

Draft Reserve Bank of India (Payments Banks – Undertaking of Financial Services) Directions, 2025

DRAFT FOR COMMENTS

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Reserve Bank of India (Payments Banks – Undertaking of Financial Services) Directions, 2025

Table of Contents

Chapter I - Preliminary	2
A. Short Title and Commencement.....	2
B. Applicability	2
C. Definitions	2
Chapter II - Role of the Board	4
Chapter III - General Guidelines	5
A. Forms of Business	5
B. Procedure for Application.....	5
Chapter IV - Financial Services	6
A. Mutual Fund Business	6
B. Insurance Business.....	6
C. Agency Business	6
D. Referral Services	8
E. Operations branches in foreign jurisdictions and in International Financial Services Centers (IFSCs).....	8
Chapter V - Repeal and Other Provisions.....	10
A. Repeal and saving	10
B. Application of other laws not barred	10
C. Interpretations.....	10

In exercise of the powers conferred by Section 35 A of the Banking Regulation Act, 1949, and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Payments Banks – Undertaking of Financial Services) Directions, 2025.
2. These Directions shall come into force with immediate effect.

B. Applicability

3. These Directions shall be applicable to Payments Banks (hereinafter collectively referred to as 'banks' and individually as 'a bank').

C. Definitions

4. In these directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below:

- (i) '**Financial Services Company**' means a company engaged in the 'business of financial services'.

Explanation: The 'business of financial services' shall include –

- (a) the forms of business enumerated in clauses (a), (c), (d), (e) of sub-Section (1) of Section 6 of the Banking Regulation Act, 1949 and notified under clause (o) of sub-Section (1) of Section 6 of the Banking Regulation Act, 1949;
- (b) the forms of business enumerated in clause (c) and clause (f) of Section 45 I of Reserve Bank of India Act, 1934;
- (c) business of credit information as provided under the Credit Information Companies (Regulation) Act, 2005;
- (d) operation of a payment system as defined under the Payment and Settlement Systems Act, 2007;
- (e) operation of a stock exchange, commodity exchange, derivatives exchange or other exchange of similar nature;
- (f) operation of a depository as provided under the Depositories Act, 1996;

- (g) business of a securitisation or reconstruction company as provided under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;
 - (h) business of a merchant banker, portfolio manager, stock broker, sub-broker, share transfer agent, trustee of trust deeds, registrar to an issue, merchant banker, underwriter, debenture trustee, investment adviser and such other intermediary as provided in the Securities and Exchange Board of India Act, 1992 and the regulations made thereunder;
 - (i) business of a credit rating agency as defined in the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999;
 - (j) business of a collective investment scheme as defined under the Securities and Exchange Board of India Act, 1992;
 - (k) business of managing a pension fund;
 - (l) business of an authorised person as defined under the Foreign Exchange Management Act, 1999; and
 - (m) such other business as may be specified by RBI from time to time.
- (ii) '**Mutual Fund**' shall have the same meaning as defined in SEBI (Mutual Funds) Regulations, 1996.
- (iii) '**Referral Services**' means the arrangement between a bank and a third party financial product provider, for referring the customers of the bank to the third party financial product provider.
5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949 or the Reserve Bank of India Act, 1934, or any statutory modification or re-enactment thereto, or Glossary of Terms published by RBI or as used in commercial parlance, as the case may be.

Chapter II - Role of the Board

6. The Board of a bank shall be responsible for approval of policies, oversight, and risk governance in respect of various activities undertaken by the bank.
7. A bank shall put in place Board-approved policies for,
 - (i) insurance distribution to, *inter alia*, ensures customer suitability, appropriateness, and a clear grievance redressal framework and compensation policy to address service-related issues effectively and
 - (ii) governing the corporate agency business of insurance companies undertaken departmentally by the bank. The policy shall, at a minimum, cover the model of insurance distribution to be adopted, customer suitability and appropriateness, and the framework for grievance redressal.
8. In respect of insurance distribution business, the Board shall ensure that a robust internal grievance redressal mechanism is in place.

Chapter III - General Guidelines

A. Forms of Business

9. Unless specified otherwise in these Directions, a bank desirous of undertaking the businesses permitted under Section 6(1) of the Banking Regulation Act, 1949 and under the specific licensing conditions, may do so only departmentally.
10. An activity undertaken departmentally shall be subject to the following conditions:
 - (i) There shall be a policy which shall comprehensively cover the said business including identification of various risks associated with it and an appropriate risk mitigation framework, including adherence to capital allocation norms;
 - (ii) The instructions / guidelines on KYC / AML / CFT applicable to banks, issued by RBI from time to time, shall be complied with;
 - (iii) The general principles as enunciated in the Charter of Customer Rights issued by RBI shall be adhered to;
 - (iv) The specific conditions prescribed for the respective businesses in Chapter IV shall be complied with in addition to the instructions / regulations of respective regulators such as SEBI, IRDAI and PFRDA, as applicable; and
 - (v) A bank shall obtain prior approval of RBI before engaging in a financial activity other than those stated in Chapter IV.

B. Procedure for Application

11. A bank desirous of undertaking any business that requires prior approval / no-objection of RBI shall submit an application through *Pravaah* Portal (<https://pravaah.rbi.org.in>) to the Department of Regulation (DoR), Central Office, RBI.

Chapter IV - Financial Services

A. Mutual Fund Business

12. A bank shall undertake distribution of mutual fund units on a non-risk sharing basis and not requiring commitment of their own funds with the prior approval of RBI and after complying with the requirements of the sectoral regulator for such products.
13. The service shall be provided on fee basis, without any risk participation.

B. Insurance Business

14. **Insurance broking services departmentally:** A bank may, at its option, act as an insurance broker departmentally subject to the conditions mentioned under paragraph 18 on insurance agency business. A bank shall undertake distribution of Insurance units on a non-risk sharing basis and not requiring commitment of their own funds with the prior approval of RBI and after complying with the requirements of the sectoral regulator for such products.

C. Agency Business

15. Agency business shall be undertaken only for the products and services in which a bank is permitted to deal in as per Banking Regulation Act, 1949.
16. The service shall be provided on fee basis, without any risk participation.
17. Agency business of mutual fund companies undertaken departmentally shall be subject to the following additional conditions:
 - (i) The investors' applications for purchase / sale of mutual fund units shall be forwarded to the mutual funds / registrars / transfer agents;
 - (ii) The purchase of units shall be at the customers' risk without the bank guaranteeing any assured return;
 - (iii) Mutual fund units shall not be acquired from the secondary market or bought back from a customer for selling it to other customers;
 - (iv) A bank holding custody of mutual fund units on behalf of its customers shall keep the investments of the customers distinct from its own investments.
18. Corporate agency of insurance companies undertaken departmentally by banks shall be subject to the following additional conditions:

- (i) There shall be a Board approved policy encompassing the model of insurance distribution to be adopted, issues of customer appropriateness, suitability, and grievance redressal;
- (ii) The deposit to be maintained by an insurance broker as per the IRDAI (Licensing of Banks as Insurance Brokers) Regulations, 2013, as amended from time to time, shall be maintained with a scheduled commercial bank other than itself;
- (iii) A bank shall ensure customer appropriateness and suitability as under:
 - (a) All employees dealing with insurance agency / broking business shall possess the requisite qualification prescribed by IRDAI;
 - (b) There shall be standardised system of assessing the need/ suitability of products for a customer and the initiation / transaction processes shall be segregated. Products with investment components shall require the bank to necessarily undertake a customer need assessment prior to sale whereas pure risk term products with no investment or growth component shall be deemed as universally suitable products; and
 - (c) A bank shall treat its customers fairly, honestly and transparently, with regard to suitability and appropriateness of the insurance product sold.
- (iv) It shall be ensured that performance assessment and incentive structure for staff is not violative of Section 10(1) (ii) of the BR Act,1949 or the guidelines issued by IRDAI in payment of commissions / brokerage / incentives. It shall also be ensured that no incentive (cash or non-cash) is paid to the staff engaged in insurance broking / corporate agency services by the insurance company;
- (v) A bank shall not follow any restrictive practices of forcing a customer to either opt for products of a specific insurance company or link sale of such products to any banking product. It shall be prominently stated in all publicity material distributed by the bank that the purchase by a bank's customer of any insurance product is purely voluntary and is not linked to availment of any other facility from the bank; and
- (vi) A robust internal grievance redressal mechanism shall be put in place along with a Board approved customer compensation policy for resolving

issues related to services offered. It shall be ensured that the insurance companies whose products are being sold have robust customer grievance redressal arrangements in place. The bank shall facilitate the redressal of grievances.

D. Referral Services

19. A bank offering referral services shall do so only for financial products other than insurance, on a non-risk participation basis with prior approval from the RBI.

E. Operations branches in foreign jurisdictions and in International Financial Services Centers (IFSCs)

20. An Indian bank, including those operating in International Financial Services Centers (IFSCs) in India such as Gujarat International Finance Tec City (GIFT City), shall comply with the following directions regarding dealing in financial derivative products by its foreign branches.

F.1 Dealing in financial derivative products

21. The foreign branches of an Indian bank can deal in financial derivative products, including structured financial derivative products, which are not available or are not permitted by the RBI in the domestic market without prior approval of RBI, subject to compliance with conditions specified in paragraph 23 and those prescribed by the host regulator.
22. The branches of an Indian bank operating in IFSCs including those operating out of GIFT City may also deal in financial derivative products, including structured financial derivative products, which are not available or are not permitted by the RBI in the domestic market subject to compliance with all applicable laws / regulations and conditions stipulated in paragraph 23 below and those prescribed by the host regulator.

F.2 Conditions for dealing in financial derivative products

23. While allowing branches in foreign jurisdictions as well as in IFSCs to deal in such products, the parent Indian bank shall ensure that:
 - a. dealing in such products is done with the prior approval from their Board and, if required, the appropriate authority in the concerned jurisdictions;

- b. they have adequate knowledge, understanding, and risk management capability for handling such products;
- c. they act as market makers for products only if they have the ability to price / value such products and the pricing of such products is demonstrable at all times;
- d. their exposure and mark-to-market (MTM) on these products are appropriately captured and reported in the returns furnished to the RBI. They shall provide information about dealing in such financial products as may be specified by the RBI in the manner and format and within the time frame as prescribed by the RBI;
- e. they do not deal in products linked to Indian Rupee unless specifically permitted by RBI;
- f. they do not accept structured deposits from any Indian resident; and
- g. they adhere to the suitability and appropriateness policies as mandated by the RBI and the host regulators, as applicable.

F.3 Compliance with prudential norms

- 24. The financial products dealt with by the foreign branches as well as IFSCs shall attract the prudential norms such as capital adequacy, exposure norms (including Large Exposure Framework), periodical valuation, and all other applicable norms. Parent bank shall adhere to more stringent among the host and home regulations in respect of prudential norms.
- 25. In case the current norms of the RBI do not specify prudential treatment of any financial product, the parent bank shall seek specific guidance from RBI.

F.4 Activities subject to Indian laws

- 26. The activities of branches in foreign jurisdictions and IFSCs shall be subject to the laws in India, unless specifically exempted by law.

Chapter V - Repeal and Other Provisions

A. Repeal and saving

27. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to undertaking of financial services as applicable to Payments Banks stand repealed as communicated vide notification dated XX, 2025. The directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.
28. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

B. Application of other laws not barred

29. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

30. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.