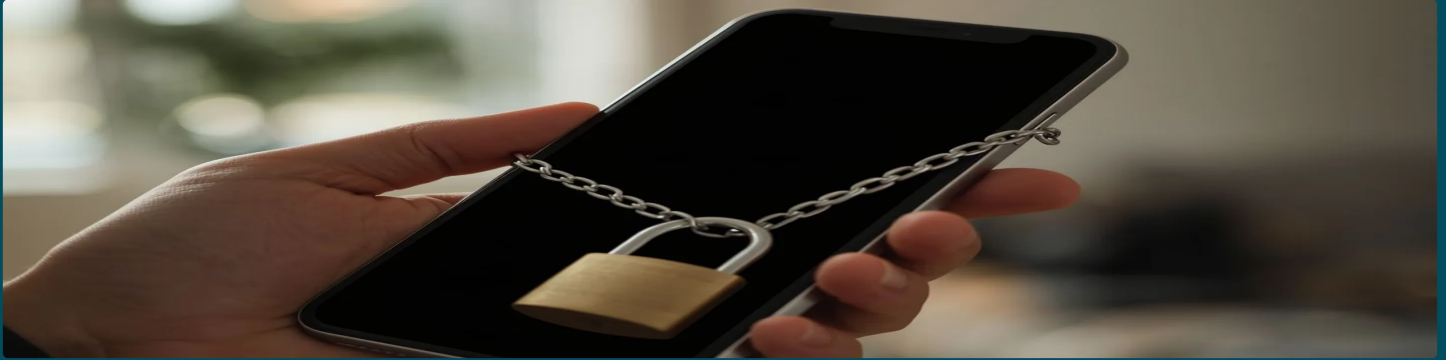




BANKING AND FINANCE

REGULATORY

Beyond Loan Defaults: RBI's 2026 Reforms on Loan Recovery Practices and NBFC Accountability

The RBI's Third Amendment Directions, 2026 set a new framework for NBFC loan recovery from 1 January 2027: recovery-agency policies, IIBF-certified agents, 8 a.m. to 7 p.m. contact hours, and strict limits on locking financed mobile devices.

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Introduction

Loan recovery is an essential part of lending operations, but the methods adopted by financial institutions to recover outstanding dues have often raised concerns regarding borrower privacy, harassment and the misuse of recovery mechanisms. The Reserve Bank of India (RBI), through the *Reserve Bank of India (Non-Banking Financial Companies – [Responsible Business Conduct](#)) Third Amendment Directions, 2026*, dated 6 August 2026, has introduced a comprehensive framework governing the recovery of loan dues by non-banking financial companies (NBFCs).

Issued under Sections 45JA, 45L and 45M of the [Reserve Bank of India Act, 1934](#), the Amendment Directions will come into effect on 1 January 2027. They consolidate and strengthen the regulatory requirements governing recovery activities, the engagement of recovery agencies and the conduct expected from NBFC employees and recovery agents. The amendments seek to ensure that recovery of legitimate dues takes place through transparent, accountable and fair practices without compromising the dignity and rights of borrowers.

A Comprehensive Framework for Loan Recovery

One of the significant changes introduced by the Directions is the establishment of a dedicated framework titled “Conduct of NBFCs in Recovery of Loan Dues and Engagement of Recovery Agencies”. The provisions apply to the recovery of dues from borrowers in default, including the taking of [possession of secured assets](#). Where expressly specified, certain requirements also extend to the collection of dues from borrowers who are not in default.

The Directions define a “recovery agency” as an entity or individual, other than NBFC’s own employees, engaged under an outsourcing arrangement to assist in recovering loan dues or taking possession of security. A “recovery agent” refers to a representative of such an agency involved in recovery activities at the point of customer interaction.

Importantly, the regulatory requirements applicable to both recovery agencies and recovery agents will also apply when an individual is directly engaged by an NBFC under an outsourcing arrangement. This approach reduces the possibility of avoiding regulatory obligations through contractual labels or alternative engagement structures.

Mandatory Policies and Greater Accountability

The Amendment Directions require NBFCs to establish a comprehensive policy covering the collection and recovery of loan dues, including the possession of secured assets. The policy must specify the circumstances triggering recovery proceedings, an escalation matrix for recovery actions and a code of conduct for employees and recovery agents.

It must also address recovery following the death of a borrower and establish a structured framework for dealing with borrowers experiencing [financial distress](#). This includes documented engagement before escalation and guidance regarding available resolution options.

For recovery agencies, the policy must establish eligibility and due diligence criteria, performance evaluation standards, inspection and audit mechanisms, and appropriate action against non-compliant agencies or their agents. It must also provide for compensation to borrowers or guarantors for losses arising from recovery-related actions inconsistent with the Directions.

These requirements place greater responsibility on NBFCs to supervise recovery operations rather than treating them merely as outsourced activities. The Directions also require periodic monitoring and review of recovery arrangements to identify shortcomings and improve compliance.

Regulation of Recovery Agents and Transparency

The Amendment introduces specific requirements governing the appointment, training and conduct of recovery agents. NBFCs must conduct due diligence before engaging recovery agencies, including verification of the antecedents of recovery agents before engagement and periodically thereafter.

Recovery agencies must engage agents who have obtained certification from the Indian Institute of Banking and Finance (IIBF) after completing the prescribed Debt Recovery Agents training programme, or training through an institute having a tie-up arrangement with IIBF. Existing agents who do not hold the certificate must obtain it within one year of the Directions coming into effect.

Transparency is another important feature. NBFCs must publish an updated list of their empanelled or engaged recovery agencies on their websites, including details such as the agency's name, correspondence address, type, engagement period and purpose. Changes must generally be reflected within seven calendar days, while termination of an agency's engagement requires a prompt update.

Where a case is assigned to a recovery agency for an in-person visit, the borrower or guarantor must be informed of the agency's details at least one day before the first visit. Any subsequent change or termination of the agency's engagement must also be communicated immediately. These requirements help borrowers verify the authority of persons approaching them for recovery.

Protection Against Harassment and Unfair Practices

The Directions place considerable emphasis on the manner in which recovery activities are conducted. Employees and recovery agents must identify themselves through the prescribed identity cards, and agents must carry an authorisation letter and the relevant notice. These documents must include the contact details of the recovery agency and the NBFC's [grievance redressal officer](#).

Recovery-related discussions must ordinarily be confined to the borrower or guarantor, as applicable. Agents are required to interact in a civil manner and maintain appropriate conduct during visits.

A specific restriction has been introduced regarding the timing of recovery calls and visits. Recovery agents and NBFC employees may contact borrowers between 8:00 a.m. and 7:00 p.m. Calls or visits outside these hours are permitted only where the borrower or guarantor has expressly requested or authorised them. Requests to avoid contact at a particular time must ordinarily be respected.

The Directions also recognise that certain circumstances require sensitivity. Recovery agents must avoid inappropriate occasions, including bereavements, medical emergencies and marriage functions.

Further, the Directions expressly prohibit harsh recovery practices. These include abusive or threatening language, anonymous calls, excessive calls or messages, inappropriate social media communications, public humiliation and harassment of borrowers or their relatives, friends and co-workers. The use or threat of violence, as well as false or misleading representations regarding the amount owed or the consequences of non-payment, is also prohibited.

These safeguards make clear that the existence of an outstanding debt does not justify intimidation, intrusion into privacy or conduct intended to damage a borrower's reputation.

Technology-Based Recovery and Device Locking

A particularly significant aspect of the Amendment concerns the use of technology to restrict or disable mobile device functions as a means of recovering loan dues.

An NBFC cannot ordinarily restrict or disable the functions of a borrower's mobile phone, tablet or laptop for debt recovery. An exception is permitted where the NBFC financed the acquisition of the particular device, the loan agreement expressly and unambiguously authorises the mechanism, and the borrower has received due notice specifying the repayment requirements and proposed restrictions.

Even in such cases, restrictions cannot begin until the loan is at least 30 days past due and the borrower has failed to pay despite receiving notices. Gradual restrictions may then be introduced, while the full set of contractual restrictions can take effect only once the loan is 60 days past due. Outgoing calls cannot be restricted before that 60-day threshold.

Essential functions, including incoming calls, SMS and emergency SOS features, must remain accessible. Restrictions must not prevent borrowers from carrying out work or employment-related activities, and borrowers must be able to see the status of restrictions applied to their devices.

The Directions further prohibit NBFCs and their technology service providers from accessing or using [personal data](#) stored on the device, including contacts, messages, call logs, photographs and location history, for loan recovery or any other purpose.

Once dues are realised, restrictions must be reversed expeditiously and within one hour. Where wrongful restrictions or delays attributable to the NBFC occur, compensation of ₹250 per hour is payable, capped at the amount of the loan disbursed. Borrowers retain the right to prepay their loans, and NBFCs must establish a grievance mechanism for complaints relating to device unlocking.

Grievance Redressal and Conclusion

The Amendment Directions require NBFCs to maintain a dedicated mechanism for addressing recovery-related complaints. Its details must be included in the loan agreement and communicated when information regarding the recovery agency is provided. Recovery-related communications must contain the grievance redressal officer's name, email address, telephone number and postal address.

The Directions also require NBFCs to maintain records of the time and number of recovery calls and preserve recordings or records of their contents for six months, or until the conclusion of relevant proceedings where the matter is sub judice. Appropriate precautions, including informing borrowers that conversations are being recorded, must be taken.

Overall, the RBI's 2026 Amendment Directions represent a significant step towards making NBFC recovery practices more transparent, accountable and borrower-sensitive. By combining stricter oversight of recovery agencies with clear restrictions on harassment and technology-based enforcement, the framework seeks to balance the legitimate interests of lenders with the protection of borrowers.

The effectiveness of these measures will ultimately depend on their implementation. NBFCs will need to review their recovery policies, contractual arrangements, training programmes, monitoring systems and grievance mechanisms before the Directions take effect on 1 January 2027. A compliance framework that prioritises lawful recovery, accountability and fair treatment can help strengthen borrower confidence while preserving the integrity of the lending system.