

Draft Reserve Bank of India (Rural Co-operative Banks – Undertaking of Financial Services) Directions, 2025

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Reserve Bank of India (Rural Co-operative Banks – Undertaking of Financial Services) Directions, 2025

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In exercise of the powers conferred by Section 35 A read with Section 56 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 (Rural Co-operative Banks – Undertaking of Financial Services) Directions, 2025.
2. These Directions shall come into force with immediate effect.

Provided that, the provisions contained in paragraphs 7 to 13 shall come into effect from January 1, 2026, or from an earlier date as may be decided by a Rural Co-operative Bank as per its internal policy.

B. Applicability

3. These Directions shall be applicable to Rural Co-operative Banks (hereinafter collectively referred to as 'RCBs' and individually as 'an RCB').

In this context, rural co-operative banks shall mean State Co-operative Banks and Central Co-operative Banks, as defined in the National Bank for Agriculture and Rural Development Act, 1981.

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 RCB 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 read with Section 56 (e) 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) above;
 - (vi) **‘Pension Fund Management’** means management of a pension fund as defined in 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 RCB 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 RCB shall:
 - (i) evaluate and approve any proposal to enter into a long-term agreement for undertaking insurance business on a referral basis, upon completion of the initial contract period,
 - (ii) approve implementation of customer grievance redressal mechanism for merchant acquisition business,
 - (iii) approve a policy on merchant acquisition for card transactions.

B. Investments in Alternative Investment Funds (AIFs)

B.1 General Requirements

7. An RCB'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

8. An RCB shall not individually contribute more than 10 percent of the corpus of an AIF Scheme.
9. 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)
10. Where an RCB 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 RCB, then the RCB 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 RCB's direct loan and / or investment exposure to the said debtor company.

11. Notwithstanding the provisions of paragraph 10, where an RCB'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

12. Any outstanding investment or commitment made by an RCB with the prior approval of the RBI, under the extant provisions before the commencement of these Directions, are excluded from the scope of paragraph 8 and 9.
13. 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 7.
14. As stated in paragraph 2, the provisions of paragraphs 7 to 13 of this Direction shall come into force with effect from January 1, 2026, or from an earlier date as decided by an RCB in line with its internal policy (referred to as the 'effective date' for the provisions of paragraphs 7 to 13 above). Until such commencement, RCBs shall continue to be guided by the provisions of the 'existing circulars', contained in Annex I. These circulars shall stand repealed from the effective date of these Directions. Any new commitment by an RCB towards contribution to an AIF scheme, made after the effective date, shall be governed by these Directions.
15. Notwithstanding the above provisions:
 - (i) Outstanding investment by an RCB, as on July 29, 2025, 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 RCB in an AIF Scheme in terms of an existing commitment as on July 29, 2025, or in terms of a new

commitment entered into before the effective date, the RCB shall follow, in toto, either the provisions in Annex I or these Directions.

Chapter III - Financial Services

A. Insurance Business as Corporate Agent without risk Participation

A.1 Eligibility Conditions

16. An RCB shall be permitted to undertake insurance business as corporate agent without risk participation, subject to their fulfilling the following terms and conditions:
- (i) An RCB shall be a Scheduled or licensed State Co-operative Bank (SCB) or a licensed District Central Co-operative Bank (DCCB);
 - (ii) An RCB shall have a minimum positive net worth [real or exchangeable value of paid-up capital and reserves as defined in Section 11 of the Banking Regulation Act, 1949(AACS)] of ₹50 crore as per the latest NABARD Inspection Report;
 - (iii) An RCB shall have earned net profit for the last three years and shall not have any accumulated losses;
 - (iv) The Gross NPA of the RCB shall not exceed 10 percent;
 - (v) An RCB shall not have violated prudential norms including individual and group exposure norms;
 - (vi) An RCB shall have complied with the guidelines on loans and advances to directors, their relatives and associated firms;
 - (vii) Premium collection accounts shall not be opened with the RCB and premium collected shall be directly paid to the insurance companies;
 - (viii) An RCB shall adhere to IRDAI regulations prescribed for corporate agents;
 - (ix) An RCB shall submit an undertaking to the effect that banking business will not in any way get contaminated / affected on account of acting as agent of insurance companies; and
 - (x) An RCB shall not adopt any restrictive practice of compelling customers to opt for a specific insurance company, particularly in respect of assets financed by the RCB. Customers shall be free to exercise their own choice of insurer.

A.2 Procedure for Application

17. An RCB fulfilling the above conditions and desirous of undertaking insurance business as corporate agent, shall submit its application to the nodal Regional Offices of the Department of Regulation, RBI of India routed through NABARD with their recommendation.
18. The application shall be accompanied by:
 - (i) A certified copy of the Board Resolution approving the proposal; and
 - (ii) Details of the financial position of the RCB as on the last quarter-end.
19. An RCB shall not undertake insurance business without obtaining prior permission of the RBI.

A.3 Other Conditions

20. The permission granted to RCB to undertake insurance business on non-risk participation basis shall be subject to their obtaining necessary authorisation / license from IRDAI.
21. The said permission shall not be construed as a permission to adjust the dues of the insured from out of the proceeds of insurance claims.
22. Any adjustment of dues from insurance claims shall be governed strictly under a tri-party agreement among the insured, the insurer, and the insurance agent.

A.4 Validity and Renewal of Permission

23. The permission granted to an RCB for undertaking insurance agency business shall be valid for a period of two years, subject to review prior to its expiry.
24. An RCB shall obtain renewal of permission by applying through *Pravaah* Portal (<https://pravaah.rbi.org.in>) to Department of Regulation, RBI, provided the RCB continues to comply with the stipulated terms and conditions.
25. In case of non-compliance with any of the conditions at any time after the grant of permission, such permission shall be liable to be withdrawn.

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

26. An RCB is permitted to undertake insurance business on a referral basis, without any risk participation through its network of branches.
27. Conditions for Undertaking Referral Business: Under the referral arrangement, an RCB shall provide physical infrastructure within its select branch premises to insurance companies for selling its insurance products to the RCB'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 RCB shall comply with the relevant IRDAI regulations applicable to referral arrangements with insurance companies.
 - (ii) An RCB shall not adopt any restrictive practice of compelling customers to opt for a specific insurance company, particularly in respect of assets financed by the RCB. Customers shall be free to exercise their own choice of insurer.
 - (iii) An RCB 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 RCB's premises, and allow use of existing infrastructure.
 - (iv) The initial agreement shall be for a period not exceeding three (3) years, with the RCB 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 RCB may enter into a longer-term contract subject to Board approval.
 - (vi) Participation of customers of an RCB in insurance products shall be purely voluntary. This must be clearly stated in all publicity material issued by the RCB. 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 the RCB.

28. An RCB shall not require prior approval of the RBI to undertake referral business.

C. Merchant Acquisition Business

C.1 Deployment of Third Party Point of Sale (POS) Terminals

29. An RCB not intending to act as Point of Sale (POS) acquiring bank is permitted to deploy third party POS terminals without prior approval of RBI subject to fulfilling the following criteria:

- (i) An RCB shall be licensed by the RBI and CBS compliant;
- (ii) The CRAR shall not be less than nine percent in the preceding financial year;
- (iii) An RCB shall have made a net profit in the preceding financial year;
- (iv) The Board of RCB shall consist of at least two professional directors;
- (v) An RCB shall have a Board approved customer grievance redressal mechanism;
- (vi) An RCB shall put in place policy approved by the Board for merchant acquisition for card transactions;
- (vii) There shall not be any restrictions imposed on the RCB for accepting deposits / withdrawals by the RBI.
- (viii) An RCB shall obtain consent from its merchant customers before offering third party POS terminals and shall disclose the settlement process.
- (ix) An RCB shall report the operationalization of third-party POS terminals to the respective Department of Supervision within a month with necessary documents.

C.2 Deployment of Own Point of Sale (POS) Terminals as POS Acquiring Bank

30. An RCB intending to act as POS acquiring bank shall be permitted to deploy its own POS terminals with prior approval of RBI subject to the RCB fulfilling the following criteria:

- (i) An RCB shall comply with criteria mentioned in clauses (i) to (vii) of paragraph 29 above.

- (ii) The RCB's IT systems and CBS shall have been subjected to an IS Audit not earlier than six months from the date of application, certifying that the systems are adequately secure.
 - (iii) The assessed net-worth of the RCB shall be more than ₹25 crore as per the last RBI inspection;
 - (iv) The Gross NPA of the RCB shall be less than seven percent and net NPAs should be less than 3 percent in the preceding financial year;
 - (v) An RCB shall not have been subjected to monetary penalty during the last two financial years and in the year of application;
 - (vi) There shall not be any default in the maintenance of CRR / SLR during the preceding financial year;
 - (vii) An RCB shall be a member of authorized card network, such as RuPay, Visa, or MasterCard.
31. An RCB shall comply with instructions and guidelines on Merchant Acquisition for card transactions and POS issued by Department of Payment and Settlement Systems, RBI from time to time.
32. An RCB desirous to deploy their own POS terminals and act as POS acquiring bank shall apply through *Pravaah* Portal (<https://pravaah.rbi.org.in>) to Department of Regulation, RBI, for necessary permission, with the requisite information and documents.

D. Issue of Pre-paid Payment Instruments

33. All licensed RCBs having their own ATM network are permitted to issue semi-closed Prepaid Payment Instruments (PPIs), provided there are no restrictions on acceptance or repayment of deposits. This shall be subject to compliance with eligibility criteria and other guidelines as prescribed by Department of Payment and Settlement Systems (DPSS), RBI from time to time.
34. An RCB satisfying the criteria specified in paragraph 33 above shall be permitted to issue Open System PPIs, subject to complying with the following additional regulatory requirements for this purpose:
- (i) RCB shall be CBS compliant;

- (ii) CRAR shall not be less than 10 percent in the current and preceding financial year;
 - (iii) Gross NPAs shall not be less than seven percent and net NPA shall not be more than three percent in the current and preceding financial year;
 - (iv) Assessed net-worth shall be more than ₹25 crore as per the last RBI inspection;
 - (v) An RCB shall not have defaulted in the maintenance of CRR / SLR during the current and preceding financial year;
 - (vi) An RCB shall have made a net profit in the preceding financial year;
 - (vii) An RCB shall have at least two professional directors on its Board and shall have following systems and control in place:
 - (a) An internal inspection / audit system for all the branches and the Head Office
 - (b) A concurrent audit system in all major branches
 - (viii) Satisfactory adherence to KYC / AML / Combating Financing of Terrorism guidelines issued by the RBI from time to time;
 - (ix) An RCB shall not have been subjected to monetary penalty during last two financial years and in the year of application;
 - (x) An RCB shall have satisfactorily implemented a comprehensive Board approved policy on Customer grievance redressal mechanism which includes escalation matrix for resolution of customer complaints.
35. The issuance and operation of prepaid instruments shall also be guided by the instructions issued in this regard by DPSS, RBI from time to time. Eligible RCBs, as indicated in paragraphs 33 and 34 above, desirous to issue PPIs are required to obtain a No Objection Certificate by applying through *Pravaah* Portal (<https://pravaah.rbi.org.in>) to Department of Regulation, RBI before applying to the Department of Payment and Settlement Systems (DPSS), Central Office, RBI for authorisation.

Chapter IV - Repeal and Other Provisions

A. Repeal and saving

36. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to undertaking of financial services as applicable to Rural Co-operative 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.
37. 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

38. 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

39. 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 14 and 15 of these Directions)**

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

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

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

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

- (ii) If an AIF scheme, in which an RCB is already an investor, makes a downstream investment in any such debtor company, then the RCB shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. If the RCB 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 RCB shall forthwith arrange to advise the AIFs suitably in the matter.
- (iii) In case an RCB 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 RCB in the AIF scheme which is further invested by the AIF in the debtor company, and not on the entire investment of the RCB in the AIF scheme.

2. In addition, investment by an RCB in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from the RCB'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 RCB. If the RCB has investment in subordinated units of an AIF scheme, which also has downstream exposure to the debtor company, then the RCB 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 RCB 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.