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New digital lending directions issued by the Reserve Bank of India: A comprehensive overhaul of compliance norms

On May 8, 2025, the Reserve Bank of India (“RBI”) released comprehensive directions on digital lending by Regulated Entities (“REs”) in India, i.e. the RBI (Digital Lending) Directions, 2025 (“**Digital Lending Directions**”). The Digital Lending Directions are not a revamp of the existing regulations, but a consolidation of the various instructions issued by the RBI over the last few years with some key additions. The Digital Lending Directions supersede and replace the existing Guidelines on Digital Lending dated September 2, 2022, and the Guidelines on Default Loss Guarantee (“**DLG**”) in Digital Lending dated June 8, 2023.

The RBI sought to introduce accountability and transparency to a fast-growing industry which had concerns regarding the methods used to deliver and service digital credit products. The RBI realised these concerns would impact the confidence of borrowers in digital lending in India. Therefore, after reviewing the recommendations made by the RBI constituted ‘*Working Group on Digital Lending*’, the RBI has issued the Digital Lending Directions.

Key provisions

Some of the important aspects covered under the Digital Lending Directions are:

1. **Definitions:** The definition of ‘Lending Service Provider’ is revised to clarify that even another RE can be appointed as a Lending Service Provider (“**LSP**”) by a RE.
2. **Documentation and compliance requirements for appointment of LSPs:** The REs are now required to enter into contractual agreements with LSPs. The REs are also required to conduct periodic review of the LSP *vis-à-vis* the terms of such contractual agreements and take steps for any deviations. REs are now required to lay down, as part of its policy, suitable monitoring mechanisms for the loan portfolios originated with the support of LSPs.

The Digital Lending Directions clarify that any outsourcing agreement entered into by the RE with an LSP shall in no manner dilute or absolve the RE of its obligations under any statutory or regulatory provision, and the RE shall remain fully responsible and liable for all acts and omissions of the LSP.

3. **Arrangements involving multiple lenders:** Additional compliance requirements have been set out for REs for those instances where the RE-LSP arrangement involves multiple lenders. These compliances include: (a) providing a digital view of all loan offers matching the borrower’s requests which meets the borrower’s requirements; and (b) ensuring that the content displayed by LSPs are unbiased, objective, and not promote the products of a specific RE, including through dark or deceptive patterns.
4. **Recovery of loans:** In contrast to the previous digital lending guidelines, the RBI has recognised recovery related challenges and has permitted REs to use physical recovery agents to recover loans from delinquent borrowers in cash, whenever necessary. In case of a default situation, REs are now required to notify the borrower (through

email/SMS) about the particulars of recovery agents authorised by them, prior to such recovery agent approaching the relevant borrower for recovery of any loan.

5. **DLG arrangements:** RE need to now ensure that LSPs publish the details of DLG arrangements on the website of the relevant LSP on a monthly basis, by the 7th day of the subsequent month.
6. **Cooling off period:** Previously, borrowers were allowed to exit a digital loan by paying of the principal and the annual percentage rate without any penalty during an initial cooling off period. Now, REs may retain a reasonable one-time processing fee if the borrower exits the loan during such cooling off period. Additionally, the REs have been given the flexibility to set up a cooling off period of a minimum period of 1 (one) day as compared to the earlier requirement of a minimum period of 3 (three) days for loans with tenor of 7 (seven) days or more.
7. **Storage of data:** The previous regulations required all data to be stored only on servers located within India. The Digital Lending Directions have clarified that where data is processed outside India, it will be deleted and brought back to India within 24 (twenty-four) hours of processing such data.
8. **Reporting of Digital Lending Apps/Platforms (“DLAs”):** The REs will report on the Centralised Information Management System (“CIMS”) portal of the RBI, the details of all DLAs deployed/ joined by them, whether their own or those of the LSPs, either exclusively or as a platform participant. REs shall update the list on the CIMS portal as and when additional DLAs are engaged by them or if the engagement with the existing DLA ceases.

Key timelines and dates

The Digital Lending Directions are effective from the date of their publication (May 8, 2025) except for the following:

1. the compliance requirements for all RE-LSP arrangements involving multiple lenders shall come into effect from November 1, 2025; and
2. the reporting of all DLAs on the CIMS portal will be completed by all REs by June 15, 2025.

Conclusion

The Digital Lending Directions have introduced 2 (two) key new initiatives (increased transparency in digital loan aggregation and a public depository of DLAs) which should guide the digital lending industry on the path for sustainable and effective growth. It further represents a comprehensive regulatory intervention to balance innovation with consumer protection and systemic stability as well as prioritises and strengthens borrower trust. The Digital Lending Directions also aim to mitigate systemic risks by further regulating the LSP and DLG arrangements, stringent due diligence requirements for LSPs and the explicit liability of REs for any acts and omissions of the LSPs.

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