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Building Judgment-Ready Credit Teams

A deep-research analysis of credit-officer judgment failures in India's Non-Banking Financial Companies, and the four regulatory deadlines now reshaping the credit function.

JUNE 2026

CONTENTS

What this report contains

EXECUTIVE SUMMARY

The credit function is at an inflection.
The data, the regulator, and the calendar all agree.

India’s NBFC sector has crossed a threshold in the last twenty-four months. Write-offs at large NBFCs surged from approximately 50% (as % of gross NPA stock) in June 2022 to 72.9% by March 2025. Combined write-offs across middle-layer and upper-layer NBFCs more than doubled to 46.4% in March 2025, from nearly 20% in June 2022. The Reserve Bank of India imposed ₹54.78 crore in penalties across 353 regulated entities (banks, NBFCs, ARCs, HFCs and cooperative banks combined) in FY25 — of which ₹7.29 crore was levied across 37 penalties on NBFCs and asset reconstruction companies specifically.

Three pieces of evidence make this a credit-officer judgment problem, not a macro problem.

First, the supervisory tone has shifted. On 4–5 March 2024, the RBI took back-to-back enforcement action against IIFL Finance (gold loan ban for assaying deviations at sanction) and JM Financial Products (cease-and-desist for, in the regulator’s exact words, “perfunctory credit underwriting”). Two NBFCs, two days, both for failures originating inside the credit-decisioning process.

Second, the Governor has named the problem. In a 5 January 2026 meeting with CEOs of NBFCs representing approximately 53% of sector assets, the opening remarks underlined the need for “sound underwriting standards and close monitoring of asset quality.” That language does not appear in routine engagements; it sets the agenda for the next inspection cycle.

Third, independent data confirms it. TransUnion CIBIL has flagged that stress is now spreading from unsecured to secured loan books, with 37 million borrowers holding both categories already showing the pattern. CRISIL Ratings (November 2025) reports rising stress in early delinquency buckets across vehicle finance, unsecured MSME lending, and the LAP segment — the fastest-growing NBFC categories — driven by “higher borrower leverage and overlapping customer profiles across loan types.”

Four deadlines now compress the response window

Four regulatory forcing functions converge between March and September 2026.

1. The 90-day NPA recognition norm takes full effect 31 March 2026.
2. The Scale-Based Regulation Draft Amendment Directions become effective 1 April 2026.
3. Weekly credit bureau reporting begins 1 July 2026.
4. And the supervisory expectation from the Governor's January 2026 directive will be tested in the next on-site inspection cycle.

The window in which credit-officer judgment quality remains a discretionary investment is closing in months, not years.

This report

This document maps ten recurring credit-officer judgment errors to the specific RBI enforcement actions, Financial Stability Report observations, and credit-bureau data points that prove these errors are causing measurable portfolio damage. It identifies the four time-bound forcing functions that turn this into a Q1–Q2 2026 problem. It analyses two enforcement cases (IIFL and JM Financial) in depth. And it sets out the implications for the credit function across origination, exception management, audit defence, and officer development.

Five questions before reading further

THE 60-SECOND SELF-DIAGNOSTIC

Q 1 Can you name your five highest early-mortality officers — today, without asking analytics to run a report?

Q 2 Is exception-lending rationale captured in structured, queryable form at the moment of sign-off — or reconstructed from emails when audit asks?

Q 3 If an RBI inspector asked tomorrow what the institution is doing to build credit-officer judgment quality, could you answer with officer-level evidence rather than training-completion percentages?

Q 4 Do you know which of the ten judgment errors in Chapter 5 is most active in your book this quarter?

Q 5 Has your credit function set a quantified Early Mortality reduction target for FY27?

Two or more "no" answers means the gap this report describes is live in your institution. Chapter 8 sets out the 90-day response.

01

CHAPTER

The regulatory inflection: why now

"The credit underwriting was found to be perfunctory, and financing was done against meagre margins."

— Reserve Bank of India, cease-and-desist order against JM Financial Products, 5 March 2024

1.1

Three binding deadlines, all in 2026

Three forces have converged on the NBFC credit approval function. The first is not a tone shift or a supervisory speech. It is three dated, binding regulatory deadlines, all landing inside one calendar year.

BINDING DEADLINES · ALL IN FY27

Each is fixed by RBI direction. None requires further notification. All three apply to middle-layer and upper-layer NBFCs by default.

31 MAR 2026 90-day NPA recognition takes full effect for Middle and Upper Layer NBFCs. Loans previously in the 90–120 day bucket now hit headline gross NPA. FY26 is the first full reporting year.

1 APR 2026 Scale-Based Regulation Draft Amendment Directions become effective. Inspection scrutiny on judgment evidence — file-level documentation, exception rationale, deviation tracking — becomes explicit.

1 JUL 2026 Weekly credit bureau reporting begins. Reporting moves from fortnightly to seven days. Borrower distress signals surface within days, not weeks. Early Mortality becomes externally visible faster than ever before.

These three deadlines are not coordinated. They were issued by different RBI departments — Regulation, Supervision, and Department of Communication — and were not designed to fall in the same quarter. Taken together, however, they compress the response window for the credit function to approximately six months. Chapter 3 of this brief sets out the operational consequence of each.

1 . 2

The enforcement record is no longer hypothetical

The second force is what the regulator has already done. The list below covers a 24-month window. Each item is publicly recorded on the RBI website on the day of action; rating agencies and journalists pick it up the same day.

On **4 March 2024**, RBI debarred IIFL Finance from sanctioning fresh gold loans following an on-site inspection. The regulator observed *"deviations in assaying and certifying purity and net weight of the gold at the time of sanctioning loans and at the time of auction upon default."*[1] The action removed access to 32% of the company's loan book overnight, across 2,721 branches manned by 15,000 employees.

On **5 March 2024**, RBI barred JM Financial Products from financing against shares and debentures, citing *"perfunctory credit underwriting" and "financing done against meagre margins."*[2] Two NBFCs, two consecutive days, both for failures originating inside the credit decisioning process.

On **8 July 2024**, three NBFCs had their Certificates of Registration cancelled for irregular lending practices — KYC violations, failure to conduct diligence on lending service providers, breaches of fair-practices code. Further CoR cancellations followed on **2 December 2024.**[4] CoR cancellation is the regulatory end-state for an NBFC. There is no recovery path inside the existing entity.

In **October 2024**, four NBFCs were barred from issuing new loans for non-compliance with regulatory norms, including charging excessively high interest rates.[4] Between 2023 and 2025, 62 NBFCs in total have been penalised, with measures ranging from monetary penalty to cease-and-desist orders on customer onboarding and credit disbursal.[4]

In FY25, RBI imposed ₹54.78 crore in penalties across 353 regulated entities, according to the RBI's Annual Report for 2024-25 — ₹7.29 crore across 37 penalties on NBFCs and asset reconstruction companies specifically.[3] The contraventions named by RBI cover cyber security framework, exposure norms, IRAC norms, KYC directions, fraud classification and reporting, and submission of credit information to credit information companies. The supervisory net now covers every operational dimension of an NBFC.

1.3

The board-level consequence is quantified, not theoretical

The third force is what enforcement actually costs once it lands. The numbers below are drawn from company filings and exchange disclosures — audit-grade, public, and verifiable on the day the regulator acts. Chapter 6 of this brief sets out the full case files. The summary here is for the CRO who reads the first ten pages and decides whether the rest is worth the time.

ONE SUPERVISORY ACTION · FOUR QUARTERS OF P&L DAMAGE

The IIFL Finance case, in numbers the board will see.

₹618 Cr Single-quarter PAT swing. Q2 FY25 net loss of ₹93.07 Cr, against a Q2 FY24 net profit of ₹525.52 Cr.

–53% Contraction of the gold loan AUM in five months — ₹26,081 Cr (March 2024) to ₹12,162 Cr (August 2024).

–40% Stock price fall in the seventeen trading sessions immediately following the 4 March 2024 announcement. Rating review across long-term debt instruments.

The financial damage from a single judgment-quality supervisory action substantially exceeds the cost of any conceivable upstream investment in officer capability. That single-quarter ₹618 Cr PAT swing at IIFL is multiple orders of magnitude larger than the cost of a sector-wide judgment development programme. The asymmetry is now established; the question is which side of it an institution wants to be on.

These three forces — deadlines, enforcement record, board-level consequence — establish a basic fact. The credit function's exposure to supervisory action is not a future-tense concern. It is current, dated, documented, and quantifiable. The next inspection cycle is what determines whether an individual institution joins the list. As supervisory context, the RBI Governor's 5 January 2026 opening remarks to NBFC CEOs underlined the same point in his own words:

> *"The need for sound underwriting standards and close monitoring of asset quality."*
>
> — RBI Governor, opening remarks at NBFC CEO meeting attended by NBFCs holding ~53% of sector assets, 5 January 2026

02

CHAPTER

The numbers tell the story

"For unsecured loans and other high-write-off segments, gross NPA levels are not fully capturing underlying risks."

— CRISIL Ratings, NBFC outlook briefing, November 2025

2.1

Three numbers that define the inflection

If the diagnosis of this report had to fit on a single page, three numbers would carry it. Each is sourced from a different independent institution. Each measures a different dimension of the credit function. They move in the same direction.

72.9%

of large NBFC bad-loan stock was written off in FY25 — up from approximately 50% in June 2022.

Source: Reserve Bank of India, Financial Stability Report, July 2025 · ***Analysis: ZenLearn Research***

46.4%

is the combined write-off ratio across all middle and upper-layer NBFCs as of March 2025 — more than double the ~20% recorded in June 2022.

Source: Reserve Bank of India, Financial Stability Report, July 2025 · ***Analysis: ZenLearn Research***

84.3%

of personal loans below ₹50,000 are now held by NBFCs, HFCs and fintechs — a category where ~10% of borrowers had overdue loans at origination.

Source: Reserve Bank of India, Financial Stability Report, July 2025 · ***Analysis: ZenLearn Research***

2.2

Every indicator points the same way

Beyond the three headline numbers, eight indicators tracked by three independent institutions move in the same direction. This is not a noisy signal.

EXHIBIT 2.1 **Every credit-quality indicator tracked by independent institutions points one way.**

Indicator	Baseline reading	Latest reading	Direction
NBFC write-off ratio (Upper Layer)	~50% *as of Jun 2022*	**72.9%** *as of Mar 2025*	▲ Sharp deterioration
NBFC write-off ratio (Middle Layer)	~20% *as of Jun 2022*	**38.7%** *as of Mar 2025*	▲ Sharp deterioration
Micro-LAP early delinquencies (90+ DPD, 12 months on book)	— *as of Sep 2023 cohort*	**2.2%** *as of Sep 2024 cohort*	▲ +29 bps YoY
RBI penalties on NBFCs / ARCs	— *as of Prior years*	**₹7.29 Cr / 37** *as of FY25 (Annual Report)*	● Active enforcement
Total RBI penalties on all regulated entities	— *as of Prior years*	**₹54.78 Cr / 353** *as of FY25 (Annual Report)*	● Sector-wide
NBFCs penalised (cumulative)	— *as of Prior years*	**62 NBFCs** *as of 2023 – 2025*	▲ Pace accelerating

Sources: RBI Financial Stability Report (July 2025); RBI Annual Report 2024-25 (released June 2025); Cyril Amarchand Mangaldas FIG Paper No. 42 (March 2025); TransUnion CIBIL Credit Market Report (December 2025). ***Analysis: ZenLearn Research.***

2.3

Where the early stress is concentrating

The damage is not spread evenly across the loan book. It is concentrated in segments where credit-officer judgment carries the highest weight: those with thin documentation, weak collateral, or low margins for error in borrower-profile assessment.

EXHIBIT 2.2 Early-warning signals are concentrated in the segments where officer judgment is most decisive.

Segment	Early-stress finding
Personal loans below ₹50,000	NBFCs/HFCs/fintechs hold 84.3% of this category; ~10% of borrowers had overdue loans at origination; two-thirds held more than three active loans (RBI FSR, Jul 2025)
Vehicle finance	Rising stress in early delinquency buckets, despite being a traditional secured-book performer (CRISIL Ratings, Nov 2025)
Unsecured MSME loans	Early vulnerability driven by higher borrower leverage and overlapping customer profiles across loan types (CRISIL Ratings, Nov 2025)
LAP / Loan Against Property	Micro-LAP early delinquencies (90+ DPD, 12 months on book) rose 29 bps year-on-year to 2.2% for September 2024 quarter originations (TransUnion CIBIL, Dec 2025)
Cross-segment contagion	37 million borrowers hold both consumption-led and secured loans; stress in consumption book signalling secured-book risk (TransUnion CIBIL CMI, Jan 2025)

Sources: RBI Financial Stability Report (July 2025); CRISIL Ratings (November 2025); TransUnion CIBIL Credit Market Reports (December 2025 and January 2025). ***Analysis: ZenLearn Research.***

2 . 4

The understated risk

One observation from CRISIL Ratings warrants separate emphasis. In its November 2025 NBFC outlook briefing, CRISIL noted that *“for unsecured loans and other segments where write-offs are structurally high, gross NPA levels are not fully capturing underlying risks.”*[7] The implication is significant. A high write-off ratio combined with a stable headline gross NPA does not mean stable underwriting; it means losses are being recognised but the upstream cause is not being addressed at file level.

That is precisely the diagnosis that turns this from a portfolio-management problem into a credit-officer judgment problem. The decision points where the damage occurs are upstream of where it is being absorbed.

03

CHAPTER

Four forcing functions inside a six-month window

“All NBFCs in the middle and upper layers shall recognise non-performing assets at the 90-day overdue threshold with effect from 31 March 2026.”

— Reserve Bank of India, Scale-Based Regulation for NBFCs, paragraph 7.1, dated 22 October 2021

3 . 1

What each deadline means for the credit officer

Chapter 1 named the three binding deadlines. This chapter sets out the operational consequence of each — specifically, how each one changes what a credit officer at a sanction desk has to do differently between March 2026 and September 2026. The fourth forcing function below is not a deadline; it is the supervisory expectation that will be tested at the next on-site inspection cycle.

EXHIBIT 3.1 **Each forcing function changes a specific operational dimension of the credit function.**

Forcing function	Operational impact on credit function	Effective date
90-day NPA recognition (Middle & Upper Layer NBFCs)	Asset classification window contracts. Loans that previously sat in the 90–120 day bucket now hit the headline gross NPA. Early-mortality cases become board-visible faster. Provisioning impact compounds the P&L hit. The FY26 reporting cycle is the first full year under this norm.	31 March 2026

Forcing function	Operational impact on credit function	Effective date
Scale-Based Regulation Draft Amendment Directions effective	Updated supervisory architecture for the NBFC sector. Heightened expectations on internal risk management maturity and inspection-readiness become baseline. Inspection scrutiny on the quality of judgment evidence — file-level documentation, exception rationale, deviation tracking — is now explicit.	**1 April 2026**
Weekly credit bureau reporting begins	Reporting cycle moves from fortnightly to seven days. A single missed EMI becomes visible to the system within days, not weeks. Borrower distress signals will surface earlier — but only if officers are trained to read them. The window between origination and a visible delinquency footprint contracts sharply.	**1 July 2026**
Governor's January 2026 directive becomes inspection criterion	The opening remarks at the 5 January 2026 NBFC CEO meeting on "sound underwriting standards" create a documented supervisory expectation. The next on-site inspection cycle will look for board-level evidence of action taken in response. Absence of an articulable response will itself become a finding.	**Next inspection cycle FY27**

Sources: SRIM Associates on Scale-Based Regulation (2025); RBI Draft Amendment Directions (February 2026); RBI on weekly bureau reporting (effective July 2026); RBI Governor's remarks at the NBFC CEO meeting (5 January 2026). ***Analysis: ZenLearn Research.***

3.2

Why the response window is shorter than it looks

In a typical NBFC, the cycle from board approval of a remediation programme through scoping, vendor selection, pilot deployment, scale-up, and visible outcomes runs nine to twelve months. The current window between today and the inspection cycle that will test the Governor's January 2026 directive is shorter than that. Programmes that begin in Q2 2026 will still have measurable evidence to present at the FY27 inspection. Programmes that begin in Q4 2026 will not.

This is the operational meaning of the six-month window. It is not a regulatory deadline in the formal sense — there is no specific filing that must be submitted by a fixed date. It is the period inside which a credit-function leader has time to act, document the action, and have outcomes to point to when the inspector asks.

04

CHAPTER

The three KPIs management is watching

“RBI did not wait for fraud or customer loss to occur. It imposed penalties to enforce institutional discipline.”

— AK & Partners, RBI Regulatory Penalty Report 2024, cited in Chambers and Partners, April 2025

4.1

The three KPIs and the external observers now watching each one

In every credit leadership review — ALCO, board, or RBI inspection — three numbers define the health of the underwriting function. Each is now under measurable external pressure.

These are not internal management metrics that the credit function can choose to track or ignore. Each of the three is now backed by independent evidence that the regulator, the bureau, and the rating agency are watching it. The KPI framework that worked when the data was quiet is no longer the right framework when the data is loud.

EXHIBIT 4.1 Three KPIs, each now reinforced by an external observer with a public position.

01	**Early Mortality Rate** *Loans turning delinquent within 0–6 months of disbursement.*	The cleanest signal of officer-level credit assessment failure. Not macro risk, not market risk — a 0–6 month default points directly at decisions made at origination: bureau interpretation, income verification, document validation, sanity check on declared cash flow. **Why it matters now:** micro-LAP early delinquencies rose 29 bps year-on-year to 2.2% for September 2024 quarter originations. Weekly bureau reporting (July 2026) will

		surface these signals faster, exposing officers whose files are over-represented in this bucket.[8]
02	**Gross NPA & Write-off Trajectory** *The headline portfolio quality numbers, reported to board, regulator, and markets.*	The single number that defines the credit function's reputation. Now compounded by the 90-day NPA recognition norm taking full effect 31 March 2026, which mechanically shifts the headline number upward for any portfolio with measurable early-mortality drift. **Why it matters now:** write-offs at large NBFCs surged from ~50% (June 2022) to 72.9% (March 2025). CRISIL (November 2025) observes that "gross NPA levels are not fully capturing underlying risks," meaning the gap between reported GNPA and true underwriting health is now itself a board topic.[67]
03	**Audit & Compliance Exception Rate** *Files with documentation gaps, undocumented policy deviations, or regulatory non-compliance.*	A single material RBI inspection finding becomes a board-level agenda item, constrains growth plans, and invites further regulatory engagement. Exception rate is the leading indicator the audit team and the regulator both watch. **Why it matters now:** 62 NBFCs penalised between 2023–2025; three CoR cancellations in July 2024 with further in December 2024 for irregular lending practices; four NBFCs barred from new lending in October 2024.[4]

4.2

The compounding effect across KPIs

These three KPIs are not independent. A single credit file can deteriorate against all three simultaneously — an over-leveraged borrower whose income was not properly triangulated (error 3 in Chapter 5) defaults early (Early Mortality), is approved without proper exception documentation (Audit Exception), and the resulting NPA hits the headline number (Gross NPA). The damage compounds, and so does the visibility.

05

CHAPTER

Ten judgment errors silently moving these numbers

"The credit underwriting was found to be perfunctory, and financing was done against meagre margins."

— Reserve Bank of India, on JM Financial Products, 5 March 2024

5.1

Mapping each error to its evidence

These are not system failures or policy gaps. They are recurring judgment errors of the kind that happen when a busy credit officer relies on habit over rigour. Every error below is now backed by independent regulatory or bureau evidence.

The pattern is no longer disputable. Each of the ten errors below maps to a specific, dated source: an RBI penalty, an inspection finding, a Financial Stability Report observation, a bureau-data signal, or a credit-rating-agency briefing. None of them is speculative. None of them is anonymous. Each represents a documented case where the failure has produced a portfolio consequence.

EXHIBIT 5.1 Ten recurring credit-officer judgment errors, each mapped to a specific external evidence point.

#	The judgment error	Credit process impact	Independent / regulatory evidence	KPI hit
1	**Ignoring CIBIL narrative — approving on score alone without**	Loans extended to borrowers with hidden default	*TransUnion CIBIL (January 2025): 37 million borrowers hold both consumption-led and secured loans; stress in unsecured book is an early signal for secured-book*	Early Mortality, Gross NPA

#	The judgment error	Credit process impact	Independent / regulatory evidence	KPI hit
	reading settled / written-off accounts	history enter NPA within 3–6 months.	*default that lenders are not consistently catching.*[9]	
2	**Not flagging multiple credit enquiries in 45 days — a classic credit hunger signal**	Borrower simultaneously applying across lenders signals distress; early default follows.	*RBI FSR (July 2025): two-thirds of borrowers in small-ticket personal loans (<₹50,000) had more than three active loans at the time of origination — the hunger pattern was visible in bureau data but unactioned at file level.*[6]	Early Mortality
3	**Income triangulation failure — ITR, GST turnover, and bank statement credits not cross-verified**	Inflated declared income leads to over-leverage; default when actual cash flow proves insufficient.	*RBI (September 2024): began seeking granular loan-book data from select NBFCs specifically to check whether retail-product growth was matched by income verification rigour.*[10]	Gross NPA, Early Mortality
4	**Collateral valuation accepted without market sanity check — over-valued assets increase LTV risk**	On default, collateral realisation falls short; recovery loss hits P&L directly.	*RBI action against IIFL Finance (4 March 2024): "deviations in assaying and certifying purity and net weight of the gold at the time of sanctioning loans" led to a fresh-disbursal ban across 2,721 branches.*[1]	Gross NPA, Audit Exception
5	**Lien marks and encumbrances missed on property title documents**	Legally encumbered collateral cannot be enforced on default; entire loan becomes unsecured.	*RBI action against JM Financial (5 March 2024): "the credit underwriting was found to be perfunctory, and financing was done against meagre margins" — cease-and-desist on share/debenture financing.*[2]	Gross NPA, Audit Exception
6	**GSTIN active status not verified on government portal — stale registration documents accepted**	Business may be non-operational; declared income and turnover figures are fictitious.	*Cyril Amarchand FIG Paper No. 42 (March 2025): "KYC violations — failure to update customer KYC profile, periodic review of risk categorisation" — cited among the primary reasons for NBFC CoR cancellations on 8 July 2024 and 2 December 2024.*[4]	Early Mortality, Audit Exception

#	The judgment error	Credit process impact	Independent / regulatory evidence	KPI hit
7	**Exception lending approved without credit committee sign-off or documented deviation rationale**	Policy deviation is invisible at file level; surfaces as an audit finding under RBI inspection.	*AK & Partners RBI Penalty Report 2024 (cited in Chambers & Partners, April 2025): "RBI did not wait for fraud or customer loss to occur. It imposed penalties to enforce institutional discipline." Exception documentation is now a standalone supervisory focus.*[11]	Audit Exception
8	**Comfort letter accepted instead of a formal guarantee from parent / promoter entity**	Legally unenforceable comfort letter provides no recourse on default; exception remains undocumented.	*Chambers & Partners analysis (April 2025): 304 enforcement actions in 2024, with ₹56+ crore in penalties — a recurring theme was "maintaining ownership over core compliance functions," including guarantee structuring.*[11]	Audit Exception, Gross NPA
9	**Co-borrower bureau report read as primary borrower's — misidentification under time pressure**	True borrower creditworthiness remains unverified; loan approval accuracy collapses.	*RBI September 2024 NBFC penalties: three named NBFCs fined for combined approximately ₹41 lakh, citing "failure to install adequate fraud monitoring systems" — the same failure mode that lets borrower-identity errors persist.*[12]	Early Mortality, Gross NPA
10	**Sector stress signals ignored — RM narrative overrides hard data on distressed MSME or cyclical borrower**	Relationship-driven approvals in stressed sectors create concentrated vintage NPA clusters.	*CRISIL Ratings (November 2025): rising stress in early delinquency buckets across vehicle finance, unsecured MSME, and LAP — "GNPA levels are not fully capturing underlying risks" where lenders rely on RM narrative over hard data.*[7]	Gross NPA, Early Mortality

Superscript numbers map to entries in the Sources and References section at the end of this report. ***Analysis: ZenLearn Research.***

5 . 2

The compounding effect

Each of the ten errors above is damaging in isolation. They are devastating in combination. A single file routinely carries three or four of these errors stacked on top of one another, with each error compounding the damage of the next.

THE COMPOUNDING EFFECT

A credit officer who makes errors 3, 7, and 8 on a single file produces a loan that defaults early, cannot be recovered, and generates an audit finding — hitting all three KPIs simultaneously. There is no policy fix that closes this gap. The IIFL and JM Financial cases (Chapter 6) show that supervisory action can arrive within months of a deficient-underwriting pattern being detected. The question is not whether the pattern exists, but whether the institution has visible evidence of working on it.

5.3

What the global research literature shows

The mapping above is not an artefact of Indian regulation. It is consistent with what the global research literature — management consulting, academic, and conduct-regulator — has documented over the last decade. Three streams of evidence stand out.

Stream 1 · Management consulting research on credit-officer judgment improvement

McKinsey & Company's published case studies on credit-risk redesign quantify the financial impact of improving credit-officer judgment in audited, dated, third-party-verifiable terms.[21] In one engagement with a major European bank, revising underwriting processes — not products, not pricing — produced a cost-of-risk reduction from 50 basis points above peer median to 23 basis points below peer median, within three years. In a different engagement, a streamlined credit-decisioning process produced first-year expected-loss reductions of **$15 million.**[22] McKinsey's consolidated practice claim: its credit-risk redesign projects *"typically reduce the cost of risk by 10 to 20 percent."*[23]

McKinsey's broader framing of where credit-related costs sit is itself instructive: *"At an average commercial bank, credit-related assets produce about 40 percent of total revenues; credit-related costs, including provisions and write-offs, account for a significant fraction of expenses."*[23] The implication for the Indian NBFC reader is direct: a 10–20% reduction in cost of risk, applied to a balance sheet where credit costs are the dominant expense line, is the kind of operational lever that surfaces in board reviews.

Stream 2 · Conduct-failure case studies with documented losses

Where credit-officer judgment fails systemically, the documented consequences are at a scale that materially distorts institutional balance sheets. The Wells Fargo cross-selling scandal — a frontline-judgment failure under sales-target pressure — produced an initial $185 million Consumer Financial Protection Bureau fine in 2016, additional civil and criminal exposure of approximately

$2.7 billion by 2018, and a $3.7 billion CFPB order in December 2022 (covering a $1.7 billion civil penalty and $2 billion in consumer redress) — the largest single-institution penalty in CFPB history.[24] The CEO resigned. 5,300 employees were terminated. The Federal Reserve imposed an unprecedented asset growth cap that lasted years.

The diagnosis offered by the CFPB Director at the time of the original action is worth quoting in full: the bank failed to *"monitor its program carefully, allowing thousands of employees to game the system and inflate their sales figures to meet their sales targets and claim higher bonuses under extreme pressure."*[24] In Indian NBFC terms: the failure mode in errors 7 and 8 (exception lending without sign-off; comfort letter in place of guarantee) is the same failure mode under different paperwork.

Stream 3 · Survey evidence on target pressure and credit-officer behaviour

Independent survey evidence from one Commonwealth jurisdiction speaks directly to the cultural drivers of errors 2, 7, and 10. In a representative survey of Australian bank employees conducted by the Financial Sector Union, **71% of bankers** reported that performance-based pay had undermined public trust in the industry, **48% had personally witnessed** a poor customer outcome caused by performance targets, **27%** said they had either witnessed or personally engaged in unethical behaviour, and **20%** said their employer knowingly allowed staff to engage in conduct that might amount to a breach of ethical standards or responsible-lending obligations.[25]

Indian NBFC HR functions do not run comparable surveys. The Australian data is the closest publicly available benchmark for how credit-officer behaviour shifts under target pressure in a regulated commercial-banking system — and the directional implication is consistent: the same population that delivers the headline volume number, under the same incentive structure, is also where the upstream judgment errors originate.

What this means for the linkage from KPI to error

Three observations close this chapter. First, the linkage from KPI deterioration (Chapter 4) to judgment errors at file level (this chapter) is not novel; it is the consensus framing of major consulting firms, US conduct regulators, and independent academic surveys. Second, the financial impact of addressing it is quantified — in the McKinsey published range, a 10–20% reduction in cost of risk. Third, the failure mode under sales-target pressure is consistent across geographies — the Wells Fargo and Australian data show what happens when credit-officer judgment is allowed to follow incentive without scaffolding.

06

CHAPTER

Two cases that defined the year: IIFL and JM Financial

> *"Deviations in assaying and certifying purity and net weight of the gold at the time of sanctioning loans and at the time of auction upon default."*
>
> — Reserve Bank of India, on IIFL Finance, 4 March 2024

6 . 1

IIFL Finance: collateral assaying at the moment of sanction

Two NBFCs, two consecutive days in March 2024, two different failure modes — both originating in the credit decisioning process. They remain the cleanest precedent for what supervisory enforcement of judgment-quality failures looks like. The first case, in chronological order, is IIFL Finance.

On 4 March 2024, RBI debarred IIFL Finance from sanctioning fresh gold loans following an on-site inspection with reference to its financial position as on 31 March 2023. The regulator observed *"deviations in assaying and certifying purity and net weight of the gold at the time of sanctioning loans and at the time of auction upon default."*[1] The restrictions took effect immediately.

The operational scale of this single enforcement action is worth noting. IIFL Finance had a gold loan portfolio of ₹24,692 crore at the end of Q3 FY24, representing 32% of its total loans of ₹77,444 crore. The ban affected disbursement across 2,721 branches manned by 15,000 employees. RBI instituted a special audit; restrictions were to be reviewed after audit completion and rectification of deficiencies. The IIFL stock price declined approximately 50% in the seventeen trading days following the announcement.

The failure mode is instructive for any NBFC credit function. The judgment error — accepting collateral valuation without rigorous sanity check at the moment of sanction — is exactly the kind of routine, file-level decision that does not surface in dashboards. It surfaced when the regulator looked at the files.

6 . 2

JM Financial Products: perfunctory underwriting and structural deficiencies

On 5 March 2024, RBI barred JM Financial Products from providing financing against shares and debentures, including IPO and NCD subscriptions. The RBI had carried out a limited review based on information provided by SEBI. The regulator observed that the company *"repeatedly helped a group of its customers to bid for various IPO and NCD offerings by using loaned funds. The credit underwriting was found to be perfunctory, and financing was done against meagre margins."*[2]

The action against JM Financial pinpointed three significant regulatory breaches: deficient underwriting standards, the company's dual role as lender and borrower, and governance lapses.[13] A special audit followed in April 2024. SEBI separately barred JM Financial from acting as lead manager for any public debt issue. The combined RBI and SEBI action lasted over seven months — the RBI lifted its order on 18 October 2024; SEBI's bond-issue restriction extended through March 2025.[20]

6 . 3

The quantified P&L impact

The IIFL and JM Financial cases produced documented financial losses that any CRO, CFO, or board member can audit in the public record. The numbers below are drawn from company filings, rating agency reports, and exchange disclosures — the same sources a bank or NBFC would consult in due diligence on a counterparty.

CASE 1 · IIFL FINANCE · IMPACT OF ONE SUPERVISORY ACTION

Single underwriting deficiency. Six months of P&L destruction.

GOLD LOAN AUM ₹26,081 Cr (4 March 2024) → ₹12,162 Cr (5 August 2024) — a 53% shrinkage in five months. Gold loan AUM 37% lower QoQ as at June 2024.

CONSOLIDATED PAT Q1 FY25: ₹338 Cr, down 28% from ₹473 Cr in Q1 FY24. Q2 FY25: consolidated net loss of ₹93.07 Cr, vs net profit of ₹525.52 Cr in Q2 FY24 — a swing of over ₹618 Cr in a single quarter.

IMPAIRMENT CHARGES Q2 FY25 impairment on financial instruments rose to ₹406 Cr, from ₹242 Cr in Q2 FY24 — a 68% YoY increase. Gross NPAs increased to 2.4% from 1.9% prior year.

STOCK PRICE Fell approximately 40% in the trading sessions immediately following the 4 March 2024 announcement. Long-term debt instruments were placed under rating review by multiple agencies.

CASE 2 · JM FINANCIAL · IMPACT OF ONE SUPERVISORY ACTION

“Perfunctory underwriting.” Two regulators. Seven months out of a core business line.

MATERIAL SUBSIDIARY JM Financial Products represented ₹1,942.86 Cr in net assets — 17.32% of the consolidated group — with a loan book of ₹4,600 Cr and AUM of ₹7,197 Cr at Q3 FY24.

BUSINESS DOWNTIME Core financing business halted from 5 March 2024 to 18 October 2024 — over seven months. SEBI separately barred lead-manager activity for public debt issues until March 2025.

BOARD CONSEQUENCE RBI ordered a special audit; the cited breaches included “dual role as lender and borrower” and “governance lapses” — elevated from credit-process finding to board-level governance concern.

Two observations follow from the loss data. First, the financial impact of a single judgment-quality supervisory action substantially exceeds any conceivable investment in upstream officer capability — IIFL’s single-quarter PAT swing alone (₹618 Cr) is multiple orders of magnitude larger than the cost of a sector-wide judgment development programme. Second, the impact is asymmetric in time: the underlying judgment failures took years to accumulate; the P&L consequence arrived in a single quarter.

6 . 4

What these cases teach the credit function

Three observations follow from the two cases.

First, the failure modes are not exotic. “Deficient underwriting standards” and “deviations in assaying at the time of sanction” describe judgment errors that occur in some form at most NBFC credit desks. The difference between these two NBFCs and others is that the regulator found and named them. The Governor’s January 2026 directive signals that the next inspection cycle will be looking for the same patterns.

Second, the consequence is asymmetric. IIFL lost access to 32% of its loan book in a single regulatory action, with operational implications for 15,000 staff. JM Financial faced a special audit and a SEBI restriction in parallel. The cost of being on the wrong side of a supervisory finding now exceeds, by a wide margin, the cost of pre-empting it.

Third, the supervisory speed has changed. Both inspections moved from finding to public restriction within months. The historical assumption that there would be time between an inspection observation and a public consequence is no longer reliable.

07

CHAPTER

What global best practice looks like

"Establishing sound, well-defined credit-granting criteria is essential to approving credit in a safe and sound manner. Once such criteria have been established, it is essential for the bank to ensure that the information it receives is sufficient to make proper credit-granting decisions."

— Basel Committee on Banking Supervision, Principles for the Management of Credit Risk, revised April 2025

7.1

What the global standard-setters now require

The Basel Committee on Banking Supervision (BCBS) revised its *Principles for the Management of Credit Risk* on 30 April 2025 — the first substantive update since the original 2000 publication.[14] The revision was the outcome of a Committee-mandated review begun in 2023 to determine if the principles remained "fit for purpose given the developments in global financial markets, related credit risks and trends, and changes to the supervisory and regulatory landscape over the past 25 years." Four areas were singled out for sharpened supervisory expectation: establishing a suitable credit risk environment; operating under a sound credit-granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk.

Two months earlier, on 19 February 2024, the BCBS approved the *Revised Basel Core Principles for Effective Banking Supervision* — the first comprehensive update of the BCPs since 2012.[15] The revision strengthened supervisory expectations on the viability of bank business models, the capacity for timely and conclusive supervisory action, and the interface between daily supervisory practices and crisis management. The IMF noted that the revision "strengthens requirements for supervisors, approaches to supervision, and supervisors' expectations of banks."

In the UK, the Financial Conduct Authority's Senior Managers & Certification Regime, in operation for banks since March 2016 and extended to all FSMA-authorised firms by December 2019, makes individual accountability legally enforceable.[16] The FCA states explicitly that SM&CR "aims to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence" — and that the regime is designed to "encourage staff to take personal responsibility for their actions." The Certification Regime requires firms to assess and document, annually, that each material-risk-taker is "fit and proper" to perform their role — not by training completion, but by evidenced judgment.

7.2

What the RBI has said, on the record

The RBI's own supervisory communications, on the public record over the last twenty-four months, have moved in the same direction. Four speeches in particular establish a consistent pattern.

Speaker, forum, date	Title	Key supervisory expectation
Swaminathan J Deputy Governor, RBI **12 January 2024** Conference of Heads of Assurance Functions, Mumbai	*"Resilient Financial System — Role of Effective Assurance Functions"*	Assurance functions should *"play the role of conscience keepers of their institutions"*, with strong independence and a proactive alert stance. They must work in collaboration, avoiding silos, to provide holistic assurance to stakeholders.[17]
M. Rajeshwar Rao Deputy Governor, RBI **9 February 2024** CII NBFC Summit, Mumbai	*"No more a shadow (of a) bank"*	*"Strengthened regulation and enhanced oversight of the NBFC sector is the best testimony of the importance of the NBFCs in not only the financial system but overall economy. It's time that the NBFC sector comes out of its own shadow as well as that of the banking sector."*[18]
Swaminathan J Deputy Governor, RBI **28 March 2025** Conference of NBFCs, Chennai	*"Shared Vision, Shared Responsibility — Strengthening NBFCs"*	Address to CEOs, Chairpersons of Audit Committees, and Statutory Auditors of NBFCs together — underlining the joint accountability of business leadership, board oversight and assurance functions in the credit risk chain.[19]
Sanjay Malhotra Governor, RBI **5 January 2026** Meeting with CEOs of select NBFCs	*Opening remarks*	*"Underlined the need for sound underwriting standards and close monitoring of asset quality." Convened with NBFCs accounting for approximately 53% of total sector assets.*[5]

Sources: BIS Central Bankers' Speeches (r240214k, r250414f); RBI press releases for the Conference of Heads of Assurance Functions (12 January 2024) and the Governor's NBFC CEO meeting (5 January 2026). ***Analysis: ZenLearn Research.***

Two patterns emerge from the public record. First, the supervisory focus has shifted from policy compliance to assurance quality — the explicit framing in Swaminathan J's January 2024 speech was that effective supervision is impossible without effective Assurance Functions inside the regulated entity. Second, the framing is consistent across both senior Deputy Governors and the Governor: this is not the position of a single official.

The implication for credit-function leadership is direct. Training-completion dashboards alone will not constitute a sufficient response when an inspection asks what the institution is doing to build credit-officer capability. Evidence at the officer level — decision data, scenario pass rates, exception-handling patterns — is what an audit-defensible response looks like, and what the global standard-setters have now formalised as the supervisory expectation.

08

CHAPTER

Implications for the credit function

“Assurance functions — compliance, risk, and internal audit — should play the role of conscience keepers of their institutions. They should maintain strong independence and a proactive alert stance to identify and mitigate emerging risks.”

— Deputy Governor Swaminathan J, Conference of Heads of Assurance Functions, Mumbai, 12 January 2024

8.1

The one risk this report helps reduce: Early Mortality

This report identifies ten judgment errors, three KPIs, and four regulatory forcing functions. That is a diagnostic. The next step — the operational step — requires choosing one risk to reduce first, with measurable evidence inside the FY27 inspection window. This chapter argues that risk is Early Mortality, and lays out how to act on it.

WHY EARLY MORTALITY IS THE OPERATIVE TARGET

Three reasons. All three derive from evidence already established in this report.

01 Cleanest officer-level signal. A 0–6 month default points directly at decisions made at origination — bureau interpretation, income triangulation, document validation. Not macro, not market, not policy. Unlike Gross NPA (which absorbs portfolio mix and vintage) or Audit Exception Rate (which mixes documentation and judgment), Early Mortality isolates the officer’s judgment.

02 Fastest feedback loop. Weekly credit bureau reporting beginning 1 July 2026 compresses the visible-default window to days. A judgment-quality intervention that lands in Q2 2026 has measurable evidence by Q4 2026 — inside the FY27 inspection cycle.

0 3 Quantified financial impact. McKinsey's published case studies show that credit-officer judgment improvement — specifically targeting origination decisions — produces cost-of-risk reductions of 10–20%, with documented case-level outcomes ($15M first-year expected loss reduction; 73bps relative improvement in three years). No equivalent published lift exists for the other two KPIs.

Gross NPA trajectory and Audit Exception Rate remain important, and the operational shifts below — sections 8.2 through 8.4 — will improve both. But the focal target, the metric the credit function tracks weekly and the Credit Head presents at ALCO, is Early Mortality.

EXHIBIT 8.1 **The judgment-risk maturity ladder: where does your institution sit?**

Level	What the institution can show	Inspection posture
L1 **Training-completion**	Annual compliance modules tracked to completion. Capability described in HR vocabulary. No officer-level judgment data exists.	*Exposed*
L2 **Process audit**	File-level process checks; exceptions logged after the fact. Errors surface in vintage NPA months after origination.	*Reactive*
L3 **Judgment measurement**	Scenario-based officer assessment with a per-officer judgment score. Early Mortality attributable to error type and officer. Baseline exists.	*Defensible*
L4 **Continuous judgment system**	Scenario practice in the rhythm of work; judgment data flows monthly to Credit Head, quarterly to ALCO; exception rationale queryable; FY27 reduction target set and tracked.	*Inspection-ready*

Most Indian NBFCs sit at Level 1–2. The 90-day diagnostic in section 8.2 is the L2→L3 transition; the dashboard in section 8.3 is the L3→L4 transition. ***Analysis: ZenLearn Research.***

8.2

A 90-day judgment-quality diagnostic

Before deploying any intervention, the credit function needs a baseline. The diagnostic below produces an institution-specific Judgment Risk Map across the credit-officer cohort in 90 days, using existing files and existing officers. It assumes no new technology installation, no consultant engagement, and no incremental headcount.

EXHIBIT 8.2 A 90-day judgment-quality diagnostic produces an institution-specific Early Mortality baseline.

Phase	Activities and deliverables
Days 1–30 *Baseline*	Identify a representative file cohort: 200–300 sanctioned loans from the last 12 months, stratified across product (retail, MSME, gold, LAP), branch geography, and originating officer. Pull each file's 90+ DPD performance to date. Flag the subset that entered NPA within six months — the current Early Mortality cohort. Map each early-mortality file to which of the ten judgment errors (Chapter 5) is documented in the file. Where multiple errors are present, identify the primary error. **Deliverable: a baseline Early Mortality rate, broken down by officer, product, and judgment-error type.**
Days 31–60 *Officer assessment*	Run a scenario-based judgment assessment across the full credit-officer cohort. Scenarios mirror the actual error patterns surfaced in days 1–30 — same product, same borrower archetype, same pressure conditions. Score each officer on four behavioural dimensions: Protocol Discipline, Risk Escalation, Pressure Resistance, and Regulatory Awareness. Cross-tabulate scenario performance with each officer's actual Early Mortality contribution from days 1–30. Identify the officers whose file errors map directly to scenario weaknesses. **Deliverable: a Judgment Risk Map placing every officer on a four-quadrant grid (judgment score × file performance).**
Days 61–90 *Intervention design*	Segment officers into three tiers: Tier A (strong judgment, low Early Mortality contribution) — retain, use as scenario calibration set; Tier B (mixed) — targeted scenario reinforcement on weak dimensions; Tier C (weak judgment, high contribution) — structured remediation with dual-sign-off on sanctions during the remediation window.

Phase	Activities and deliverables
	For each Tier B and Tier C officer, identify the two or three highest-frequency error types from days 1–30 and assign matched scenario practice. Define the monthly cadence: continuous scenario delivery, monthly judgment-quality review with Credit Head, quarterly aggregation to ALCO. **Deliverable: a board-grade Decision Risk Report, with a defined Early Mortality reduction target for FY27.**

Diagnostic framework derived from the Judgment Quotient (JQ) construct under development by ZenLearn with faculty at IIM Mumbai. The four behavioural dimensions — Protocol Discipline, Risk Escalation, Pressure Resistance, Regulatory Awareness — are scored on a −2 to +3 scale per scenario. ***Analysis: ZenLearn Research.***

8 . 3

The judgment-quality dashboard

The output of the 90-day diagnostic is a dashboard the Credit Head reviews monthly and the CRO tables at ALCO quarterly. It is the artefact that becomes the audit-defensible answer to the inspection question raised by the Governor’s January 2026 directive. Its components are listed below.

EXHIBIT 8.3 What an audit-defensible judgment-quality dashboard contains.

Component	What it shows
Headline Early Mortality rate	0–6 month delinquency rate across the active book, monthly, trended against the day-30 baseline. Broken down by product, geography, and officer.
Officer-level judgment score	Aggregate JQ score per officer across the four behavioural dimensions, year-on-year movement, and rank within the cohort. Tier A / B / C status visible.
Error-pattern heatmap	Which of the ten judgment errors are most active this month, by product and by branch. The Credit Head sees not just “Early Mortality up 30 bps” but “driven by errors 3 and 7 in the MSME branch network.”
Exception lending decision data	Every deviation logged at sanction, with structured rationale, originating officer, approver, and downstream outcome (sanctioned / delinquent / written off). Inspection-ready.

Component	What it shows
Capability evidence trail	Per-officer scenario engagement log, judgment-quality movement, and remediation pathway. The artefact that answers "what is the institution doing to build officer capability?"

Dashboard structure designed to satisfy RBI inspection expectations articulated in the Governor's 5 January 2026 directive and the supervisory framing in Deputy Governor Swaminathan J's 12 January 2024 address on Assurance Functions. ***Analysis: ZenLearn Research.***

EXHIBIT 8.4 **Each dashboard component answers a specific inspection question.**

The question the inspector asks	The component that answers it
"How is underwriting quality trending, and how early do you detect deterioration?"	**Headline Early Mortality rate, trended weekly**
"What is the institution doing to build credit-officer capability beyond training completion?"	**Officer-level judgment score + capability evidence trail**
"Which underwriting failure modes are currently active in your book?"	**Error-pattern heatmap by product and branch**
"Show me the rationale for deviations from credit policy in the last twelve months."	**Exception lending decision data, queryable at file level**
"What evidence supports the Board's assertion that underwriting standards are sound?"	**The full dashboard, aggregated quarterly to ALCO and Board**

Question framing derived from the supervisory expectations in the Governor's 5 January 2026 directive, the SBR Amendment Directions (effective 1 April 2026), and Deputy Governor Swaminathan J's 12 January 2024 address. ***Analysis: ZenLearn Research.***

Three audit-defensible properties follow from this dashboard. First, every claim about officer capability is backed by decision data, not training-completion certificates. Second, every exception lending decision has structured rationale traceable at file level. Third, the Early Mortality movement is attributable to specific judgment errors and specific officers — making the remediation pathway evidence-based rather than blanket.

8.4

A realistic target outcome

Three published anchors bound the realistic range of Early Mortality improvement an Indian NBFC credit function can expect from a structured response, deployed in Q2 2026 with first measurable evidence in Q4 2026.

THE QUANTIFIED RANGE · 12-MONTH HORIZON

ANCHOR 1 McKinsey & Company's published practice claim: credit-risk redesign projects “typically reduce the cost of risk by 10 to 20 percent.” Applied to an NBFC where credit-related costs are the dominant expense line, the operational lever is material.

ANCHOR 2 McKinsey case study: a streamlined underwriting process produced $15 million in first-year expected loss reductions at one engagement. A separate engagement moved a European bank's cost of risk from 50bps above peer median to 23bps below — a 73bps swing — over three years.

ANCHOR 3 Counterfactual from this report’s Chapter 6: IIFL’s single-quarter PAT swing tied to one judgment-quality supervisory action was ₹618 Cr. This is the magnitude of consequence at risk; the operational investment to reduce it is smaller by orders of magnitude.

EXHIBIT 8.5 **What Early Mortality drift costs on your own book: annual credit loss at 65% loss-given-default.**

Annual disbursement	+20 bps drift	+40 bps drift	+60 bps drift
₹10,000 Cr	₹13 Cr	₹26 Cr	**₹39 Cr**
₹25,000 Cr	₹32.5 Cr	₹65 Cr	**₹97.5 Cr**
₹50,000 Cr	₹65 Cr	₹130 Cr	**₹195 Cr**

Illustrative: annual loss = disbursement × Early Mortality drift (bps) × 65% LGD, the unsecured-book convention. A 15–25% reduction on a 2.2% Early Mortality base recovers a material fraction of these figures. Micro-LAP early delinquency for the Sep 2024 cohort already runs at 2.2% (TransUnion CIBIL). ***Analysis: ZenLearn Research.***

Read against the maturity ladder above: an institution at Level 1–2 cannot attribute this loss to officers or error types, and therefore cannot recover it. The attribution capability is the recovery capability.

What this report does not do is quantify the lift for any specific institution. That requires the 90-day diagnostic above to produce an Early Mortality baseline and an error-pattern map. With baseline and map in hand, a credible target can be set — typically in the 15–25% Early Mortality reduction range over 12 months, with the lower end achievable in vintage portfolios and the higher end in growing books with weaker existing diagnostics.

The institutions that will hit those numbers are the ones that started the 90-day diagnostic in Q2 2026. The Q4 2026 starters will spend FY27 explaining to their board why they began six months late.

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8 . 5

What this report does not claim, and the question that follows

This report has not put a number on the portfolio-loss reduction available to any specific NBFC. Doing so credibly requires institution-specific baseline data on the current incidence of each error, the file-level cost of each, and the lift available from a specific intervention — the outputs of the 90-day diagnostic in section 8.2, not of a synthesis document. What the evidence here does support is a clear claim: each of the ten errors is now individually documented as causing portfolio damage somewhere in the Indian NBFC sector, and the regulatory window in which addressing them is discretionary is closing.

Four regulatory forcing functions converge on the credit function within a six-month window: the 90-day NPA recognition norm taking full effect 31 March 2026; the Scale-Based Regulation Draft Amendment Directions effective 1 April 2026; weekly credit bureau reporting beginning 1 July 2026; and the Governor's January 2026 directive on "sound underwriting standards" — the supervisory expectation that will be tested in the next on-site inspection cycle. None of these requires a regulatory response in a formal sense. What they require, collectively, is an articulable, evidence-backed answer to a question that will be asked, in some form, at the next inspection.

> *"What is the credit function doing to build, measure, and prove officer judgment quality?"*
>
> — The question now sitting at the centre of every NBFC inspection cycle

The institutions that begin a structured response in Q1–Q2 2026 will have an answer. The institutions that do not, will not.

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ABOUT

About ZenLearn

ZenLearn is an enterprise decision risk platform. It measures employee judgment quality through scenario-based behavioural simulations, producing a Judgment Quotient (JQ) score at the individual level and a board-grade Decision Risk Report at the institutional level.

The platform was built for regulated industries where the gap between policy compliance and judgment quality has become a board-level risk — banking, NBFCs, insurance, and asset management. It is designed to make judgment quality measurable, comparable, and audit-defensible, in the way that other risk dimensions already are.

The measurement approach has been deployed in production: in a certification pilot with the credit and resolution teams of a asset reconstruction company, the platform sustained voluntary daily engagement of over five hours per participant, with an 80–90% certification pass rate and a 4.6/5 participant rating.

Research approach

The ZenLearn research function produces sector-specific deep-research briefs of the kind contained in this document. The intent is to make supervisory expectations, enforcement patterns, and independent data signals legible to senior practitioners in a single artefact — grounded in publicly available sources, free of advocacy framing, and useful for board, ALCO, and audit-committee conversations.

Methodological note

This report is a synthesis document. It does not present new primary research. Its contribution is the mapping of credit-officer judgment errors observed at the file level to the specific regulatory and bureau-data signals that prove each error pattern is currently active in the Indian NBFC sector. The selection of ten errors reflects recurring failure modes documented in the source material above; the selection of sources reflects independence (regulator, bureau, rating agency, independent legal analysis) over advocacy. This document is prepared by ZenLearn as an independent research brief. It is not a regulatory submission and does not constitute legal, compliance, or financial advice.

RESEARCH SERIES

The ZenLearn judgment-risk research series

This brief is part of a structured research stream on judgment risk in Indian regulated financial institutions. Briefs scheduled for 2026 are listed below in expected order of release.

01 THIS BRIEF

Building Judgment-Ready Credit Teams: A deep-research analysis of credit-officer judgment failures in India's NBFCs

The present brief. Maps ten recurring credit-officer judgment errors to RBI enforcement actions, FSR observations, and credit-bureau data, against four time-bound forcing functions converging in Q2–Q3 2026.

02 PUBLISHED

FY25 RBI Enforcement Analysis: Patterns Across 353 Penalised Entities

Quantitative analysis of the ₹54.78 crore in regulatory penalties imposed by the RBI in FY25, including the breakdown by entity type, the four NBFCs barred from new lending in October 2024, and the CoR cancellations of July and December 2024.

03 FORTHCOMING

When the Relationship Manager Sells the Wrong Product: A judgment-risk analysis of the Indian bancassurance and wealth counter

Research brief on RM-driven mis-selling across banks, NBFCs, broking and insurance — anchored to the 57% RM mis-selling finding, the IRDAI 2.57 lakh grievance disclosure, and the RBI Draft Framework on mis-selling effective 1 July 2026.

04 WORKING PAPER

The Judgment Quotient (JQ) Framework: A construct for measuring decision quality in regulated institutions

Academic working paper, co-authored with faculty at IIM Mumbai, in preparation for submission to a peer-reviewed banking regulation journal.

05 FORTHCOMING

From Training-Completion Dashboards to Judgment-Quality Dashboards: A transition playbook for Credit and Risk Heads

Practitioner playbook on what audit-defensible judgment evidence looks like at the officer level, with sample dashboards and ALCO-ready output templates.

06 FORTHCOMING

The RBI Mis-Selling Framework (July 2026): What boards need to show on Dark Patterns, Basket Sneaking and Confirm Shaming

Board-readiness brief on the new RBI conduct framework targeting deceptive practices at bank and NBFC customer counters, with a board-pack template.

CONTACT

Continue the conversation

01

For a tailored briefing

A 45-minute working session with your Credit Head and L&D lead, focused on which of the ten judgment errors are most material to your portfolio.

02

For a baseline assessment

A no-cost scenario-based diagnostic of judgment quality across your credit-officer cohort, producing an institution-specific Judgment Risk Map.

03

For the next brief

Subscribe to receive the next briefs in this series — on bank credit, RM mis-selling, and the RBI conduct framework.

FOR YOUR BOARD

A two-page board-pack version of this brief — the executive briefing, the self-diagnostic, the maturity ladder, and the cost-of-inaction table, formatted for a Risk Committee agenda — is available on request at research@zenlearn.ai.

“The institutions that begin a structured response in Q1–Q2 2026 will have an answer. The institutions that do not, will not.”

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