RBI Regulatory Banking Insights

June 2025

Preface

The Reserve Bank of India Bulletin for May 2025 presents a comprehensive and formal overview of India's economic landscape, highlighting key policy directions, macroeconomic trends, and financial developments. As of May 2025, global growth remained subdued due to trade frictions, policy uncertainty, and weak consumer sentiment. However, India's economy demonstrates resilience, supported by strong high-frequency indicators and record GST collections. Headline CPI inflation has declined to its lowest level since July 2019, driven by easing food prices. Financial market sentiment has improved, aided by easing trade tensions and robust corporate earnings. System liquidity remains in surplus, and bond yields have declined. Credit growth has moderated, but merchandise and services exports continue to perform well.

On the external front, India's trade performance remains robust. Merchandise exports grew by 9% year-on-year in April 2025, while imports rose by 19.1%, widening the trade deficit. Services exports continue to be a strong pillar, particularly in IT and business services. Net FDI inflows moderated due to higher repatriations, but gross inflows remain healthy. External commercial borrowings (ECBs) reached a record USD 61.2 billion, with a significant portion directed towards capital expenditure. Foreign exchange reserves stood at USD 690.6 billion, covering more than 11 months of imports. Monetary and financial conditions are stable. The RBI injected INR 1.68 lakh crore through variable rate repo operations to manage liquidity. Corporate bond issuances rose by 16.1% year-on-year, while G-sec yields softened. The equity markets rallied, with the Sensex rising by 6% in April–May 2025. Digital transactions continued to grow, with UPI, NEFT, and RTGS platforms showing steady expansion.

Average USD/INR in May 2025 was 84.8571 with intra-month low of 84.222 (May 5), and high of 86.035 (May 8). This stability has been underpinned by various factors *viz.* sustained Foreign Portfolio Investment (FPI) Flows: India remains to receive FPI flows, especially into its equity markets, motivated by the nation's superior growth outlook among other emerging markets and a stable policy regime and active Reserve Bank of India (RBI) Management: The RBI has intervened effectively to contain undue volatility by appropriate intervention in the forward and spot foreign exchange markets and by communicating clearly its policy stance. It anchors expectations and avoids speculative pressures.

May 2025's indicators show India navigating a phase of moderated yet healthy growth (7.4% Q4, 6.5% FY 2024-25), low inflation (3.16% in April), and a generally stable rupee (average INR 84.86). The banking and NBFC sectors exhibit strong capital buffers (SCB CRAR 16.1%, NBFC CRAR ~23.6%) and improving asset quality (SCB GNPA ~2.5%).

As far as the regulatory developments are concerned, the May 15 amendment of the RBI Economic Capital Framework (ECF) guarantees that the RBI may continue to transfer surplus to the government while managing global shocks by enhancing risk provisioning requirements and buffers to increase resilience. Further, the RBI has issued Reserve Bank of India (Digital Lending) Directions, 2025 which is primarily a consolidation of earlier guidelines along with certain amendments to the current process. On 23 May 2025, the Reserve Bank of India (RBI) issued a draft circular titled "Updation/ Periodic Updation of KYC – Revised Instructions" which aims to enhance transparency and effectiveness in the current process of periodic update of KYC.

This edition of the RBI Regulatory Banking Insights covers regulatory updates during the month of May 2025 along with detailed actionable for banks. In section 3 of this edition, we cover our assessment on penalties imposed by RBI on banks and NBFCs, which would serve as a guiding document for entities to understand the focus of the Regulator and ensure compliance.

https://website.rbi.org.in/web/rbi/notifications

01

Impact assessment of regulatory changes in May 2025

Reserve Bank of India (Digital Lending) Directions, 2025

RBI/2025-26/36 DOR.STR.REC.19/21.07.001/2025-26 ("DL Directions") Release date: 8 May 2025

Applicability

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

[referred to as "REs"]

Background and objective

RBI in September 2022, introduced the Digital Lending Guidelines ("DL Guidelines, 2022") for the purpose of extending regulatory oversight to digital lending platforms. With the aim of resolving concerns around different methods of designing, delivering and servicing of digital loan products, which may impact the confidence of the borrowers, RBI has made certain changes to the digital lending norms.

The DL Directions is largely consolidation of the earlier guidelines along with certain amendments to the current process. These come into force immediately, except for certain requirements, and same has been mentioned under the Key changes.

Key changes

a. Arrangements involving multiple REs:

This requirement is required to complied by November 1, 2025.

The REs enter into service agreements with other entities, for sourcing the customers, providing underwriting services, recovery, collection, etc. Such entities are the lending service providers (LSPs) for REs and they have their own technology platforms i.e., digital lending apps (DLAs). As a usual practice, the REs provide some set of parameters for customers to the LSPs. Customers meeting such parameters are referred to the RE by the LSP. The customers may also be given the right to choose the lender.

The DL Directions now require the LSPs to have a mechanism in place for matching the borrower's request with the REs. They are required to follow a standardised and consistent approach for borrowers with similar profiles and similar loan products.

The LSPs are also required to provide a digital view of the loans offered by the REs with which they have an arrangement. The digital view shall include, name of the REs, amount and tenor of loan, APR, monthly repayment obligation, penal charges; if applicable and link of KFS. This change seems to provide transparency and greater flexibility to the customers. Having uniform standards in place will ensure non-discriminatory lending. Moreover, with the digital view of loan offerings, customers will be able to compare between different offers.

b. Enhanced website disclosure by REs:

The DL Guidelines, 2022, mandated the REs to display on their website; name of their LSP, their DLA, DLA of the LSP along with the details of activities performed by them, privacy policy of the LSPs.

In addition to the above information, the DL Directions require the REs to display the below:

- Details of all of the REs digital lending products and name of their DLAs;
- Particulars of REs customer care and internal grievance redressal mechanism;
- Link to RBIs Complaint Management System (CMS) and Sachet Portal;
- REs also have to ensure that the LSPs / their DLAs have link to the REs website.
- This again is towards providing greater transparency to customers in case of digital loans.

c. Pass through exemption in case of loan recovery:

The REs have to ensure that the flow of funds is only between the borrower and the RE, without any pass through to the LSP.

The DL Directions provide an exemption to the above rule, in case of recovery loan in cash by LSP. REs are allowed to deploy physical interface for loan recovery in cash, and this can be between the borrower and the LSP. However, REs have to ensure that fees or charges to be paid to LSP for such recovery, is not charged to the borrower by the LSP.

d. Retention of fee:

The REs are required to provide cooling-off period to the borrowers within which the borrower can exit the digital loan by paying principal and proportionate APR without any penal charges.

The DL Directions provide that if the customer exits the digital loan during cooling-off period, the RE may retain reasonable one-time processing fee and this needs to be disclosed in the KFS.

e. Storage of data:

All customer data is to stored in servers located in India. DL Directions provide that if the data is processed outside India, the same shall be brought back to India within 24 hours of processing and shall be deleted from servers outside India.

f. Reporting requirements and role of CCO:

This requirement is required to be complied by 15 June 2025.

REs are required to report all DLAs, whether it is their own or of the LSP on the Centralised Information Management System portal of RBI. The format is provided as Annex-I to the DL Directions. Any updation (addition/deletion) to the list of DLAs is also required to be updated.

The CCO or any other official designated by the Board is required to certify that the above information is correct. They also need to confirm that DLAs are compliant with the regulatory instructions.

That is to say, there is a increased responsibility on the Compliance Function of the REs to track whether the DLAs comply with the DL Guidelines.

The DL Guidelines also provide for a list of specific compliances that is required to be certified by the CCO.

Impact assessment

The changes aim to provide increased flexibility and transparency for the borrowers in terms of selecting the loan offers provided by different REs. The enhanced disclosure requirements and increased compliance with the REs shall operationalise and streamline the digital lending process.

RBI invites public comments on the draft circular on 'Updation/ Periodic Updation of KYC – Revised Instructions'

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=60517

Release date: May 23, 2025

Applicability

- All the Regulated Entities (REs)

Background and objective

On 23 May 2025, the Reserve Bank of India (RBI) issued a draft circular titled "Updation/ Periodic Updation of KYC – Revised Instructions." As part of its regulatory process, the RBI has invited comments and feedback from the public and relevant stakeholders on the proposed amendments. Interested parties may submit their responses by June 06, 2025, through 'Connect 2 Regulate' on the official website of the Reserve Bank of India or email: "amldorfeedback1@rbi.org.in" or physical copies of the responses may be submitted to the following address:

The Chief General Manager

Business Conduct Group

Department of Regulation, Central Office

Reserve Bank of India, 12/13th Floor

Shahid Bhagat Singh Marg

Fort Mumbai – 400 001

The Reserve Bank of India has observed that there is a large pendency of periodic updation of KYC especially the accounts opened for credit of Direct Benefit Transfer (DBT)/ Electronic Benefit Transfer (EBT) under Government schemes to facilitate credit of DBTs and/ or scholarship amount (DBT/ EBT/ scholarship beneficiaries) and accounts opened under Pradhan Mantri Jan Dhan Yojna (PMJDY). Additionally, RBI has also received complaints regarding the challenges customers face in periodic KYC updations.

In view of the above, the RBI has proposed some amendments to the existing KYC guidelines wherein it is expected to use the services of Business Correspondent (BC) by banks for updates/periodic updates of KYC and to organise camps and launch intensive campaigns focusing on periodic updation of KYC, especially in rural and semi urban branches and the branches having pendency in periodic updation of KYC by the banks.

Attention has also been drawn to the RBI notification dated 2 December 2024, dealing with the inoperative accounts/unclaimed deposits in banks (link: https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12750&Mode=0).1

Summary of the proposed changes/amendments:

1. In the existing Reserve Bank of India (Know Your Customer (KYC)) Directions, 2016 ("KYC Directions") in para 38 and before para 38(a) a new clause shall be added which says that, in case of individual "low risk" category customers, Regulated Entities (REs) shall allow all transactions of such customers and ensure that their KYC must be updated within one (1) year of its due date or 30 June 2026, whichever is later, and such accounts shall be regularly monitored. This extension would also be applicable to all individual "low risk" category customers whose periodic KYC updation has already becomes due.

2. In the existing Reserve Bank of India (Know Your Customer (KYC)) Directions, 2016 ("KYC Directions") after para 38(a)(ii) a new para 38(a)(iia) shall be added which says that, if there is no change in the KYC details of a customer or only address is updated, they can submit a self-declaration through an authorised Business Correspondent (BC) of the bank after biometric-based e-KYC authentication.

   Banks may also allow BCs to record these declarations and supporting documents electronically and in case electronic submission is not available, BCs shall verify the physical declarations, authenticate the supporting documents, and forward them to the concerned bank branch. BCs shall also provide the customers with an acknowledgment receipt for their submissions. The bank branch will update the KYC records and inform the customer once the update is complete, as per paragraph 38(c) of the KYC Directions. Most importantly, the bank remains responsible for ensuring periodic KYC updates.

3. In the existing Reserve Bank of India (Know Your Customer (KYC)) Directions, 2016 ("KYC Directions") after para 38(d) a new para 38(e) shall be added which says that the REs must inform customers in advance about the need to update their KYC. Before the due date, REs must send at least three advance intimations, including one by letter, through available communication channels for completing the periodic updation of KYC. If KYC is not updated by the due date, REs shall send three additional reminders, again including one by letter, at appropriate intervals. These letters and notifications must provide clear instructions on how to update KYC, help options if needed, and the consequences of failing to update KYC on time. REs must maintain records of all notifications and reminders issued.

Our point of view on the proposed amendments:

The afore-stated proposed amendments are a welcome step towards the periodic KYC updation especially for low-risk customers and in case these are implemented, it will significantly improve the customer convenience and regulatory compliance. By taking the support from BCs KYC updations process will become more effective and especially for those customers who does not have any change in their KYC records. Additionally, the customers will also get advance communications from the REs for KYC updations will enhance the transparency and effectiveness of the process and at the same time will also enhance customer service.

02

Other notifications in May 2025

Other notifications: May 2025

Reserve Bank of India:

Revised Directions on Investment by Regulated Entities in Alternate Investment Funds – Draft for Comments

(Release date –19 May 2025)

In order to enhance financial discipline among regulated entities (REs) and in alignment with SEBI's enhanced due diligence norms for investors and investments of Alternate Investment Funds (AIFs), RBI, through a press release dated 19 May 2025 released revised draft Directions on Investment by REs in AIFs.

Key proposals includes:

- A single RE can invest up to 10% of a scheme's corpus; collective investment by all REs capped at 15%.
- Investments up to 5% of corpus allowed without restriction.
- If REs invest beyond 5% and the AIF has downstream debt exposure to a debtor company of the RE (excluding equity/CCPS/CCDs), 100% provisioning is required.
- AIFs set up for strategic purposes may be exempted by RBI in consultation with the Government.
- Revised directions will apply prospectively; existing commitments to follow current norms.

Public comments are invited till 8 June 2025 via the 'Connect 2 Regulate' section on the RBI website or by writing to the Chief General Manager, Credit Risk Group.

Discussion Paper on Capital Raising Avenues for Primary (Urban) Co-operative Banks

(Release date – 22 May 2025)

The RBI, vide its discussion paper on Capital Raising Avenues for Primary (Urban) Co-operative Banks on 22 May 2025 highlights the new capital-related provisions introduced by the Banking Regulation (Amendment) Act, 2020, such as the issuance of special shares and shares at a premium. The Expert Committee provided guiding principles on these provisions, and a Working Group was formed to operationalise the recommendations.

Based on the Working Group's recommendations, the RBI released the Discussion Paper proposing capital raising avenues for Urban Co-operative Banks (UCBs). Stakeholders are invited to submit feedback on the Discussion Paper through the RBI's website by 15 July 2025.

RBI invites public comments on the draft circular on 'Inoperative Accounts/ Unclaimed Deposits in Banks - Revised Instructions (Amendment) 2025

(Release date – 23 May 2025)

The RBI through its press release dated 23 May 2025 has invited public comments on the draft circular titled 'Inoperative Accounts/ Unclaimed Deposits in Banks - Revised Instructions (Amendment) 2025.

Through the proposed amendment, the RBI intends to enable the authorised business correspondents of the bank to facilitate KYC and its updation for activation of inoperative accounts as per the provisions of para 38 (a) (ii) of the Master Direction - Know Your Customer (KYC) Direction, 2016.

Reporting on FIRMS portal – Issuance of Partly Paid Units by Investment Vehicles

(Release date – 23 May 2025)

The RBI vide its notification dated 23 May 2025, has drawn attention towards the earlier issued "Foreign Exchange Management (Non-debt Instruments) (Second Amendment) Rules, 2024, which were notified on 14 March 2024, wherein investment vehicles were allowed to issue partly paid units to persons resident outside India. As per Regulation 4(10) of the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019, entities issuing such units must file Form InVI within 30 days of issuance. The RBI now allowed issuances made before this circular to be reported within 180 days from the date of issuance of this circular without any late submission fees.

However, issuances made after the release of this circular will continue to be reported within 30 days. These provisions are effective immediately, and Authorised Dealer (AD) Category-I banks must inform their customers.

Other notifications: May 2025

National Payments Corporation of India:

Guidelines on usage of UPI API

(Release date – 21 May 2025)

This circular is issued in reference to the earlier circular NPCI/UPI/OC/215/2025-26 dated 26 April 2025,relating to streamlining transaction usage on UPI.

NPCI provides additional guidelines to be adhered by UPI ecosystem members for improving the performance of UPI. The API/ Use Case that is covered are Balance Enquiry, List keys (for type ListKey and PSPKeys), List Accounts, Check transaction status, Autoplay mandate execution, List verified merchants, Penny drop, ValCust API, API header format and Validate Address.

In addition to the above, members are requested to note the following:

- PSPs need to monitor usage as specified in this circular that the stand-alone use of APIs for purposes other than intended is prohibited, unless approved specifically by NPCI.
- PSPs shall monitor and have a queueing of system-initiated APIs to ensure moderated TPS or in other words PSP systems are not a pass through for back-end generated API transactions to UPI systems in all conditions. PSPs shall give the undertaking to NPCI in this regard on or before 31 Aug 2025.
- Peak hours are defined as the period during the day when UPI financial transactions reach the highest transactions per second, observed from 10 am to 1 pm and from 5 pm to 9:30 pm. Any other time shall be referred as non-peak hour. During peak hours, UPI members are required to restrict non-customer-initiated APIs.
- PSP banks / Acquiring banks shall audit their systems by Cert-in empaneled auditor on an immediate basis, to review the API usage and existing systems behavior, and annually hereafter.
- The audit reports shall be shared with upi.compliance@npci.org.in by 31 August 2025.

Members are requested to comply with requirement for implementation by 31 July 2025. In the event of non-compliance NPCI may take necessary action including UPI API restrictions, penalties suspension of new customer on-boarding or any other measures deemed appropriate.

Handling of Deemed Approval (Deemed Acceptance or DA) status in UPI for P2M transaction where Acquiring PSP and Merchant Bank are the same

(Release date –26 May 2025)

With reference to circular NPCI/UPI/OC 39/2017-18 dated 20 November 2017, the handling of Deemed Approval transaction on UPI for Person-to-Merchant type of transaction, the below guidelines shall be applicable:

- For P2M transactions where the Merchant bank and Acquiring PSP are the same, UPI will consider the transaction status 'Deemed Acceptance' as 'SUCCESS' in online and pass this response to the PSPs.
- Existing rules for 3-party deemed approved transactions will continue without changes. This includes processes like settlement, adjustment reports, GST reports, penalties, and chargeback rules
- If the merchant bank is not able to credit:
  - The beneficiary bank must initiate a credit adjustment/refund after necessary checks.
  - If no credit adjustment/refund is initiated, the merchant bank will retain the funds with them and credit to the merchant according to existing regulations.
- The turnaround time (TAT) for dispute management and adjustments will follow the current process.

The members are required ensure that they make necessary changes if any in their system so that responses are handled accordingly.

The above-mentioned changes shall be implemented with effect from 30 June 2025.

Facility for cancellation of mandates to be provided to customers – Extension of time

(Release date –26 May 2025)

The NPCI has extended the deadline for E-mandate banks to enable mandate cancellation from 28 Feb to 31 July 2025. Non-compliant entities will be disabled from ONMAGS starting 1 August 2025 until they implement the facility.

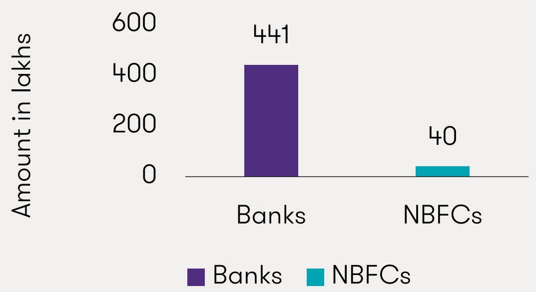
03

Penalties imposed by RBI on Financial Institutions

Other notifications: May 2025

The RBI has been rigorously monitoring financial institutions through periodic supervisions such as statutory inspections for supervisory evaluation to ensure that the entities are in compliance with the applicable regulations stipulated by RBI from time to time. Further, the RBI has imposed strict penalties on banks and NBFCs for non-compliances. The following is a depiction of the penalties imposed on financial institutions and the broad themes of focus.

Penalties imposed by RBI during May 2025



Key themes in focus in May 2025

01 AML KYC

02 Regulatory Reporting

03 Loans and Advances

04 Banking Regulation

05 Lending practices

06 Customer protection

Source: Reserve Bank of India - Press Releases (rbi.org.in)

Key themes	Key Regulations in focus
AML KYC	Master Direction – Know Your Customer (KYC) Direction, 2016
Regulatory reporting	• Credit information Companies Rules, 2006 (CIC Rules) • Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures, 2014 • Central Repository of Information on Large Credits (CRILC) - Revision in Reporting
Loans and advances	Master Circular – Loans and Advances – Statutory and Other Restrictions, 2009
Banking regulation	Banking Regulation Act, 1949
Lending practices	Non-Banking Financial Company - Peer to Peer Lending Platform (Reserve Bank) Directions, 2017
Customer protection	Customer Protection – Limiting Liability of Customers in Unauthorised Electronic Banking Transactions

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