/blog/understanding-data-theft-under-it-act-2000-laws-penalties-and-prevention/> (last visited Feb. 25, 2025).

³² The Parliament of India, Rajya Sabha, Unstarred Question No. 2462, available at https://sansad.in/getFile/annex/266/AU2462_GV6qmW.pdf (last visited Feb. 25, 2025).

³³ Voice of Research, Digital Lending and Legal Challenges, available at https://www.voiceofresearch.org/doc/Jun-2021/Jun-2021_9.pdf (last visited Feb. 25, 2025).

³⁴ Nupur Anand, Indian Government Proposes Prison Terms, Fines for Illegal Lending, Reuters (Dec. 19, 2024), available at <https://www.reuters.com/business/finance/indian-government-proposes-prison-terms-fines-illegal-lending-2024-12-19/> (last visited Feb. 25, 2025).

³⁵ Reserve Bank of India, Guidelines on Digital Lending, Saikrishna & Associates (Sept. 2022), available at <https://www.saikrishnaassociates.com/rbi-issues-guidelines-to-regulate-digital-lending/> (last visited Feb. 25, 2025).

Chinese loan apps operating with minimal regulatory oversight.³⁶ However, while the RBI's regulatory measures are a significant stride, they reveal challenges in adapting traditional legal frameworks to the rapid pace of technological change. Fraudulent digital platforms often operate globally, bypassing national regulations by shifting operations across jurisdictions. As a result, enforcement becomes increasingly complex, particularly when the fraud perpetrators are beyond the reach of Indian authorities.³⁷

REGULATORY RESPONSE TO DIGITAL LENDING FRAUD

The Reserve Bank of India (RBI) has played a pivotal role in responding to the growing issue of digital lending fraud, implementing stricter regulations and enhancing monitoring mechanisms to mitigate the risks associated with these platforms. The rapid growth of digital lending through mobile applications brings new opportunities for financial inclusion, yet enables fraudulent entities to take advantage of insufficient regulatory controls.³⁸ Reports from Economic Times show that the RBI's intensified regulatory efforts towards digital lending platforms, especially those with Chinese loan apps, highlight the immediate need to combat financial exploitation risks and protect consumers.³⁹ The RBI has implemented critical regulatory changes focusing on tightening app-based lending platforms' rules. The primary operation of these platforms through mobile applications has resulted in limited regulatory oversight until recent changes were made. The swift expansion of digital lenders from overseas has led the RBI to establish stricter regulatory measures. The new regulations require lenders to follow transparent lending terms while regularly auditing their lending practices.⁴⁰ The RBI shows active measures to defend consumers from harmful outcomes caused by platforms known for predatory lending through excessive interest rates, hidden fees, and aggressive

³⁶ Chinese Syndicates to Keep Hurting India via Loan App Scams: Cyber Expert, The Economic Times (Dec. 2023), available at <https://m.economictimes.com/tech/technology/chinese-syndicates-to-keep-hurting-india-via-loan-app-scams-cyber-expert/articleshow/107026203.cms> (last visited Feb. 25, 2025).

³⁷ ED Arrests Key Players in ₹719 Crore Fake Chinese Loan App Scam, Business Standard (Feb. 21, 2025), available at https://www.business-standard.com/india-news/ed-arrests-key-players-in-rs-719-crore-fake-chinese-loan-app-scam-125022101149_1.html (last visited Feb. 25, 2025).

³⁸ Reserve Bank of India, Guidelines on Digital Lending, Saikrishna & Associates (Sept. 2022), available at <https://www.saikrishnaassociates.com/rbi-issues-guidelines-to-regulate-digital-lending/> (last visited Feb. 25, 2025).

³⁹ Econ. Times CIO, *Reserve Bank of India Tightens Noose on Fraudulent Chinese Lending Apps*, Econ. Times CIO (Aug. 18, 2022), <https://cio.economictimes.indiatimes.com/news/government-policy/reserve-bank-of-india-tightens-noose-on-fraudulent-chinese-lending-apps/93630875> (last visited Feb. 25, 2025).

⁴⁰ Preshit Mendhekar & Venkatesh Sakkaji, *Digital Lending in India: Changing the Outlook of Loans & Credits in India* (Digital Lending White Paper, Pega & LTI, 2023) (last accessed Feb. 25, 2025)

collection methods.⁴¹ The introduction of penalties for non-compliance has been a significant move by the RBI to deter lenders from engaging in unscrupulous behaviour and to promote ethical lending practices.⁴² One of the key regulatory tools introduced by the RBI is the requirement for Know Your Customer (KYC) procedures. These regulations mandate that lenders must verify the identity of borrowers through government-issued identification, such as Aadhar cards or other digital identification methods. The aim of these measures is twofold: The policy objectives include authorising credit access only to verified individuals while minimising the issuance of fraudulent loans to non-existent or unverified borrowers. KYC regulations play a key role in preventing money laundering activities and maintaining the integrity of financial lending operations.⁴³ Loan disbursements and repayments through borrowers' bank accounts are now required by the RBI to remove unregulated intermediaries previously involved in fraudulent activities. Implementing these measures seeks to establish a lending system that allows for greater transparency and traceability while reducing the ability of fraudulent actors to exploit borrowers.⁴⁴

The implementation of these crucial regulatory steps comes with its own set of challenges. Digital lending expansion reveals complex scenarios that traditional regulatory structures fail to manage effectively.⁴⁵ The cross-border operations of many fraudulent digital lending platforms represent one of the main challenges. Chinese loan apps targeting Indian consumers operate from regions where digital lending regulations are either absent or poorly implemented. The extraterritorial nature of these operations prevents Indian authorities from prosecuting or regulating entities that operate from outside India because they lack legal jurisdiction in these cases.⁴⁶ Encryption and advanced data protection methods by digital platforms make it difficult to track financial transactions while identifying responsible

⁴¹ Adwait Jain, *How has Digital Lending Impacted the Indian Banking Market*, SSRN (2024), <https://ssrn.com/abstract=4582480> (last accessed Feb. 25, 2025).

⁴² Econ. Times CIO, *Reserve Bank of India Tightens Noose on Fraudulent Chinese Lending Apps*, Econ. Times CIO (Aug. 18, 2022), <https://cio.economictimes.indiatimes.com/news/government-policy/reserve-bank-of-india-tightens-noose-on-fraudulent-chinese-lending-apps/93630875> (last visited Feb. 25, 2025).

⁴³ Akhileshwari Anand, Aaron Kamath & Huzefa Tavawalla, *Digital Lending in India: Analysis and Implications*, Nishith Desai Associates (2023) (last accessed Feb. 25, 2025)

⁴⁴ Pedro J. Cuadros-Solas, Elena Cubillas & Carlos Salvador, *Does Alternative Digital Lending Affect Bank Performance? Cross-Country and Bank-Level Evidence*, Int'l Rev. Fin. Analysis, 90, 102873 (2023), <https://doi.org/10.1016/j.irfa.2023.102873> (last accessed Feb. 25, 2025)

⁴⁵ Voice of Research, *Digital Lending and Legal Challenges*, available at https://www.voiceofresearch.org/doc/Jun-2021/Jun-2021_9.pdf (last visited Feb. 25, 2025).

⁴⁶ FATF, INTERPOL & Egmont Group, *Illicit Financial Flows from Cyber-Enabled Fraud* (2023), <https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Methodsandtrends/illicit-financial-flows-cyber-enabled-fraud.html> (last accessed Feb. 25, 2025)

individuals and preventing fraud.⁴⁷ The rapid technological progress occurring within the digital lending industry creates substantial difficulties.⁴⁸ Traditional regulatory structures failed to anticipate the swift emergence of online financial services and digital lending practices, necessitating ongoing regulatory innovation to keep up with changes. Regulatory bodies, including the RBI, must consistently update their guidelines to match technological progress and new security challenges. The lending industry is being revolutionised by lenders who use artificial intelligence (AI) and machine learning (ML) algorithms for credit assessment. However, these advancements bring new risks, including algorithmic bias and data manipulation.⁴⁹ While the RBI's initiatives have made strides in curbing fraudulent practices, concerns remain regarding enforcement and implementation.⁵⁰ Although the guidelines are in place, monitoring compliance across the thousands of digital lending platforms operating in India remains a significant challenge.⁵¹ With a rapidly growing sector and increasing players entering the market, regulators face difficulties in ensuring that all lenders comply with the new rules.⁵²

IDENTIFIED GAPS IN REGULATION

Despite the positive strides made by the RBI and other regulatory bodies, significant gaps in the regulation of digital lending remain. Cross-border jurisdiction presents the main challenge for addressing fraudulent Chinese loan apps operating in India. Many fraudulent Chinese loan apps serving Indian customers operate from foreign locations where digital financial fraud laws are either missing or cannot be implemented.⁵³ The operations of these platforms exist beyond India's borders, creating challenges for authorities to enforce legal measures because the

⁴⁷ Adwait Jain, *How has Digital Lending Impacted the Indian Banking Market*, SSRN (2024), <https://ssrn.com/abstract=4582480> (last accessed Feb. 25, 2025)

⁴⁸ Pedro J. Cuadros-Solas, Elena Cubillas & Carlos Salvador, *Does Alternative Digital Lending Affect Bank Performance? Cross-Country and Bank-Level Evidence*, *Int'l Rev. Fin. Analysis*, 90, 102873 (2023), <https://doi.org/10.1016/j.irfa.2023.102873> (last accessed Feb. 25, 2025)

⁴⁹ Akhileshwari Anand, Aaron Kamath & Huzefa Tavawalla, *Digital Lending in India: Analysis and Implications*, Nishith Desai Associates (2023) (last accessed Feb. 25, 2025)

⁵⁰ Voice of Research, *Digital Lending and Legal Challenges*, available at https://www.voiceofresearch.org/doc/Jun-2021/Jun-2021_9.pdf (last visited Feb. 25, 2025).

⁵¹ Reserve Bank of India, *Guidelines on Digital Lending*, RBI (Sept. 2, 2022), <https://www.rbi.org.in/commonman/english/scripts/FAQs.aspx?Id=3413> (last visited Feb. 25, 2025).

⁵² Economic Laws Practice (ELP), *Balancing Regulation and Accessibility: Addressing Unregulated Lending in India with a Comprehensive Approach*, ELP (2025), <https://elplaw.in/wp-content/uploads/2025/01/Balancing-Regulation-and-Accessibility-Addressing-Unregulated-Lending-in-India-with-a-Comprehensive-Approach.pdf> (last visited Feb. 25, 2025).

⁵³ ED Arrests Key Players in ₹719 Crore Fake Chinese Loan App Scam, *Business Standard* (Feb. 21, 2025), available at https://www.business-standard.com/india-news/ed-arrests-key-players-in-rs-719-crore-fake-chinese-loan-app-scam-125022101149_1.html (last visited Feb. 25, 2025).

offenders operate under foreign jurisdictions outside national law. Cross-border standardisation deficits and insufficient international collaboration complicate enforcing legal measures against cybercrimes.⁵⁴ A regulatory gap emerges from technological constraints. Digital lending platforms employ encryption technologies, anonymised transactions, and complex algorithms to conceal their operations from regulatory bodies, which struggle to monitor and track fraudulent activities. Regulatory bodies face a significant challenge in tracking highly sophisticated digital operations because they do not possess the necessary resources and expertise to detect evasion technologies. Traditional methods of surveillance and investigation are often ill-suited for the fast-evolving nature of digital financial fraud.⁵⁵ There is a significant inadequacy in consumer protection. While some measures have been introduced to protect consumers, existing laws and regulations often fail to address the specific challenges posed by digital financial fraud.⁵⁶ For example, the exploitation of vulnerable populations, such as migrant workers and low-income individuals, through predatory lending practices is not sufficiently addressed in the current regulatory framework.⁵⁷ Many of these individuals are unaware of the risks associated with digital lending, and the lack of proper grievance redressal mechanisms and legal recourse leaves them vulnerable to exploitation. Though helpful, consumer protection laws do not fully capture the nuances of digital lending scams, leaving affected borrowers with limited options for recourse.⁵⁸

ANALYSIS OF CRIMINAL LIABILITY OFFENCES AND LIABILITY UNDER INDIAN LAW

Chinese loan apps operating in India can potentially face criminal liability under several provisions of Indian law, particularly for fraud and cheating, cybercrimes, and money

⁵⁴ The Impact of APP Fraud on Cross-Border Payments, The Payments Association, available at <https://thepaymentsassociation.org/wp-content/uploads/sites/7/2024/09/The-impact-of-APP-fraud-on-cross-border-payments-1.pdf> (last visited Feb. 25, 2025).

⁵⁵ Unveiling the Complexity of Cross-Border Fraud, *Global Anti-Cybercrime and Security Alliance* (Sept. 2024), <https://www.gasa.org/post/unveiling-the-complexity-of-cross-border-fraud-insights-and-policing-strategies/> (last accessed Feb. 25, 2025).

⁵⁶ Digital Lending Revolution & Regulatory Compliance in India, *MSB Docs* (Nov. 2024), <https://msbdocs.com/bfsi/transforming-banking/> (last accessed Feb. 25, 2025).

⁵⁷ Chinese Syndicates to Keep Hurting India via Loan App Scams: Cyber Expert, *The Economic Times* (Dec. 2023), available at <https://m.economictimes.com/tech/technology/chinese-syndicates-to-keep-hurting-india-via-loan-app-scams-cyber-expert/articleshow/107026203.cms> (last visited Feb. 25, 2025).

⁵⁸ Akhtar Hasan Jamal Khan & Syed Afzal Ahmad, *IoTBlockFin: A Solution to Prevent Loan Scams in India with Integrating IoT and Blockchain for Enhanced Security and Transparency in Loan Processing*, *J. Intell. Sys. & IoT*, 14(1), 209-220 (2025), <https://doi.org/10.54216/JISIoT.140116> (last accessed Feb. 25, 2025)

laundering.⁵⁹ These platforms often misrepresent loan terms, impose hidden charges, and employ deceptive tactics to lure unsuspecting borrowers.⁶⁰ The Indian Penal Code (now known as the Bharatiya Nyaya Sanhita) categorises these actions as fraudulent and cheating offences. The Indian Penal Code, through Section 420, establishes cheating as a criminal offence that includes deceiving someone to achieve fraudulent benefits. Loan agreement manipulation where borrowers remain unaware of the actual terms or hidden high-interest rates fully meets this legal provision's criteria.⁶¹

Due to their digital platform dependence, Chinese loan apps become vulnerable to legal action under the Information Technology Act, 2000. Numerous apps carry out cybercriminal actions, which include gaining unauthorised access to data, stealing identities, and manipulating digital financial systems.⁶² For instance, scraping personal data without consent or exploiting vulnerabilities in users' digital security measures would be addressed under sections of the IT Act, including hacking and identity theft provisions.⁶³ Reports from sources such as The Hindu highlight how these platforms operate in a digital ecosystem, employing sophisticated algorithms to track user behaviour and access sensitive financial data, which can easily result in breaches of user privacy and unauthorized use of personal information.⁶⁴ These platforms could also be charged under anti-money laundering laws. The Prevention of Money Laundering Act (PMLA)⁶⁵, 2002, is particularly relevant when these apps are used to obscure financial transactions through complex payment chains, offshore accounts, or by using virtual assets to launder the illicit proceeds of fraud. These apps often facilitate the transfer of large sums across borders, without proper tracking, raising serious concerns about the use of digital platforms in

⁵⁹ Financial Frauds in India: Legal Action, S.S. Rana & Co., available at <https://ssrana.in/uFAQs/financial-frauds-india-legal-action> (last visited Feb. 26, 2025).

⁶⁰ Chinese Loan App Fraud: Delhi Police Arrests Five, Inc42, available at <https://inc42.com/buzz/chinese-loan-app-fraud-delhi-police-five-arrests> (last visited Feb. 26, 2025).

⁶¹ Indian Government Proposes Prison Terms, Fines for Illegal Lending, Reuters, available at <https://www.reuters.com/business/finance/indian-government-proposes-prison-terms-fines-illegal-lending-2024-12-19> (last visited Feb. 26, 2025).

⁶² Munnu Prasad V, *Digital Lending Financial Apps – Issues, Challenges and Risk faced by the Users* (2022), Jain College (last accessed Feb. 26, 2025)

⁶³ Akhileshwari Anand, Aaron Kamath & Huzefa Tavawalla, *Digital Lending in India: Analysis and Implications*, Nishith Desai Associates (2023) (last accessed Feb. 26, 2025)

⁶⁴ The Hindu, Fraudulent Loan Apps: The Dark Debt Trap, THE HINDU (Feb. 26, 2025), <https://www.thehindu.com/news/cities/bangalore/fraudulent-loan-apps-the-dark-debt-trap/article67068472.ece> (last accessed Feb. 26, 2025).

⁶⁵ Department of Economic Affairs, The Prevention of Money Laundering Act, 2002, GOV'T OF INDIA (last visited Feb. 26, 2025), <https://dea.gov.in/sites/default/files/moneylaunderingact.pdf>.

money laundering activities.⁶⁶ The Economic Times revealed that loan app operators from China have been adopting trade-based money laundering methods,⁶⁷ along with informal remittance channels to transfer money internationally without detection.⁶⁸ Prosecutors encounter major obstacles when pursuing these organizations because criminal activities occur across national boundaries. The fact that Chinese loan applications run operations outside India means that Indian law enforcement agencies encounter substantial obstacles when establishing jurisdiction.⁶⁹ Jurisdictional cooperation gaps between countries enable many cybercriminals to evade prosecution despite the International Review of Financial Analysis highlighting these obstacles in cross-border digital fraud cases. Indian law enforcement faces difficulties collaborating with international agencies because different legal standards and the disjointed nature of global cybercrime laws create barriers.⁷⁰ The complex corporate structures that digital platforms use through shell companies and offshore bank accounts prevent investigators from following the sequence of criminal responsibility.⁷¹

In response to these challenges, there has been a divergence of opinion among legal scholars and practitioners regarding how to address the issue best. Some experts advocate for a broader interpretation of existing cybercrime laws, particularly those under the IT Act, encompassing cross-border digital financial fraud.⁷² They argue that cybercrimes, by their very nature, are increasingly global, and Indian laws should evolve to meet the demands of a digitized economy.⁷³ On the other hand, there is a growing consensus that dedicated legislation is

⁶⁶ Enforcement Directorate Arrests Key Players in ₹719 Crore Fake Chinese Loan App Scam, Bus. Standard, available at https://www.business-standard.com/india-news/ed-arrests-key-players-in-rs-719-crore-fake-chinese-loan-app-scam-125022101149_1.html (last visited Feb. 26, 2025).

⁶⁷ Financial Action Task Force, Trade-Based Money Laundering, FATF (July 2020), <https://www.fatf-gafi.org/en/publications/MethodsandTrends/Trade-basedmoneylaundering.html> (last accessed Feb. 26, 2025).

⁶⁸ ED Arrests Two Chinese Nationals in Online App Loan Fraud Case, Econ. Times, available at <https://m.economictimes.com/news/india/ed-arrests-2-chinese-persons-in-online-app-loan-fraud-case/articleshow/115460907.cms> (last visited Feb. 26, 2025).

⁶⁹ Cross-Border Digital Financial Fraud and the Challenges of Cybercrime Prosecution, Int'l J. Sci. Res., available at <https://www.ijsr.net/archive/v9i4/SR24314131459.pdf> (last visited Feb. 25, 2025).

⁷⁰ Pedro J. Cuadros-Solas, Elena Cubillas & Carlos Salvador, *Does Alternative Digital Lending Affect Bank Performance? Cross-Country and Bank-Level Evidence*, Int'l Rev. Fin. Analysis, 90, 102873 (2023), <https://doi.org/10.1016/j.irfa.2023.102873> (last accessed Feb. 26, 2025).

⁷¹ Chinese Loan Apps Case: Karnataka HC Says Investigation Must for Kerala-Based Firm, Econ. Times, available at <https://m.economictimes.com/tech/technology/chinese-loan-apps-case-karnataka-hc-says-investigation-must-for-kerala-based-firm/articleshow/98356899.cms> (last visited Feb. 26, 2025).

⁷² Adwait Jain, *How has Digital Lending Impacted the Indian Banking Market*, SSRN (2024), <https://ssrn.com/abstract=4582480> (last accessed Feb. 26, 2025).

⁷³ Akhtar Hasan Jamal Khan & Syed Afzal Ahmad, *IoTBlockFin: A Solution to Prevent Loan Scams in India with Integrating IoT and Blockchain for Enhanced Security and Transparency in Loan Processing*, J. Intell. Sys. & IoT, 14(1), 209-220 (2025), <https://doi.org/10.54216/JISIoT.140116> (last accessed Feb. 26, 2025).

necessary to target the digital lending sector specifically.⁷⁴ Academic research, such as that presented in the Journal of Financial Crime, suggests that a more robust regulatory framework is required to oversee digital lending practices and ensure consumer protection.⁷⁵ Scholars emphasize that reforms should not solely focus on punitive measures but should also work toward transparency in digital lending and ensure borrowers' rights are adequately safeguarded in the face of rapidly evolving technology.⁷⁶

CHALLENGES IN REGULATION AND ENFORCEMENT

The rise of fraudulent digital lending platforms, particularly those operating from foreign jurisdictions, presents significant challenges for regulation and enforcement in India. The cross-border jurisdictional issues in these crimes complicate the legal landscape, particularly when perpetrators are based in countries like China. These operators often benefit from the legal infrastructure in their home country, which shields them from Indian authorities.⁷⁷ To overcome these challenges, Indian agencies must rely on bilateral or multilateral cooperation. This process frequently experiences delays due to diplomatic obstacles and sometimes produces coordination failures. Sovereignty concerns emerge because nations often hesitate to extradite suspects or share information without official requests, leading to delayed justice and enforcement.⁷⁸

On the technological and investigative front, the digital nature of these loan apps complicates matters even further.⁷⁹ Advanced encryption methods, proxy servers, and anonymised payment channels are commonly employed by fraudsters to conceal their activities, making it increasingly difficult to trace illicit transactions. These technological barriers hinder the ability of law enforcement to track the movement of funds across borders.⁸⁰ As a result, investigations

⁷⁴ Principles for Consumer Protection in Digital Financial Services, Int'l J. Sci. Res., available at <https://jcli-bi.org/index.php/jcli/article/download/7/10> (last visited Feb. 26, 2025).

⁷⁵ Journal of Financial Crime, Emerald Publishing, available at <https://www.emeraldgrouppublishing.com/journal/jfc> (last visited Feb. 26, 2025).

⁷⁶ Akhileshwari Anand, Aaron Kamath & Huzefa Tavawalla, *Digital Lending in India: Analysis and Implications*, Nishith Desai Associates (2023) (last accessed Feb. 26, 2025)

⁷⁷ FATF, INTERPOL & Egmont Group, *Illicit Financial Flows from Cyber-Enabled Fraud* (2023), <https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Methodsandtrends/illicit-financial-flows-cyber-enabled-fraud.html> (last accessed Feb. 26, 2025)

⁷⁸ Adwait Jain, *How has Digital Lending Impacted the Indian Banking Market*, SSRN (2024), <https://ssrn.com/abstract=4582480> (last accessed Feb. 26, 2025)

⁷⁹ Ministry of Corporate Affairs Probing Several Loan Apps for Allegations of Company Law Violation, Bus. Standard, available at https://www.business-standard.com/industry/banking/mca-probing-several-loan-apps-for-allegations-of-company-law-violation-124022701046_1.html (last visited Feb. 26, 2025).

⁸⁰ Preshit Mendhekar & Venkatesh Sakkaji, *Digital Lending in India: Changing the Outlook of Loans & Credits in India* (Digital Lending White Paper, Pega & LTI, 2023) (last accessed Feb. 26, 2025)

are delayed, and the collection of admissible evidence for prosecution is severely compromised. The technological opacity of digital platforms slows the investigation process and makes it harder to substantiate criminal cases in court.⁸¹ Even when legal provisions exist, enforcement limitations remain a major obstacle. Despite having laws such as the Information Technology Act and the Prevention of Money Laundering Act (PMLA), enforcing these laws against foreign entities is challenging. The fragmented legal landscape governing cybercrimes and digital finance means that law enforcement agencies in India often operate without a cohesive strategy.⁸² The lack of a coordinated approach emboldens fraudulent operators, as the complexity of the international legal framework enables them to evade legal repercussions by exploiting jurisdictional loopholes.⁸³

POLICY RECOMMENDATIONS AND LEGAL REFORMS

To address the growing challenges associated with digital lending fraud, implementing a range of policy recommendations and legal reforms is crucial to enhance India's capacity to combat these crimes effectively. A comprehensive approach is needed, which includes strengthening domestic legislation, enhancing international cooperation, and introducing regulatory innovations.

First, strengthening domestic legislation is essential. The Information Technology Act (IT Act) regulates cybercrimes in India and requires updates to keep pace with the fast-changing landscape of digital fraud. The update must introduce new definitions and penalties to address the latest fraud methods deployed on digital lending platforms.⁸⁴ The reform would maintain the relevance of the legal system and allow it to tackle the complexities of digital financial crimes effectively. The Indian Penal Code (IPC) must expand its fraud-related provisions to address digital lending scams. Existing legislation frequently fails to fully address the complexities of financial fraud that occurs on online platforms. An inclusive legal approach would hold perpetrators accountable according to Indian law even when they operate across

⁸¹ Akhileshwari Anand, Aaron Kamath & Huzefa Tavawalla, *Digital Lending in India: Analysis and Implications*, Nishith Desai Associates (2023) (last accessed Feb. 26, 2025)

⁸² Munnu Prasad V, *Digital Lending Financial Apps – Issues, Challenges and Risk faced by the Users* (2022), Jain College (last accessed Feb. 26, 2025)

⁸³ FATF, *INTERPOL & Egmont Group, Illicit Financial Flows from Cyber-Enabled Fraud* (2023), <https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Methodsandtrends/illicit-financial-flows-cyber-enabled-fraud.html> (last accessed Feb. 26, 2025)

⁸⁴ Pedro J. Cuadros-Solas, Elena Cubillas & Carlos Salvador, *Does Alternative Digital Lending Affect Bank Performance? Cross-Country and Bank-Level Evidence*, *Int'l Rev. Fin. Analysis*, 90, 102873 (2023), <https://doi.org/10.1016/j.irfa.2023.102873> (last accessed Feb. 26, 2025)

different locations.⁸⁵ The government needs to establish consumer protection laws as a key priority. New rules must enforce transparency of loan terms from digital lending companies regarding hidden charges and interest rates.⁸⁶ The government must establish strong redressal systems that provide legal solutions for fraud app victims to achieve effective justice.⁸⁷

On the international front, enhancing international cooperation is crucial given the cross-border nature of these fraudulent activities. India must forge bilateral agreements with countries where these fraudulent loan apps are based.⁸⁸ Such agreements would establish clear protocols for information sharing, joint investigations, and extradition of criminals, creating a collaborative environment for addressing digital lending fraud. Additionally, India should actively participate in multilateral cybercrime forums, such as the Interpol Cybercrime Working Group and the United Nations Office on Drugs and Crime (UNODC).⁸⁹ These platforms allow for the harmonization of cybercrime laws, facilitating smoother cooperation between countries in the fight against cross-border cybercrimes.⁹⁰ Furthermore, to streamline the investigation and prosecution process, India should consider developing a centralized cybercrime task force. The task force will organise collaborative actions between multiple agencies, such as the Reserve Bank of India (RBI), the Enforcement Directorate (ED), and the Ministry of Home Affairs' Cyber Crime Cell, to handle digital lending fraud better.⁹¹

Regulatory innovations must advance to detect better and prevent fraudulent activities while mitigating their impact in digital lending. Advanced analytics through artificial intelligence

⁸⁵ Adwait Jain, *How has Digital Lending Impacted the Indian Banking Market*, SSRN (2024), <https://ssrn.com/abstract=4582480> (last accessed Feb. 26, 2025)

⁸⁶ Indian Government Proposes Prison Terms, Fines for Illegal Lending, Reuters, available at <https://www.reuters.com/business/finance/indian-government-proposes-prison-terms-fines-illegal-lending-2024-12-19> (last visited Feb. 26, 2025).

⁸⁷ Financial Consumer Protection Policy Approaches in the Digital Age, Org. for Econ. Co-operation & Dev. (OECD), available at https://www.oecd.org/content/dam/oecd/en/publications/reports/2020/12/financial-consumer-protection-policy-approaches-in-the-digital-age_dc8c14b2/3f205e60-en.pdf (last visited Feb. 26, 2025).

⁸⁸ INTERPOL, *Cybercrime Programme*, INTERPOL, <https://www.interpol.int/en/Crimes/Cybercrime> (last visited Feb. 26, 2025).

⁸⁹ United Nations Office on Drugs and Crime (UNODC), *The Convergence of Cybercrime and Transnational Organized Crime*, UNODC (2024), https://www.unodc.org/roseap/uploads/documents/Publications/2024/TOC_Convergence_Report_2024.pdf (last visited Feb. 26, 2025).

⁹⁰ Financial Action Task Force (FATF), *Illicit Financial Flows from Cyber-Enabled Fraud*, FATF (2023), <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Illicit-financial-flows-cyber-enabled-fraud.pdf> (last visited Feb. 26, 2025).

⁹¹ V. Thenmozhi, Dr. A. Karunamurthy & V. Vigneshwar, *Understanding the Dynamics of Cybercrime in India: A Comprehensive Study and Recommendations*, ResearchGate, available at https://www.researchgate.net/publication/372960099_Understanding_the_Dynamics_of_Cybercrime_in_India_a_Comprehensive_Study_and_Recommendations (last visited Feb. 26, 2025).

(AI) and machine learning (ML) should be utilized by the RBI and other regulatory bodies for real-time financial transaction monitoring. Authorities can utilise advanced technologies to detect fraudulent patterns on digital lending platforms, facilitating quicker responses to suspicious activities.⁹² Digital lending platforms require stricter compliance to ensure proper operation and regulatory adherence. Requiring more rigorous due diligence checks and frequent audits will guarantee that digital platforms meet regulatory standards and protect consumer information.⁹³ Authorities must launch public awareness campaigns to inform consumers about potential digital lending app risks alongside these regulatory actions.⁹⁴ Educating consumers about fraudulent app operations and scam indicators enables them to protect themselves better.⁹⁵ India has the potential to make considerable progress in the fight against fraudulent digital lending practices through comprehensive domestic legislative reforms alongside strengthened international collaborations and regulatory innovations.⁹⁶ The reforms will improve legal structures and create a secure and open consumer environment.⁹⁷ India must enhance its digital lending platform regulations and enforcement to protect its financial system against exploitation and fraud.⁹⁸

CONCLUSION

The infiltration of Chinese loan apps in India exemplifies a critical intersection between digital innovation and criminal exploitation, highlighting the promises and dangers of technology in the financial sector. Digital lending, by enabling easy access to credit for individuals who may have otherwise been excluded from traditional banking systems, holds immense potential to promote financial inclusion. For many low-income individuals, migrant workers, and small

⁹² Akhtar Hasan Jamal Khan & Syed Afzal Ahmad, *IoTBlockFin: A Solution to Prevent Loan Scams in India with Integrating IoT and Blockchain for Enhanced Security and Transparency in Loan Processing*, J. Intell. Sys. & IoT, 14(1), 209-220 (2025), <https://doi.org/10.54216/JISIoT.140116> (last accessed Feb. 26, 2025)

⁹³ Akhileshwari Anand, Aaron Kamath & Huzefa Tavawalla, *Digital Lending in India: Analysis and Implications*, Nishith Desai Associates (2023) (last accessed Feb. 26, 2025)

⁹⁴ Chinese Loan Apps Case: Karnataka HC Says Investigation Must for Kerala-Based Firm, Econ. Times, available at <https://m.economictimes.com/tech/technology/chinese-loan-apps-case-karnataka-hc-says-investigation-must-for-kerala-based-firm/articleshow/98356899.cms> (last visited Feb. 26, 2025).

⁹⁵ Principles for Consumer Protection in Digital Financial Services, Int'l J. Sci. Res., available at <https://jclib.org/index.php/jcli/article/download/7/10> (last visited Feb. 26, 2025).

⁹⁶ It Is the Best of Times and the Worst of Times: India's New Digital Lending Recommendations, Center for Financial Inclusion, available at <https://www.centerforfinancialinclusion.org/it-is-the-best-of-times-and-the-worst-of-times-indias-new-digital-lending-recommendations> (last visited Feb. 26, 2025).

⁹⁷ White Paper: Customer Protection in the Digital Lending Ecosystem in India, The Dialogue, available at <https://thedialogue.co/wp-content/uploads/2024/08/White-Paper-Customer-Protection-in-the-Digital-Lending-Ecosystem-in-India-TD-X-DLAI.pdf> (last visited Feb. 26, 2025).

⁹⁸ Reserve Bank of India, Guidelines on Digital Lending, Saikrishna & Associates (Sept. 2022), available at <https://www.saikrishnaassociates.com/rbi-issues-guidelines-to-regulate-digital-lending/> (last visited Feb. 26, 2025).

businesses, these platforms offer a much-needed solution to overcome barriers such as the lack of collateral or formal credit histories. The growth of smartphone ownership, paired with government-supported programs such as UPI and India Stack, has transformed digital lending into a fundamental element of India's financial services by providing easy access to loans and reduced paperwork requirements. The fast growth of digital lending has revealed significant dangers through the rise of fraudulent Chinese loan apps operating within India. Fake lending platforms pose as dependable financial services to take advantage of financially unstable individuals and those without technological expertise. These lenders entice borrowers through their offering of fast loans requiring no collateral. After receiving their loan funds, borrowers get trapped by high interest rates and hidden fees and experience aggressive debt collection methods. Borrowers experience serious emotional and psychological damage from collection practices that involve harassment, public shaming and threats of violence. Some people have experienced tragic ends, like suicide, because of the relentless pressure from malicious loan platforms.

These Chinese loan apps not only exploit users financially but also take advantage of personal data for improper purposes, which infringes upon privacy rights and risks exposing private information to unauthorised entities. The unauthorized use of personal information presents risks for digital transaction security and opens possibilities for identity theft and extensive financial fraud. The emergence of these illegal platforms reveals serious deficiencies within current legal and regulatory systems. The Reserve Bank of India (RBI) has implemented Digital Lending Guidelines in 2022 to regulate the sector, yet faces significant enforcement difficulties. These applications function beyond India's regulatory systems by using technological solutions such as encryption, anonymised payment methods, and proxy servers to exploit legal loopholes and avoid detection and jurisdictional control. Regulatory enforcement becomes more difficult due to the crimes occurring across international borders. Many of the perpetrators are based in China. In this jurisdiction, India's laws have limited jurisdictional reach, making it difficult for Indian authorities to track illicit financial flows or shut down these operations. The absence of international cooperation and standardised cybercrime laws hinders efforts to tackle the problem effectively. Cybercrime is inherently global, and fraudsters exploit the lack of harmonised legal frameworks to circumvent laws by operating across borders. This makes it increasingly difficult for Indian law enforcement to address the issue without strong bilateral and multilateral cooperation from other countries.

India must implement an integrated strategy that involves reinforcing local laws and building global partnerships while utilising technological advancements to identify and stop fraudulent activities. The government must revise existing laws, including the Information Technology Act (IT Act) and the Indian Penal Code (IPC), because they lack the necessary provisions to tackle digital lending scams. The expanded fraud-related offences now cover digital lending fraud and require stronger consumer protection rules and mandatory grievance redressal systems for affected individuals. Implementing AI-based fraud detection systems and blockchain technology can enhance real-time transaction monitoring and suspicious activity tracking. AI and ML technologies enable financial institutions to find fraudulent patterns and simplify investigative procedures. Furthermore, strengthening international cooperation is crucial. India should work with nations where these platforms function to establish bilateral agreements that establish clear protocols for information sharing, joint investigations, and extradition procedures. Working through international cybercrime organizations such as Interpol and the UNODC will enable countries to achieve legislative harmony and enable joint global measures against cross-border financial fraud. India will establish a secure digital lending environment by strengthening its legal systems at home, along with improved international partnerships and advanced technological solutions. Protecting consumers against digital lending fraud will restore trust in financial systems and enable full realisation of digital financial service benefits without the 'damaging effects' of unscrupulous platforms. India requires a coordinated and multi-faceted approach to protect consumers while securing the success of digital financial inclusion in the long run.

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