#Picture source: CGAP

MF*inclusion*

MFIN Newsletter

March 2014

FROM THE CEO'S DESK

Dear Members,

A large part of the last decade involved transformation of not-for-profit microfinance institutions into self-sustaining, scalable, investment worthy microfinance institutions. This decade may well be that of NBFC-MFIs making the next big leap, namely that of becoming specialized banks, providing the full suite of financial products and services to BoP segments. The 'in-principle' approval for a banking license granted to Bandhan is, arguably, a pointer of things to come ! I may add that for an industry which appeared so beleaguered just 18 months ago to now have one of its leading player's get this unique recognition is achievement, almost beyond belief.

The Nachiket Mor CCFS committee report has made forward looking recommendations which, inter-alia, build a strong case for differentiated and specialized banks, an 'on-tap' licensing of banks, removal of policy bias against loan types, permission for NBFC-MFIs to act as bank BCs. The Report faces a whole host of implementation challenges. Nonetheless, I have no doubt that NBFC-MFIs are best positioned to capitalize on the emerging opportunities in a 'normalized' era.

I welcome our two new members, namely Margdarshak, Varam joined MFIN this quarter, taking our total tally of members to 45.

Best wishes,

Alok Prasad

IN THIS ISSUE

MFININCLUSION Q & A

Pallavi Sen in conversation with Mr Samit Ghosh, MD and CEO, Ujjivan Financial Services

PS – What inspired you to start Ujjivan? When and how did this journey begin?

SG - Conversation with my late father: My father was a doctor in the Indian Medical Service & he opted to work in the coal mining districts of Bihar now Jharkhand immediately after India's independence. He felt that the miners were medically most neglected and that is where he needed focus. So our family spent the first ten years of my life in the poor mining districts, while my father was busy opening hospitals in obscure corners. He passed away when I was ten years old. Decades later, when I had completed 30 years as an international banker and materially achieved whatever I had dreamed of, I had a conversation with my long dead dad. I asked him if he was proud of all that I had achieved in terms of career, family and materially. His answer was: 'So what.' That professionally challenged me utilize my education & experience to provide financial services to the poor and emotionally trying to achieve approbation of my father.

My first interest was to set up a mass market bank. But when that seemed an elusive dream, I started exploring microfinance in 2004. I set up Ujjivan in 2005. I wanted to focus on the urban & semi-urban poor as they were largely neglected.

PS – What do you think are the key achievements of Ujjivan.

SG - Ujjivan had a banner year this year in terms of controlled growth, profitability, customer retention, operating efficiency, cashless disbursement, portfolio quality, top ten best companies to work for in India, social development programs & financial literacy. (Those interested in numbers can look up our website: http://ujjivan.com/content/reminiscing-truly-fruitful-and-successful-year-2013-14)

PS - Ujjivan has been consistently ranked amongst 'India's Best Companies to Work' by the Great Place to Work. How did Ujjivan achieve this feat?

SG - It starts with our philosophy which we borrowed from South West Airlines: 'Employees First'. We believe that in a service industry employees are key to success. The logic is simple- we cannot have happy customers if we do not have happy employees. The overall profitability & growth of financial service business is directly linked to customer retention which in turn is directly correlated to staff retention. In order to achieve these goals we use the Best Place to Work to constantly bench mark our practices against the Best Companies in India.

PS - What is your vision for Ujjivan. What are the challenges that Ujjivan faces in the medium term and long term?

SG - Our vision is to be the best all round institution to provide full range of services to achieve comprehensive financial inclusion of the working poor.

There are two major challenges to achieve this objective.

- First is regulatory, where we need the RBI to give us more leeway to offer customized individual loans. We need a level playing field between NBFC-MFIs and banks in terms of Priority Sector regulations and reduce the 85% of requirement of group loan norm for NBFC-MFIs. In the longer run we would like to be converted a specialized bank for financial inclusion where we are permitted to also provide savings services to our customers and not just a wholesale or commercial bank as is presently envisaged.
- Second is an internal challenge in Ujjivan of transforming our organization from being largely a single group lending business to multiple range of products/businesses in order provide the full range of services to our customers.

PS - What are the key public policy concerns for microfinance industry?

The key public policy for microfinance industry is to be recognized as key & responsible member to achieve the objective of comprehensive financial inclusion in India. This recognition has to come not just from the Reserve Bank of India & Ministry of Finance (Government of India), but from the State Governments, various regulatory bodies like IRDA, PFRDA, NHB etc.; Parliamentarians and State Legislators, the Press and the public.

PS - There are contrasting views on the role of MFIs as agents of reducing poverty in the country – one that they can play a significant role, while the other that MFIs have a marginal role. What are your views on this?

SG - Microfinance whether big or small plays a significant role in the improvement of the well-being of the customers. However it is difficult to isolate the exact impact of microfinance, as improvement of well-being or poverty reduction is a result of multiple interventions from various agencies: Government, NGOs, Banks & MFIs. Our impact evaluation study conducted last year reinforces this conclusion. MFIs large, medium or small, all have a positive impact, it is only a question of scale.

PS - The RBI is now looking at differentiated banking licenses in the country. What are your perspectives on the opportunities and challenges that will emerge in this regard for the MFIs, both big and small?

SG - Differentiated banking licenses & having it available on tap are very positive developments. The exact nature of differentiation needs further dialogue & fine tuning. The whole issue of financial inclusion in India is so large that we can only succeed if there is freedom to operate in all ranges of capacity from large national to small district level banking organizations.

PS - What in your view are the key achievements of MFIN?

SG - We have come a long way since the nadir of the Andhra crisis in 2010 thanks to the yeoman effort of MFIN with the RBI and Ministry of Finance both in terms of advocacy and the self-regulation through implementation of the Credit Bureau & Code of Conduct disciplines. This has led to the creation of the special NBFC-MFI category which virtually has monopoly on Priority Sector assets. The final culmination of all this effort is awarding the banking license to the largest member of MFIN – Bandhan. There is no doubt that the credit is largely with Bandhan but it would not have possible without the conducive environment created by MFIN.

PS - The issue of customer protection has been at the heart of regulatory concern. How do you think MFIN can play a lead role in promoting robust client protection practices in the industry?

SG - It is a great honor & responsibility that MFIN is well on its way to be RBI recognized as the Self-Regulatory Organization of the Microfinance Industry.

PS - Advocacy & self-regulation have been the two key planks of MFIN agenda. Looking ahead, in your view how can MFIN strike a balance between the two roles?

SG - Advocacy & Self-Regulation are two key agendas of MFIN. They are not conflicting with each other. Advocacy is required for creating a regulatory climate which is key to the development of the industry. Self-Regulation is essential for the protection of the customers and the industry. Both need to be pursued independently with a strict Chinese wall in between the two programs.

Know Samit Gosh

Educational Qualification: MBA, Wharton, 1974.
Professional Background: Banker 1975-2004. Half my career has been in India & in Middle East.
Family Background: My father was a government doctor & my mother professor of Education.
About your upbringing: My schooling was in Jesuit Institutions: De Nobili, Dhanbad & St. Xavier', Kolkata.
Spouse: Elaine, my life partner passed away on November 28th, 2013.
Children: Three- a daughter & two sons.
Leisure Interests: Reading largely non-fiction & Indian literature in English, movies & gardening.
Life's philosophy: Karma Yogi, die with my boots on.

The eighth issue of the MFIN MicroMeter© provides an overview of the Indian Microfinance Industry, as of 31st Dec, 2013, and a

Highlights

- Compared to the Q3 FY 12-13 **industry GLP grew by 29%**
- **Loans disbursals during** Q3 FY 13-14 **increased by 52%**
- **PAR numbers (PAR 30, 90, 180)** remained under 2% for Q3 FY 13-14
- **Average loan amount disbursed,** on a pan India basis, remained **below Rs 15,000**
- Industry productivity ratios continued to improve in Q3 FY

Release of Eighth Issue of

MFIN MicroMeter©

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- **Average loan amount disbursed,** on a pan India basis, remained **below Rs 15,000**
- Industry productivity ratios continued to improve in Q3 FY 13-14
- Lending in states such as West Bengal, Tamil Nadu, Kerala, Bihar, Assam and Uttar Pradesh has shown high growth
- **Life insurance** to over 25 mn clients with coverage of Rs 384 bn provided, as of **31st Dec, 2013**

ROUNDTABLE DISCUSSION ON THE REPORT OF THE RBI COMMITTEE ON COMPREHENSIVE FINANCIAL SERVICES (CCFS) FOR SMALL BUSINESSES AND LOW INCOME HOUSEHOLDS | 21 FEBRUARY, 2014, NEW DELHI

From L to R: RV Verma (CMD, NHB), Arun Maira (Member, Planning Commission, Dr Nachiket Mor (Chairman, CCFS), Alok Prasad (CEO, MFIN), Sami Ghosh (President, MFIN) at the Roundtable on 21st Feb

As a part of its ongoing advocacy initiatives on financial inclusion, MFIN launched '**MFIN Policy Dialogues'**, on the 21st of February 2014. The Dialogue will be held twice a year and aims at highlighting current and relevant issues that affect the larger framework of financial inclusion.

The first in the series of the 'Dialogues' was a half day event to discuss at length the recently released Report of the **"Committee on Comprehensive Financial Services for Small Businesses and Low Income Households"** (CCFS), chaired by Dr. Nachiket Mor.

MFIN was supported by the **National Housing Bank (NHB)**, the apex Financial Institution for housing finance. The event was well attended with over 50 participants representing Government, regulators, multilateral institutions, MFIs, Banks, leading financial inclusion consultants and other key stakeholders.

The participants discussed wide range of changes required in the existing financial architecture and the Governments stated agenda of financial inclusion. The session was moderated by **Monika Halan**, Editor, Mint Money and made for a very animated discussion.

Event Outcomes | The Policy Dialogue event was very well received by all the stakeholders. The participants were of the opinion that MFIN should continue to organize such focused policy events in future, so as to bring diverse stakeholders on to a common platform. The event gave high visibility to the MFIN brand and further established MFIN as a leader in the MFI industry. The event also provided a platform to MFIN to connect with key influential stakeholders in the industry.

Excerpts of Discussions

A part of the discussion centered on having more than one type of financial institutions. Different kinds of banks serving different needs were the order of the day. Payment Banks and BCs could provide greater outreach. The existing regulatory framework on BCs has an anomaly since except for NBFC-MFIs all other classes of institutions are eligible to work as BCs. NBFC/MFIs, are the only set of institutions that are directly regulated by the RBI, but ironically are still not permitted to become BCs. Amongst the immediate action points to implement the Committee's recommendations, could be for the RBI to open this window for NBFC-MFIs, as they are well positioned to reach the remotest corners of the country with a low delivery cost model.

Nachiket Mor- The Committee does not reject existing models but says that there is a need to build and leverage on already existing institutions. There is ample space for existing ones to operate and at the same time new models of delivery should be explored.

Arun Maira, Planning Commission - Coordination and collaboration is required for effective planning to address grass root challenges. The execution and implementation is the toughest part and should be paid the highest attention in case any new plan is rolled out.

Aruna Sharma, Addl. Chief Secretary, Govt. of MP –She commented that there are already a range of financial institutions existing in at the district /state like cooperative banks, RRBs, PACs etc. whose outreach can be leveraged for delivery of financial services. It is the responsibility of the state to put all the pieces together and make the system work. However, given the huge unmet demand, there is enough space for wide variety of institutions to coexist

Letters sent to Chief Electoral Officers (CEOs) of 13 states

In view of the upcoming general elections in the country and enforcement of the CEC Code of Conduct by the Chief Election Commission, it is important that the routine operations of our member institutions are not affected in any manner. MFIN therefore issued letters to Chief Electoral Officers of 15 states through MFIN Regional Chapters / State Associations namely, Andhra Pradesh, Bihar, Chhattisgarh, Gujrat, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal

IFC MFIN | MFIN participated in the quarterly Responsible Finance Forum (RFF) meeting organized by IFC in New Delhi on 15th Nov.

SaDhan | MFIN was invited in the workshop on "MFIs as BCs - Paradigms for the Future" on 16th Jan, 2014 at Qutab Clarion, Shaheed Jeet Singh Marg, New Delhi to share the findings of GIZ – MFIN study on MFIs as Business Correspondents of Banks

MFIN-MIX Dialogue | MFIN-MIX dialogue was held on 13th March, 2014 in Hyderabad to discuss MFIN's expectation from MIX data platform. The meeting focused on new platform launched by MIX. The dialogue was also used by MIX leadership to understand current status of Indian Micro Finance Industry along with recent developments in sector. It was emphasized by MFIN that global platforms like MIX should incorporate local characteristics of the Industry and use terminology which is more prevalent in the region. It was also emphasized by MFIN that the platform should be made MFI-requirement friendly so as to enhance its value proposition for them.

MFIN SLP in Supreme Court Case

A hearing on MFIN SLPin the Supreme Court order was held on 2nd Jan. This translates into:

1. All MFIN members getting the same relief as had been granted to SKS earlier.
2. RBI and the Union of India getting impleaded in MFIN matter.

GIZ – MFIN STUDY ON MFI AS BUSINESS CORRESPONDENTS OF BANKS

Introduction

To understand the readiness/experience of MFIs (not-for profit and for profit), their role, expectations in functioning as Business Correspondents (BC). MFIN & GIZ have collaborated to study the "MFIs as Business Correspondents "space via MFI workshops and an online MFI survey. The inputs of the survey was collected in Dec 2012.

The online survey was released on 20th February 2014 at the CAB, Pune jointly by MFIN and GIZ.

Key findings of the study

1.1 Willingness to become BCs and specifics

- 94% of NBFC-MFIs and 62% of Non-Profit MFIs indicated that clients demanded non-credit financial products
- 96% of NBFC-MFIs and 100% of Non-Profit MFIs would require one year to start BC operations
- 34% of NBFC-MFIs and 33% of Non-profit MFIs prefer to offer the full range of financial services, namely, savings, credit, domestic money transfer, G2P payments
- 78% of NBFC-MFIs and 53% of Non-profit MFIs prefer a remuneration structure that is a combination of both flat rate per transaction and %age of transaction amount
- NBFC-MFIs require Technical (30%), Financial (26%), Capacity building (24%) and Operational support (11%) during the initial stages of establishing BC operations
- Non Profit MFIs require Capacity building (47%), Financial (33%), Technical (13%) and Operational support (7%) during the initial stages of establishing BC operations
- NBFC-MFIs consider reputation risk, followed by legal and operational risks, to be the key risks involved in offering BC services
- Non-Profit MFIs consider reputation risk, followed by legal, operational, and credit risks to be the key risks involved in offering BC services

1.2 Experience with BC Model

- Mobile phones (27%) and handheld/POS machines (27%) are the most popular technology platforms used by NBFC-MFIs (through permissible entities)
- 50% of Non-Profit MFIs surveyed have used Mobile Phone technology for BC operations
- 88% of NBFC-MFIs used Non Profit entities for BC operations while 12% of NBFC-MFIs used Private/Public Ltd. companies
- 63% of NBFC-MFIs (through permissible entities) used professional Technical Service Providers (TSP) for BC operations
- 67% of Non-Profit MFIs used Banks as TSPs for BC operations
- 25% of NBFC-MFIs and 2.33% of Non-Profit MFIs that offered BC services were profitable.
- 75% of NBFC-MFIs and 100% of Non-profit MFIs that have BC services are likely to achieve break-even in less than 2 years
- 9 out of 14 MFIs that had BC operations, wound up BC operations owing to multiple reasons. The primary reasons cited by NBFC-MFIs surveyed were:
  - BC was yielding losses with no certainty of profit in the future (33%)
  - Lack of support from bank (33%)
- For Non Profit MFIs, lack of support from TSP (50%) was cited as the prominent reason for winding up BC operations. Read more….!

Presentation from E&Y on New Companies Act

Event Update | Presentation on New Companies Act | 21st January 2014 | Hyderabad

A Presentation on the new Companies Act 2013 was organized for the members on 21st Jan in Hyderabad, coinciding with the EGM.

The presentation and discussions were initiated by experts from E&Y. The Board was of the opinion that given the far reaching significance of new provisions in the Act, a detailed workshop on the Act should be organized once all the provisions of the Act have been notified by the Ministry of Corporate Affairs.

The report of the RBI's Committee to recommend Data Format for Furnishing of Credit Information Companies

On 22 March 2014, the Reserve Bank of India released the report of the Shri. Aditya Puri led Committee to recommend Data Formats for Furnishing of Credit Information to Credit Information Companies. This Committee was formed in March, 2013 to examine reporting formats used by CICs & other related issues and provide a core set of recommendations. The Committee comprised representatives from various stakeholders including the CICs, public and private sector banks, foreign banks, NBFCs, cooperative banks, MFI sector, IBA and Reserve Bank of India. This report is open for public comments till 30 April. The recommendations listed in the report will have far reaching implications for the consumer, financial services and credit bureaus.

The committee has made wide ranging recommendations on issues relating to credit information, such as, increasing its coverage, format of reports and best practices to be followed by credit institutions, credit information companies (CICs) and the Reserve Bank.

Credit Information Report

The committee's recommendations relating to CIR are:

1. CICs should have a common classification of Credit Scores so that it would be easier to understand and interpret. The Committee has recommended that the CIBIL method of calibrating from 300 to 900 could be adopted by other CICs.
2. CICs should report details of co-borrower and guarantor.
3. CICs may provide a single CIR for a borrower even if there are multiple addresses, using a unique identification number (PAN/Aadhaar No.).
4. CICs may have link with the database of Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) which has data on mortgages so that CIRs can also provide information on property mortgages.
5. An online data correction mechanism may be put in place by CICs to enable members to confirm/upload correction requests.
6. CIRs should disclose details of disputes relating to information in CIRs and customer comments thereon, if any.
7. Customer grievance redressal, especially in respect of complaints relating to updation/alteration of credit information, should be given top priority. This may be integrated with existing redressal systems, such as, Banking Ombudsman Scheme.
8. Banks/financial institutions (FIs) may report cases of wilful default, even in non-suit filed cases, directly to the CICs of which they are members and the system of banks/FIs reporting information on non-suit filed cases of defaulters to the Reserve Bank of India may be dispensed with.
9. CICs may make available the data in respect of suit-filed cases on their websites in a more user-friendly manner that would facilitate search across periods and banks.

The Committee has further suggested that providing customers with a free copy of their CIRs would help create awareness about the need to have credit discipline, enable customers to correct their behavior and improve their score well before they plan to avail fresh credit of any kind, help detect identity theft at an early stage, help CICs correct and validate their database and increase their business in the long run. Use of common data formats, including additional information in the formats, such as, dispute codes, consumer comments on dispute, details of collateral, etc., and to institutionalize a continuing mechanism for making changes to data formats could help improve data quality, the committee has pointed out. The committee has recommended a common Data Quality Index that could assist credit institutions in determining the gaps in their data and also move towards improving their performance over a period of time.

MFIN is drafting a consolidated comments on the findings and recommendations of this report. The comments would be send to the RBI for consideration within the stipulated deadline.

IRDA's new distribution channel | Insurance Marketing Firm

Paving the way for a new distribution channel, the IRDA issued draft guidelines for Insurance Marketing Firms on 2nd April 2014. The key features of Insurance Marketing Firms (enclosed) is as under:

1. Insurance Marketing Firms (IMF) will be allowed to sell insurance products of multiple insurance companies and also other financial products, such as mutual funds and National Pension System (NPS), which have been approved by financial sector regulators. In terms of insurance distribution, these marketing firms will be like a halfway house between an insurance broker and an insurance agent.
2. An insurance broker represents the client's interest and is allowed to shop from multiple insurers for its client. An agent, however, owes allegiance to the insurer and, under the tied agency model, can sell insurance products of one company only. According to the draft guidelines, an IMF can sell policies of multiple insurers and it will have a fiduciary responsibility towards its clients. But unlike an insurance broker there is no restriction on the volume of business from a single company (brokers can't have more than 50% of business from a single client, and if the insurer happens to be within the promoter group, the limit is 25%). Insurance marketing firms don't have such restrictions—they can sell policies of a single company as well.
3. Scope of functions of Insurance Marketing Firm (IMF)
   The IMF shall be licensed by the Authority to engage Insurance Sales Person (ISP) for the purpose of Marketing Insurance Products of Life Insurance Companies, Non-Life Insurance Companies and Health Insurance companies through the qualified licensed Insurance Sales Person (ISP).

   The Insurance Marketing Firm can also engage Financial Service Executive (FSE) in the following areas:

   - Marketing Mutual fund products of Mutual Fund companies
   - Marketing Pension products of PFRDA
   - Marketing of Financial products authorized for sale by Investment Advisers under the Securities Exchange Board of India (Investment Advisers) Regulations, 2013
   - The rules and conditions governing the engagement of Insurance Sales Person (ISP) and Financial Service Executive (FSE) is outlined in Schedule II of these Regulations

4. Within insurance marketing firms, there will be two kinds of licensed individuals: an insurance salesperson (ISP), who will be responsible only for soliciting and marketing the products; and a financial service executive (FSE), who will handle services, such as offering financial advice, sale of mutual funds and NPS. To become an ISP, an individual needs to have passed Class 10 and cleared the insurance broker's examination. FSEs will need certification from regulatory bodies. For instance, to sell pension, they need to be certified by the PFRDA.
5. According to the draft, insurance marketing firms will be allowed to charge commissions as per the Insurance Act. In addition to this, these will also be able to charge a fee on account of marketing expenses, expenses towards infrastructure and performance-based incentives.
6. To be an insurance marketing firm, a company will need to have at least Rs.10 lakh of net worth at all times, and it will have to buy a professional indemnity policy equal to four times its business turnover. The license will be given for three years.
7. According to the draft, IMF will act in a fiduciary capacity towards clients and discharge their duties in the interest of the policyholders. Also IMF will not force a policyholder to terminate an existing policy and buy a new one within three years of such a termination.
8. But what appears to be restrictive is that the insurance marketing firms will be allowed to operate in only one district initially; and will be allowed to extend to a state once the license is up for renewal after three years.

MFIN has sent a representation to IRDA on 14th April 2014, seeking following inclusion in the draft IRDA (Licensing of Insurance Marketing Firm) Regulations, 2014:

- **Scope:** The scope of product offered by Insurance Marketing Firm to include group policies and micro insurance.
- **Remuneration for fiduciary responsibility:** An additional fee above the commission to be paid for Customer Grievance Redressal and Complaints Resolution.
- **Area of operations:** The Insurance Marketing Firm shall be licensed to operate from ONE selected State during the first three years of the license. The Insurance Marketing Firm can apply for more States while filing the application form for renewal of license.