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### CODE, CREDIT, AND CONTROL: RECALIBRATING RBI'S DIGITAL LENDING DIRECTIONS, 2025 BETWEEN INNOVATION AND ACCOUNTABILITY

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#### ABSTRACT

*The Reserve Bank of India's Digital Lending Directions, 2025, consolidate earlier guidelines into a unified framework aimed at protecting borrowers while supporting fintech innovation. These rules impose strict transparency and conduct standards that regulated lenders (banks, NBFCs, cooperative banks, and All-India Financial Institutions) must now enter formal contracts with their fintech partners (Lending Service Providers, or LSPs) and conduct robust due diligence. Borrowers gain standardised disclosures (Key Fact Statements with APR, fees, and terms) before loan acceptance, a mandated "cooling-off" right (minimum 1 day) to exit a digital loan without penalty, and grievance channels (RE and LSP nodal officers, RBI complaint portal). Crucially, data and app rules protect privacy; only minimal borrower data may be collected with explicit consent, digital loan apps (DLAs) must be registered, and all borrower data must reside in India (any overseas processing to be deleted within 24 hours). Simultaneously, multi-lender marketplaces must display all matched and unmatched offers impartially (no biased ranking or "dark patterns" allowed). This article analyzes these innovations, reviewing the new Directions' provisions, comparing them with global norms (e.g. EU withdrawal rights, UK "positive friction" in loan apps), and assessing their impact. We identify gaps (e.g. the exclusion of Buy-Now-Pay-Later products, ambiguities in practice) and propose suggestions (such as clarifying hybrid credit models and extending safeguards) to ensure the regulatory balance truly fosters safe, inclusive digital credit. In sum, the 2025 Directions mark a nuanced recalibration of India's lending landscape, layering accountability onto innovation, but their ultimate efficacy will hinge on clear guidance and enforcement.*

**Keywords:** Digital lending; RBI 2025 Directions; fintech regulation; consumer protection; credit innovation

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### I. INTRODUCTION

Digital lending has surged in India, using smartphone apps and online platforms to extend instant credit. While this has expanded access (especially for underbanked consumers), it also unleashed risks, hidden fees, opaque “dark patterns,” exorbitant interest, aggressive collections and data misuse. In response, the RBI undertook a careful review<sup>1</sup>. A high-level Working Group (2021) “adopted the approach of striking a balance between boosting innovation in financial services and ensuring the orderly development of the growing market”<sup>2</sup>. Building on this, the RBI on May 8, 2025, released its Digital Lending Directions, 2025.<sup>3</sup> These directions consolidate earlier circulars (2020, 2022, 2023)<sup>4</sup> into a single framework, extending consumer safeguards without discarding digital credit channels. Crucially, the RBI explicitly states it “encourages innovation in financial systems,”<sup>5</sup> even as it targets abuses (mis-selling, data breaches, unethical recoveries) that had undermined trust<sup>6</sup>.

This paper provides a comprehensive analysis of the 2025 Directions. We first outline the key legal features, definitions, scope, and obligations for lenders and fintechs. We then examine consumer protection enhancements, standardized disclosures (Key Fact Statements (KFS)), mandatory grievance mechanisms, cooling-off rights, and strict data-privacy rules<sup>7</sup>. Next, we discuss how the framework affects credit innovation, multi-lender marketplaces and app ecosystems versus the new compliance costs. We place India’s approach in comparative perspective (comparing, for example, with EU and UK rules on digital credit). We identify gaps and ambiguities (e.g. the exclusion of BNPL and hybrid products) and conclude with constructive suggestions for regulators and industry. The 2025 Directions mark a watershed in Indian fintech law, seeking to balance consumer rights and the future of digital credit and understanding their strengths and limits is critical for policy-makers and lenders alike.

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<sup>1</sup> CTR. FOR INTERNET & SOC’Y, DIGITAL LOAN APPS AND CONSUMER HARASSMENT: EVIDENCE AND POLICY RESPONSES (2022).

<sup>2</sup> Reserve Bank of India, *Report of the High-Level Working Group on FinTech / Digital Lending* (RBI Working Group report, 2021).

<sup>3</sup> Reserve Bank of India, *Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps* (Nov. 2021).

<sup>4</sup> Reserve Bank of India, *Master Direction / Circular: Loans Sourced by Banks and NBFCs over Digital Lending Platforms* (June 2020).

<sup>5</sup> Reserve Bank of India, *RBI Speech(s) and Governor Remarks on Fintech Regulation and Innovation* (various speeches, 2021–2025).

<sup>6</sup> P. Dasari, *Digital Lending in India: Harassment, Settlements, and the Regulatory Response*, SSRN (2024/2025).

<sup>7</sup> K.S. Puttaswamy v. Union of India (2017) 10 SCC 1.

## II. KEY FEATURES OF THE RBI'S DIGITAL LENDING DIRECTIONS, 2025

The 2025 Directions establish a unified legal framework for any loan originated or serviced through a digital channel by a regulated entity (RE). In scope are all Indian commercial banks, cooperative banks, NBFCs/HFCs, and even All-India Financial Institutions when they lend via apps or platforms (excluded are credit card EMI schemes, merchant BNPL products, and P2P lending). Major elements include:

### A. Expanded Regulated Perimeter

The Directions adopt broad definitions. A Digital Lending App/Platform (DLA)<sup>8</sup> covers any mobile/web interface enabling lending. A Lending Service Provider (LSP) is any fintech or intermediary assisting the lender. Critically, even if lending is outsourced, the regulated lender (RE) retains full liability for compliance. The RBI now requires formal contracts with each LSP, detailing roles, recovery practices, audit rights, etc. Live registers of all LSP partnerships must be maintained, and annual “fit-and-proper” checks conducted. In effect, the Rules close loopholes, no informal “handshake” deals or secret fee-sharing (the RE remains “fully responsible and liable” for its LSP’s actions).<sup>9</sup>

### B. Multi-Lender Platforms (Marketplace Neutrality)

Recognizing the rise of loan aggregators, the RBI now explicitly governs platforms with multiple lenders. LSPs running such marketplaces must display all loan offers matching a borrower’s request, including offers from lenders who decline the loan. Each offer must show the lender’s name, APR (with penal charges), tenure, EMI amount and fees. Critically, ranking or UI design must be unbiased, not using algorithms or “dark patterns” to nudge the borrower toward a particular loan (publicly disclosed rankings based on objective metrics are permitted). This ensures an apples-to-apples comparison, preventing aggressive steering. These neutralization requirements (effective Nov. 1, 2025) promote competition by making markets more transparent.

### C. Loan Disbursement and Repayment Rules

The RBI imposes strict “direct flow” of funds. All disbursements must go straight into the borrower’s bank account. No third-party or LSP accounts may be used, except for narrow exceptions (e.g., co-lending joint accounts or direct-to-beneficiary schemes). Similarly, repayments must go directly to the lender (RE). No pass-through via LSPs or escrow is allowed. By eliminating middlemen in the money flow, these rules close earlier loopholes where LSPs could divert or delay funds, and ensure clear audit trails.

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<sup>8</sup> Reserve Bank of India, *Master Direction – Digital Lending Directions, 2025* (RBI/DLD/2025-26/01).

<sup>9</sup> Reserve Bank of India, *On Outsourcing and Third-Party Management: Master Direction(s)/Circulars on Outsourcing of Financial Services* (relevant RBI outsourcing master direction, various dates).

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### **D. Borrower Screening**

The Directions reaffirm that REs must assess each borrower's creditworthiness in every case (at a minimum collecting age, income, occupation). Importantly, a lender may not auto-escalate credit limits. Any increase requires an explicit borrower request and evaluation. This prevents unseen loan expansions via app interfaces. These provisions build on earlier RBI circulars on fair underwriting.

### **E. Customer Disclosure and Grievance**

Transparency is at the core. All loans must be accompanied by a Key Fact Statement (KFS), an RBI-standard form detailing APR, tenure, EMIs, all fees and penalties before the borrower accepts the offer.<sup>10</sup> The final sanction letter and terms (digitally signed) must then be emailed or messaged to the borrower. Lenders must also publish on their websites the list of digital loan products, LSP partnerships, and complaint channels (including RBI's Complaint Management System and "Sachet" portal). Additionally, both the RE and any interfacing LSP must each designate a nodal grievance officer, with contact info on the app and website. Borrowers can escalate unresolved complaints to the RBI's ombudsman if not settled in 30 days. These steps aim to eradicate hidden charges and ensure borrowers know where to seek help.

### **F. Cooling-Off Period**

A novel "exit" right is introduced. Borrowers receive a short cooling-off window (minimally 1 day, as determined by the lender's board and disclosed in the KFS) during which they can cancel the loan. They owe only the principal and a proportionate APR (no penalty) to walk away<sup>11</sup> (lenders may retain a reasonable one-time processing fee if disclosed upfront). This feature is akin to a consumer's right of withdrawal on distance credit contracts, allowing reflection after electronically signing. The Directions cut the previous minimum (3 days for longer loans) down to 1 day for all loans, streamlining the rule. The cooling-off right materially strengthens borrower autonomy post-sanction.

### **G. Data and Technology Requirements**

Echoing India's new data protection ethos, the RBI tightly curbs how apps use personal data. Lenders/LSPs may collect only the information necessary for credit evaluation, and only with explicit consent. Access to device resources is severely limited; apps cannot crawl contacts, call logs, messages, files, media, etc., except for a one-time need for KYC. All borrower data must be stored in India. If any processing occurs abroad, that data must be repatriated and deleted from foreign servers within 24 hours. Lenders must have comprehensive, public privacy policies

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<sup>10</sup> Reserve Bank of India, *Master Direction / Consumer Protection Measures applicable to Regulated Entities* (consolidated consumer protection direction referenced in 2025 Directions).

<sup>11</sup> Regulation 2016/679 (General Data Protection Regulation), 2016 O.J. (L 119) 1.

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disclosing any third-party data sharing.<sup>12</sup> These rules align digital lending with the Digital Personal Data Protection Act 2023<sup>13</sup> and CBPA’s November 2023 guidelines, reflecting global privacy norms. On cybersecurity, too, REs/LSPs must meet RBI and CERT-in standards.<sup>14</sup>

### H. Default Loss Guarantee (DLG) Framework

The RBI also refines its first-loss guarantee rules. Only LSPs incorporated as companies (not individuals) may provide a default-loss-guarantee to lenders, and only to another REs or LSPs. A guarantor may cover at most 5% of an NBFC’s disbursed loan portfolio. Guarantees cannot be invoked for revolving credit or any loans under government guarantee schemes. RBI specifies permitted forms (cash deposit, lien-marked FDR, or bank guarantee) and requires invocation within 120 days of default.<sup>15</sup> These constraints seek to prevent evergreening of loans (artificially hiding NPAs) while still allowing modest risk-sharing where appropriate.

### I. Reporting Requirements

Finally, the Directions greatly expand reporting. All loans originated via DLAs must be reported to credit information companies (building borrowers’ credit histories).<sup>16</sup> Critically, from June 15, 2025, every DLA (even third-party apps) must register on RBI’s Centralised Information Management System (CIMS) portal.<sup>17</sup> Chief Compliance Officers of REs personally certify this data’s accuracy. The RBI will publicly list the registered apps (with the caveat that listing ≠ endorsement). By bringing all digital channels into view, RBI claims a de facto oversight loop on fintech apps that otherwise operate off-registry.<sup>18</sup>

Together, these rules constitute a stringent compliance regime. They notably enhance existing obligations (e.g., formalizing practices banks already follow) and introduce new ones (e.g. app registration, cooling-off).

## III. CONSUMER PROTECTION ENHANCEMENTS

A central aim of the 2025 Directions is to fortify consumer safeguards. Many measures align with international best practices in responsible lending:

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<sup>12</sup> Ministry of Electronics & Information Technology (MeitY), *Rules under the Digital Personal Data Protection Act, 2023* (2023–2024).

<sup>13</sup> The Digital Personal Data Protection Act, No. 22 of 2023, *Gazette of India* (Aug. 11, 2023).

<sup>14</sup> European Banking Authority (EBA), *Guidelines on Outsourcing & ICT Risk Management* (EBA guidelines as comparative model for outsourcing/LSP chain oversight).

<sup>15</sup> RBI — *Circular / Clarification on Default Loss Guarantees & Risk-Sharing Arrangements in Digital Lending* (consolidated guidance, 2024–2025).

<sup>16</sup> Reserve Bank of India, *Notification — Registration / Listing Requirements for Digital Lending Apps (DLA) on CIMS* (June 2025 operational notice).

<sup>17</sup> Reserve Bank of India, *Guidance on Reporting of Loans to Credit Information Companies and Centralised Information Management System (CIMS) requirements* (2024–2025).

<sup>18</sup> Centre for Internet & Society, *Loan App Data Scraping & Privacy: An Analysis* (research brief/technical note).

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### **A. Transparency & Disclosure**

The standardized KFS compiles all material loan terms in simple language upfront. Borrowers see APR, fees, tenure and penalties before accepting any offer, closing information gaps that fintech apps previously exploited. Emailed sanction letters and publicly disclosed privacy policies further guarantee borrowers know exactly what they are signing. In effect, borrowers move from opaque “consent screens” to crystal-clear fact sheets.

### **B. Fair Marketing (No Dark Patterns)**

Borrowers are shielded from manipulative UI/UX tactics. The RBI explicitly bans “dark patterns” on digital lending platforms, user interface tricks that mislead customers into high-cost loans. Similar concerns have arisen globally; for example, the UK FCA warns that some loan apps require “positive friction” to slow decision-making and prevent bypassing important information.<sup>19</sup> The RBI’s rule, combined with requiring lenders’ apps to be named and offering unbiased offers, means borrowers are less likely to be steered toward the costliest option.<sup>20</sup>

### **C. Cooling-Off Right**

This right is a powerful consumer tool. Analogous to the EU’s 14-day credit withdrawal right and India’s existing 1-3 days look-up periods, it creates a short “reflection window” after the contract. During the cooling-off period, a borrower who has second thoughts can terminate the loan by repaying only principal plus the proportionate interest accrued, with no foreclosure penalty. The RBI has consciously cut this window to 1 day (shorter than many earlier regimes) to balance lender certainty with consumer remorse options. This measure could prevent fraud or rash decisions: for instance, if a borrower found hidden fine-print after signing, she can effectively rescind the deal almost immediately.

### **D. Grievance Redressal**

The Directions institutionalize complaints handling. Both lenders and their fintech agents must have trained grievance officers, and their contact info must be clearly visible on loan apps and websites. If a borrower’s complaint is unresolved in 30 days, the RBI system provides a fallback. Such multi-tier redress enhances accountability: lenders risk RBI penalties for unresolved grievances. These provisions bring digital credit in line with India’s general consumer law trends.

### **E. Data Privacy**

Borrower data rights see a major upgrade. All data collection must be “purpose-specific” with explicit borrower consent, and borrowers may revoke consent at any time. Mobile resource access

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<sup>19</sup> Financial Conduct Authority (UK), *Consumer Duty and Guidance on Digital Design / Online Journeys* (FCA publications/guidance on digital UX and “positive friction”, 2023–2025).

<sup>20</sup> Academic article / conference paper on *dark patterns in fintech* (e.g., Mathur et al., *Dark Patterns at Scale: Findings and Implications*).

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(e.g., contacts, SMS) is sharply curtailed. The Directions mirror the principle of data minimization in the new Digital Personal Data Protection Act. In practice, lenders and apps must rebuild their data practices; for example, if an app once scraped a borrower's contact list, it is now flatly prohibited.

### **F. Credit Reporting**

By mandating that all digital loans be reported to credit bureaus, the RBI promotes fair credit discipline. Every on-time or late payment gets recorded, helping responsible borrowers build a score and penalising willful defaulters. This aligns with full-file reporting laws in places like Australia. Notably, India chose not to exempt microloans here (unlike Kenya's rule allowing very small defaults to slip to protect poor borrowers). The RBI evidently prioritises creating comprehensive credit histories for digital borrowers.

Overall, consumers gain from these rules. As one analysis observes, "the new rules seek to balance innovation with integrity and ensure that the marketplace is safe and sound for consumers". The combined effect is a stronger safety net, greater up-front clarity (KFS), the freedom to exit bad deals, control over personal data, and enforced responsiveness by lenders. As a result, ethically questionable fintech practices should be curbed, making digital credit "inclusive, secure and sustainable".

## **IV. IMPLICATIONS FOR CREDIT INNOVATION**

While bolstering protections, the Directions also reshape the fintech credit landscape. Many provisions advance responsible innovation, but compliance costs may influence market dynamics. On the positive side, the Rules explicitly accommodate new lending models. The regulator's multi-lender platform rules recognize the reality of loan comparison apps, aiming to nurture a competitive marketplace. By requiring lenders to disclose offers impartially, borrowers can access a wider set of credit options. This transparency could deepen credit penetration; even reluctant borrowers may try digital loans if confident terms are fair. Moreover, clear rules on contractual arrangements and audit rights give banks and NBFCs confidence to partner with fintechs, potentially scaling up digital credit flow.<sup>21</sup> For example, an RBI-authorized co-lending or marketplace arrangement may now be more predictable for banks than before.<sup>22</sup>

However, industry commentators note the compliance burden is substantial. Lenders must overhaul systems generating KFS data before the borrower selects a loan, segregating funds flows, and overhauling UI/UX to eliminate bias. Fintech platforms face new documentation (contracts

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<sup>21</sup> NBFCs Face Provisioning Brunt as RBI Tightens DLG Norms, Econ. Times, May 27, 2025.

<sup>22</sup> Centre for Financial Inclusion / academic piece, *Digital Credit Algorithms in India: Inclusion or Exclusion?* (policy brief / paper).

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with each bank), IT work (automating KFS presentation and consent records), and legal exposure (their partner's CCO will sign off on regulatory compliance). Smaller startups may struggle to meet these requirements. Industry observers predict some consolidation, with only well-funded players absorbing the costs. In short, the “compliance bar” has been raised.

The RBI appears aware of this tension. Its preamble explicitly avoids “overhauling” the framework, instead “refining” it. By not imposing new interest rate caps and allowing flexibility (e.g. letting the RE's board fix the cooling-off length), the RBI tries not to stifle growth. Indeed, key voices praise the balance. One industry article notes the directions “encourage fintech-driven credit growth, but... do not tolerate predatory behavior”.<sup>23</sup> Lenders can still innovate on credit-scoring, product design and delivery now within defined guardrails.

Data-driven innovation will also pivot. The strict localization and consent regime pushes fintechs to build India-specific data infra global cloud providers will need local deployment or data-delete flows. This is likely seen as a trade-off between protecting privacy and ease of cross-border development.<sup>24</sup> Conversely, richer credit data from mandatory credit bureau reporting (including the borrower's repayment history) should fuel better risk models. One effect previously unscored borrower may now generate on-time records, aiding machine-learning credit algorithms in scoring poor borrowers.

Finally, Fintech partnerships must be reframed. With REs liable for all LSP actions, banks will more tightly police their platforms. The scheme effectively “regulates fintech by proxy” The RBI sidesteps licensing non-banks, yet achieves oversight by enforcing contracts and audits. This creates an incentive for fintechs to adopt internal compliance (in data use, UI design and collections) as a survival strategy. Over time, one hopes this professionalizes the sector.<sup>25</sup>

Overall, the directions signal that innovation must proceed “with integrity.” Borrowers stand to benefit from a clearer, safer market. Lenders and fintechs must respond by strengthening controls and retooling apps.<sup>26</sup> The net impact on credit availability remains to be seen in theory; reducing mistrust should expand uptake; in practice, higher costs may slow entry. The RBI's challenge will

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<sup>23</sup> Bank for International Settlements (BIS), *Working Papers on FinTech Credit and Financial Stability* (BIS reports on fintech credit models and systemic implications).

<sup>24</sup> Legal firm commentary (e.g., AZB & Partners), *Practical Note on RBI Digital Lending Directions, 2025* (practitioner analysis).

<sup>25</sup> Cyril Amarchand Mangaldas, *RBI Consolidates Directions on Digital Lending: Implications for REs & LSPs*, India Corp. L. Blog (May 20, 2025), <https://corporate.cyrilamarchandblogs.com/2025/05/fig-paper-no-44-series-3-rbi-consolidates-directions-on-digital-lending-implications-for-res-lsps/>.

<sup>26</sup> AJ Yuan Chen, *et al.*, *Digital Lending and Financial Well-Being: Through the Lens of Mobile Phone Data* (Harvard Bus. Sch., Working Paper No. 23-076, 2023), [https://www.hbs.edu/ris/Publication%20Files/23-076rev11-13-23\\_b3ecc663-8dbd-4446-9059-115f511e612c.pdf](https://www.hbs.edu/ris/Publication%20Files/23-076rev11-13-23_b3ecc663-8dbd-4446-9059-115f511e612c.pdf).

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be to monitor implementation<sup>27</sup> and tweak rules as needed, ensuring innovation thrives under accountability.<sup>28</sup>

### V. INTERNATIONAL AND COMPARATIVE CONTEXT

India's 2025 framework reflects global trends in balancing fintech growth with consumer rights. Under the G20/OECD principles<sup>29</sup>, financial regulators increasingly stress customer-centricity and information symmetry. A few illustrative parallels:

#### A. European Union

EU consumer credit law (Consumer Rights Directive) grants borrowers a 14-day withdrawal right for distance loans, mirroring India's cooling-off concept. The forthcoming EU Digital Finance package will further tighten disclosures and ban unfair UI. Notably, EU data rules (GDPR) entitle loan applicants "not to be subject to a decision based solely on automated processing" and to obtain human review<sup>30</sup>. India's standards echo these values, it mandates human-friendly summaries (KFS) and gives borrowers control over app permissions.

#### B. United Kingdom

The UK Financial Conduct Authority has similarly highlighted the need for transparency and positive design in online lending. A recent FCA review found many loan apps lack "positive friction" (such as time-delays or check boxes) that would pause customers and ensure they understand costs.<sup>31</sup> This matches RBI's ban on deceptive loan funnels.<sup>32</sup> The FCA also pursues full reporting to credit reference agencies. Like India, UK regulators see technology as a double-edged sword, necessitating design standards.<sup>33</sup>

#### C. Australia and New Zealand

Regulators here mandate full-file credit reporting (each lender must share all consumer loan data).<sup>34</sup> This assists in affordability checks and deterring reckless lending.<sup>35</sup> India's requirement that all digital loans hit the credit bureaus is akin to this, though Australia additionally requires lenders to verify the loan purpose and customers' capacity to repay. On the data front, RBI's localization

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<sup>27</sup> Reserve Bank of India, *FAQ: Digital Lending Guidelines* (RBI FAQ, 2023).

<sup>28</sup> International Telecommunication Union (ITU) / UNCDF reports on digital finance inclusion (contextual comparison).

<sup>29</sup> OECD, *Principles for Digital Financial Inclusion* (2016).

<sup>30</sup> European Commission, *Digital Finance Package / Proposals on Digital Finance (regulatory posture relevant to digital lending)* (2023–2024 materials).

<sup>31</sup> Financial Conduct Authority (UK), *Discussion Paper / Report on Lending Apps and Marketplaces* (FCA thematic review, 2023–2025).

<sup>32</sup> Bank of England / FCA joint papers on digital financial resilience (relevant thematic analysis).

<sup>33</sup> UK Consumer Credit Act 1974 (statutory background for UK consumer credit disclosure rules).

<sup>34</sup> Australian Treasury, *Review of Australia's Credit Reporting Framework* (Final Report / policy documents, 2023–2024).

<sup>35</sup> Australian Securities & Investments Commission (ASIC), *Responsible Lending Guidance and digital credit materials* (ASIC guidance on digital lenders).

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requirement contrasts with the open-data pushes seen in some markets (e.g., open banking), but aligns with many emerging markets, RBI's Digital Lending Directions, 2025: Between Consumer Protection and Credit Innovation, data sovereignty moves.

### **D. Kenya and Africa**

Some African regulators focus on consumer risk. For instance, Kenya's digital credit rules prohibit lenders from reporting default on "nano" loans under ~\$8<sup>36</sup>, protecting very poor borrowers from blacklisting over trivial debts. India, however, chose not to include such an exemption, instead mandating that every digital loan be reported. This reflects a policy choice emphasizing credit discipline over targeted leniency. The RBI did adopt Kenya's idea of an electronic dispute resolution portal, but through its own CMS.

### **E. United States**

The U.S. has fewer digital lending-specific rules, but CFPB enforcement actions and state laws (e.g., California's ban on certain data uses) echo these concerns. For example, California law prohibits lenders from scraping borrowers' phones without consent, similar in spirit to RBI's app restrictions. Meanwhile, U.S. law also gives rights to explanations under the Equal Credit Opportunity Act (anti-discrimination) and requires Truth in Lending disclosures, conceptual cousins to the KFS.<sup>37</sup>

In sum, the RBI's framework is broadly in line with an international shift; regulators are no longer content with letting fintech happen unchecked. They're demanding that innovation respect transparency, fairness, and data rights. India's Guidelines stand out for their detail (e.g. app registry, explicit contract rules) and alignment with its new data law. However, India's fintech market also has unique features (e.g. Aadhaar/KYC, UPI ecosystems) that other countries lack. The directions thus blend global principles with India-specific fixes.<sup>38</sup>

## **VI. GAPS, AMBIGUITIES AND CHALLENGES**

Despite its strengths, the 2025 regime has notable lacunae and practical issues that warrant attention:

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<sup>36</sup> Central Bank of Kenya, *Guidance on Digital Credit Providers* (CBK circulars and consumer protection guidance, 2019–2022).

<sup>37</sup> Consumer Financial Protection Bureau (U.S.), *Supervisory and Enforcement Actions related to Digital Lending* (CFPB briefs / enforcement summaries).

<sup>38</sup> Organisation for Economic Co-operation and Development (OECD), *Principles for Consumer Protection in the Context of Electronic Commerce / Digital Financial Services* (OECD policy guidance).

### **A. Buy-Now-Pay-Later and Hybrid Credits**

The Directions explicitly exclude “merchant BNPL” from their scope.<sup>39</sup> Yet BNPL is booming in India (often provided via fintechs without conventional loan paperwork). The RBI has separately clamped down on BNPL non-bank providers (as with the recent seizure of Simpl’s payments functions). The NDTV analysis notes a gray zone hybrid model that blend BNPL mechanics with term loans may evade clear categorization. Without guidance, firms could structure products to avoid regulation. A constructive step would be for the RBI (or Finance Ministry) to clarify how these models will be treated, for example, requiring disclosures or registrations for large BNPL providers, or expanding the rulebook if BNPL products bear interest.<sup>40</sup>

### **B. Multi-Tier LSP Chains**

The Directions assume a simple two-tier (RE ↔ LSP ↔ borrower) structure. But what if an LSP further outsources KYC or tech services to another firm? Could a so-called LSP-of-LSP escape oversight? The NDTV article highlights this ambiguity.<sup>41</sup> The RBI may need to issue FAQs or a circular clarifying that only LSPs directly contracted by REs qualify, or that downstream providers must adhere to the same rules. Otherwise, operationalizing due diligence and accountability along supply chains will be tricky.

### **C. Timing of Disclosures**

In theory, KFS must be shown before the borrower picks a lender. But as one industry analysis points out, KFS data (APR, EMI) often depends on the specific loan offer. Practically, apps usually have customers choose an offer and then generate the KFS. How can this work? The NDTV analysis flags this as a conundrum.<sup>42</sup> RBI or industry guidelines may need to standardize the process (e.g. generate KFS on-the-fly as soon as any offers are computed, before final acceptance).

### **D. Data Localization vs. Cloud Infrastructure**

Requiring all borrower data to be stored in India (and cleaned from foreign servers) can be technologically challenging for lenders using global cloud services. While the intention is data security, in practice, this could slow down lenders migrating to big-data platforms or scaling risk models. Some industry experts have called for a phased approach (similar to India’s earlier rules for payment data) to let larger players comply without service disruption.

### **E. Scope of “Credit Innovation”**

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<sup>39</sup> The Times of India, “RBI cracks down on ‘Buy Now Pay Later’” (press coverage of BNPL regulatory attention, 2024–2025).

<sup>40</sup> Bank for International Settlements (BIS), *Working Papers on FinTech Credit and Financial Stability* (BIS reports on fintech credit models and systemic implications).

<sup>41</sup> NDTV / Business News analysis, *Decoding RBI’s Digital Lending Directions: Tightrope for Fintechs* (practitioner commentary, May 2025).

<sup>42</sup> World Bank/CGAP, *Digital Credit: Policy Guidance and Consumer Protection Considerations* (CGAP policy briefs).

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The directions cover regulated financial institutions. What about pure fintech platforms that issue storefront loans (some P2P or social lending apps)? Since they would eventually need a bank partner, these regulations apply indirectly via the bank. Nevertheless, the RBI might consider whether high-volume fintech lenders should themselves be licensed (as NBFCs or otherwise), as suggested by some commentators.

### **F. Enforcement and Remedies**

The Guidelines rely on REs (and their officers) to enforce compliance. But if an LSP violates the law, for instance, by embedding a hidden fee, recourse ultimately is against the bank. It will fall on banks' compliance teams (or RBI supervision) to police the fintechs. This "indirect" approach may allow some unethical players to operate in the shadows. A possible remedy is empowering consumer authorities (like the CCPA or RBI Ombudsman) to penalize LSPs directly, even without RBI licensing powers.

In short, while the 2025 Directions greatly improve the rulebook, practical clarity and enforcement will determine their success. Stakeholders have called for RBI clarifications on these issues. It will be important for the RBI to issue FAQs or hold industry consultations to refine these gaps. Ideally, the RBI will monitor outcomes and update the framework in response to new fintech innovations, rather than let loopholes persist.

## **VII. RECOMMENDATIONS AND POLICY SUGGESTIONS**

Drawing on the above analysis and global practices, we offer constructive suggestions:

### **A. Extend Consumer Protections to BNPL**

Given the size of India's BNPL market and the recent regulatory focus on it, the RBI or Finance Ministry should consider amending the Directions (or issuing separate guidelines) to bring large BNPL schemes under similar disclosure and grievance norms. For example, any BNPL provider partnering with multiple lenders could be required to present a KFS (even for zero-interest installments) and register their apps as DLAs. Alternatively, RBI could push the Reserve Bank Innovation Hub (RBIH) to launch a code of conduct for BNPL.<sup>43</sup>

### **B. Clarify Ambiguities via Formal Guidance**

The RBI should quickly issue clarifications on key points, e.g. confirm that ranking neutrality means not suppressing lenders that have offers for the borrower, and explain how the KFS can be offered pre-offer. Providing annotated examples of compliant app flows (and "bad" ones) would

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<sup>43</sup> Reserve Bank of India Innovation Hub (RBIH), *Discussion Paper / Sandbox Findings on Fintech-Bank Partnerships* (RBIH reports, 2022–2024).

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help the industry align practice to intent. Ensuring fintechs know the boundaries fosters innovation within those lines.

### **C. Risk-Based Compliance for Fintechs**

To prevent stifling emerging startups, the RBI could consider a tiered compliance approach. Smaller platforms with, say, sub-XXX crore in loans per year might face simplified reporting or phased deadlines, whereas large aggregators must meet full obligations immediately. This is analogous to RBI's SB-4 (scale-based) NBFC norms. Such a gradation would allow nascent players to scale up without immediate full-scale licensing burdens, while still preserving core consumer rules.

### **D. Strengthen Financial Literacy and Redress Awareness**

As fintech grows, borrowers need education on digital credit. RBI, in partnership with DoT and consumer agencies, could run campaigns explaining the KFS and complaint mechanisms. At a minimum, guidelines could require that DLAs include FAQ or tutorial content on how to read the KFS and how cooling-off works. Empowered customers will use the protections (cooling-off, RBI complaint system) more effectively, reinforcing the rules' intent.

### **E. Data Innovation with Safeguards**

The RBI should coordinate with Data Protection authorities to harmonize the fintech data rulebook. Encouraging "permissioned" data sharing (e.g., via Account Aggregators) could let lenders access richer underwriting info (income accounts, bills) without violating consent standards. RBI might support open finance initiatives to foster innovation in credit scoring while preserving explicit user control.<sup>44</sup>

### **F. Periodic Review of Outcomes**

Finally, the RBI should treat these Directions as a living framework. After one year of implementation, the RBI could gather data on complaints, defaults, app registrations, and market structure changes. This evidence-based review could then inform tweaks (for instance, adjusting the cooling-off timeline if it causes operational issues, or revisiting APR rules if rates surge). International bodies like OECD<sup>45</sup> and AFI recommend such ongoing monitoring of consumer outcomes. By staying responsive, the RBI can ensure the balance between innovation and protection evolves properly.

## VIII. CONCLUSION

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<sup>44</sup> Reserve Bank of India, Master Direction – Non-Banking Financial Company - Account Aggregator (Reserve Bank) Directions, (2016).

<sup>45</sup> OECD / AFI policy brief, *Regulatory Approaches to Consumer Protection in Digital Finance* (policy recommendations).

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The Reserve Bank's Digital Lending Directions, 2025, mark a watershed in India's fintech regulation. By layering detailed disclosure, data, and contractual requirements onto the digital loan process, the RBI has put consumer protection front-and-center while attempting to preserve digital credit channels. These rules, if effectively enforced, will reduce the murky "wild west" reputation of lending apps, shutting down exploitative practices and boosting borrower confidence.

At the same time, the guidelines do not halt innovation; they legitimize key fintech models (marketplaces, co-lending structures, digital wallets) within guardrails. As one commentary notes, the 2025 Directions seek to "balance innovation with integrity", encouraging growth but "not tolerating predatory behavior". In comparative terms, India has become one of the first major economies to comprehensively regulate app-based loans in this way. The approach aligns with global norms (EU, UK, OECD) while reflecting India's local context (e.g. strong data localization, Aadhaar-based KYC, UPI rail).<sup>46</sup>

Ultimately, the success of this regulatory recalibration hinges on clarity and enforcement. The RBI must promptly address the remaining ambiguities and ensure compliance without creating undue friction for genuine lenders. If implemented earnestly, the new Directions could achieve their dual aim of empowering consumers with transparency and rights, and empowering responsible lenders to innovate on a level playing field. In doing so, they set a template for a digital credit ecosystem that is both dynamic and durable, truly marrying consumer protection with credit innovation.

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<sup>46</sup> World Bank / CGAP, *Policy Note: Responsible Digital Credit — Consumer Protections and Supervision* (CGAP/World Bank recommendations).