



DIGITAL LENDING DIRECTIONS, 2025

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Published in [Mondaq](#)

INTRODUCTION

On May 08, 2025, the Reserve Bank of India ("RBI") issued the Digital Lending Directions, 2025 ("2025 Directions"). The Directions apply to digital lending activities undertaken by regulated entities such as banks and non-banking financial companies. The Directions are a fresh iteration of the RBI's earlier Guidelines on Digital Lending dated September 02, 2022 ("2022 Guidelines") and Guidelines on Default Loss Guarantee (DLG) in Digital Lending dated June 08, 2023 ("DLG Guidelines"), both of which have stand repealed by the Directions. The 2025 Directions introduce new obligations across borrower protection, digital interface compliance, portfolio-level risk sharing and data storage.

KEY DEFINITIONS:

Regulated Entities ("RE"): REs are entities directly regulated by the RBI and include banks, non-banking financial companies and all-India financial institutions.

Digital Lending Apps ("DLAs"): DLAs are mobile and/or web-based applications with user interfaces that enable digital lending activities. DLAs may operate independently or as a part of a suite of functions and include the RE's own apps and those of LSPs engaged by the RE for credit facilitation.

Lending Service Provider ("LSP"): LSPs are agents of RE, including, in some cases, other REs, that perform one or more of the digital lending functions on behalf of the RE. This could include customer acquisition, services incidental to underwriting and pricing, servicing, monitoring or recovery of specific loan or loan portfolio.

Default Loss Guarantee ("DLG"): DLG is a contractual arrangement between the RE and another entity, under which the latter guarantees to compensate the RE for the loss due to default up to a certain percentage of the loan portfolio of the RE, specified upfront. This includes implicit guarantee of similar nature, linked to the performance of the loan portfolio of the RE and specified upfront.

KEY PROVISIONS OF THE 2025 DIRECTIONS

NO PASS-THROUGH ACCOUNTS: The 2025 Directions reaffirm the principle set out in the 2022 Guidelines that all loan disbursements and repayments must flow directly between the borrower's and the RE's bank accounts, except where explicitly permitted. The use of third-party or LSP accounts to route funds remains expressly prohibited.

MANDATORY PUBLIC REPORTING OF DIGITAL LENDING APPLICATIONS: REs must report all DLAs operated by them or their LSPs via the RBI's Centralised Information Management System portal. The RE's Chief Compliance Officer or authorised official must certify that the reported DLAs comply with the RBI's regulations. The deadline for completing this reporting is June 15, 2025. It is expected that the RBI will use the data submitted on the portal to publish a public list of DLAs to help borrowers verify the legitimacy of the DLAs.

STANDARDIZED DISCLOSURE AND FAIR LOAN COMPARISON: To improve borrower choice and transparency, LSPs working with multiple REs are now required to provide a digital view of all loan offers that match a borrower's request. For unmatched lenders, the LSP must disclose their names. For matched lenders, the loan offer must include the name of the RE, loan amount and tenor, annual percentage rate ("APR"), monthly repayment obligation and any applicable penal charges, along with a link to the KFS for each loan.

Further, LSPs must not engage in selective promotion of specific REs or use manipulative design techniques ("dark patterns") to steer borrowers towards certain offers. However, transparent, metric-based rankings (e.g., lowest APR) are permitted.

MINIMUM COOLING OFF PERIOD: Borrowers should be provided with a cooling off period of at least one day, during which they may exit the loan without incurring any penalty. A one-time processing fee may be retained if it is disclosed in the KFS.

DEFAULT LOSS GUARANTEE: The Directions retain and reiterate the framework on DLGs first introduced in the DLG Guidelines, while integrating it into the broader digital lending regime.

Eligibility: The DLG provider must be a company incorporated under the Companies Act, 2013 and must also be either an LSP or an RE acting in the capacity of an LSP.

Board Approved Policy: The RE (including an RE acting as a DLG provider) should have a Board approved policy governing DLG arrangements.

Due Diligence: The RE must satisfy itself of the DLG provider's financial capacity to honour the arrangement. This includes a certified declaration from the DLG provider's statutory auditor. The RE must also execute a written agreement capturing specific terms of the DLG.

Cap: The DLG cover cannot exceed 5% of the total amount disbursed under the relevant loan portfolio.

Portfolio Freezing: Once a DLG set is created, its composition is fixed, and no new loans can be added.

Reinstatement Bar: Once a DLG is invoked, the coverage amount cannot be reinstated, even if recoveries are subsequently made.

Invocation Timeline: The DLG must be invoked within 120 days from the date of default, and reinstating the DLG post-invocation is prohibited.

Disclosure: REs must ensure that the LSPs with whom they have a DLG arrangement publish the number of DLG-backed portfolios and the corresponding amounts on their websites.

These disclosures must be made on a monthly basis, within seven working days from the end of the month.

DATA GOVERNANCE AND LOCALIZATION: Similar to the 2022 Guidelines, the 2025 Directions place significant emphasis on data privacy and responsible digital infrastructure. REs and LSPs are required to collect only minimal, necessary data from borrowers, and only with prior, explicit consent. Borrowers must be given granular control over what data they share, with the ability to revoke consent or request deletion. All personal data must be stored on servers located within India, and if processed offshore, must be deleted and repatriated within 24 hours. Biometric data storage is strictly prohibited unless explicitly permitted by law. Both REs and LSPs must maintain publicly comprehensive privacy policies disclosing data handling practices and maintain compliance with applicable cybersecurity standards at all times.

KEY FACT STATEMENT: Borrowers should be provided with a Key Fact Statement (KFS) in a clear, digitally signed format before finalising any loan. The KFS must contain essential terms such as the loan amount, APR, repayment schedule, penal charges, processing fees and details of the nodal grievance officer. The KFS, along with the sanction letter, privacy policy etc., must be sent automatically to the borrower's registered email address or SMS upon the execution of the loan contract.

GRIEVANCE REDRESSAL: The 2025 Directions reinforce that the ultimate responsibility for grievance redressal lies with the RE, regardless of whether the DLA is operated by the LSP. REs and LSPs must appoint designated grievance redressal officers, whose contact details must be prominently displayed on their websites, DLAs, and included in the KFS. Borrowers must also be able to lodge complaints directly through the DLAs or websites of the RE and LSP. If a complaint is rejected, inadequately addressed, or left unresolved for 30 days, borrowers may escalate it to the Reserve Bank's Complaint Management System (CMS) or the RBI Ombudsman Scheme.

CONCLUSION

By consolidating and refining the 2022 Guidelines and the 2023 DLG Guidelines, the RBI has brought much-needed clarity to areas that previously operated in legal grey zones, particularly around multi-lender platforms, risk-sharing arrangements, and data storage. While the Directions do not radically alter the regulatory approach, they do signal the RBI's intent to tighten operational discipline and reduce ambiguity across digital credit ecosystems. For REs and their LSPs, this means revisiting operational processes, reworking contracts, and ensuring end-to-end compliance. The focus is not on disrupting digital lending, but on strengthening its foundations to ensure accountability and borrower trust as the sector continues to scale.