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CONTENTS

DATA LOCALIZATION AND THE DIGITAL PERSONAL DATA PROTECTION ACT: COMPLIANCE CHALLENGES IN FINANCE

By Himadri Adhikari

India's financial sector is undergoing a regulatory transformation. The Digital Personal Data Protection Act, 2023 ('DPDPA') has introduced new compliance rules, creating challenges for banks and financial institutions. These rules build upon earlier directives, particularly the Reserve Bank of India's ('RBI') 2018 mandate on payment data localization. Together, they reshape how institutions must handle data.

This article examines the key compliance challenges for financial institutions. It highlights the overlapping obligations created by privacy and localization laws, explores operational and technical difficulties and suggests pathways for sustainable compliance.

The Double Regulatory Burden

Financial institutions now face a unique regulatory load. The RBI's 2018 directive requires that all payment data, including transaction details and credentials, be stored in India. This rule alone demands significant changes to data storage and processing.

The DPDPA adds an additional privacy framework as well. Banks are now classified as "data fiduciaries" under the Act. They must obtain explicit customer consent, ensure fairness in processing and respect data minimization. This dual compliance burden creates tension between comprehensive collection needs and legal limits on processing.

Cross-border operations further complicate compliance. Many banks operate globally and must meet India's requirements while also adhering to the European Union's General Data Protection Regulation ('GDPR'). Aligning different standards while keeping systems efficient is one of the sector's toughest challenges.

DPDPA's Core Requirements

The DPDPA establishes principles of fairness, purpose limitation and data minimization. These apply even to data collected offline but later digitized. Banks must build privacy frameworks that embed these principles at every stage.

Large banks often qualify as Significant Data Fiduciaries ('SDF'). This status brings extra obligations: appointing a Data Protection Officer ('DPO'), conducting regular impact assessments and undergoing independent audits. The law also requires the DPO to reside in India.

Customer rights under the Act demand major operational changes. Banks must create mechanisms for data access, correction and deletion. Consent must be informed and withdrawable. This requires rethinking traditional processes that assumed ongoing, broad-based data collection.

RBI's Localization Rules: The Foundation

The RBI's 2018 circular was the first major step in India's data localization framework. It required all Payment System Operators to store payment data exclusively in India. This included customer information, transaction details, and payment credentials. The directive allowed temporary foreign processing but the data had to be deleted from foreign systems within 24 hours. Institutions had to invest heavily in local infrastructure.

Many shifted from global cloud platforms to Indian servers. The transition was costly and required significant technical planning. For multinational financial firms, this localization requirement forced structural changes to global data flows. Operations that once relied on centralized global systems now required duplication within India.

Technical Infrastructure Changes

Meeting both DPDPA and RBI standards requires comprehensive infrastructure redesign. Banks must classify data according to regulatory requirements. Payment data must be separated from other personal data for proper handling. Data mapping is crucial. Institutions need to track all personal data flows, catalogue processing activities and apply privacy controls.

Encryption, backups and access restrictions must be aligned with both localization and privacy mandates. The 24-hour deletion rule poses a big technical hurdle. Banks must create secure transfer and deletion systems that work across time zones. Monitoring systems are necessary to verify timely compliance while maintaining audit trails.

Managing Consent and Customer Rights

Consent is central to the DPDPA. Banks must obtain explicit and informed consent before processing personal data. Customers must also be able to withdraw consent easily. The challenge lies in balancing these rights with legal duties that require ongoing data retention. Credit scoring, fraud detection and regulatory reporting all require continued access to data. Institutions must therefore identify appropriate legal bases for processing while still respecting minimization.

Transparency obligations add another layer of difficulty. Banks must explain data practices clearly, often in multiple languages. Consent systems must integrate into mobile and online platforms without harming user experience. This requires thoughtful interface design and public education.

Responsibilities of Significant Data Fiduciaries

SDFs face heightened scrutiny under the DPDPA. They must appoint a DPO who resides in India and reports directly to top management. The DPO is responsible for addressing customer grievances and ensuring compliance. In addition, SDFs must conduct Data Protection Impact Assessments for high-risk processing.

Independent audits are also mandatory. These obligations create significant costs, both financial and organizational. Specialized teams and compliance experts are essential to manage them. For global banks, the local DPO requirement creates particular challenges. Many prefer centralized privacy offices, but Indian law now demands resident expertise. These forces restructuring of compliance teams and new recruitment strategies.

Cross-Border Operations

Cross-border data transfers are another critical issue. The DPDPA allows them only if the transfer is not to a country placed on the government's "negative

list." At the same time, RBI rules restrict how payment data can leave India. This overlap has serious implications. Fraud detection systems often rely on analyzing data across multiple jurisdictions. Risk management teams also depend on global datasets.

Strict localization rules reduce efficiency, forcing banks to develop new compliance-driven models of data exchange. Institutions must now design governance frameworks to manage these international flows. Regular monitoring is necessary to adapt to evolving rules both in India and abroad.

Breach Notification and Risk Management

The DPDPA imposes strict obligations regarding data breaches. Every breach must be reported to the Data Protection Board within 72 hours. Banks must also inform affected customers without delay. Unlike some foreign laws, the Act does not include a materiality threshold. Even minor incidents must be reported. This raises compliance costs and requires well-designed incident response systems.

Banks must update risk management protocols to meet these deadlines. Incident response teams must be trained, and reporting procedures must be streamlined. Integrating these obligations with existing cybersecurity measures is now essential.

Vendor Management

Financial institutions rely heavily on third-party vendors for technology and operations. The DPDPA makes banks responsible for all processing done by vendors. Contracts must therefore be updated with compliance-focused clauses. Institutions must also monitor vendors closely. This is particularly difficult when vendors operate across multiple jurisdictions.

Aligning Indian requirements with international privacy laws complicates contract negotiations and oversight. Banks must invest in stronger vendor management frameworks, including technical audits and compliance certifications. The cost and complexity of outsourcing have increased under this regime.

Financial and Human Resource Impact

The combined effect of RBI and DPDPA compliance is financially significant. Institutions must invest in infrastructure migration, system redesign, and data storage. Local hosting costs are often higher than global alternatives, reducing profitability. Human resources are another challenge. Banks must hire compliance specialists, privacy lawyers, and data security experts.

However, the Indian market faces a shortage of professionals with this expertise. Regular audits, impact assessments, and training programs further increase recurring costs. These expenses affect both operational planning and long-term competitiveness. Smaller banks, in particular, may struggle to keep pace.

Coordination Between Regulators

Financial institutions must also navigate multiple regulators. Apart from RBI and the DPDPA's Data Protection Board, bodies such as the Securities and Exchange Board of India (SEBI) impose sectoral requirements. This creates potential conflicts. For example, regulatory reporting may require extensive data sharing, while privacy law emphasizes minimization.

Balancing these mandates demands careful legal interpretation and operational strategy. Effective compliance therefore requires coordination across different regulatory frameworks. Institutions must ensure that sectoral requirements do not undermine privacy obligations or localization mandates.

Strategic Planning for Compliance

Compliance is not just a legal requirement, rather a strategic decision. The DPDPA and localization laws will evolve through government notifications, board rulings and judicial interpretation. Institutions that plan early will adapt more smoothly. Proactive compliance can even provide competitive benefits.

Strong privacy frameworks enhance customer trust, which is valuable in a digital economy. Banks that treat compliance as an investment in credibility may gain long-term advantages. This demands comprehensive planning. Institutions must align governance, technology and operations with both present and future requirements.

Conclusion

The convergence of the DPDPA and RBI's localization rules marks a turning point for India's financial sector. Institutions must manage overlapping regulations on privacy, data localization and sectoral compliance. These challenges are costly and complex but also unavoidable.

Success lies in building frameworks that view compliance as an enabler of trust. Robust privacy and localization systems strengthen customer confidence and support India's digital sovereignty. Financial institutions that adopt forward-looking strategies will not only survive but thrive in this new environment.

The response of the financial sector will shape the future of India's digital economy. Careful planning, sustained investment, and a commitment to customer rights will be essential to building sustainable compliance.

RBI'S DRAFT DIGITAL BANKING RULES: REDEFINING COMPLIANCE IN THE DIGITAL ERA

By Pratibha Jatav

Introduction

Recently, on July 21, 2025, the Reserve Bank of India ('RBI') released its draft Digital Banking Channels Authorisation Directions, 2025 ('Draft Directions'). The decision is made in the context of the rapid expansion of digital financial services in India, where banks increasingly collaborate with fintech agencies and third-party providers to deliver wide range of products via mobile applications, internet sources, and other electronic mediums. While this growth has enhanced consumer convenience and deepened the financial inclusion, it has also brought issues regarding mis-selling, data security, and regulatory arbitrage.

In this context, these Draft Directions aim to improve governance, safeguard consumers, and reduce risks. Among other aspect, they also introduce detailed requirements with regard to banks and promoters for the display and distribution of third-party products and services. This Article delves into the Draft Directions concerning banks and promoters regarding the offerings of third-party products and services.

Key Terms: Third-Party and Affiliate Products

Certain terms such as "third-party products" and "affiliate products" are central to the abovementioned directions. In regard to the foregoing, third-party products are financial offerings that are not owned by the bank but are promoted via its online channels. For example, credit cards offered by a partner Non-Banking Financial Company ('NBFC'), mutual funds managed by an asset management firm, or insurance policies issued by an outside insurer may all be visible on a bank's mobile app. Additionally, "affiliate products" originate from the bank's own associates, group firms, or subsidiaries. Examples include ICICI Bank displaying ICICI Lombard's insurance on its portal, or HDFC Bank advertising HDFC Asset Management or HDFC Life Insurance products on its app.

The underlying problem is that consumers frequently believe that any product displayed on a bank's app is equally secure and well-governed which leads to

mis-selling or abuse of trust. The RBI considered working on a Consumer Protection Assessment Matrix, in order to curb the above-discussed menace. It is evident that the problem exists as it was reflected in 296,000 complaints received in the FY24-25, specifically in the area of loans and digital banking services. Therefore, before such offers are displayed, the RBI now mandates unequivocal permission, explicit clearance, and comprehensive disclosures.

Key Provisions

Para 10.9 [PJ1] of the Draft Directions prohibits that unless specifically approved by the RBI, banks are not allowed to display affiliate or third-party products (from associates, subsidiaries, joint ventures, or promoter groups) on digital platforms. The Digital Banking Units Circular (2022), the Master Direction on Financial Services by Banks (2016), and associated instructions serve as guidelines for permissions. Banks must seek RBI's permission while adhering to strict guidelines, increasing transparency, and prioritising the needs of their clients before their own financial goals. The RBI's strict approach is a result of increased cases of aggressive marketing and unethical cross-selling which has eroded the customers' confidence and as a result they incurred losses.

Beyond Paragraph 10.9, explicit client approval must be obtained and documented via email or SMS to avoid coercive digital enrolment. Transaction limitations, velocity checks, and fraud monitoring all improve risk management. Additionally, mobile banking must comply with the Digital Personal Data Protection Act, 2023 and the Information Technology Act, 2000.

Compliance with the DPDP Act, 2023, is also important to protect the privacy of customer data in the face of cyber threats, which are worsened by third-party integrations; and with the IT Act, 2000, to regulate electronic transactions and prevent fraud, which are important to reduce vulnerabilities posed by affiliate and third-party offers in the digital banking environment.

Need For The Direction

The fintech expansion during COVID-19 has sped up the advent of digital banking, exposing critical gaps in India's regulatory framework. In dearth of unified banking regulations, the banks significantly increased their collaboration with third parties, which suffered from numerous infirmities causing distrust

among customers. The RBI's unified directions attempt to resolve these issues.

The discussion paper of 2021 by NITI Aayog highlights specific gaps, which include the absence of clear guidelines on how to manage third-party risk, which results in data breaches, and the lack of a strong framework to license digital-only banks. This has enabled unregulated offerings, increasing the risk of consumers exploitation through mis-selling.

Implications

Banks are required to confirm with operational modifications which include operational redesigns, such as technology investments for compliance, and higher audit and risk system expenses that may put a strain on smaller institutions. Additionally, due to the process of taking approval, there may be substantive delays in the introduction of new features.

Third-party suppliers and fintech firms may be restricted in their access to bank channels, which will require them to explore alternative distribution methods. This will further impact their business growth because of reduced reach and increased operation costs. These aspects underscore the practical challenges that banks and fintech may experience.

Consumers may experience fewer options since some offers are restrictive, but this will ensure safer and clearer options since only the RBI approved products will be displayed, minimizing the chances of mis-selling or fraud.

Concluding Remarks

By ensuring that only authorized products are displayed on bank applications or websites, RBI addresses the underlying issue that customers are led to believe that offers appearing on a respected bank's app are equally trustworthy. This strikes a balance between the interest of consumers and the banks. The rights of banks' are also not being jeopardised, as they are also allowed to display third-party and affiliate products, the only criteriona is Reserve Bank's approval.

Moving forward, such a strategy would increase consumer confidence because it would minimize the risk of mis-selling to users, as the NITI Aayog 2021 discussion paper suggests, a regulated digital banking framework to safeguard users. RBI will need to maintain a fine balance between ensuring a safe digital ecosystem and regulatory laxity to allow technological innovation and market development.

NEW IRDAI HEALTH INSURANCE GUIDELINES IN 2025

By Amit Patra

In 2025, the health insurance scene in India gets a twist of a new dimension. The Insurance Regulatory and Development Authority of India ('IRDAI') has issued a new set of guidelines that is an ambitious effort to change the way Indians access, afford, and experience health insurance. As a policyholder or prospective policyholder, the implication is also deep and interesting. These reforms transform the rules of the game, and they include the following factors: focus on inclusivity, transparency, and flexibility.

No More Age Barriers: Cover to all

Conventionally, there was an upper age limit in health insurance policies and an entire segment of the senior population became ineligible for receiving health insurance protection. The new guidelines require the insurers to at least provide one health policy that has no upper age limit of a person, and every Indian can access health insurance at any age. This is more than a simple change in rules to the elderly citizens in that it is an open door to both healthcare and peace of mind when they reach their golden years.

Waiting Less, Healing Faster: The Revolutionized Pre-Existing Disease Coverage

The changes that are most likely to have a difference: the waiting limit period that was previously four years on pre-existing conditions has now been reduced to three years of waiting time. Individuals with diabetes or hypertension and other chronic diseases can now be able to claim their insurance package much earlier, which not only takes a leash off their budget strain but also reduces the burden of their healthcare needs. After this time, insurers are prohibited to reject such claims on the basis of full disclosure and no misrepresentation.

Improving transparency: Claim settlement and Digitalization

Digital transformation and transparency in claim settlements are the cornerstones to the 2025 version. IRDAI has now compelled insurers to tighten their cashless claim systems, to adopt KYC automation and e-signatures and even blockchain in record-keeping. All these developments hold promise of

quicker, more equitable and dependable claims, and take years of frustration out of the policyholder experience.

Prognosis: The Allopathy and Beyond: Mainstream Coverage of AYUSH

The most notable change is the treatment of AYUSH modalities- Ayurveda, Yoga, Naturopathy, Unani, Siddha and Homeopathy-, which are now fully covered with no sub-limits. Insurance policyholders with a bent of interest in holistic treatment can now exercise insurance covers in alternative procedures as they acquire the status of mainstream methodologies.

Inclusivity on the Forefront: Coverage of Diverse groups at-risk

The new IRDAI regulations also mandate insurers to develop products catering to vulnerable groups- persons with disabilities, HIV/AIDS and mentally ill persons. Such policies will have to be in conformity with Indian acts against discrimination and it has to provide equal access, which will go a long way in giving the industry a giant leap towards health equity.

Standardized Waiting Periods and Stability of Premiums: Certainty to everyone

To further mitigate uncertainty, policyholders have waiting times on specific procedures (such as a joint replacement) that are now universal across insurers.Therefore individual policyholders can better understand when they can expect to be reimbursed based on a specific procedure. Moreover, the premium that set at the beginning of his policy cannot be jacked up arbitrarily over the course of a policy term. Installments options in premium payments also make the covers more accessible to people and affordable.

Portability of Claims: Greater Claim Flexibility to Policyholders

Benefit-based health plans have also provided policyholders with freedom to file claims with various insurance companies. This promotes healthy competition and allows people to get the maximum out of it, irrespective of the insurer they are satisfied with, providing the flexibility that is so needed during times of the medical emergency.

Protecting the Policyholder: Reducing the Moratorium

The time within which such contests are possible on the grounds of nondisclosure is now cut down to five years of the moratorium period. Claims can no longer be objected to after this time, unless fraud has been demonstrated, easing policyholder confidence and ensuring coverage.

Powered by Technology Manifestation of Transparency: Data transparency and Grievance redressal

Insurers are now being subjected to more stringent reporting provisions, like elements of claim information, solvency margins and importantly, the status of grievance redressals. Digital tools, automated reporting, and data integration also leads to consumers and regulators being able to monitor insurers more closely, limiting the malpractices and exploitation of individuals.

World of the Policyholder: What the Consumer Should Do

All policyholders and the potential insured should:

- Take Stock of Coverage Needs: Since there are broader coverage options in terms of age and the diseases covered, evaluate what plans suit you and your family best.
- Consider new AYUSH Benefits: In case you believe in traditional/ alternative medicine, consider policies that allow you to receive AYUSH treatment at no cost.
- Serve-the-Interest: Policy applications must be honestly and fully disclosed; dishonest presentations may or may not invite claim denial.
- Keep an Eye on Premiums and Conditions: The stability of the premium will ensure that you are not facing big surprises, however, always make sure you read the fine print before committing to it.
- Anticipate Online Processes: Anticipate digital onboarding, claims, and grievance management-there is no longer a point in siloing digital workflows based on speed and clarity.

What could be done? Reform, resilience and renewed trust

The 2025 guidelines of the IRDAI mark a paradigm shift in the health insurance industry in India. The regulator has made policyholders the top priorities and placed the policyholder at the centre of all reform by removing such barriers,

hastening accessibility, integrating technology and demanding inclusivity. The point is explicit: regardless of the age or health condition, your healthcare accessibility should be empowered, safeguarded and respected, in the new insurance ecosystem. By looking at these new rules cautiously, Indians now have more hope of a future where they get better healthcare due to better accessibility, transparency and reliability than before.

FROM MANUAL TO MACHINE: AI'S INTRODUCTION IN THE BANKING SECTOR

By Sriyya Jain

Introduction

We have witnessed the transformation from handwritten ledgers and printing passbooks in the office to mobile banking and online statements of accounts. From this transformation, we can see the incorporation of technology in the financial sector. One such development is Artificial Intelligence ('AI').

The Reserve Bank of India ('RBI') on August 13, 2025 issued the report of the committee to develop a Framework for Responsible and Ethical Enablement of Artificial Intelligence ('FREE-AI'). RBI developed this committee with a focus on developing a responsible AI framework for the financial sector.

This article will deal with analysing RBI's effort to inculcate AI in finance and the steps it took towards it per the FREE-AI report. And it shall also weigh what impact this advancement shall bring on the general public.

RBI's initiative: establishing the free AI committee

The concerned notification of RBI, in which it stated that AI models are to be introduced in the finance institutions for customer services and a regulatory framework are to be developed for introducing customer care chatbots, which shall be used by customers to ask their queries speedily.

This leads us to a question about what was the need for the introduction of AI in the financial sector.The need to introduce AI can be seen as a result of the effects of rapid digitisation, and an increase in demand for efficiency, personalisation and risk management has pushed AI adoption.

So this is where the committees comes into play, their main role was to assess the adoption of the AI, what could be the response and approach to this problem, to identify the risks involved in this initiative and to recommend a regulatory framework for the control and operation of the AI.

This usage classification of AI can be well understood by the chart (page number 37, paragraph 3.3.5) as published by the committee, which shows the data on how AI is being used and is inculcated in which segment of the financial sector. It can be easily concluded that customer support is easily the safest way to inculcate AI, considering 62% of the AI have already been implemented or have started the process to inculcate, whereas there's still more scope for inclusion in the process.

The main reasons for using customer support as the initial and primary domain for AI adoption are as follows:

- Customer support functions typically involve routine, lower-risk interactions that follow structured processes. This reduces the chance of significant financial or reputational losses compared to higher-stakes functions like credit underwriting or trading.
- Customer support usually requires AI models that are simpler to implement and integrate with existing legacy systems. Rule-based chatbots and basic AI assistants can be deployed quickly with minimal investment and infrastructural changes.
- Automating responses to frequently asked questions and routine queries allows institutions to handle large volumes of customer interactions with increased speed, availability, and consistency, enhancing operational efficiency and customer satisfaction.
- AI-powered customer support solutions, such as chatbots, scale easily and reduce costs associated with hiring and training large numbers of human agents, especially important for organisations serving millions of customers.

These factors combined make customers support a natural choice for early and widespread AI experimentation and adoption within the financial sector. The benefits that the implementation of AI will bring are through working together with our digital systems, like Aadhar and UPI. When banks and other companies use AI alongside these tools, things like getting verified, sending money or finding the right loan become much quicker and easier for consumers.

AI in digital infrastructure

Even people in smaller towns and villages can benefit, because AI helps smaller banks use the same smart tech as bigger ones. This means more people get

access to safe, personalised financial services, and everything works faster, more smoothly and with better security. To enhance the delivery of the output and impact of financial services by AI with Digital Public Infrastructure ('DPI').

The adoption of AI in finance presents numerous transformative opportunities, but it also introduces multifaceted challenges and sectoral concerns. The FREE-AI report highlights a broad ambit of risks that need dedicated attention.

- AI models may showcase biases due to flaws in design. This could result in unfair, discriminatory outcome possibilities, especially in critical functions.
- Many generative AI models function opaquely, making it difficult to explain decisions.
- Without regular checks, AI models can lose effectiveness over time, especially when exposed to new information, resulting in unexpected outcomes.
- While technology reduces manual errors, any fault in the AI system can be applied across large volumes, leading to significant financial losses or customer dissatisfaction.

There is an urgent need for regulations regulating AI in the financial sector. The rapid advancement and adoption of AI can offer various opportunities, including but not limited to efficiency and risk management. However, unregulated AI can increase risks, consumer harm and cybersecurity vulnerabilities. Whereas high restraint could underlie the process and benefits.

Conclusion

In conclusion, mindful regulation serves as a safeguard and catalyst, directing financial institutions to utilise AI's potential responsibly. It protects consumer interests, ensures morally aligned outcomes and strengthens system resilience. The public's trust is the foundation for future AI growth in the financial sector, and established regulations can speed up innovation while protecting against new risks.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) MANDATES IN FINANCE: LEGAL AND COMPLIANCE FRONTIERS

By Priyadarshani Sahoo

Introduction

Environment, Social and Governance ('ESG') is defined as the "environmental, social or governance matters that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual". It is commonly used interchangeably with the term 'sustainable finance' which is defined as the "process of taking ESG considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects".

Regulatory Landscape and Disclosure Requirements

The ESG principles have become central to the finance sector, creating the investment strategies while also posing challenges and opportunities for compliance and legal departments. On a global level, governments and other regulatory bodies are implementing mandatory ESG requirements for disclosure and surpassing voluntary guidelines. Countries like United States of America, United Kingdom and India are promoting frameworks to curb greenwashing and enhance transparency.

Impact on compliance departments

The growing dominance of ESG regulations has significantly expanded the subject and ambit of compliance departments, which requires them to go far beyond the traditional metrics of finance to address issues of social responsibility in supply chains, environmental risks and governance practices. This renders an increased measure of complexity for multinational corporations as they have to endure diverse navigations and evolving regulations across multiple jurisdictions. Thus, proper data management systems along with specialized expertise are needed to ensure accuracy and consistency in their information collection. Additionally, compliance should change the procedures and internal polices to integrate the ESG considerations into risk assessments and investment decisions.

The Rise of ESG Litigation

The rising scrutiny that companies are under from their stakeholders and regulatory authorities in relation to their sustainability pledge has equally increased the number of ESG litigation. Examples of such are greenwashing, where plaintiff files a lawsuit, or regulators take action, as the defendants oversell or give misleading depictions of the ESG practices. The activism over shareholders is also in the ascent, where shareholders, through derivative actions, bring cases against companies that fail to disclose adequately or misrepresent information. In such environment, transparent and data-backed reporting is the logical solution to avoid litigation risks. Moreover, legal differences present a challenge to companies that operate across the borders where regulations can be quite different.

Opportunities and Strategic Advantages

Once considered a mere compliance activity, ESG has emerged as a key factor in driving business value and generating competitive advantage. Strong ESG performance symbolises great reputation and increased trust of stakeholders, which can separate a company from its competition which is often viewed as a sustainability-focused marketplace. Trust and credibility are important for financial rewards to be able to attract capital by investors and also included in recognized sustainable funds. Integrating ESG factors leads to better resource use, less waste and better management of risk which can protect the business and ensure its long-term existence. In the end, as a set of requirements the good news is that it will drive innovation, so companies develop sustainable products and business models, in response to evolving consumer preferences and the market's demands.

Future outlook and trends

ESG practices and regulations are bound to evolve rapidly with various key trends shaping the future landscape in the long run. Among one of such trends is the attempt to harmonize standards to create a more unified global framework, under which compliance would be easier and comparability higher across jurisdictions. Technological advancements like AI and blockchain will revolutionize data collection and verification, boosting transparency. We can also expect ESG mandates to broaden, encompassing more sectors and non-

financial metrics, while intensifying pressure from investors and stakeholders demands stronger, verifiable action.

Conclusion

In conclusion, the rising occurrence that is associated with ESG is revolutionizing the legal and compliance situation in finance. Financial institutions should proactively respond to the changing regulatory demands, manage litigation risks, and leverage ESG to unlock new opportunities that will make them a long-term value driver in a fast-changing global economy.

REVISITING SUBSTANTIAL INTEREST IN INDIAN BANKING LAW: THE BANKING LAWS (AMENDMENT) ACT, 2025

By Manvi

Introduction

The Banking Laws (Amendment) Act, 2025, notified on April 15, 2025. It is set to take effect on August 1, 2025 and is ushering in major reforms in the banking system in India. The Reserve Bank of India Act of 1934, the Banking Regulation Act of 1949, The State Bank of India Act of 1955, and the Banking Companies (Acquisition and transfer of undertakings) Acts of 1970 and 1980 are the five acts that are modified by it.

One of its nineteen amendments includes the revised definition of a substantial interest, which raises its threshold from ₹5 lakh to ₹2 crores. Despite decades of inflation, economic growth, and financial sector expansion, this threshold had not been changed since 1968. This article aims to discuss the rationale and the consequences of this revision in the light of regulation, depositor protection and governance.

Role of Substantial Interest

The concept of "substantial interest" is enshrined in Section 5(n-e) of the Banking Regulation Act 1949, and Section 2(32) of the Income Tax Act, 1961, refers to a "person with a substantial interest" as an individual who holds significant ownership and control within a company.

"Substantial Interest" thresholds help the bank operate by imposing limitations on banking firms in providing loans and advances to any person or organization wherein, any director possesses substantial interest. In addition, these thresholds assists regulatory agencies like the RBI in overseeing and managing the impact of major shareholders in banking organizations. Therefore, banking firms must keep records of substantial interests to meet regulatory obligations.

"Substantial Interest" thresholds help in providing safeguard against individuals

with stakes in other companies from gaining a controlling position on the board of directors of a banking institution. The modification to the Banking Regulation Act, 1949 has eased the significant interest and provided greater flexibility by increasing its limit from ₹ 5,00,000 to ₹ 2,00,00,000. Additionally, the revised definition now includes enabling language, allowing the Central Government to adjust the thresholds for triggering Substantial Interest through a notification in the Official Gazette.

Analyzing the Revision of Threshold

With the 2025 Amendment, the threshold is now set at ₹2 crore, a forty-fold increase that reflects present-day financial realities. Upon a statutory speculation, this revision aims to target stakeholders with substantial influence on management and policy decisions, reduce regulatory overreach, and improve governance framework clarity.

This amendment impacts the restriction on the authority of commercial banks to issue loans as imposed under Section 20 of the Banking Regulation Act, 1949. The section forbids banks from issuing loans to any company, wherein, the bank's directors have a significant interest. Consequently, the amendment eases the limitations on banks' ability to grant loans. It updates the figure according to the current economic situation, taking into account that the last changes were made in 1984.

Impact on Banking Governance

To add to its merits, the redefined threshold carries several other governance implications. Firstly, if implemented properly, the revised threshold will enhance governance clarity by ensuring that regulators and auditors focus on genuinely influential shareholders rather than dispersing their attention across smaller investors.

Secondly, it will strengthen depositor and investor protection. By concentrating oversight on significant stakeholders, the risks of related-party transactions, conflicts of interest, and undue influence that can erode depositor confidence, shall be minimized significantly.

Finally, the change has the potential to improve audit efficiency. With a clearer definition of substantial interest, auditors can streamline their checks and align their focus with material exposures.

Critical Challenges That May Lie Ahead

Despite its merits, the revision raises certain questions. The first and foremost concern noted by critics, is that whether the ₹2 crore threshold is too high in the context of smaller regional or cooperative banks, wherein, an investment below this figure may still exert substantial influence and may not account for a uniform benchmark across all categories of banks.

Secondly, allowing large ownership stakes, can lead to the concentration of control, which is counterproductive for corporate governance. While small investors are excluded from scrutiny, larger investors may now wield greater unchecked influence unless complemented by strong board independence, transparency, and disclosure requirements.

Finally, the amendment must be viewed in light of its practical enforcement. Regulatory effectiveness will depend not only on the threshold revision but also on the ability of supervisory authorities to implement complementary governance reforms and conduct robust risk-based monitoring.

Way Forward

To solve this predicament, more rigid disclosure rules must be implemented which shall guarantee the preservation of clear and public ownership structures. The control of the board by independent board members may help in eliminating the undue influence and improved auditing may also help in detecting such abuses. Public reporting to regulators would make the systems transparent and ensure that no abuse of powers by officials is aimed at exploiting the financial institutions.

Conclusion

The Banking Laws (Amendment) Act, 2025 is a historic stride in the field of modernization of banking governance in India. By increasing the amount of substantial interest of a shareholder to control the company, the Act will rectify

a five-decade old anomaly and establish regulation standards to harmonize with economic reality. It is speculated that it shall increase protection to depositors, audit quality, and narrow regulatory attention on truly influential actors, and its success will come down to the way it will be operationalized.

TAKING AWAY THE DEVIL OR A HELPFUL TOOL: ENDING OF P2P UPI COLLECT REQUESTS

By Shreya Mathur

Introduction

The time for confrontation is coming. You can no longer silently send your friend a payment request for the amount they owe you. National Payments Corporation of India ('NPCI') has announced the stoppage of person-to-person ('P2P') collect requests on the unified payments interface ('UPI') from October 1, 2025.

P2P Collect Requests

P2P collect requests is a feature of UPI that allows for parties to request payment of up to ₹2000 from another party. Currently, there is a cap of 50 successful transactions such transactions.

In this process, a payment collect request is initiated by one party and is sent to the interface of the other party. The receiver party then has to finish the transaction by entering of their UPI pin, thus transferring the requested amount. This feature allows for a smooth and quick transaction.

UPI Scams

Hundreds of people fall prey to UPI scams every day. Despite preventive measures being taken, the risks still exist. These scams are carried out through fraudulent phone calls or by sending request for payment while posing as a merchant. These scams are not only limited to collection of money but extend to stealing of sensitive information as well.

The P2P collect request scams involve the sending of fake debit reversals or by posing the same as a refund process. This scam was first attempted to be curbed by the NPCI by introducing a cap of ₹2000 on the amount that could be requested. While this measure worked to an extent, the scams could not entirely be wiped away, leading to the decision of removal of the service from October 1, 2025.

Impacts on Payment

- ·For individuals: While this feature shall be unavailable, the other standard methods of UPI transfers will still be available. One will still be able to send money via scanning of a QR code or by transferring money to a selected contact.
- For Merchants: NPCI has clarified that there shall be no impact on the peer-to-merchant ('P2M') payment collect requests sent by merchant to the UPI interface of individuals for completing their transaction.

Current Redressal Mechanism

The NPCI recommends the first step taken to be the raising of a grievance on the UPI app through which the transaction takes place. If no solution is reached, reaching out to your bank.

The redressal mechanism for fraudulent UPI transactions as apprised by Reserve Bank of India ('RBI') for banks includes the following timeline for reporting by the customer:

- Reported within 3 days: The entire amount will be refunded to the customer by the bank.
- Reported between 4 to 7 days: The customer will have to bear ₹5000 to ₹25,000 liability, whichever is lower. Post deduction, the mount will be refunded to the customer's account.
- Reported beyond 7 days: There will be no refund of money and the customer shall have to bear the liability.

Additionally, banks have been notified to try and resolve scams involving fraudulent payment below ₹10,000 internally and subsequently consider reaching out to the local police.

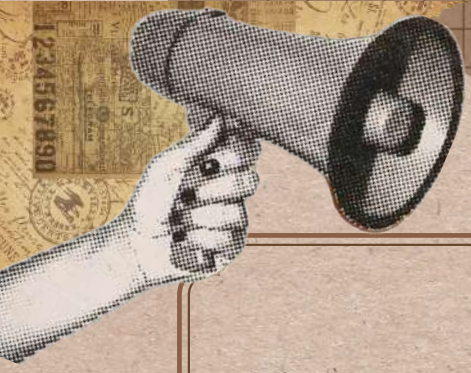
Another path that can be opted for by the aggrieved party is lodging of a complain via the cyber-crime helpline.

With multiple redressal paths and one of them being time bound, victims may get turned around while already being in a troubled state. The formation of a

clear and comprehensive grievance redressal policy with a specified path thus becomes necessary.

Conclusion

The removal of the P2P collect service would lessen the number of scams by one. While it is a welcome move, we need a more robust framework to prevent such scams. UPI scams are becoming more common, with a new one popping up every other day. Removal of convenient services cannot be the answer. It only sets us back in the era of technological advancement. Increasing user awareness and creating a stronger framework of protective measures and establishment of a proper redressal mechanism for such scams is the need of the hour.



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