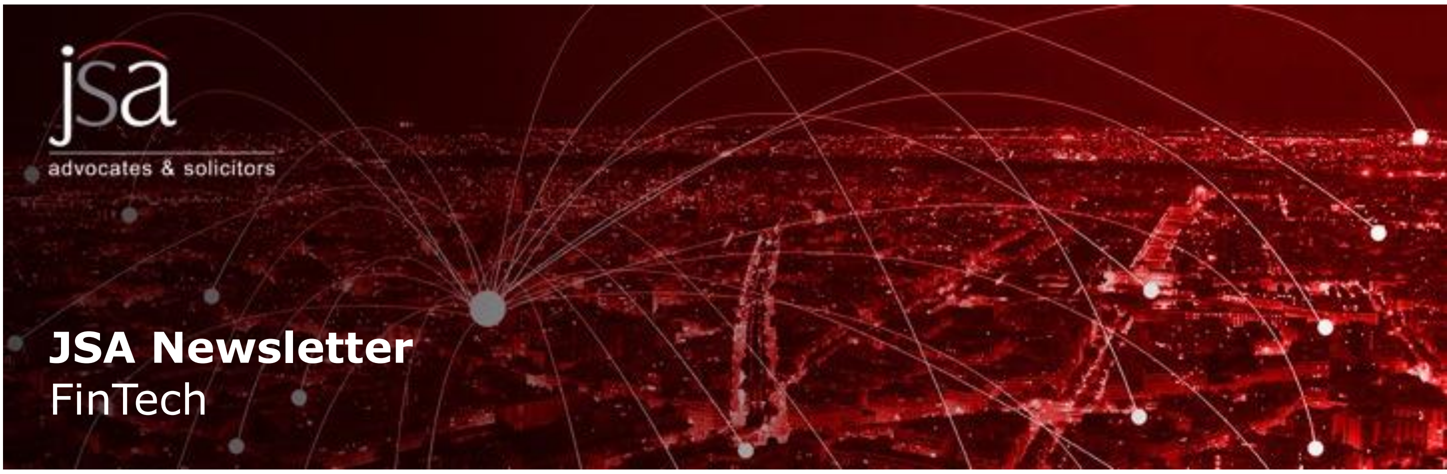
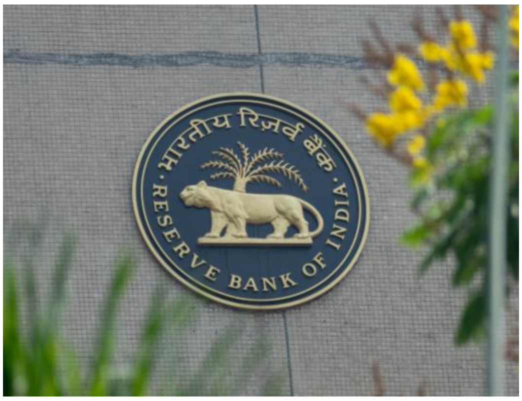


27th Edition, (April – June 2025)

What's new?

What's new?

Reserve Bank of India issues the Reserve Bank of India (Digital Lending) Directions, 2025



With a view to streamline and strengthen oversight of the digital lending ecosystem, the Reserve Bank of India ("**RBI**") has issued the Reserve Bank of India (Digital Lending) Direction, 2025 ("**DL Directions**") on May 8, 2025. The DL Directions consolidate previous circulars and introduce new compliance obligations for RBI Regulated Entities ("**REs**") and Digital Lending Applications ("**DLAs**").

Key new introductions under the DL Directions include:

1. transparency obligations on DLAs that partner with multiple REs to display all matching loan offers, disclose unmatched products, use a consistent matchmaking methodology across similar borrower profiles and loan products (with documentation) and ensure that no RE's products are displayed on a preferential basis unless it is based on a transparent, pre-disclosed ranking logic; and

2. operationalisation of the Public Directory of DLAs – a Centralised Information Management System (CIMS) of the RBI where REs have to report all DLAs deployed by them.

In addition to the new obligations discussed above, the DL Directions introduce several updates to existing norms such as:

1. REs are now permitted to process lending data offshore, subject to specific conditions. These include the requirement to repatriate and delete such data from foreign servers within 24 (twenty-four) hours of processing;

2. REs have been granted flexibility to define their own borrower cooling-off period, during which a borrower may exit the digital loan by repaying the principal and the proportionate annual percentage rate. However, this period must be no less than 1 (one) day;

3. a timeline has been introduced for the disclosure of default loss guarantee arrangements. Lending Service Providers ("**LSPs**") must publish this information on their websites within 7 (seven) working days from the start of the succeeding month.

The DL Directions signals a shift toward greater regulatory maturity in India's digital lending space. By introducing structured transparency and operational clarity, the framework aims to balance innovation with consumer protection and institutional accountability.

Ministry of Electronics and Information Technology releases blueprint for Consent Management

With an aim to provide data fiduciaries and data controllers with the necessary tools and integrations to process consents securely and in compliance with the legal framework, Ministry of Electronics and Information Technology ("**MeitY**"), through its National e-Governance Division, has released the BRD for Consent Management under the DPDP Act. The BRD was published as part of an Innovation Challenge inviting participants to build prototype Consent Management Systems ("**CMS**") aligned with the DPDP Act. While the BRD does not serve as official guidance under the DPDP Act, it provides insights into the government's views on consent architecture.

The BRD outlines a functional blueprint for a CMS under the DPDP Act, covering the entire lifecycle of consent including consent notifications, grievance redressal, system administration, and cookie consent. Notably, the BRD prescribes granular, unbundled, purpose-specific, and multilingual consent, and requires explicit user action (with no pre-checked boxes), line with the requirements under the DPDP Act.

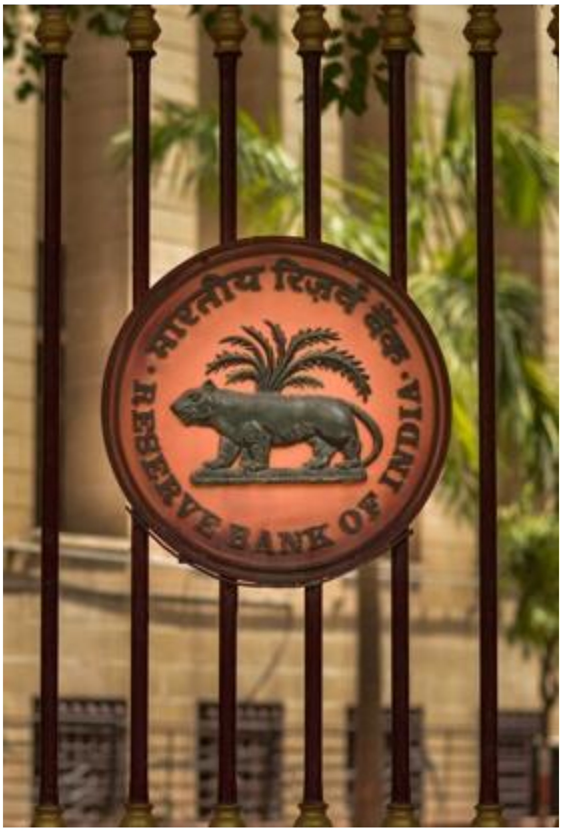
For a detailed analysis, please refer to the JSA Prism of June 1, 2025

RBI Releases new Know Your Customer Frequently Asked Questions

The RBI has released Frequently Asked Questions ("**FAQs**") on Know Your Customer ("**KYC**") requirements applicable to its REs. The FAQs bring much-needed clarity relating to REs' KYC obligations. The FAQs clarify that if an existing KYC compliant customer of an RE desires to open another account or avail any other product/service from the same RE, he/she is not required to submit any new KYC documents unless there is a change to existing KYC information. Further, the FAQs clarify that Aadhaar is not mandatory for purposes of KYC.

The FAQs also distinguish between face-to-face onboarding and non-face-to-face onboarding – specifically classifying video-based customer identification process ("**V-CIP**") as face-to-face onboarding.

RBI updates the KYC Directions



The RBI has amended its Reserve Bank of India (Know Your Customer (KYC)) Directions, 2016 to now enable REs to use Business Correspondents ("**BCs**") to collect KYC self-declarations from customers. Such self-declarations may be obtained by BCs electronically, but until such option is made available, the declaration may be submitted in physical form by customers. BCs must authenticate the self-declaration and supporting documents submitted by customers and promptly forward the same to the concerned bank branch. BCs must also provide customers with an acknowledgment of receipt of such declarations/submission of documents.

In addition to the above, the amendment requires REs to intimate their customers in advance to update their respective KYC information. Prior to the due date to update KYC, REs must give at least 3 (three) advance intimations, including at least 1 (one) intimation in writing, to their customers. Even after the due date, REs must give at least 3 (three) reminders, including at least 1 (one) reminder in writing, to such customers if they have still not complied. The letter of intimation/reminder may, *inter alia*, contain easy to understand instructions for updating KYC, escalation mechanism for seeking help, if required, and the consequences, if any, of failure to update their KYC in time. Issue of such advance intimation/ reminder must be duly recorded in the RE's system against each customer for audit trail. All REs must comply with this requirement by January 1, 2026.

Quick snapshots

1. **RBI proposes to enhances transaction limits in Unified Payments Interface ("UPI")**: Under the Statement on Developmental and Regulatory Policies, the RBI has proposed to enhance UPI transaction limits beyond the current cap of INR 1,00,000 (Indian Rupees one lakh) (approx. USD 1,170 (US Dollars one thousand one hundred and seventy)). RBI has, however, clarified that the cap for peer-to-peer transactions will continue to be INR 1,00,000 (Indian Rupees one lakh) (approx. USD 1,170 (US Dollars one thousand one hundred and seventy)) and further, that banks will continue to have the discretion to decide their own internal limits within these revised limits.

2. **RBI instructs REs to route all applications through the PRAVAAH portal**: With an aim to achieve end-to-end digitisation of all internal workflows involved in the regulatory approval process, RBI has launched the PRAVAAH portal on May 28, 2024. With effect from May 1, 2025, RBI has instructed all applicants, including REs to use the PRAVAAH portal to submit all applications for regulatory authorisations, licenses, and approvals. While applicant are permitted to submit applications directly in exceptional situations, RBI has clarified that even such applications, once submitted, will be processed through the PRAVAAH system.

3. **RBI directs NBFCs not to factor in fintech guarantees while calculating loan provisions**: With an aim to reduce systemic risks and encourage sound credit practice, RBI has directed Non-Banking Financial Companies ("**NBFCs**") to exclude Default Loss Guarantees ("**DLGs**") provided by fintech partners while provisioning for bad loans. As a result, DLG-backed loans will now be treated as unsecured loans, requiring higher provisioning, and reduce net margins. This move could have a significant impact on loans

originated through fintech companies acting as LSPs, since this requirement will increase the credit risk associated with such loans. The move also forces NBFCs to set aside higher amounts, potentially reducing capital availability and slowing digital lending growth. This communication from RBI is a setback for fintech startups that act as LSPs for NBFCs, supporting their lending services.

4. **RBI introduces 'theme neutral' and 'on tap' model for its regulatory sandbox framework**: RBI has proposed to introduce a 'theme neutral' and 'on tap' model for its regulatory sandbox. Earlier, under the regulatory sandbox, RBI would introduce themes and specific window for applying within such themes. However, introduction of a 'theme neutral' and 'on tap' model would mean eligible entities will be able to submit proposals for testing any innovative product or solution within the RBI's regulatory ambit, without waiting for a specific theme or window. The move is aimed at fostering continuous innovation and deeper engagement with the fintech ecosystem.

5. **RBI approves new Online Payment Aggregators ("PA") and PA-Cross Border ("PA-CB")**: RBI has granted PA licenses to several PAs this quarter, including Hiveloop Internet Private Limited, Khatabook Technologies Private Limited, PayU Payments Private Limited, Pine Labs Private Limited, and Zaak ePayment Services Private Limited. Additionally, RBI has also authorised Worldline ePayments India Private Limited to operate as an export and import PA-CB and granted PayPal Payments Private Limited, the Indian subsidiary of PayPal Holdings Inc., an in-principle authorisation to operate as a PA-CB.

6. **The National Payments Corporation of India ("NPCI") reiterates the requirement to display the name of the ultimate beneficiary**: NPCI has reiterated the requirement for UPI apps to display only the ultimate beneficiary's name (as per the core banking system) for all transactions. This move is intended to instill confidence in users that they are sending money to the correct beneficiary and to avoid potential risk of fraud.

Deals in the fintech sector

1. India-based fintech startup CRED has raised USD 72,000,000 (US Dollars seventy-two million) from the existing investors such as GIC, Sofina, and RTP Global. The funds will be disbursed to develop its credit card business and enter other adjacent sectors. This internal round comes after a 3 (three) year pause.

2. Juspay has secured USD 60,000,000 (US Dollars sixty million) as part of its Series D funding round led by Kedaara Capital along with existing investors Softbank and Accel. The company proposes to use this funding to accelerate the growth of its open-source payments orchestration platform and to further advance its AI capabilities.

3. Saarthi Finance, a newly licensed NBFC dedicated to empowering India's Micro, Small, and Medium Enterprises ("**MSMEs**"), has raised approximately USD 41,000,000 (US Dollars forty-one million), in a round co-led by TVS Capital Funds, Lok Capital, Evolvence Equity Partners, Paragon Partners, and other angels. The company proposes to use the capital to bridge the significant credit gap faced by MSMEs, particularly in underserved regions across Tamil Nadu, Telangana, Andhra Pradesh, Karnataka, Rajasthan, and Uttar Pradesh.

4. Fexiloans, an MSME focused fintech lender, has raised Rs. 375,00,00,000 (Indian Rupees Three Hundred and Seventy Five Crores) (approx. USD 44,000,000 (US Dollars Forty-Four Million)) in its series C funding round. The round was led by Fundamentum, Accion Digital Transformation, Nuveen, and Maj Invest and joined by British International Investment . The fresh capital will be used to expand operations, enhance product offerings, and strengthen technology infrastructure.

5. Easebuzz has raised USD 30,000,000 (US Dollars thirty million) in a Series A funding round involving a mix of primary and secondary rounds. This round was led by Bessemer Venture Partners, along with the participation from existing investors 8i Ventures and Varanium Capital. The funding will be used to

accelerate product innovation in online payments and deepen its vertical SaaS stack and expand into offline payments with solutions like POS and UPI QR-based Soundbox.

6. Propelld, an education-focused lending platform, has raised INR 260,00,00,000 (Indian Rupees two hundred and sixty crore) (approx. USD 30,500,000 (US Dollars Thirty Million Five Hundred Thousand)). This investment round is led by WestBridge Capital, with participation from Stellaris Venture Partners. The investment will be utilised to meet the company's working capital needs and capital expenditure for business expansion.
7. Loantap, a fintech company, has secured USD 6,200,000 (US Dollars six million two hundred thousand) in fresh equity funding from July Ventures and existing investors. The company also raised venture debt worth USD2,300,000 (US Dollars Two Million Three Hundred Thousand) as part of this round.
8. Finodaya Capital, an NBFC, has secured USD 2,500,000 (US Dollars two million five hundred thousand) in seed funding led by fintech focused venture capital firm White Venture Capital. The round also saw participation from early stage investor Gemba Capital and several angel investors. The company seeks to utilise the capital to offer micro loans against property to small and micro.
9. Raise Financial Services, the company that operates investing and trading app Dhan, has entered into an agreement to raise up to USD 200,000,000 (US Dollars two hundred million) from ChrysCap, Alpha Wave, MUFG, Bharti Group family office, and the founder of Dream11. The company aims to scale its platform, deepen its technology stack, and expand its influence in India's investment landscape.

FinTech Practice

JSA is one of India's pioneering law firms in the FinTech space. JSA's FinTech group brings together an integrated multi-practice team to support clients with transactions, disputes and regulatory matters at the intersection of financial services and technology. Our practice leverages the experience and in-depth technology expertise of attorneys across practice areas and allows us to offer clients access to time-tested strategies and holistic advice. Our experienced attorneys are well positioned to assist clients navigate through the complex legal, regulatory and compliance landscape within which these businesses and their technologies operate. Our strong relationships with regulators, banks, insurers, funds, large technology companies and infrastructure and service providers mean that we understand the issues that affect every area of the financial technology ecosystem. This enables us to deliver incisive, informed and innovative advice across the FinTech spectrum. We work with financial institutions, as they adapt and transform, FinTech start-ups, from inception through to all rounds of funding, to IPO and beyond, large technology companies diversifying into FinTech and Investors and strategic acquirers as they identify and secure strategic opportunities in the FinTech space.

Our areas of expertise inter alia include: (a) Prepaid payment instruments and variations thereof, (b) Remittance (person-to-person and person-to-merchant) models and services, (c) Central treasury arrangements and collection agency models, (d) Artificial Intelligence (AI) and Machine Learning (ML) enabled payment systems, (e) Alternative lending and payment platforms, (f) blockchain enabled service offerings, including smart contracts, (g) crowdfunding and crowdsourced investments, (h) Cryptocurrencies, including initial coin offerings, (i) InsurTech products and business models, (j) investments, including PE/VC financing into fintech and financial services companies, (k) Invoice trading and receivable discounting platforms, (l) Payment services and solutions (both cross-border and domestic).

This Newsletter has been prepared by:

Probir Roy Chowdhury
Partner

Yajas Setlur
Partner

Nikhil George
Associate

Moushami Nayak
Associate

18 Practices and
41 Ranked Lawyers

7 Ranked Practices,
21 Ranked Lawyers

14 Practices and
12 Ranked Lawyers

12 Practices and 50
Ranked Lawyers

20 Practices and
22 Ranked Lawyers

8 Practices and
10 Ranked Lawyers
Highly Recommended in 5 Cities

Recognised in World's 100 best
competition practices of 2025

Among Best Overall
Law Firms in India and
14 Ranked Practices

----

9 winning Deals in
IBLJ Deals of the Year

----

11 A List Lawyers in
IBLJ A-List - 2025

Asia M&A Ranking 2024 – Tier 1

Employer of Choice 2024

Energy and Resources Law Firm of
the Year 2024

Litigation Law Firm
of the Year 2024

Innovative Technologies Law Firm
of the Year 2023

Banking & Financial Services
Law Firm of the Year 2022

Ranked Among Top 5 Law Firms
in India for ESG Practice

2022

Ranked #1
Best Law Firms to Work

Top 10 Best Law Firms for
Women

For more details, please contact km@jsalaw.com

www.jsalaw.com

advocates & solicitors

Ahmedabad | Bengaluru | Chennai | Gurugram | Hyderabad | Mumbai | New Delhi