

RGM LEGAL

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ANALYSIS

Navigating the New Normal: How the DPDP Act is Reshaping Fintech Aggregator Models in Retail Lending

I. CONTEXTUAL BACKGROUND: THE EVOLUTION OF DIGITAL LENDING

The overall retail lending ecosystem has undergone a huge transformation in the last decade, driven largely by enterprises who are engaged in the business of direct selling agency (DSA) using certain technology (whether on a licensing basis or partnership/alliance basis or simply acquiring) to aggregate various DSAs and/or their sourced business.

While retail lending has been the primary beneficiary, this transformation has equally accelerated in supply chain finance and MSME business loans, where aggregators assess vast vendor networks and B2B cash flows. By functioning as high-speed conduits between capital-hungry consumers and traditional lenders, these platforms built their valuations on a single, critical asset: frictionless data flow.

The operational model was straightforward—aggregate vast amounts of alternative data, assess creditworthiness at algorithmic speed, and match borrowers with NBFCs and banks.

II. THE REGULATORY PARADIGM SHIFT

However, the statutory landscape has now fundamentally shifted. The enactment of the Digital Personal Data Protection (DPDP) Act, 2023, has transformed data from a freely mined resource into a strictly governed liability.

It is pertinent to note that this is a cross-sectoral mandate; industries processing vast swaths of sensitive consumer data, such as pharmaceuticals (patient records and clinical trials) and hospitality (guest preferences and travel histories), are facing identical regulatory reckonings regarding data privacy.

Consequently, for private equity and venture capital investors evaluating fintech portfolios, underwriting metrics must evolve. Top-line growth and user acquisition

rates are no longer sufficient indicators of a sustainable business model if the underlying data architecture is legally fragile.

III. STATUTORY FRAMEWORK: FROM FRICTIONLESS TO GATED

Under Section 6(1) of the DPDP Act, valid consent must now be "free, specific, informed, unconditional and unambiguous with a clear affirmative action". In our considered assessment, this effectively outlaws the broad, perpetual, and often bundled consent mechanisms that aggregators previously used to ping multiple lending APIs simultaneously.

Consent must signify an agreement to the processing of personal data limited strictly to the specified purpose. In the context of business loans and supply chain finance, where the personal data of founders, directors, and sole proprietors is routinely processed to underwrite corporate credit, these statutory consent requirements create significant new compliance thresholds that B2B lenders cannot ignore.

Furthermore, Section 8 imposes heavy compliance burdens on these platforms in their capacity as "Data Fiduciaries". Specifically, Section 8(2) mandates strict purpose limitation, preventing aggregators from hoarding consumer financial data for cross-selling future products without fresh, explicit consent. Simultaneously, Section 8(6) requires the implementation of robust security safeguards to prevent personal data breaches, placing the ultimate liability on the fiduciary even when data is passed to partner banks and NBFCs.

IV. COMMERCIAL & VALUATION IMPLICATIONS

The Commercial Impact: Valuation and Customer Acquisition. This shift directly impacts unit economics. Mandatory compliance steps introduce friction into the user journey, invariably leading to higher drop-off rates and an increased Customer Acquisition Cost (CAC).

From a transaction advisory perspective, during due diligence, incoming PE/VC capital will view ambiguous consent logs or a lack of verifiable consent artifacts not just as a regulatory gap, but as a severe valuation red flag. Non-compliance under the Act attracts penalties of up to ₹250 crore, making legal resilience a core commercial metric.

V. STRATEGIC RECOMMENDATIONS: STRUCTURING FOR SUSTAINABLE GROWTH

Regulation is not the end of the aggregator model, but an evolutionary filter. Aggregators must urgently restructure their commercial agreements with partner lenders to clearly demarcate the rights and indemnities of data fiduciaries versus data processors.

Technologically, platforms must integrate legal compliance directly into their code, such as building automated consent revocation mechanisms that seamlessly halt data processing across all connected nodes.

The next wave of successful fintech exits will belong to those who view stringent legal compliance as a competitive advantage, rather than a mere cost center.



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