



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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Draft Reserve Bank of India (Small Finance Banks - Responsible Business Conduct) Second Amendment Directions, 2026

Certain instructions on matters related to engagement of recovery agents by Small Finance Banks (SFBs) have been issued to SFBs under the [Reserve Bank of India \(Small Finance Banks – Responsible Business Conduct\) Directions, 2025](#). The extant instructions have since been reviewed. It has also been decided to issue comprehensive instructions on conduct related matters in recovery of loans and engagement of recovery agents to all SFBs (hereinafter referred to collectively as “SFBs” and individually as an “SFB”) under the aforesaid Directions.

2. In exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949, the Reserve Bank, being satisfied that it is necessary and expedient in public interest so to do, hereby issues the Amendment Directions hereinafter specified.

3. Short Title and Commencement

- (1) These Directions shall be called the Reserve Bank of India (Small Finance Banks - Responsible Business Conduct) Second Amendment Directions, 2026.
- (2) These Directions shall come into effect from **July 1, 2026**.

4. These Amendment Directions shall modify the [Reserve Bank of India \(Small Finance Banks – Responsible Business Conduct\) Directions, 2025](#) as under:

In Chapter VIII on ‘Responsible Lending Conduct’, the paragraphs 408 to 416 and 442 to 454 shall be deleted. Further, the following section and paragraphs shall be inserted **after paragraph 454**, namely:

“L. Conduct of SFBs in Recovery of Loans and Engagement of Recovery Agents

L.1 Policy

454A. An SFB shall put in place a policy on recovery of loans, engagement of recovery agents for recovery of loan dues and taking possession of security.

The policy shall, inter alia, cover aspects related to eligibility and due diligence criteria for engagement of recovery agents, specified activities, Code of Conduct, performance evaluation standards, inspection / audit, control mechanisms to ensure compliance with statutory / regulatory requirements by recovery agents and procedures to be followed / penal actions to be taken in case of non-compliant recovery agents. The policy shall also include aspects related to recovery of loan dues in case of demise of borrower(s) or guarantor(s).

Explanation: The term 'Recovery Agents' in these Directions shall be read contextually to mean individuals and / or agencies engaged by the SFB for recovery of loan dues from its borrowers / guarantors and the representatives / employees of such agencies.

L.2 Engagement of recovery agents / SFB employees for recovery of loans

L.2.1 Due diligence

454B. *An SFB employing the services of recovery agents shall put in place a due diligence process for their engagement, which shall conform to the instructions issued by the Reserve Bank in the [Reserve Bank of India \(Small Finance Banks – Managing Risks in Outsourcing\) Directions, 2025](#), as amended from time to time. An SFB shall also ensure that the recovery agencies engaged by it carry out verification of the antecedents of their representatives / employees at pre-engagement level and subsequently, on an ongoing basis at a pre-defined periodicity.*

L.2.2 Training

454C. *An SFB shall ensure that recovery agents engaged by it have obtained the certificate from Indian Institute of Banking and Finance (IIBF) after completing the training programme for Debt Recovery Agents offered by IIBF or any other institute having a tie-up arrangement with IIBF.*

L.2.3 Code of Conduct

454D. *An SFB, based on the instructions mentioned in these Directions, shall put in place a Code of Conduct for the recovery agents and its own employees engaged in activities related to recovery of loans. Further, prior to assigning any*

recovery related activities on its behalf, the SFB shall obtain an undertaking from its employees / recovery agents that they agree to abide by its Code of Conduct and other policies, especially related to recovery of loan dues and taking possession of security.

L.3 Responsibilities of an SFB

L.3.1 Disclosure of information on recovery agents

454E. *An SFB shall prominently display an up-to-date list of recovery agents empanelled and engaged with it on all channels through which it engages with customers, viz., branches / offices or digital platforms such as website, mobile app, etc. Such list shall include the name of the recovery agents and details of the individual(s) engaged by it, the period of engagement, etc.*

454F. *In the event of termination of the agreement with a recovery agent for any reason, the SFB shall publicize the same to ensure that the borrowers do not continue to deal with that agent or its representatives / employees.*

454G. *While forwarding cases to any agent for recovery of default amount, the SFB shall inform the details of the recovery agent to the borrower through a written notice, either through a letter to his / her current address or SMS on registered mobile number or email on registered email address, as the case may be, to ensure due intimation and proper authorization. In case of change of recovery agent during an ongoing recovery process, the SFB shall immediately notify the borrower of the change.*

L.3.2 Fair treatment to borrowers during recovery process

454H. *An SFB shall put in place a mechanism for identification of the borrowers facing repayment related difficulties, engagement with such borrowers and providing them necessary guidance about the recourse available.*

454I. *An SFB shall ensure that the disclosure of borrower's information to its employees / recovery agents is limited to the extent required to enable them to discharge their loan recovery related duties. Further, the SFB shall put in place mitigants to ensure that its employees / recovery agents do not transfer or misuse any customer information in any manner.*

454J. *Where a grievance has been lodged by a borrower, the SFB shall not forward the concerned recovery case to an employee / recovery agent till it finally disposes off the grievance. However, where the SFB is convinced, with appropriate evidence, that the borrower is making frivolous / vexatious complaints to avoid recovery, it may continue with the recovery proceedings even if a grievance is pending with it.*

454K. *In cases where the subject matter of the borrower's loan dues is sub-judice, the SFB shall exercise utmost caution, as appropriate, in referring the matter to its employee / recovery agent.*

454L. *An SFB shall document the time and number of calls made by its employee / recovery agent to the borrower / guarantor for recovery of loan dues. Further, the SFB shall ensure that there is a recording of the content / text of the calls made by the employee / recovery agent to the borrower / guarantor and vice-versa. Further, the SFB shall take reasonable precautions such as intimating the borrower / guarantor that the conversation is being recorded, etc.*

454M. *An SFB shall ensure that the recovery targets or the structure of incentives in the contract with the recovery agent do not induce adoption of harsh recovery practices as explained at paragraph 454U below.*

454N. *An SFB may use written communications, telephonic reminders or visits by an SFB's representatives to the borrower's place or residence as follow up measures for collection / recovery of loans. However, the SFB shall initiate any legal or other recovery measures including taking possession of the security only by giving due notice in writing as per applicable statutory provisions. Accordingly, the SFB shall not initiate any legal action as a first resort for collection / recovery of loan dues / possession of security.*

L.3.3 Taking possession of mortgaged / hypothecated assets

454O. *Where an SFB has incorporated a possession clause in the loan contract / agreement with a borrower and relies on such possession clause for enforcing its rights, the SFB shall ensure that the possession clause is legally valid, and that such possession clause is clearly brought to the notice of the borrower at the time of execution of the loan contract / agreement. Accordingly, the terms*

and conditions of the loan contract / agreement shall contain provisions regarding:

- (1) notice period before taking possession;*
- (2) circumstances under which the notice period can be waived;*
- (3) the procedure for taking possession of the security;*
- (4) final chance to be given to the borrower for repayment of loan before the sale / auction of the security;*
- (5) the procedure for giving the possession of the security back to the borrower; and*
- (6) the procedure for sale / auction of the security.*

454P. *The SFB shall ensure that the recovery of loans or enforcement of security interest shall be done only by following due process of law.*

L.3.4 Periodic review, monitoring and control

454Q. *An SFB shall put in place a management structure to monitor and control the activities of its recovery agents and ensure that they refrain from actions that could damage its integrity and reputation. The SFB shall ensure that the agreement with the recovery agents contains details of such provisions.*

454R. *An SFB, engaging recovery agents, shall undertake a periodic review of the mechanism to learn from experience and to effect improvement therein.*

L.4 Conduct of SFB's employees and recovery agents

454S. *The SFB's employee / recovery agent, while visiting the borrower, shall carry a copy of the recovery notice, along with his / her identity card issued by the SFB / recovery agency. The recovery agent shall also carry the authorization letter from the SFB. The recovery notice and the authorization letter shall, among other details, include the telephone / mobile number of the SFB's employee / recovery agent and the grievance redressal officer appointed by the SFB in terms of paragraph 454V below.*

454T. *An SFB shall ensure that its employee / agent engaged in activities related to collection / recovery of loan dues adheres to the following:*

- (1) Respect for borrower's privacy: An employee / recovery agent shall interact only with the borrower or the guarantor, and shall not approach any other relatives / contacts of the borrower.
- (2) Maintaining hours of contact: An employee / recovery agent shall contact / visit the borrower / guarantor only between 08:00 hours and 19:00 hours. Further, the borrower's request to avoid call / visit at a particular time shall be honoured in normal circumstances.
- (3) Place of contact: An employee / recovery agent shall ordinarily contact a borrower at the place of the borrower's choice and in the absence of any specific choice, at the place of his / her residence and if unavailable at his / her residence, then at the place of business / occupation.
- (4) Avoiding recovery calls / visits during inappropriate occasions: An employee / recovery agent shall avoid inappropriate occasions such as bereavement in the family or such other calamitous occasion, or marriage functions, festivals, etc. for making calls / visits to collect / recover loan dues.
- (5) Designated place for collection / recovery of microfinance loans: In case of microfinance loans, collection / recovery shall be made at a designated / central designated place decided mutually by the borrower and the SFB. However, field staff shall be allowed to make collection / recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated / central designated place on two or more successive occasions.
- (6) Interaction with borrower: An employee / recovery agent shall interact with the borrower in a civil manner. Further, he / she shall maintain decency and decorum during visits to the borrower's place for collection / recovery of loan dues.
- (7) Visit to borrower's premises: Only the representative(s) authorised by the SFB shall visit the borrower's premises for activities related to collection / recovery of loan dues.

(8) Approval for written communication: Written communication, if any, sent by an employee / recovery agent to the borrower / guarantor shall have the approval of the SFB.

(9) Issue of acknowledgement / receipt: An employee / recovery agent shall promptly give proper acknowledgement / receipt on collection / recovery of loan dues from the borrower / guarantor.

454U. The bank's employee / recovery agent shall not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, following practices shall be deemed as harsh:

- (1) Use of minatory or abusive language;
- (2) Sending inappropriate messages either on mobile or through social media;
- (3) Excessively calling the borrower / guarantor and / or calling outside the prescribed hours;
- (4) Making threatening and / or anonymous calls;
- (5) Intimidating or harassing the borrower / guarantor and / or his / her relatives, referees, friends, or co-workers in either verbal or physical manner, including acts intended to humiliate them publicly or intruding upon their privacy;
- (6) Use or threat of use of violence or other similar means to harm the borrower / guarantor or their family / assets / reputation;
- (7) Making false or misleading representations to the borrower / guarantor, especially about the extent of the debt or the consequences of non-repayment.

L.5 Complaints against SFB's employees and its recovery agents

454V. An SFB shall have a dedicated mechanism for redressal of recovery related grievances. The details of this mechanism shall be provided to the borrower by including the same under the loan agreement and while advising the details of the recovery agents as at paragraph 454G above. Further, all recovery related communications issued by the SFB must contain the name,

email address, telephone number and address of the grievance redressal officer concerned of the SFB whom the borrower / guarantor can contact.

L.6 Adherence to other regulations issued by the Reserve Bank / other authorities

454W. *In addition to the Directions mentioned herein, an SFB shall also ensure compliance with any relevant guidelines issued by the Reserve Bank on related matters and also with guidelines issued by the relevant authorities from time to time, including the guidelines issued by Telecom Regulatory Authority of India (TRAI) on aspects related to commercial communication such as the Telecom Commercial Communications Customer Preference Regulations (TCCCPR), 2018, as amended from time to time.”*

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