

Draft Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025

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Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025

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Introduction

In exercise of the powers conferred under section 45JA, 45L and 45M of Reserve Bank of India Act, 1934 (Act 2 of 1934), the Reserve Bank having considered it necessary in the public interest and being satisfied that, for the purpose of enabling it to regulate the financial system to the advantage of the country and to prevent the affairs of any Non-Banking Financial Company – Microfinance Institution (NBFC-MFI) from being conducted in a manner detrimental to the interest of investors or prejudicial to the interest of such NBFC-MFIs, hereby issues the Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025 hereinafter specified.

Chapter-I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Non-Banking Financial Companies – Microfinance Institution) Directions, 2025.
2. These directions shall come into effect on the day they are placed on the website of the Reserve Bank.

B. Applicability

3. These Directions shall be applicable to every Non-Banking Financial Company – Microfinance Institution (hereinafter collectively referred to as 'NBFC-MFIs' and individually as an 'NBFC-MFI') registered with the Reserve Bank under the provisions of the Reserve Bank of India Act, 1934 (Act No. 2 of 1934).

C. Regulatory Structure under Scale Based Regulation for NBFCs

4. A NBFC-MFI may lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework specified in Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025. The NBFC-MFI shall adhere to the applicable scale-based regulation as specified in the direction above, *ibid*, also, in addition to the directions specified in this Master Direction.

5. A NBFC-MFI below the asset size of ₹1,000 crore shall lie in Base Layer and a NBFC-MFI with asset size of ₹1,000 crore and above shall lie in Middle Layer. A NBFC-MFI can be placed in higher Layers as notified.

- (i) **Provided that** once a NBFC-MFI reaches an asset size of ₹1,000 crore or above, it shall be subject to the regulatory requirements as applicable to NBFC-ML despite not having such assets as on the date of last balance sheet and shall comply with the regulations / directions applicable to Middle Layer from time to time, as and when it attains an asset size of ₹1,000 crore.

Explanation: In a dynamic environment, the asset size of a NBFC-MFI can fall below ₹1,000 crore in a given month, which may be due to temporary fluctuations and not due to actual downsizing. In such a case the MGC shall continue to comply with the reporting requirements and shall comply with the extant directions as applicable to Middle layer, till the submission of its next audited balance sheet to the Reserve Bank and a specific dispensation from the Reserve Bank in this regard.

C.1 Progressive application of regulations

6. Regulatory instructions applicable to lower layers of NBFC-MFIs will automatically be applicable to NBFC-MFIs residing in higher layers, unless stated otherwise.

C.2 Guidance Note on Operational Risk Management and Operational Resilience

7. An NBFC-MFI may make use of the [‘Guidance Note on Operational Risk Management and Operational Resilience’ dated April 30, 2024](#), as amended from time to time.

D. Definitions

8. In these Directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below –

- (1) “Company” means a company registered under section 3 of the Companies Act, 1956 or the corresponding provision under the Companies Act, 2013;
- (2) “Microfinance loan” means a collateral-free loan given to a household having annual household income up to ₹3,00,000;

Explanation:

- (i) For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.
 - (ii) All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.
 - (iii) To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.
- (3) “Hybrid debt” means capital instrument which possesses certain characteristics of equity as well as of debt.
- (4) “NBFC-MFI” means a non-deposit taking NBFC which has a minimum of 60 percent of its total assets (netted off by intangible assets) deployed towards “microfinance loans” on an ongoing basis;
- (5) “Net Owned Fund” means owned funds reduced by the amounts representing -
- (i) investments of such company in shares of -
 - (a) its subsidiaries;
 - (b) companies in the same group;
 - (c) all other non-banking financial companies; and
 - (ii) the book value of debentures, bonds, outstanding loans, and advances (including hire purchase and lease finance) made to, and deposits with -
 - (a) subsidiaries of such company; and
 - (b) companies in the same group
- to the extent such amount exceeds ten percent of owned funds;
- (6) “Owned Funds” means,
- (i) aggregate of
 - (a) paid up equity capital;
 - (b) preference shares which are compulsorily convertible into equity;
 - (c) free reserves;
 - (d) balance in share premium account; and

- (e) capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset;
- (ii) as reduced by
 - (a) accumulated loss balance;
 - (b) book value of intangible assets and
 - (c) deferred revenue expenditure, if any.

A NBFC-MFI shall not be required to deduct a Right-of-Use (ROU) asset (created in terms of Ind AS 116-Leases) from Owned Fund, provided the underlying asset being taken on lease is a tangible asset;

(7) "RBI Act, 1934" means the Reserve Bank of India Act, 1934 (Act 2 of 1934);

(8) "Subordinated Debt" means an instrument, which is fully paid up, is unsecured and is subordinated to the claims of other creditors and is free from restrictive clauses and is not redeemable at the instance of the holder or without the consent of the supervisory authority of the non-banking financial company. The book value of such instrument shall be subjected to discounting as provided hereunder:

Remaining Maturity of the instruments	Rate of discount (in percent)
Up to one year	100
More than one year but up to two years	80
More than two years but up to three years	60
More than three years but up to four years	40
More than four years but up to five years	20

to the extent such discounted value does not exceed fifty percent of Tier 1 capital;

(9) "Tier 1 capital" means

- (i) Owned funds as reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten percent of the owned fund; and
- (ii) Perpetual debt instruments issued by a non-deposit taking NBFC-MFI in each year to the extent it does not exceed 15 percent of the aggregate Tier 1 capital of such company as on March 31 of the previous accounting year.

Note – A NBFC-BL is not eligible to include perpetual debt instruments in their Tier 1 capital;

(10) “Tier 2 capital” means

- (i) Preference shares other than those which are compulsorily convertible into equity;
 - (ii) Revaluation reserves at discounted rate of 55 percent;
 - (iii) General provisions (including that for Standard Assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth percent of risk weighted assets;
 - (iv) Hybrid debt capital instruments;
 - (v) Subordinated debt; and
 - (vi) Perpetual debt instruments issued by a non-deposit taking NBFC-MFI which is in excess of what qualifies for Tier 1 capital;
- to the extent the aggregate does not exceed Tier 1 capital

Note – NBFCs-BL are not eligible to include perpetual debt instruments in their Tier 2 capital;

9. The words or expressions used in these Directions but not defined herein and defined in the Reserve Bank of India Act, 1934 (Act 2 of 1934), or the Banking Regulation Act, 1949 (Act 10 of 1949) shall have the same meaning as assigned to them under the said Acts. Any other words or expressions not defined in the said Acts shall have the same meaning as assigned to them in the Companies Act, 1956 or Companies Act, 2013.

10. The provisions contained in the following directions, where not contradictory to the contents of these Directions, shall be applicable to NBFC-MFIs based on the layer in which the NBFC-MFI is categorised:

- (1) Reserve Bank of India (Non-Banking Financial Companies– Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025
- (2) Reserve Bank of India (Non-Banking Financial Companies – Branch Authorisation) Directions, 2025
- (3) Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Directions, 2025

- (4) Reserve Bank of India (Non-Banking Financial Companies – Acquisition of Shareholding or Control) Directions, 2025
- (5) Reserve Bank of India (Non-Banking Financial Companies – Governance) Directions, 2025
- (6) Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Directions, 2025
- (7) Reserve Bank of India (Non-Banking Financial Companies – Climate Finance and Management of Climate Change Risks) Directions, 2025
- (8) Reserve Bank of India (Non-Banking Financial Companies – Credit Risk Management) Directions, 2025
- (9) Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025
- (10) Reserve Bank of India (Non-Banking Financial Companies – Concentration Risk Management) Directions, 2025
- (11) Reserve Bank of India (Non-Banking Financial Companies – Securitisation Transactions) Directions, 2025
- (12) Reserve Bank of India (Non-Banking Financial Companies – Transfer and Distribution of Credit Risk) Directions, 2025
- (13) Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025
- (14) Reserve Bank of India (Non-Banking Financial Companies – Resolution of Stressed Assets) Directions, 2025
- (15) Reserve Bank of India (Non-Banking Financial Companies – Treatment of Wilful Defaulters and Large Defaulters) Directions, 2025
- (16) Reserve Bank of India (Non-Banking Financial Companies – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025
- (17) Reserve Bank of India (Non-Banking Financial Companies – Asset Liability Management) Directions, 2025
- (18) Reserve Bank of India (Non-Banking Financial Companies – Managing Risks in Outsourcing) Directions, 2025
- (19) Reserve Bank of India (Non-Banking Financial Companies – Financial Statements: Presentation and Disclosures) Directions, 2025

- (20) Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Declaration of Dividends) Directions, 2025
- (21) Reserve Bank of India (Non-Banking Financial Companies – Credit Information Reporting) Directions, 2025
- (22) Reserve Bank of India (Non-Banking Financial Companies – Know Your Customer) Directions, 2025
- (23) Reserve Bank of India (Non-Banking Financial Companies – Credit Cards: Issuance and Conduct) Directions, 2025
- (24) Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025
- (25) Reserve Bank of India (Non-Banking Financial Companies – Voluntary Amalgamation) Directions, 2025
- (26) Reserve Bank of India (Non-Operating Financial Holding Companies) Directions, 2025

11. The instructions contained in these Directions shall be applicable to NBFC-MFIs in addition and not in substitution to the other relevant instructions contained in the directions mentioned in paragraph 10 above.

Chapter-II – Role of Board

A. Role of Board

12. The NBFC-MFI shall put in place Board approved policies and establish periodic review mechanisms to ensure sound processes and systems. An illustrative list of such policies to be approved by the Board is provided below. The specific aspects to be addressed in these policies are detailed in the relevant paragraphs of these Directions.

- (1) Appointment of Chief Risk Officer
- (2) Flexibility of repayment periodicity on microfinance loans as per borrowers' requirement
- (3) Fixing internal exposure limits to avoid any undesirable concentration in specific geographical locations

B. Appointment of Chief Risk Officer

13. NBFC-MFIs with asset size of more than ₹5,000 crore shall appoint a Chief Risk Officer (CRO) with clearly specified role and responsibilities. The CRO is required to function independently so as to ensure highest standards of risk management.

14. The NBFC-MFI shall strictly adhere to the following instructions in this regard:

- (i) The CRO shall be a senior official in the hierarchy of an NBFC-MFI and shall possess adequate professional qualification/experience in the area of risk management.
- (ii) The CRO shall be appointed for a fixed tenure with the approval of the Board. The CRO can be transferred / removed from his post before completion of the tenure only with the approval of the Board and such premature transfer / removal shall be reported to the Department of Supervision of the Regional Office of the Reserve Bank under whose jurisdiction the NBFC-MFI is registered. In case the NBFC-MFI is listed, any change in incumbency of the CRO shall also be reported to the stock exchanges.
- (iii) The Board shall put in place policies to safeguard the independence of the CRO. In this regard, the CRO shall have direct reporting lines to the MD and CEO/Risk Management Committee (RMC) of the Board. In case the CRO reports to the MD and CEO, the RMC/Board shall meet the CRO without the presence of the MD and CEO, at least on a quarterly basis. The CRO shall not have any reporting relationship with the business verticals of the NBFC-MFI and shall not

be given any business targets. Further, there shall not be any 'dual hatting' i.e., the CRO shall not be given any other responsibility.

(iv) The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks. The CRO's role in deciding credit proposals shall be limited to being an advisor.

(v) In NBFC-MFIs that follow committee approach in credit sanction process for high value proposals, if the CRO is one of the decision makers in the credit sanction process, the CRO shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.

C. Geographical Diversification

15. A NBFC-MFI shall put in place Board-approved internal exposure limits to avoid any undesirable concentration in specific geographical locations.

Chapter-III – Qualifying Assets and Permissible Activities

A. Qualifying Assets Criteria

16. The definition of ‘qualifying assets’ of NBFC-MFIs has been aligned with the definition of ‘microfinance loans’ specified at paragraph 8(1) above. Qualifying assets of NBFC-MFIs shall constitute a minimum of 60 percent of the total assets (netted off by intangible assets), on an ongoing basis. If an NBFC-MFI fails to maintain the qualifying assets as aforesaid for four consecutive quarters, it shall approach the Reserve Bank with a remediation plan for taking a view in the matter.

B. Flexibility of repayment periodicity

17. A NBFC-MFI shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers’ requirement.

C. Channelizing Agents for Schemes operated by Central / State Government Agencies

18. A NBFC-MFI acting as Channelizing Agent for Schemes operated by Central / State Government Agencies shall abide by the following guidelines:

(1) Loans disbursed or managed by the NBFC-MFI in its capacity as channelizing agent for Central / State Government Agencies shall be considered as a separate business segment. These loans shall not be included either in the numerator (microfinance loans) or the denominator (total assets) for the purpose of determining compliance with the minimum threshold of microfinance loans.

(2) A NBFC-MFI may act as Channelizing Agent for distribution of loans under special schemes of Central / State Government Agencies subject to following conditions:

(i) accounts and records for such loans as well as funds received / receivable from concerned agencies shall be maintained in the books of the NBFC-MFI distinct from other assets and liabilities, and depicted in the financials / final accounts / balance sheet with requisite details and disclosures as a separate segment;

(ii) such loans shall be subject to applicable asset classification, income recognition and provisioning norms as well as other prudential norms as applicable to NBFC-MFIs except in cases where the NBFC-MFIs does not bear any credit risk;

(iii) all such loans shall be reported to Credit Information Companies to prevent multiple borrowings and present complete picture of indebtedness of a borrower.

D. 'Not for Profit' Companies engaged in Microfinance Activities

19. Exemptions from Sections 45-IA, 45-IB and 45-IC of the RBI Act, 1934 have been withdrawn for those 'not for profit' companies engaged in microfinance activities that have asset size of ₹100 crore and above.

20. 'Not for profit' companies that are not eligible for the exemptions mentioned above are required to register as NBFC-MFIs and adhere to the regulations applicable to NBFC-MFIs. Such companies shall submit the application for registration as an NBFC-MFI to the Reserve Bank. Those companies that currently do not comply with the regulations prescribed for NBFC-MFIs, shall submit a board-approved plan, with a roadmap to meet the prescribed regulations, along with their application for registration.

Chapter-IV – Prudential Regulations

A. Net Owned Fund requirement

21. In exercise of the powers conferred under clause (b) of sub-section (1) of section 45IA of the RBI Act, 1934 and all the powers enabling it in that behalf, the Reserve Bank hereby specifies ₹10 crore as the Net Owned Fund (NOF) required for a NBFC-MFI to commence or carry on the business of non-banking financial institution.

22. The following glide path is provided for the existing NBFC-MFIs (without distinction in the NOF requirement for NBFCs registered in the North East Region) to achieve the NOF of ₹10 crore:

- (1) Current NOF (which was to be achieved by March 31, 2025): ₹5 crore
- (2) By March 31, 2027: ₹10 crore

23. A NBFC-MFI failing to achieve the prescribed level within the stipulated period shall not be eligible to hold the Certificate of Registration (CoR) as NBFC.

B. Capital Requirement

24. A NBFC-MFI shall maintain a capital adequacy ratio consisting of Tier 1 and Tier 2 capital which shall not be less than 15 percent of its aggregate risk weighted assets of on-balance sheet and of risk adjusted value of off-balance sheet items.

25. The total of Tier 2 capital at any point of time, shall not exceed 100 percent of Tier 1 capital.

26. The treatment to on-balance and off-balance sheet assets for capital adequacy shall be as provided in the Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Directions, 2025 respectively.

27. A NBFC-MFI shall also adhere to provisions of the Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Directions, 2025 on treatment of deferred tax assets and deferred tax liabilities for computation of capital.

28. For loans guaranteed under any existing or future schemes launched by CGTMSE, CRGFTLIH and NCGTC, an NBFC-MFI shall assign risk weight as per the instructions

specified in Reserve Bank of India (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Directions, 2025.

C. Asset classification and provisioning norms

29. A NBFC-MFI shall adopt the following norms for their microfinance loans:

C.1 Asset Classification Norms

30. Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business.

31. Non-performing asset means an asset for which, interest / principal payment has remained overdue for a period of more than 90 days.

C.2 Provisioning Norms

32. For non-performing assets related to microfinance loans of NBFC-MFIs, provisioning norms shall be as below:

(1) The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of

- (i) 1 percent of the outstanding loan portfolio or
- (ii) 50 percent of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100 percent of the aggregate loan instalments which are overdue for 180 days or more.

33. If the advance covered by Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion shall be provided for as per provisioning norms as mentioned in Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025.

34. Standard assets provisioning of microfinance loans of a NBFC-MFI lying in a particular layer of the scale based regulatory framework shall be in accordance with instructions contained in Reserve Bank of India (Non-Banking Financial Companies – Income Recognition, Asset Classification and Provisioning) Directions, 2025 for the respective layer.

Chapter-V – Miscellaneous Instructions

A. Formation of SRO

35. A NBFC-MFI shall become member of at least one Self-Regulatory Organization (SRO) for NBFC-MFIs which is recognized by the Reserve Bank and shall also comply with the Code of Conduct prescribed by the SRO.

36. Further, the SRO holding recognition from the Reserve Bank shall have to adhere to the following set of functions and responsibilities which may be modified by the Reserve Bank from time to time to improve the efficiency of the sector:

(1) Criteria for Recognition of SRO for NBFC-MFIs

- (i) The SRO shall have at least 1/3rd of the NBFC-MFIs registered as its members, at the time of recognition.
- (ii) It shall have adequate capital to be able to discharge its functions without being overly dependent on subscription from members.
- (iii) The memorandum / bye laws of the SRO shall specify criteria for admission of members and the functions it shall discharge, as one of its main objects.
- (iv) The memorandum / bye laws of an SRO shall provide for the manner in which the Governing Body / Board of Directors of the SRO would function.
- (v) The Board shall have adequate representation from both large and small NBFC-MFIs.
- (vi) 1/3rd of the Board of Directors shall be independent and not associated with member institutions.
- (vii) The Board of Directors and individuals comprising the management shall be considered 'Fit and Proper', by the Reserve Bank.
- (viii) It shall have adequate internal controls in place.
- (ix) The SRO shall function in the interest of all the stakeholders and not seen to be only an industry body.
- (x) The SRO shall frame a Code of Conduct to be followed by its members.

(xi) It shall have a Grievance Redressal Mechanism and a Dispute Resolution Mechanism in place, including a specially appointed Grievance Redressal Nodal Officer.

(xii) It shall be in a position to exercise surveillance over its members to ensure compliance with the Code of Conduct and regulatory prescriptions of the Reserve Bank through an Enforcement Committee.

(xiii) It shall also have a developmental function of training and awareness programmes for its members, for the Self-Help Groups and conduct research and development for the growth of the MFI sector.

(2) Obligations of the SRO towards the Reserve Bank

(i) The SRO, once recognized, shall nominate a Compliance Officer who shall directly report to the Reserve Bank and who shall keep the Reserve Bank regularly posted of all developments in the sector.

(ii) The SRO shall submit its Annual Report to the Reserve Bank.

(iii) It shall conduct investigation into areas of concern as pointed out by the Reserve Bank.

(iv) The SRO shall inform the Reserve Bank of the violations of the provisions of the RBI Act, 1934, the directions, the circulars or the guidelines issued by the Reserve Bank from time to time, by any of its members.

(v) It shall provide information, including data, to the Reserve Bank periodically or as requested for by the Reserve Bank.

(vi) The Reserve Bank shall, if need arises, inspect the books of the SRO or arrange to have the books inspected by an audit firm.

B. Monitoring of Compliance

37. The responsibility for compliance to all regulations prescribed for NBFC-MFIs lies primarily with the NBFC-MFI itself. The industry associations / SROs shall also play a key role in ensuring compliance with the regulatory framework. In addition, banks lending to NBFC-MFIs shall also ensure that systems, practices and lending policies in NBFC-MFIs are aligned to the regulatory framework.

C. Directions for Microfinance Loans of NBFCs other than NBFC-MFIs

38. Microfinance loans of NBFCs other than NBFC-MFIs shall be guided by the Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025 , as amended from time to time. An NBFC, which does not qualify as an NBFC-MFI shall extend microfinance loans, which in aggregate does not exceed 25 percent of its total assets.

Chapter-VI – Repeal and Other Provisions

A. Repeal and saving

39. With the issue of these Directions, the existing Directions, instructions, and guidelines as applicable to Non-Banking Financial Companies- Microfinance Institutions stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines already repealed shall continue to remain repealed.

40. 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

41. 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

42. 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.