

## DIGITAL LENDING 2.0? BREAKING DOWN THE RBI DIGITAL LENDING DIRECTIONS, 2025

### 1. BACKGROUND

On May 8, 2025, the Reserve Bank of India (“**RBI**”) issued the Reserve Bank of India (Digital Lending) Directions, 2025<sup>1</sup> (“**DL Directions**”) marking a significant step in formalising and strengthening the regulatory framework for digital lending in India. The DL Directions consolidate earlier guidelines on digital lending and introduce new measures to address emerging risks in the digital lending ecosystem and enhance consumer protection.

Prior to the DL Directions, the regulatory framework for digital lending in India was primarily shaped by the Guidelines on Digital Lending, 2022<sup>2</sup> (“**DL Guidelines**”),<sup>3</sup> read with the Guidelines on Default Loss Guarantee (DLG) in Digital Lending, 2023<sup>4</sup> (“**DLG Guidelines**”) along with the corresponding FAQs for both.<sup>6</sup>

The DL Guidelines were introduced to formalise arrangements wherein the RBI regulated entities such as banks and non-banking financial companies (“**NBFCs**”) (collectively, “**REs**”) outsourced certain functions such as customer acquisition, recovery support, etc. to a lending service provider (“**LSP**”) – to ensure that REs remain fully accountable for regulatory compliance even when certain key functions are performed by unregulated entities. The DL Guidelines aimed to curb the practice of disguised rent-a-license arrangements, where multiple unregulated entities were effectively sourcing borrowers and underwriting loans indirectly through REs. Subsequently, the RBI introduced the DLG Guidelines to regulate arrangements in which the LSPs offer guarantees (commonly known as Default Loss Guarantee or First Loss Default Guarantee (“**FLDG**”)), to put a formal cap on underwriting arrangements by unregulated entities *vide* which they compensate the partner REs for losses up to a certain percentage of the loan portfolio serviced by the LSP. The DLG Guidelines permit such FLDG arrangements subject to certain conditions.

Separately, on April 26, 2024, the RBI had released a draft circular on “Digital Lending – Transparency in Aggregation of Loan Products from Multiple Lenders”.<sup>7</sup> Based on the feedback received, the RBI finalised and incorporated relevant provisions in the DL Directions. In this regard, the DL Directions introduce new and enhanced measures with the overall goal of increasing transparency – such as streamlining arrangements involving LSPs partnering with multiple REs for disbursing loans, the establishment of a public directory of digital lenders, etc. While some of the other modifications made in the DL Directions may appear

<sup>1</sup> The DL Directions are available [here](#).

<sup>2</sup> The DL Guidelines are available [here](#).

<sup>3</sup> This was issued pursuant to the recommendations of the Working Group on ‘digital lending including lending through online platforms and mobile apps’<sup>3</sup> (“**WGDL**”). Please see our analysis of ‘Data and Digital Lending’ available [here](#).

<sup>4</sup> The DLG Guidelines are available [here](#).

<sup>5</sup> Please see our analysis of the DLG Guidelines available [here](#).

<sup>6</sup> Please see the FAQs on the DL Guidelines available [here](#) and our analysis of the DL Guidelines FAQs [here](#). The FAQs on the DLG Guidelines available [here](#).

<sup>7</sup> The draft circular on “Digital Lending – Transparency in Aggregation of Loan Products from Multiple Lenders” available [here](#).

incremental or minor, they introduce importance nuances in the structuring of digital lending arrangements and are likely to have significant practical impact.

## 2. INTRODUCTION OF NEW MEASURES

### 2.1. RE-LSP arrangements involving multiple lenders

Framework for web-aggregators of loan products: Based on the WGDG recommendations, the RBI had decided to put in place a regulatory framework for web-aggregators of loan products (“WALP”),<sup>8</sup> to ensure that even as unregulated entities participate in the digital lending ecosystem, the REs remain fully accountable for customer protection, compliance, and ethical conduct. This was in response to the increasingly innovative nature of credit products provided through digital lending methods and the accompanying rise of concerns such as involvement of unregulated third parties, mis-selling, breach of data privacy, unfair business conduct, exorbitant interest rates, and unethical recovery practices.

Disclosure requirements: In light of the above, one of the key issues addressed by the DL Directions relate to streamlining arrangements where LSPs partner with multiple REs for disbursing loans. In such arrangements, where LSPs operating Digital Lending Apps (“DLAs”) partner with multiple REs, the borrower is typically matched with one of several partner REs, as a result of which, the identity of the potential lender is not disclosed to the borrower at the time of the application, raising concerns around transparency. In order to mitigate risk, the DL Directions now prescribe specific requirements for REs to ensure that borrowers are provided prior information in order to make an informed decision. These obligations, set out under Paragraph 6 of the DL Directions, will come into effect from November 01, 2025.<sup>9</sup> Notably, LSPs must now present a digital view of all matching loan offers through the DLA, clearly disclosing key terms such as the names of the lenders, amount and tenor of loan, Annual Percentage Rate (“APR”), monthly repayment obligation and any penal charges so as to allow the borrower to make a fair comparison between multiple offers.<sup>10</sup> Additionally, each loan offer must include a link to the relevant Key Fact Statement (“KFS”), and unmatched REs must also be disclosed.<sup>11</sup>

Modifications to user interface of DLA: While LSPs can retain flexibility in determining how to match borrowers with REs, they must adopt a well-documented and consistent methodology for similarly placed borrowers and products, including any modifications made to such mechanism.<sup>12</sup> The manner of displaying offers must be objective and unbiased, and must avoid the use of dark patterns / deceptive patterns that could potentially mislead borrowers into choosing a loan offer from an RE.<sup>13</sup> This requires DLAs to display loan offers from multiple REs in a neutral and factual manner, that does not mislead or have manipulative elements in its design that may unfairly influence the borrower’s choice. For instance, the platform must not use fake urgency cues to push borrowers towards a particular offer, hide key terms such as processing fees or other charges or use the bait-and-switch method, i.e., displaying loan offers

<sup>8</sup> WALP entails aggregation of loan offers from multiple lenders on an electronic platform which enables the borrowers to compare and choose the best available option to avail loan from one of the available lenders.

<sup>9</sup> Paragraph 2(ii) of the DL Directions.

<sup>10</sup> Paragraph 6(i) and (iii) of the DL Directions.

<sup>11</sup> Paragraph 6 (iii) of the DL Directions.

<sup>12</sup> Paragraph 6 (ii) of the DL Directions.

<sup>13</sup> Paragraph 6 (iv) of the DL Directions.

with attractive terms upfront and later changing those terms at a later stage of the application. Such practices raise critical consumer protection concerns, as they can lead borrowers to make ill-informed decisions, potentially resulting in higher costs or unfavourable loan terms. This approach taken in the DL Directions aligns with the Guidelines for Prevention and Regulation of Dark Patterns, 2023<sup>14</sup> issued by the Central Consumer Protection Authority, which prohibits the use of dark patterns<sup>15, 16</sup>

**Impact on business:** These measures are likely to have a significant operational and compliance impact for LSPs and REs, and will have implications on how digital lending products are structured and presented to borrowers. LSPs will need to modify user interfaces and backend processes to ensure compliance with the new display and disclosure standards. DLAs will need to be reconfigured in such a manner to present loan offers in a more structured and comparative format while ensuring there are uniform disclosures and embedded links to each respective KFS. In addition to interface changes, LSPs and REs will also need to revisit and update platform terms of use, partner agreements, and consent mechanisms to reflect the new regulatory obligations and ensure consistency with consumer protection and data privacy laws. Furthermore, REs will have to align with LSPs on a consistent methodology that is capable of being audited and produced as records upon request to demonstrate compliance. Careful consideration also ought to be given to ensuring there is no perceived biased ranking or possible hidden incentives that may invite regulatory scrutiny. Overall, these measures introduced *vide* the DL Directions appear to be an effort towards creating a more transparent and pro-competitive marketplace to give borrowers more visibility over a broader range of offers.

## 2.2. **Mandatory DLA reporting to the RBI on the CIMS Portal**

**Reporting requirements:** The Centralised Information Management System (“CIMS”) portal is a centralised digital repository to systematically capture data on digital lending activities by requiring all REs to report comprehensive information regarding the DLAs they deploy or have joined (*whether they are owned by the RE or by LSPs*).<sup>17</sup> Such reporting must be done on or before June 15, 2025, and REs must submit details of each DLA, including those operated exclusively or as platform participants in the prescribed format provided in Annex I of the DL Directions.<sup>18</sup> This list must be updated accurately on an ongoing basis, including any changes whenever an additional DLA is onboarded or an ongoing engagement ceases to exist.<sup>19</sup> A key element to this measure is the certification requirement, under which the Chief Compliance Officer or an official designated by the board of directors (“BoD”) of the RE must certify that the data on DLAs submitted on the CIMS portal is correct and that the DLAs are in compliance with regulatory requirements, including the DL Directions.<sup>20</sup> This includes certifying that that DLAs meet key compliance requirements such as linking to the RE’s website with detailed product

<sup>14</sup> Guidelines for Prevention and Regulation of Dark Patterns, 2023 are available [here](#).

<sup>15</sup> “Dark patterns” means any practices or deceptive design patterns using UI/UX (user interface/user experience) interactions on any platform; designed to mislead or trick users to do something they originally did not intend or want to do; by subverting or impairing the consumer autonomy, decision making or choice; amounting to misleading advertisement or unfair trade practice or violation of consumer rights.

<sup>16</sup> Please see our analysis on the Guidelines for Prevention and Regulation of Dark Patterns, 2023 available [here](#).

<sup>17</sup> Paragraph 17 (i) of the DL Directions.

<sup>18</sup> Paragraph 17 (i) of the DL Directions.

<sup>19</sup> Paragraph 17 (ii) of the DL Directions.

<sup>20</sup> Paragraph 17 (iii) of the DL Directions.

and grievance redressal information, appointing a nodal officer for borrower complaints, ensuring data practices comply with Paragraphs 12 and 13 of the DL Directions and other applicable laws, and that the DLA's particulars are duly disclosed on the RE's website in line with the DL Directions.<sup>21</sup> REs must also ensure that the inclusion of any third party DLAs in the CIMS portal, is not misinterpreted by such DLAs (*or any associated entity*) as a form of registration, authorisation or endorsement by the RBI.<sup>22</sup>

**Impact of CIMS:** The introduction of the CIMS portal is a key reform that aims at strengthening the ever-evolving digital lending ecosystem, particularly in tackling the surge of illegal loan apps. As highlighted in the WGD report, digital lending operates on a national scale and often involves players that operate across jurisdictions.<sup>23</sup> Therefore, monitoring activities on a local level may not be sufficient for the purpose of the digital lending framework. A unified, real-time system like that of CIMS allows for regulatory agencies to access 'market intelligence' across the country. This helps to ensure that any patterns such as rapid growth of questionable products and repeated consumer complaints are nipped in the bud through timely and coordinated regulatory action. It is aimed to help in taking down illegal loan apps that may offer credit without RBI oversight, collect excessive charges or levy hidden fees, misuse personal data and employ aggressive or coercive recovery methods. By directing REs to map and disclose every DLA it engages with and making this information publicly accessible via the CIMS portal, the RBI is effectively creating a public registry of trusted DLAs that will help consumers distinguish between legitimate and illegal platforms.

### 3. KEY CLARIFICATIONS IN RELATION TO EXISTING MEASURES

#### 3.1. Revisions in definitions

The DL Directions have now formally clarified, in line with market practice, that a DLA can either be a mobile/web application that facilitates digital lending on a standalone basis, or it can be an application that offers facilitation of digital lending as a part of the suite of offerings that such application has.<sup>24</sup> The RBI has also made a minor modification to the definition of LSP to clarify that LSPs are agents of REs who carry out digital lending function(s) of the RE<sup>25</sup> – thereby narrowing the earlier broad definition of LSPs being agents of REs that carried out function(s) of an RE.<sup>26</sup> The RBI appears to have sought to prevent any ambiguity in interpretation and has narrowed the scope and explicitly limited LSPs' functions to be within the scope of digital lending.

In context of loans provided by REs, APR, has now been defined to have the meaning ascribed to in in RBI's circular governing KFS<sup>27</sup> - such definition is broad in nature, and defines it to mean an annual cost of credit to the borrower, including interest rate and all other charges linked to the credit facility.<sup>28</sup> This contrasts with the DL Guidelines which specifically excluded

<sup>21</sup> Paragraph 17 (iv) of the DL Directions.

<sup>22</sup> Paragraph 17 (vi) of the DL Directions.

<sup>23</sup>Section 3.4.2.3 of the WGD report.

<sup>24</sup> Paragraph 4(iv) of the DL Directions.

<sup>25</sup> Paragraph 4(v) of the DL Directions.

<sup>26</sup> Paragraph 2.5 of the DL Guidelines.

<sup>27</sup> Circular on 'Key Facts Statement (KFS) for Loans & Advances' dated April 15, 2024 available [here](#) ("KFS Circular").

<sup>28</sup> Paragraph 4(i) of the DL Directions.

contingent charges such as penal charges and late payment charges from its ambit.<sup>29</sup> While the KFS Circular does not explicitly clarify whether contingent charges are also to be taken into consideration when computing the APR, inference can be drawn from the illustration provided in Annex B of the KFS Circular. Such illustration indicates that when taking into account fees and charges for computing the APR, only charges such as processing fee, insurance charges, etc., are to be considered, and contingent charges are not to be considered.<sup>30</sup>

Separately, it is also relevant to note that while the DL Directions have retained the concept of a cooling-off / look-up period,<sup>31</sup> the definition for the same, which was prescribed in the DL Guidelines,<sup>32</sup> has been removed from the DL Directions, for the purposes of flexibility. In this regard, it is also relevant to note that the DL Guidelines required a minimum cooling-off period of 3 (three) days for loans with a tenor of a week or more, and 1 (one) day for loans of a shorter tenor.<sup>33</sup> Now, a uniform minimum cooling-off period of 1 (one) day applies to all loans, regardless of tenor.<sup>34</sup> The applicable cooling-off period has to be determined by the RE's BoD, and is required to be laid down in the loan policy of the RE.<sup>35</sup> Such documentation requirement can be said to be aimed at ensuring consistency in applicability of the cooling-off period, so that there is no scope for any favourable treatment of certain borrowers or categories of borrowers.

### 3.2. RE-LSP Arrangements

Outsourcing: Given that RE-LSP arrangements come under the larger purview of financial outsourcing arrangements by REs, the DL Directions have now included specific compliances to ensure conformity with various outsourcing guidelines applicable to REs,<sup>36</sup> issued by the RBI.<sup>37</sup>

Contractual requirements: While as a practice RE-LSP arrangements are typically governed by a contract, the DL Directions now explicitly mandate a formal contract between REs and LSPs ("**RE-LSP Contracts**"), clearly outlining roles, rights, and obligations of each party.<sup>38</sup> This aligns with the Outsourcing Guidelines, which requires REs and their outsourced service providers to enter into a legally enforceable contract (*covering the terms and conditions of their arrangement, along with the other mandatory clauses as prescribed in such Outsourcing Guidelines*).<sup>39</sup> Further, the DL Directions also require REs to undertake review of the LSP's conduct and adherence to the contract, and to take appropriate actions in the event there is any non-

<sup>29</sup> Paragraph 2.1 of the DL Guidelines.

<sup>30</sup> Serial Number 6 of the APR illustration (*which stipulates fees and charges to be considered when computing APR*) set out in Annex B of the KFS Circular makes reference only to serial number 8 of the KFS template contained in Annex A of the KFS Circular, which deals only with fees such as processing fee, insurance charges, while contingent charges is dealt with separately in serial number 9 of the KFS template, which does not find any mention or reference in the APR illustration.

<sup>31</sup> Paragraph 10 of the DL Directions.

<sup>32</sup> Paragraph 2.2 of the DL Guidelines.

<sup>33</sup> Paragraph 8 of the DL Guidelines.

<sup>34</sup> Paragraph 10(i) of the DL Directions.

<sup>35</sup> Paragraph 10(i) of the DL Directions.

<sup>36</sup> Annexure XIII of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 issued by the RBI on October 19, 2023 available [here](#) ("**SBR MD**"); Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks issued by the RBI on November 03, 2006 available [here](#) ("**Bank Guidelines**"); Guidelines for Managing Risk in Outsourcing of Financial Services by Co-operative Banks dated June 28, 2021 available [here](#) ("**Co-Op Bank Guidelines**") (collectively "**Outsourcing Guidelines**").

<sup>37</sup> Paragraph 5(vi) of the DL Directions.

<sup>38</sup> Paragraph 5(i) of the DL Directions.

<sup>39</sup> Paragraph 5.5 of the SBR MD, Paragraph 5.5 of the Bank Guidelines, and Paragraph 5.5 of the Co-Op Bank Guidelines.



conformance with the terms of such contract by the LSP.<sup>40</sup> While the DL Directions do not prescribe what actions may be taken, this would typically be contractually defined and could include actions such as suspension of services, termination of the agreement, etc.

That said, regardless of the acts or omissions of the LSP, the RE remains solely responsible for compliance with the regulatory framework, and the RE's liability under law can in no manner be diluted.<sup>41</sup> While REs typically seek back-to-back indemnities from the LSP for any regulatory exposure, they remain ultimately accountable to the regulator. RE's obligation to review LSP's conduct and monitor adherence to the RE-LSP Contract aligns with the Outsourcing Guidelines, which require oversight, monitoring and periodic audits of service providers.<sup>42</sup> It is also relevant to note that REs are required to adopt mechanisms to monitor the loan portfolios which were originated by such REs using the LSPs services.<sup>43</sup> Such mechanisms are required to be documented by the RE in the form of a policy, which can either be a standalone policy or be a part of any relevant policy of the RE. It can be said that such explicit requirements under the DL Directions which mandate REs to exercise adequate oversight, is to ensure that any risks that may arise from outsourcing key digital lending activities to unregulated entities such as LSPs are appropriately addressed at the earliest and mitigated.

### 3.3. **Increase in credit limit; repayment of loan**

**Increase in credit limit:** In relation to increase of credit limit of the loans extended by an RE, the DL Directions have mandated such increase to be undertaken only when there is an explicit request made by the borrower in this regard, which has to be then evaluated by the RE and kept on record.<sup>44</sup> This approach marks a shift from the DL Guidelines, which permitted REs to increase credit limit by obtaining explicit consent from the borrower,<sup>45</sup> where the option for increasing credit limit could be presented by the RE itself, and only consent of the borrower would be required for such increase. Now, such option cannot necessarily be presented, and a request would have to be made explicitly by the borrower, and only once such request is evaluated, can the credit limit be increased.

**Loan repayment:** As regards repayments of loans, when there has been a default in repayment and the RE intends to assign a recovery agent or change the assigned recovery agent (*in case there is any change in the details communicated in the KFS, as indicated below*), the DL Directions mandate REs to issue communication to the borrowers through SMS or email which shall contain details of such recovery agents who are authorised to approach the borrower, and ensure that such communication is made before such agents contact the borrower in relation to recovery.<sup>46</sup> Further, REs are also required to be compliant with the KFS Circular<sup>47</sup> in all respects – which includes listing out in the KFS which all recovery agents are empanelled for the purpose of the loan. Further, in the event of cash recovery in cases of delinquent loans, the RBI

<sup>40</sup> Paragraph 5(iii) of the DL Directions.

<sup>41</sup> Paragraph 5(vii) of the DL Directions.

<sup>42</sup> Paragraphs 5.5 and 5.9 of the SBR MD, Paragraphs 5.5 and 5.9 of the Bank Guidelines, and Paragraphs 5.5 and 5.9 of the Co-Op Bank Guidelines.

<sup>43</sup> Paragraph 5(iv) of the DL Directions.

<sup>44</sup> Paragraph 7(ii) of the DL Directions.

<sup>45</sup> Paragraph 7.2 of the DL Guidelines.

<sup>46</sup> Paragraph 8(v) of the DL Directions.

<sup>47</sup> Paragraph 8(i) of the DL Directions.

has now clarified that the cash collected shall be reflected in the borrowers account in full on the same day on which such cash recovery is made.<sup>48</sup>

Flow of funds: The DL Directions explicitly call out that, other than certain prescribed cases, the *inter se* flow of funds between the RE and the borrower cannot be directly or indirectly controlled by any third-party including the LSP and neither can such third party's account be used for any part of the transaction. Expressly calling out such requirement in the DL Directions has further strengthened the RBI's stance on flow of funds in digital lending arrangements.

### 3.4. **Data-related requirements**

Rights of borrowers: Given the volume of data processed when facilitating digital lending, the RBI has prescribed certain clarifications to ensure strict compliance. In relation to rights of borrowers, the DL Directions have clarified that such rights should include making the RE and / or LSP delete/forget data processed by them,<sup>49</sup> as opposed to the language under the DL Guidelines which stated that DLAs have to delete/forget the data.<sup>50</sup> This has broadened the scope of borrowers' rights to even include instances where LSPs provide services to REs without the presence of a DLA.

Data storage: The extent of data storage by LSPs has now been limited to what is required for LSPs to undertake their operations or services, within the scope of the RE-LSP Contract.<sup>51</sup> This is to prevent LSPs from enriching such data for its own use-cases. Further, the privacy policies of the RE and LSP that are required to be circulated to the borrowers, must contain language with respect to both, usage and storage of data.<sup>52</sup> It can be said that documenting such language can be to ensure that only limited basic data as relevant for the RE-LSP Contract is stored by LSPs. Additionally, in relation to collection of biometric data, the DL Guidelines required REs to ensure that no biometric data gets collected in the systems associated with RE's or LSP's DLA, however, the DL Directions de-link this from the DLA and, place a blanket restriction, and state that REs or LSPs cannot collect biometric data, unless the same is permitted under prevailing regulations.<sup>53</sup>

Data localisation: One of the key changes in relation to data-related requirements in the DL Directions, is that on data localisation. While the DL Directions reiterate the DL Guidelines' requirements of ensuring all data is stored only in servers located in India,<sup>54</sup> the DL Directions have allowed some flexibility in this regard. The DL Directions recognise that in some cases data may be processed outside of India, and in such cases, it is now allowed for such data to be deleted from such offshore servers, and for it to be brought back to India within 24 (twenty-four) hours of processing. This is in line with the RBI's directions on storage of payment system data which permits payment related data that is processed abroad, to be deleted from such offshore servers and brought back to India within 24 (twenty-four) hours or 1 (one) business

<sup>48</sup> Paragraph 9(v) of the DL Guidelines.

<sup>49</sup> Paragraph 12(ii) of the DL Directions.

<sup>50</sup> Paragraph 10.2 of the DL Guidelines.

<sup>51</sup> Paragraph 13(i) of the DL Directions.

<sup>52</sup> Paragraph 8(iii) of the DL Directions.

<sup>53</sup> Paragraph 13(iii) of the DL Directions.

<sup>54</sup> Paragraph 11.4 of the DL Guidelines.

day of processing, whichever is earlier.<sup>55</sup> Imbibing this principle in the DL Directions will certainly serve as a relief to REs and LSPs who often engage offshore service providers in connection with digital lending, and to some extent, will ease doing business with such entities.

### 3.5. Disclosures to be made by REs

As alluded to above in Section 3.3, instead of specifying requirements pertaining to KFS in the DL Directions, the RBI has removed all KFS related requirements that were there in the DL Guidelines<sup>56</sup> and has instead, mandated REs to adhere to the KFS Circular, and provide a KFS in adherence with such circular.<sup>57</sup> Similarly, the RBI has done away with all penal charges requirements that were stipulated in the DL Guidelines,<sup>58</sup> and has instead mandated REs to be guided by RBI's circular on penal charges, for all matters relating to penal charges.<sup>59</sup> It can be said that given RBI's specific guidance on KFS and penal charges, the regulator, in order to avoid any ambiguity and conflict in interpretation, has withheld from reiterating such requirements in the DL Directions. Instead, to ensure clarity, the RBI has mandated REs to be compliant with the applicable RBI circulars in this regard.

Website requirement and disclosures: Additionally, in light of the introduction of new compliance requirements in the DL Directions, the RBI has revamped the website disclosure related requirements applicable to REs. The RBI has mandated REs to have a website of their own in the public domain, which is regularly updated, and contains the following details at a prominent single place: (a) details of all of the REs' digital lending products and DLAs; (b) details of LSPs, and LSPs DLAs, with the nature of activities for which the RE has arrangements with them; (c) details in relation to RE's customer care and internal grievance redressal mechanism; (d) hyperlinks to RBI's Complaint Management System ("CMS") and Sachet Portal; and (e) privacy policies and such other details that may be required under other prevailing regulations of the RBI.<sup>60</sup> For instance, other details that NBFCs are required to display may include displaying literature on SMA/ NPA classification,<sup>61</sup> penal charges policy, details on interest rates and service charges,<sup>62</sup> fair practices code<sup>63</sup> as required under the SBR MD. REs also need to ensure that the hyperlink to such website of the RE is also made available by the DLAs and LSPs.<sup>64</sup> This revamped disclosure requirement has added on to the earlier requirements and consolidated the requirements under the DL Guidelines, to ensure there is no ambiguity in interpretation.<sup>65</sup>

FLDG disclosures: It is also relevant to note that in relation to FLDG arrangements, LSPs who provide FLDG to their REs are required to ensure that they disclose on their website, the total number of portfolios, and amount of each of such portfolio, on which it offers FLDG on a

<sup>55</sup> Circular on Storage of Payment System Data issued by the RBI on April 06, 2018 available [here](#) r/w Question 5 of the FAQs on such circular issued by the RBI on June 26, 2019 available [here](#).

<sup>56</sup> Paragraphs 5.1 and 5.2 of the DL Guidelines.

<sup>57</sup> Paragraph 8(i) of the DL Directions.

<sup>58</sup> Paragraph 4.2 of the DL Guidelines.

<sup>59</sup> Paragraph 8(ii) of the DL Directions.

<sup>60</sup> Paragraph 8(iv) of the DL Directions.

<sup>61</sup> Paragraph 14.4.6, Chapter IV, Section II of the SBR MD.

<sup>62</sup> Paragraph 45.3.6, Chapter VII, Section II of the SBR MD.

<sup>63</sup> Paragraph 45.10, Chapter VII, of the SBR MD.

<sup>64</sup> Paragraph 8(iv) of the DL Directions.

<sup>65</sup> Paragraphs 5.4 and 5.7 of the DL Guidelines.



monthly basis.<sup>66</sup> Such disclosure would now have to be made within 7 (seven) days of the conclusion of the month to which the disclosure pertains.<sup>67</sup> While the requirement to make the disclosure was already prescribed in the DLG Guidelines,<sup>68</sup> the DL Directions have now prescribed a strict timeline and periodicity for such disclosures.

### 3.6. Ancillary changes

Grievance redressal: The obligation pertaining to appointment of nodal grievance officers is now only on those LSPs that have an interface with the borrowers. The RBI has stated that such officers would be required to deal with all digital lending related complaints / issued raised by borrowers, irrespective of their nature.<sup>69</sup> The RBI has also further refined the escalation matrix that ought to be followed by borrowers. As per the DL Directions, if the borrower's complaint against the RE or the RE's LSP, is rejected wholly or partly by the RE, or the borrower is not satisfied with the response provided or if the borrower does not receive any response within 30 (thirty) days of receipt of complaint by the RE, the aggrieved borrower can lodge a complaint on the CMS portal under the Reserve Bank-Integrated Ombudsman Scheme or lodge a physical complaint with the RBI at the prescribed address, as per RBI's grievance redressal mechanism.<sup>70</sup> Information in relation to such grievance redressal matrix has to be conveyed to the borrower by the RE.<sup>71</sup> Practically, REs can incorporate such details in the relevant loan documentation, as well as any policy or documentation that it has in relation to grievance redressal.

FLDG arrangements between REs and LSPs: The RBI has clarified that the prescribed due diligence measures required to be undertaken by the RE prior to entering into an FLDG arrangement are to be adhered to in addition to the prescribed due diligence measures that REs are supposed to undertake prior to entering into an RE-LSP Contract.<sup>72</sup> The RBI has also clarified that in cases where FLDG is invoked by REs, the liability of the borrowers who defaulted on their loans due to which the FLDG was invoked, would continue to exist and not get affected, and the amount of FLDG cannot be offset against such underlying individual loans.<sup>73</sup> Further, while the FAQs to the DLG Guidelines has clarified that FLDG arrangements cannot be entered into by NBFC-P2Ps for loans facilitated over such NBFC-P2P's platforms, the DL Directions have specifically called out that NBFC P2P's need to be guided by Paragraph 6(1)(iv) of the P2P Directions,<sup>74</sup> which *inter alia* state that P2P platforms are not permitted to provide or arrange any credit enhancement or credit guarantee.<sup>75</sup> Provision of DLG cover by an LSP to a P2P NBFC can be perceived as a form of arranging credit guarantee; this read with the DL Directions clearly indicates that DLG cannot be provided on loans arranged on P2P Platforms.

<sup>66</sup> Paragraphs 27(i) and 27(ii) of the DL Directions.

<sup>67</sup> Paragraph 27(ii) of the DL Directions.

<sup>68</sup> Paragraph 11 of the DLG Guidelines.

<sup>69</sup> Paragraph 11(i) of the DL Directions.

<sup>70</sup> Paragraph 11(iv) of the DL Directions.

<sup>71</sup> Paragraph 11(iv) of the DL Directions.

<sup>72</sup> Paragraph 19(iv) of the DL Directions.

<sup>73</sup> Paragraph 24(ii) of the DL Directions.

<sup>74</sup> Paragraph 20(iii) of the DL Directions; Master Direction - Non-Banking Financial Company – Peer to Peer Lending Platform (Reserve Bank) Directions, 2017 issued by the RBI on October 04, 2017 ("**P2P Directions**") are available [here](#).

<sup>75</sup> Paragraph 6(i)(iv) of the P2P Directions.

#### 4. CONCLUSION

The DL Directions represent a clear shift towards tighter oversight and more structured digital lending operations by reiterating and issuing necessary clarifications in relation to existing requirements. While the DL Guidelines and DLG Guidelines laid the groundwork by establishing core principles around transparency, consumer protection and accountability, the DL Directions go a step further by operationalising these principles through detailed contractual requirements.

Based on a reading of the DL Directions, it is evident that the RBI is continuing to assert the importance and primacy of the RE in all lending arrangements, reiterating that outsourcing activities to third parties (i.e. LSPs) ought not to dilute the RE's responsibility. The introduction of more granular contractual obligations, disclosure norms and reporting requirements through the CIMS portal demonstrate the RBI's intent to maintain more oversight over digital lending operations.

REs and LSPs will need to overhaul contractual arrangements, data privacy documentation, and internal policies to demonstrate compliance. Further, REs and LSPs - especially smaller players, may face compliance and cost burdens with aligning with the new regime, given that along with revision to documents and processes, this will also include undertaking several changes to the user interface of the relevant DLAs and website to ensure that the consumer-centric intent of the DL Directions is adhered to. That said, the DL Directions also bring in a pragmatic approach that balances regulatory considerations with operational flexibility – for instance *vide* the changes in the data localisation requirement, and the cooling-off period for loans. While the intent of the RBI is to streamline digital lending activities and ensure there is a balance between innovation and borrower protection, the industry acceptability of the revised guidelines remains to be seen.

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