

NEWSFLASH

# Digital Lending Master Directions



## Background

The RBI *vide* notification dated 8th May 2025 issued the Reserve Bank of India (Digital Lending) Directions, 2025 ('DL Directions' or 'Master Directions'). The Master Directions seek to regulate the digital lending activities of the Regulated Entities ('REs'). The Master Directions come pursuant to RBI's report on working group on digital lending formed in 2021.

While a rudimentary mechanism to regulate digital lending did exist prior to issuance of DL Directions (Guidelines on Digital Lending, 2022), the same has now been codified better to reflect the current realities with the erstwhile Guidelines stand repealed.

## Applicability and Effective Date

They are effective immediately, except para 6 i.e. RE-LSP arrangements involving multiple lenders, which will be effective 1st November 2025 and Para 17 i.e. Reporting of DLAs to RBI which will be effective 15th June, 2025.

The Master Directions are applicable to all digital lending activities of the following entities:

- All Commercial Banks,
- All Primary (Urban) Co-operative Banks, State Co-operative Banks, Central Co-operative Banks,
- All Non-Banking Financial Companies (including Housing Finance Companies), and
- All All-India Financial Institutions.

## Responsibilities of the RE

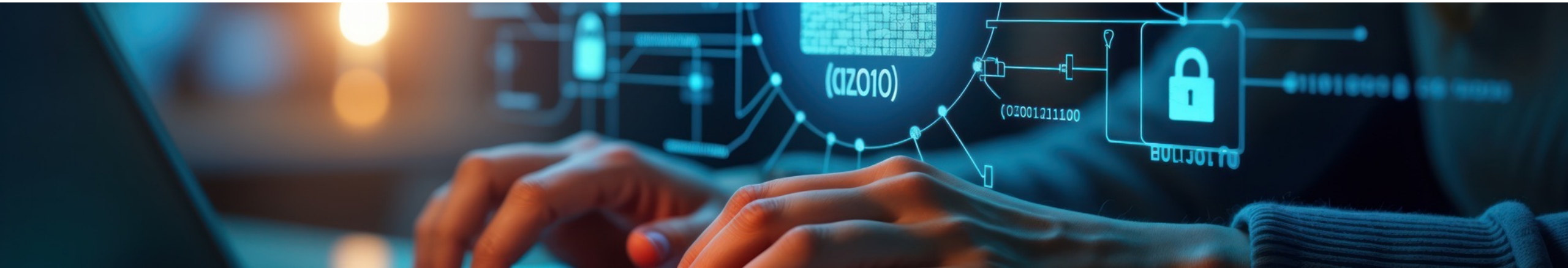
- Regulated entities to ensure that LSPs are functioning in accordance with RBI Master Directions. This includes:
  - Putting in place robust contractual arrangements
  - Enhanced initial due diligence of LSP's capabilities and periodic review of LSP
  - Suitable monitoring mechanisms for the loan portfolios
  - Recovery practices followed by the LSPs.
  - Any other function performed by the LSP, pursuant to functions outsourced by the RE.
- In case an LSP has arrangements with multiple lenders, certain disclosures are to be made on the website. This includes providing a digital view of all the loan offers, name of unmatched lenders etc. Herein, the idea is to ensure that a fair choice is offered to the borrowers, and an informed decision is made by the prospect.
- As always, consumer protection requirements have been specified. This includes safeguards whilst ascertaining credit worthiness, no automatic increase in credit limits and detailed disclosures to borrowers. Disclosures include, disclosure of digitally signed documents, disclosures on RE's own website and that of the DLA.

Explicit provisions on safeguards w.r.t assignment of recovery agents. While earlier disclosure of recovery agents were mandated at the time of sanctioning of the loan/ change of agent, now, a change in recovery agents has to be notified prior to initiating the recovery procedure.

- Provisions w.r.t loan disbursal, servicing and repayment from/ to REs have been specified, and there has been a complete restriction on collection of funds or any charges by LSPs. The prescriptions have been there since long.
- The cooling off period has been reduced to minimum one day for all categories of loans, which was minimum three days for loans having tenor of seven days or more and one day for loans having tenor of less than seven days.
- In a bid to strengthen grievance redressal mechanism, enhanced disclosures of such mechanism on website and application of the RE and the LSP, as well as in the KFS.
- Strengthened data protection norms – including need-based collection of data, grant of rights to the borrower in line with the Data Protection framework – i.e. right of access by borrower, throughout the data lifecycle.



- It is noteworthy that whenever consent of the borrower is obtained, the purpose of obtaining borrowers' consent needs to be disclosed at each stage of interface with the borrowers and an explicit consent of the borrower is taken before sharing personal information with any third party.
- Further, there have been specifications w.r.t data storage aspects. Data can only be stored in India, and in case it is stored outside India, the same has to be deleted from servers outside India and brought back to India within 24 hours of processing. Policy guidelines on storage of customer data to be formulated and publicly disclosed.
- The REs and LSP are also required to put in place a comprehensive privacy policy and disclose the same publicly.
- With respect to reporting to credit information companies, REs to ensure that any lending done through their DLAs and/ or DLAs of LSPs is reported by them to CICs irrespective of its nature/ tenor.
- REs to report all DLAs deployed/ joined by them, whether their own or those of the LSPs, either exclusively or as a platform participant, on the Centralised Information Management System (CIMS) portal of RBI. The disclosures are to be certified by the Chief Compliance Officer of the RE.
- With respect to DLG arrangements, DLG arrangements may be entered into with only an LSP/ other RE engaged as an LSP. Further, the LSP shall be a company under the Companies Act, 2013.
- The DLG arrangements are to be governed by a company's policies and the same is not allowed for NBFC-P2P arrangements. In all cases, 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.





## Responsibilities of the LSP

Though the RE is responsible for all acts of the LSP, there are certain aspects to be considered and taken care of by the LSPs to make them amicable to the REs.

- Ensure technical capabilities, robustness of data privacy policies and storage systems, fairness in conduct with borrowers.
- Fair recovery practices.
- Provide digital view of loan offerings in accordance with Master Directions.
- Put in place robust mechanism to match borrowers with lenders.
- Ensure a fair UI of the DLA, and ensure that the borrower is provided with a fair option amongst various lenders, if any.
- Ensure robust grievance redressal mechanism and publicly disclose the details.
- Limited collection and processing of data of the borrower in accordance with Master Directions. Also, not storing customer's data on its server (including biometric data).
- Disclose policy guidelines put in place for storage of customer data as well as comprehensive privacy policy, on its website.
- Ensure necessary website disclosures.

## Interplay between DL Directions and Digital Personal Data Protection ('DPDP') framework

The Master Directions on Digital Lending and DPDP align to a certain extent with each other. We see, the Master Directions on Digital Lending provide an additional degree of safeguards as the financial services space is a critical area.

While the Master Directions on Digital Lending retains and reiterate the key principles of DPDP, such as limited collection of data and right of data principals to have access to their data, additional norms are outlined below.

Under the Master Directions on Digital Lending, the purpose of obtaining borrowers' consent needs to be disclosed at each stage of interface with the borrowers, whereas the DPDP outlined the need for such notice only while obtaining consent of collection of personal data.

Further, under the Master Directions on Digital Lending, explicit consent of the borrower is to be taken before sharing personal information with any third party. Whereas, under DPDP and the Draft DPDP Rules, though it is mandatory to disclose the information collected and purpose thereof, it is not mandatory to disclose the third parties with whom the data is being shared.

Clear policies on storage of personal data and disclosure thereof is also to be laid down, which is not specified in DPDP. Notably, the DPDP restricts cross border transfers only with countries notified, whereas, under the DPDP Master Directions, data can be stored only in India and in case stored outside, must be brought back to India within 24 hours of processing.

A detailed privacy policy is also to be laid down by the RE and LSP.

### Our Take

The intent and direction of the Master Directions is to affix responsibility of all the actions of the Lending Service Providers ('LSPs') on REs. While the responsibilities were there earlier as well, these have now codified w.r.t each aspect of digital lending. The Master Directions further detail into operational aspects of a digital lending lifecycle, such as matching lenders with borrowers and disclosure requirements. Consumer protection has always been at the core of RBI's Directions, which is aptly reflected in these Master Directions. In fact, in this version of Master Directions, the RBI has duly considered the current market practices and have laid down the prescriptions accordingly.

The RBI has prescribed broader data protection requirements than that of DPDP in some aspects, which are welcome. The fact that the REs are now required to report the number of DLAs it has engaged is all the more welcome and step forward to transparency.



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