

Highlights of RBI Digital Lending Directions, 2025

RBI vide notification dated May 08, 2025 has released RBI (Digital Lending) Directions, 2025, consolidating the earlier guidelines along with new measures for arrangements involving Lending Service Providers (**LSPs**) partnering with multiple Regulated Entities (**REs**). These Directions are applicable to all Commercial Banks, Primary Urban Co-operative Banks, State Co-operative Banks, Central Co-operative Banks, NBFCs including Housing Finance Companies and All-India Financial institutions (collectively referred as REs). These Directions are aimed at improving the borrower's confidence in the digital lending ecosystem and address the issues of unbridled engagement of third parties, mis-selling, breach of data privacy, unfair business conduct, unethical recovery practices etc.

These Directions are effective immediately except Para 6 pertaining to general requirements for RE-LSP arrangements with multiple lenders, which shall be effective from November 01, 2025. Guidelines on Digital Lending dated September 02, 2022 and Guidelines on Default Loss Guarantee (DLG) in Digital Lending dated June 08, 2023 stand repealed.

The Directions have brought in new norms with respect to simplified KFS, recovery agent disclosure, enhanced data privacy and security requirements with mandate to store data on servers in India, appointment of dedicated grievance redressal officers etc.

Key provisions notified in the Directions are as follows:

I. General Requirements

- Digital lending by RE through LSP shall be backed by a valid contract and enhanced due diligence of LSP shall be conducted before entering into the contract
- RE to conduct periodic review of LSP and ensure their adherence to these Directions
- RE to formulate monitoring mechanism for loan portfolios that have been created through LSPs and imparting guidelines to LSPs for recovery.
- LSPs provide a digital view of all the loan offers matching the borrower's request and those unmatched
- LSPs shall follow consistent approach for matching of loan requests of borrowers
- LSPs shall provide adequate details enabling fair comparison between loan offers

II. Conduct and Customer Protection Requirements

- REs to obtain adequate information about economic profile of the borrower and ensure there is no automatic increase in credit limit
- REs shall provide Key Fact Statement (KFS) as per Circular dated April 15, 2024 and ensure digitally signed documents including KFS, summary of loan product, sanction letter etc. are automatically shared to the borrower on the registered email/SMS
- Maintain website with details prescribed in the Directions
- Communicate details of recovery agent to the borrower on email/ SMS before the recovery agent contacts
- Ensure disbursement is not made to a third-party account, including the accounts of LSP, except as provided for in these Directions
- The borrower shall be given an explicit option to exit a digital loan by paying the principal and the proportionate Annual Percentage Rate without any penalty during an initial Cooling-Off Period.

- RE and LSP shall designate nodal grievance redressal officers to deal with digital lending related complaints/ issues raised by the borrower.

III. Technology and Data Requirement

- RE shall ensure that any collection of data by their Digital Lending Apps (**DLAs**) and DLAs of their LSP is need-based and with prior and explicit consent of the borrower having audit trail.
- RE to ensure LSPs do not store personal information of borrower except some basic minimal data required as per the contractual agreement
- RE shall ensure all data is stored only in servers located within India and comply with applicable statutory obligations/ regulatory instructions
- RE and LSPs engaged by RE shall have a comprehensive privacy policy compliant with applicable laws, associated regulations and RBI guidelines

IV. Reporting of Credit Information and DLAs

- RE shall ensure that any lending done through their DLAs and/ or DLAs of LSPs is reported by them to Credit Information Companies (CICs) irrespective of its nature/ tenor.
- RE shall report all DLAs deployed/ joined by them, whether their own or those of the LSPs, either exclusively or as platform participant, on the Centralised Information Management System (CIMS) portal of RBI. REs to ensure reporting is completed by June 15, 2025.

V. Loss sharing arrangement in case of default

- RE may enter into Default Loss Guarantee (DLG) arrangements only with a LSP/ other RE engaged as a LSP. Further, the LSP providing DLG shall be incorporated as a company under the Companies Act, 2013.
- RE shall ensure that the total amount of DLG cover on any outstanding portfolio which is specified upfront shall not exceed five per cent of the total amount disbursed out of that loan portfolio at any given time.

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