

DRAFT FOR COMMENTS

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

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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 (Regional Rural Banks – Undertaking of Financial Services) Directions, 2025.
2. These Directions shall come into force with immediate effect.
Provided that, the provisions contained in paragraphs 9 to 15 shall come into effect from January 1, 2026, or from an earlier date as may be decided by a Regional Rural Bank as per its internal policy.

B. Applicability

3. These Directions shall be applicable to Regional Rural Banks (hereinafter collectively referred to as 'RRBs' and individually as 'an RRB').

C. Definitions

4. In these directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below:
 - (i) **'Debtor company'** means any company to which an RRB currently has or previously had a loan or investment exposure (excluding equity instruments) anytime during the preceding twelve months;
 - (ii) **'Equity instrument'** means equity shares, compulsorily convertible preference shares (CCPS) and compulsorily convertible debentures (CCD);
 - (iii) **'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.
- (iv) **‘Mutual Fund’** shall have the same meaning as defined in SEBI (Mutual Funds) Regulations, 1996;
 - (v) **‘Non-Financial Services Company’** means a company engaged in businesses other than those specified in clause (iii);

- (vi) **'Pension Fund Management'** means management of a pension fund as defined in the Pension Fund Regulatory Development Authority (Exit and Withdrawals under National Pension System) Regulations, 2014;
 - (vii) **'Portfolio Management Services'** means the service offered by a portfolio manager as defined in the SEBI (Portfolio Managers) Regulations, 1993; and
 - (viii) **'Referral Services'** means the arrangement between an RRB 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 - General Guidelines

A. Role of the Board

6. The Board of an RRB shall consider and approve any proposal to undertake marketing of mutual fund units as an agent as prescribed in paragraph 18.
7. The Board may approve any proposal from the RRB to enter into a longer-term contract for undertaking insurance business on a referral basis, upon completion of the initial period of the existing arrangement as prescribed in clause (v) of paragraph 23.
8. The Board shall approve a policy on merchant acquisition for card transactions as prescribed in clause (ii) of paragraph 27.

B. Investments in Alternative Investment Funds (AIFs)

B.1 General Requirements

9. An RRB's investment policy shall have suitable provisions governing its investments in an AIF Scheme, compliant with extant law and regulations.

B.2 Limits on Investments and Provisioning

10. An RRB shall not individually contribute more than 10 percent of the corpus of an AIF Scheme.
11. The aggregate contribution by all Regulated Entities (REs) in any AIF Scheme shall not be more than 20 percent of the corpus of that scheme.

In this context, 'RE' shall mean:

- (i) Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)
 - (ii) Urban Co-operative Banks
 - (iii) State Co-operative Banks / Central Co-operative Banks)
 - (iv) All-India Financial Institutions
 - (v) Non-Banking Financial Companies (including Housing Finance Companies)
12. Where an RRB contributes more than five percent of the corpus of an AIF Scheme that has downstream investment (excluding equity instruments) in a debtor company of the RRB, the RRB shall be required to make 100 percent provision to the extent of its proportionate investment in the debtor company

through the AIF Scheme, subject to a cap equivalent to RRB's direct loan and / or investment exposure to the said debtor company.

13. Notwithstanding the provisions of paragraph 12, where a RE's contribution is in the form of subordinated units, it shall deduct the entire investment from its capital funds – proportionately from both Tier-1 and Tier-2 capital (wherever applicable).

B.3 Exemptions

14. Any outstanding investment or commitment made by an RRB with the prior approval of the RBI, under the extant provisions before the commencement of these Directions, are excluded from the scope of paragraph 10 and 11.
15. The RBI may, in consultation with the Government of India, by way of a notification, exempt certain AIFs from the scope of the provisions of the existing circulars and the revised Directions, except for paragraph 9.
16. As stated in paragraph 2, the provisions of paragraphs 9 to 15 of this Direction shall come into force with effect from January 1, 2026, or from an earlier date as decided by a bank in line with its internal policy (referred to as the 'effective date' for the provisions of paragraphs 9 to 15 above). Until such commencement, banks shall continue to be guided by the provisions of the 'existing circulars', contained in [Annex I](#).
17. Notwithstanding the above provisions:
 - (i) Outstanding investment by a bank, on the effective date of commencement of these Directions, in an AIF Scheme in which it has fully honoured its commitment, shall be governed by the provisions mentioned in [Annex I](#).
 - (ii) In respect of any investment made by an RRB in an AIF Scheme in terms of an existing commitment as on the effective date of commencement these Directions, or in terms of a new commitment entered into before the effective date, the RRB shall follow, in toto, either the provisions of [Annex I](#) or these Directions.

Chapter III - Financial Services

A. Marketing of Mutual Fund Units

18. An RRB is permitted to undertake the marketing of units of Mutual Funds as agent. RRB may, with the approval of their Board, enter into agreement with Mutual Funds for marketing their units, subject to the following terms and conditions:
- (i) An RRB shall only act as an agent of the customers, forwarding applications of the investors for purchase / sale of MF units to the Mutual Fund / Registrar / Transfer Agents.
 - (ii) The purchase of MF units shall be at the risk of customers and the RRB shall not guarantee any assured return.
 - (iii) An RRB shall neither acquire such units of Mutual Fund from the secondary market nor buy back units of Mutual Funds from their customers.
 - (iv) An RRB holding custody of MF units on behalf of their customers shall ensure that its own investment and investments belonging to their customers are kept distinct from each other.
 - (v) An RRB shall confine retailing of units of Mutual Funds to some select branches.
 - (vi) An RRB shall comply with the extant KYC / AML guidelines in respect of the applicants.
 - (vii) An RRB shall put in place adequate and effective control mechanisms in consultation with its sponsor bank.
19. An RRB shall report the details of the tie-up, together with a copy of the agreement entered into with the Mutual Fund, to concerned office of Department of Supervision, RBI within a period of ten days from the date of entering into the arrangement.

B. Insurance Business as Corporate Agent without risk Participation

20. An RRB may take up corporate agency business, without risk participation, for distribution of all types of insurance products, including health and animal insurance, subject to the following conditions:

- (i) An RRB should comply with the Insurance Regulatory and Development Authority (IRDAI) regulations for acting as 'composite corporate agent'.
 - (ii) An RRB should not adopt any restrictive practice of forcing its customers to purchase insurance products of a particular insurance company in respect of assets financed by it. The customers should be allowed to exercise their own choice.
 - (iii) The risks, if any, arising from insurance business should not get transferred to the business of the RRB.
 - (iv) The participation of customers in insurance products shall be purely on a voluntary basis. An RRB shall clearly state this in all publicity material distributed by them, in a prominent manner. There should be no 'linkage' either direct or indirect between the provision of banking services offered by the RRB to its customers and use of the insurance products.
21. An RRB shall not be required to obtain prior approval of the RBI for taking up corporate agency business for distribution of insurance products without risk participation. However, an RRB shall submit a report to the concerned office of Department of Supervision within 15 days from the date of commencement of the insurance agency business.

C. Insurance Business on Referral basis without risk Participation (Sharing of Physical Space)

22. An RRB is permitted to undertake insurance business on a referral basis, without any risk participation through its network of branches.

C.1 Conditions for Undertaking Referral Business

23. Under the referral arrangement, an RRB shall provide physical infrastructure within its select branch premises to insurance companies for selling their insurance products to the RRB's customers with adequate disclosure and transparency, and in turn earn referral fees on the basis of premia collected. The above permission shall be subject to the following conditions:
- (i) An RRB shall comply with the relevant IRDAI regulations applicable to referral arrangements with insurance companies.
 - (ii) An RRB shall not adopt any restrictive practice of compelling customers to opt for a specific insurance company, particularly in respect of assets

financed by the RRB. Customers shall be free to exercise their own choice of insurer.

- (iii) An RRB desirous of entering into referral arrangement, in addition to complying with IRDAI regulations, shall enter into a formal agreement with the concerned insurance company to permit use of the RRB's premises, and allow use of existing infrastructure.
 - (iv) The initial agreement shall be for a period not exceeding three (3) years, with an RRB retaining discretion to renegotiate the terms based on service performance or enter into a new agreement after the initial period.
 - (v) Upon completion of the initial period, an RRB may enter into a longer-term contract subject to Board approval.
 - (vi) Participation of customers of an RRB in insurance products shall be purely voluntary. This must be clearly stated in all promotional and publicity material issued by it. There shall be no direct or indirect linkage between the provision of banking services and the availing of insurance products.
 - (vii) Any risk associated with the referral arrangement shall not be transferred to the business of an RRB.
24. An RRB shall not require prior approval of the RBI to undertake referral business.

C.2 Disclosure of Commission and Fees to Customers

25. In all the activities referred to above (i.e., marketing of mutual funds, insurance products), an RRB shall, in order to ensure transparency and to protect the interest of customers, mandatorily disclose to customers the details of all commissions, fees, or any other form of remuneration received, if any, from the respective mutual fund or insurance companies whose products are being marketed or referred.

D. Merchant Acquiring Business

26. An RRB is permitted to act as merchant acquiring bank using Aadhaar Pay – BHIM app and POS terminals.

27. Deployment of Devices for Aadhaar Pay (BHIM App): An RRB intending to act as merchant acquiring bank for Aadhaar Pay (BHIM App) shall be permitted to deploy its own devices, subject to adherence with the following conditions:
- (i) An RRB shall have obtained prior permission from the RBI for offering mobile banking services.
 - (ii) In addition, an RRB shall comply with the following conditions:
 - (a) RRB's Information Technology (IT) systems and Core Banking Solution (CBS) shall have undergone an Information Systems (IS) Audit within a period not exceeding six months prior to the date of application, confirming that the systems are secure and robust.
 - (b) An RRB shall ensure availability of necessary infrastructure for application development, transaction safety and security, and effective handling of customer grievances.
 - (c) A customer grievance redressal mechanism, duly approved by the Board, shall be in place.
 - (d) An RRB shall put in place policy approved by the Board on merchant acquisition for card transactions.
 - (e) There shall be no restrictions imposed by the RBI on an RRB with respect to accepting deposits or permitting withdrawals.
 - (f) An RRB shall not have been subjected to any penalty imposed in the last two financial years.
28. Deployment of POS Terminals: An RRB intending to act as merchant acquiring bank for POS terminals shall be permitted to deploy its own POS devices, subject to compliance with the conditions set out under paragraph 27, and the following additional criteria:
- In the preceding financial year, an RRB shall have:
- (a) A net worth of ₹100 crore or more as on March 31,
 - (b) A Capital to Risk-Weighted Assets Ratio (CRAR) of not less than nine percent, and
 - (c) Net NPAs below five percent.
29. In addition to meeting the eligibility norms stipulated above to act as merchant acquiring banks using Aadhaar Pay - BHIM app and POS terminals, an RRB shall ensure strict compliance with the instructions and guidelines issued by the Department of Payment and Settlement Systems (DPSS), Central Office, RBI

on Merchant Acquisition for card transactions and POS, as amended from time to time.

30. An RRB shall inform the respective Department of Supervision within a period of 15 days from the date of operationalising the merchant acquisition business.
31. An RRB shall submit the requisite information directly to the Department of Payment and Settlement Systems (DPSS), Central Office, RBI, as per the format and instructions provided in the [Annex II](#).

Chapter IV - Repeal and Other Provisions

A. Repeal and saving

32. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to undertaking of financial services as applicable to Regional Rural 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.
33. 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

34. 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

35. 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.

**Directions on Investments in Alternative Investment Funds (AIFs)
(refer paragraphs 16 and 17 of these Directions)**

1. In order to address concerns relating to possible evergreening through this route, it is advised as under:

- (i) An RRB shall not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RRB.

Note: Downstream investments shall exclude investments in equity shares of the debtor company of the RRB, but shall include all other investments, including investment in hybrid instruments.

Explanation: The debtor company of the RRB, for this purpose, shall mean any company to which the RRB currently has or previously had a loan or investment exposure anytime during the preceding 12 months.

- (ii) If an AIF scheme, in which an RRB is already an investor, makes a downstream investment in any such debtor company, then the RRB shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. If the RRB has already invested into such schemes having downstream investment in their debtor companies as on date, the 30-day period for liquidation shall be counted from December 19, 2023. The RRB shall forthwith arrange to advise the AIFs suitably in the matter.
- (iii) In case an RRB is not able to liquidate their investments within the above-prescribed time limit, it shall make 100 percent provision on such investments.

Note: Provisioning shall be required only to the extent of investment by the RRB in the AIF scheme which is further invested by the AIF in the debtor company, and not on the entire investment of the RRB in the AIF scheme.

2. In addition, investment by an RRB in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from the RRB's capital funds. Herein,

- (i) the proposed deduction from capital shall take place equally from both Tier-1 and Tier-2 capital.
- (ii) reference to investment in subordinated units of AIF Scheme includes all forms of subordinated exposures, including investment in the nature of sponsor units.

Note: Paragraph (2) shall only be applicable in cases where the AIF does not have any downstream investment in a debtor company of the RRB. If the RRB has investment in subordinated units of an AIF scheme, which also has downstream exposure to the debtor company, then the RRB shall be required to comply with paragraph 1 of this Annex.

Explanation: 'Priority distribution model' shall have the same meaning as specified in the SEBI circular SEBI/HO/AFD-1/PoD/P/CIR/2022/157 dated November 23, 2022.

3. Investments by an RRB in AIFs through intermediaries such as fund of funds or mutual funds are not included in the scope of these instructions contained in this Annex.

Annex II

Statement for the half year ended March / September

(to be submitted by 10th of following month)

Name of Regional Rural Bank:

Address of Regional Rural Bank:

Number of Merchants acquired in the current half year	Total number of Merchants acquired so far	Number of PoS devices enabled				Number of transactions handled during the current half year	Value of transactions handled during the current half year (₹)
		Physical PoS	Mobile PoS	QR	Others		

Signature:

Name:

Designation:

Contact No.:

Date: