

Internal Ombudsman for NBFCs: RBI's 2026 Framework at a Glance

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The framework of Internal Ombudsman (IO) stands as a pivotal pillar in the architecture of customer grievance redressal mechanism in the financial sector. Recognizing the need for an efficient internal system to review the process for resolution of customer complaints before being escalated to the regulator, RBI had introduced the framework governing the appointment and functioning of IO.

On 14th January, 2024, RBI notified the [Reserve Bank of India \(Non-Banking Financial Companies - Internal Ombudsman\) Directions, 2026](#) ('IO Directions') which supersedes the existing provisions under [Master Direction - Reserve Bank of India \(Internal Ombudsman for Regulated Entities\) Directions, 2023 dated December 29, 2023](#) ('Erstwhile Directions').

The following article provides a detailed understanding about the IO framework, applicability, compliance obligations and reporting requirements, while highlighting the key changes. Before issuance of the IO Directions, the RBI had also issued [draft Master Direction - Reserve Bank of India \(Internal Ombudsman for Regulated Entities\) Directions, 2025](#) ('Draft Directions') to seek comments from the stakeholders. An analysis of the changes between the Erstwhile Directions and the Draft Directions can be read in our article titled [RBI's Draft on Integrated and Internal Ombudsman](#).

Applicability

The IO Directions are applicable to NBFCs fulfilling the following criteria as on March 31, 2025:

- i. Deposit-taking NBFCs (NBFCs-D) with 10 or more branches; or
- ii. Non-Deposit taking NBFCs (NBFCs-ND) with asset size of ₹ 5,000 crore and above and having public customer interface

The applicability remains the same as was prevalent under the Erstwhile Directions. Further, it has been clarified that any NBFC meeting the above eligibility criteria post March 31, 2025, shall be permitted six months from the date of meeting such criteria to comply with the IO Directions.

Entities exempted:

- Housing Finance Company,
Under the erstwhile IO Directions, HFCs were neither expressly included nor specifically exempted. However, since HFCs were explicitly excluded from the applicability of the Integrated Ombudsman Scheme, it was generally inferred that the requirement to appoint an Internal Ombudsman would also not apply to them. The IO Directions have now clarified this position by expressly exempting HFCs from both the Integrated Ombudsman Scheme and the Internal Ombudsman framework.

- Core Investment Company,
- Infrastructure Debt Fund-Non-Banking Financial Company,
- Non-Banking Financial Company - Infrastructure Finance Company,
- Non-Operative Financial Holding Company,
- Primary dealers,
- Mortgage Guarantee Company,
- NBFC under Corporate Insolvency Resolution Process,
- NBFC in liquidation and / or winding up

Effective Date

The IO Directions shall come into force with immediate effect i.e 14th January, 2026 except for the following clauses which shall be complied with, latest by June 30, 2026.

Para 7(2) - Annual Review of number of IO appointed in the NBFC

Para 14(2) - Provision of categories in the Complaint Management System prior to escalation to IO

Para 14(4) - Independent review by Senior level and Approval of Complaint Closure

The aforesaid provisions have been detailed down below along with the other key requirements.

Obligations/ Actionables for NBFCs covered under the IO Directions

1. Appointment of the IO

• Eligibility criteria

While appointing the IO, NBFC shall ensure the IO shall be a retired or serving officer of a rank equivalent to General Manager, with **at least 7 years** of relevant experience and below 70 years of age. An additional requirement introduced through the IO Directions is that an existing serving officer shall be required to **relinquish** their position before assuming charge as IO.

• One IO in multiple REs

The IO shall not be a current or former employee of the NBFC or its holding, associate, or subsidiary companies. However, as introduced under the IO Directions, an IO may serve simultaneously in more than one regulated entity. Contrary to the Draft Directions, such multiple appointments are subject to the discretion of both the Board or Customer Service Committee / Consumer Protection Committee of the Board, of the existing RE and the appointing RE.

• Multiple IOs in one NBFC

Every RE shall appoint at least one IO. The Board or its committees shall, at least annually, determine the number of IO/ Dy. IO to be appointed. This must be determined with due regard to the volume and complexity of the complaints received. It shall be noted that in NBFCs having multiple IOs, a view shall be taken by the Board to have representation of more than one IO in the Board or having a system of rotation.

• Deputy IO ('Dy.IO')

It shall be at the discretion of the NBFC to appoint Deputy IO. Eligibility criteria shall be the same as for IO.

2. Adequate staff and infrastructure

The NBFC shall provide adequate officers and staff to the office of the IO to ensure its smooth functioning. Further, all necessary office infrastructure, including information technology support, shall be made available to enable the IO and Dy IO to discharge their responsibilities effectively and efficiently. The office of the IO should preferably be located at the NBFC's Head Office or Corporate Office.

3. Complaint Management System and Auto Escalation of Complaints

The NBFC shall implement a **fully automated Complaints Management System** with access for the IO/ Dy.IO, wherein all partially resolved or wholly rejected complaints are auto-escalated to the IO. Escalation shall be sufficiently in advance to allow at least 10 days for IO review where regulatory timelines apply, and within 20 days in all other cases. The Draft Directions had relaxed the such auto-escalation to 25 days in case of CICs (Credit Information Companies), however the final Directions retain it to be 20 days, in line with the Erstwhile Directions.

Three Categories of Complaints

The Complaints Management System shall classify complaints only as "Fully Resolved", "Partially Resolved", or "Wholly Rejected", except for complaints excluded from the IO's purview. Does this imply that unresolved complaints will not be examined by the IO? No. Under the IO Directions, complaints may be classified only into three categories. In our view, unresolved complaints would fall within the category of "partially resolved" complaints. Although not expressly defined, a partially resolved complaint would generally include cases where the Company may or may not have taken steps to address the grievance and has been unable to fully conclude or resolve it.

4. Closure of Complaint

Complaints shall not be closed at the same branch or unit. All partially resolved or wholly rejected complaints shall be reviewed at a senior level, as determined by the NBFC, prior to escalation to the IO.

The NBFC shall ensure that the final decision is communicated to the complainant within a period of 30 days from the date of receipt of complaint by the NBFC.

5. Reporting

- The IO shall report to the Competent Authority i.e Managing Director/ Executive Director/ CEO of the NBFC administratively, and to the Board of the NBFC functionally. The administrative reporting line ensures that the IO's office is properly resourced, funded, and integrated into the NBFC's operational framework. However, the IO shall report functionally to the Board of the NBFC. This is a critical element for maintaining the necessary autonomy and objectivity of the IO's function. The functional reporting shall include reporting on the resolution of customer complaints,

systemic issues identified, compliance with the IO Directions, and any other matters related to the IO's role in grievance redressal. This dual reporting mechanism is intended to balance the operational requirements of the IO with the paramount need for functional independence and objective oversight in its role.

- The IO shall furnish periodic reports (including the analysis of complaints) on their activities to the Board, preferably at quarterly, but not less than half yearly, intervals.
- Details of complaints decided in favour of the complainant by the RBI Ombudsman, whether partially or fully, shall be placed before the Board on a quarterly basis, along with an analysis of the top five complaint categories and proposed remedial measures.
- The NBFC shall, within five working days of appointment of the IO or Dy. IO, furnish the details of the official so appointed to the Consumer Education and Protection Department in the prescribed format.
- The NBFC shall put in place a system of periodic reporting of information to the Consumer Education and Protection Department, Central Office, Reserve Bank of India, on a quarterly basis before the 15th of the month following the quarter.

6. Aggrieved Complainants

For complaints that remain partially resolved or are wholly rejected after examination by the IO / Deputy IO, the NBFC shall inform the complainant of the option to approach the RBI Ombudsman for redress, except in cases not covered under the RBI Integrated Ombudsman Scheme through RBI's Complaint Management System portal.

7. Internal Audit

The Internal Audit Department of the NBFC shall conduct an annual audit of the implementation of these Directions, including review of the appointment of the IO/ Dy. IO, adequacy of resources and infrastructure, timely escalation of partially resolved or rejected complaints, actions taken by the IO's office in complaint analysis and reporting, and regulatory submissions made to the RBI. The audit shall not assess the merits or correctness of decisions taken by the IO/Dy. IO.

8. Miscellaneous

The NBFC shall establish a time-bound Standard Operating Procedure for the flow of complaints and related information.

The IO / Dy. IO may, if they find it necessary, seek written or oral submission (including additional information and documents) from the complainant.

Roles and Responsibilities of the IO

The IO of the RE shall have the following roles and responsibilities:

1. IO shall handle only those complaints that have been examined by the NBFC and are partially resolved or proposed to be rejected; it shall not entertain complaints received directly from the public.
2. The IO / Dy IO shall not represent the NBFC in any legal proceedings

3. While the IO may decide all complaints, the power of the Dy IO shall be as defined under a Board-approved policy.
4. The IO shall be designated as a permanent invitee to the meetings of the Board.
5. The IO / Dy. IO may recommend compensation to the complainant in accordance with RBI guidelines or, where not prescribed, as per the NBFC's compensation policy.
Is this of directory nature? No, the IO only has the power to recommend the compensation. The competent authority of the NBFC is permitted to overrule the decision of the IO. Further, all such cases where the decision of the IO / Dy. IO has been overruled by the Competent Authority and shall be placed before the Board of the NBFC for review.
6. The IO may additionally recommend compensation under the RBI Integrated Ombudsman Scheme for consequential loss, time, expenses, and harassment suffered by the complainant.
7. The office of the IO shall conduct a quarterly analysis of complaints and provide inputs to the NBFC for policy or process improvements, as required.
8. The IO shall recommend measures to address root causes of recurring complaints and suggest necessary policy-level changes.
9. The IO / Dy IO shall have read-only access to the RBI's Complaint Management System to stay updated on Ombudsman decisions, and the NBFC shall obtain such access from the RBI's Consumer Education and Protection Department.
10. The Dy. IO shall functionally report to the IO.

Performance Review of IO

The Board shall carry out an assessment of the performance of the IO / Dy. IO by considering the level of pendency and work done by the IO / Dy. IO towards developing uniformity across the NBFC in the redress of complaints. Further, the Board shall also analyse the number of cases where there is substantive difference between the decisions of the IO / Dy. IO as compared to those given by the RBI Ombudsman subsequently.

Consumer Protection Committee

Under the erstwhile Directions, there was a mandatory requirement to constitute a Consumer Protection Committee of the Board, entrusted with determining the structure of emoluments, facilities, and benefits for the IO / Dy. IO . These were required to be commensurate with the stature and position of the IO / Dy. IO , given their role at the apex of the regulated entity's grievance redressal mechanism, and to ensure the ability to attract experienced individuals with the requisite expertise.

However, the New Directions do not mandate the constitution of such a committee, and this responsibility is now vested with the Board of the NBFC.

Conclusion

The IO Directions, 2026 mark a decisive step by the RBI towards strengthening internal accountability and enhancing the effectiveness of customer grievance redressal within NBFCs. The framework seeks to ensure that customer complaints are addressed fairly, transparently, and in a time-bound manner at the

institutional level itself. NBFCs must therefore undertake a comprehensive review of their grievance redressal architecture, internal policies, and technology systems to align with the Directions and mitigate regulatory and reputational risks arising from non-compliance.