Reserve Bank Of India (Non-Banking Financial Companies – Fraud Risk Management) Directions, 2026

The Directions provide a comprehensive framework for fraud prevention, early detection, investigation, reporting, governance and recovery across applicable NBFCs. The Directions apply to NBFCs in the Upper Layer, Middle Layer and Base Layer NBFCs with asset size of Rs. 500 crore and above and are effective from July 31, 2026.

RBI has introduced a strengthened fraud risk management framework for NBFCs with a greater focus on governance, accountability, early warning systems, timely reporting and adherence to principles of natural justice before fraud classification. The framework seeks to ensure uniformity in fraud detection and reporting while promoting stronger internal controls and fraud prevention mechanisms.

Key aspects covered under the Directions are as follows:

- Mandatory Board-approved Fraud Risk Management Policy
- Mandatory Special Committee of the Board for Monitoring and Follow-up of Frauds (SCBMF) / Committee of Executives
- Explicit incorporation of principles of natural justice before declaring fraud
- Mandatory Show Cause Notice, response opportunity of at least 21 days and reasoned order
- Mandatory Early Warning Signal (EWS) framework for NBFCs in Upper Layer and Middle Layer
- Fraud Monitoring Return (FMR) within 14 days from fraud classification
- Immediate reporting to Law Enforcement Agencies, especially for frauds above Rs. 1 lakh
- Mandatory disclosure of fraud amount in Notes to Accounts
- Time-bound examination of staff accountability in all fraud cases
- Five-year debarment from RBI-regulated financial institutions after repayment/settlement

The framework places increased accountability on Boards, senior management, auditors and third-party service providers. Enhanced governance requirements, staff accountability reviews and mandatory reporting timelines demonstrate RBI's focus on creating a stronger control environment and ensuring ownership for fraud prevention and resolution. From a financial reporting perspective, the requirement to disclose fraud amounts in the Notes to Accounts is a key change that will improve transparency for stakeholders. NBFCs may also incur additional compliance and operational costs relating to fraud monitoring systems, investigations, legal audits and governance processes; however, these measures are expected to strengthen risk management and reduce fraud-related losses over the long term.

Similar amendments are introduced for Commercial Banks, Small Finance Banks, Payment Banks, Urban Co-operative Banks, Local Area Banks, Regional Rural Banks, Rural Co-operative Banks and AIFIs.

Kindly refer the following for the details - [463MDC5167A28A3B24A2B856804E201261635.PDF]