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RBI’s 2025 Cibil Score Reforms: What They Mean For You

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The Reserve Bank of India (RBI) has introduced a set of significant changes to the Credit Information Bureau (India) Limited (CIBIL) score system, effective from January 1, 2025. These new rules are designed to enhance transparency, security, and efficiency in the credit system, ultimately benefiting both borrowers and lenders and will also aid in improved loan approvals and financial management to the individuals who intend to avail financial facility

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Background

CIBIL scores are central to the financial landscape of India. They are used by banks, non-banking financial companies (NBFCs), and other financial institutions to assess the creditworthiness of individuals and businesses. A higher CIBIL score indicates better credit management and increases the likelihood of loan approvals. The new rules introduced by the RBI aim to improve the overall credit system by making it more transparent, secure, and efficient.

Key Changes in CIBIL Score Management

1. **Bi-Monthly CIBIL Score Updates**

Starting January 1, 2025, CIBIL scores will be updated every 15 days instead of monthly. This change ensures that any changes in your credit behavior are reflected more quickly in your score. For example, if you make a significant payment or take out a new loan, these actions will be updated in your CIBIL score within 15 days. This frequent update frequency helps borrowers maintain a more accurate and up-to-date credit profile.

2. **Notification for Credit Report Checks**

Under the new rules, financial institutions are required to notify customers via SMS or email whenever they check their CIBIL score or credit report. This measure is designed to prevent unauthorized access to your credit information and ensure that you are aware of when your credit score is being reviewed. This transparency helps borrowers monitor their credit activity and take appropriate actions if they notice any discrepancies.

3. **Reason for Credit Request Rejection**

If your loan or credit card application is rejected, the lender is now required to disclose the reason for the rejection. This change promotes transparency and helps borrowers understand the factors affecting their creditworthiness. By knowing the specific reasons for rejection, borrowers can take steps to improve their credit profile and increase their chances of future loan approvals.

4. **Free Credit Reports Annually**

Credit companies must provide one free full credit report to customers annually. This report can be accessed via a link on the company's website. This provision allows borrowers to review their credit history and understand their financial position. Regularly reviewing your credit report helps you identify any errors or discrepancies and take corrective actions if necessary.

5. **Notification Before Reporting Defaults**

If you miss a payment on your credit card or loan, the lending company must inform you before reporting the missed payment. This notification will be sent via email or SMS, giving you a chance to address the issue before it affects your credit score. This measure ensures that borrowers have an opportunity to resolve any payment issues before they are reported as defaults, thereby protecting their credit score.

6. **Quick Complaint Resolution with Penalties**

Credit-related complaints must be resolved within 30 days. If complaints are not resolved within this period, a penalty of ?100 per day will be imposed. Banks have 21 days to address complaints raised with Credit Information Companies (CICs), and CICs have 9 days after receiving information from banks to resolve complaints. This provision ensures that customer grievances are handled promptly and efficiently, reducing the time and effort required to resolve issues.

Implications for Borrowers and Lenders

For Borrowers

- Increased Transparency: Borrowers will have better visibility into their credit activities and the reasons for any loan rejections.
- Improved Credit Management: Frequent updates and notifications will help borrowers manage their credit more effectively.
- Enhanced Protection: Advance notifications before default reporting provide borrowers with an opportunity to address issues before they impact their credit score.
- Better Financial Decisions: Access to a free annual credit report will enable borrowers to make more informed financial decisions.

For Lenders

- Enhanced Efficiency: Quick complaint resolution and penalties for delays will ensure that lenders handle customer grievances more efficiently.
- Improved Risk Assessment: Frequent updates to CIBIL scores will provide lenders with more accurate and up-to-date information for assessing credit risk.
- Increased Trust: Transparent communication and clear reasons for loan rejections will build trust between lenders and borrowers.

Conclusion

The new CIBIL score rules introduced by the RBI represent a significant step forward in enhancing the transparency, security, and efficiency of the credit system in India. These changes will empower borrowers with better credit score management, increased transparency, and faster complaint resolution. For lenders, these rules will lead to improved risk assessment and more efficient handling of customer grievances. These changes are expected to contribute to a stronger and reliable credit system, benefiting all stakeholders involved.**For more details, write to us at: contact@indialaw.in**