MFIN releases Code of Conduct for microfinance sector

- *Mutually Agreed Code of Conduct (MACC) to cover all microfinance entities including NBFC MFIs, SFBs and banks*
- *MACC is aimed at ensuring client protection and avoidance of over-indebtedness*

Mumbai, 19, September 2017: Microfinance Institutions Network (MFIN), the premier industry association and Self-Regulatory Organization (SRO) for the microfinance industry in India, today released Mutually Agreed Code of Conduct (MACC) which will be applicable on all entities lending in the microcredit space. Manoj Mittal, Deputy Managing Director, SIDBI shared the perspective on the microfinance sector.

The aim of MACC is to provide a uniform set of business conduct rules, which are sector specific and entity agnostic to ensure responsible lending and microfinance client protection. This initiative was initiated by MFIN who brought together all micro-credit providers that led to the adoption of uniform common code for market conduct in the provision of micro-credit. The existing regulations of micro credit were only applicable to NBFC-MFIs. However, microfinance sector has witnessed increased lending by other regulated entities as well such as Small Finance Banks, Banks, NBFCs and non-profit microfinance institutions who lend directly or indirectly through business correspondents. These entities constitute two-thirds of the microfinance loan portfolio but do not have a similar regulatory business conduct framework that are applicable to NBFC-MFIs. Speaking on the release of MACC **Ratna Vishwanathan, CEO, MFIN** said, “Microfinance entities lend to a very vulnerable section of the society. Multiple sources now lending in this sector has opened up more micro-credit avenues for clients and ensured ease of credit access for low-income households. However, there is also a need to protect microfinance borrowers from over indebtedness and safeguard their interests. It is heartening to know that all the entities lending in this sector have come together and have decided to voluntarily adopt and implement this Code of Conduct.”

Sharing about the measures introduced through MACC she further added, “MACC signatories will not lend to a client who already has current loans from three micro-credit lenders. There is a cap of Rs 60,000 per customer for lending under Joint Liability Group model too. These steps will not only address our immediate goal of client protection but will also benefit in the long term leading to a healthy growth of the industry with lesser NPAs.”

MACC addresses the need for implementation of a suitable pricing regime, addressing multiple and over lending issues and ensuring an appropriate interface mechanism with the micro-credit providers. According to MACC, the microfinance providers should validate total indebtedness of a client from a credit bureau. Microfinance providers will have to ensure that loans given under Joint Liability Group model (JLG loan) is restricted to Rs 60,000 per customer. If the loan to a specific customer exceeds Rs 60,000 or the loan takes the total debt of the borrower above Rs 60,000 then such a loan will be given as an individual loan without involving the JLG. Microfinance providers will also have to provide key information to the client before lending which is in line with RBI’s Fair Practices Code (FPC) and include them in the contractual documents such as loan sanction letter and loan card. The entities will have to communicate all terms and conditions to the clients and take measures to ensure that clients fully understand the products, process and terms of the contract.

The size of the microfinance industry stood at Rs 106,823 crore in Q1 FY18 basis the total outstanding loan portfolio as per the latest MFIN Micrometer report. Banks were the largest provider of micro-credit with a loan outstanding of Rs. 38,486 crore and 36% share in the micro credit business. This includes both direct lending as well as indirect lending through business correspondent partnerships. NBFC-MFIs share stood at 31% with loan portfolio of Rs. 32, 820 crores. Small Finance Banks have 27% share while NBFCs contribute 5%.

Several representatives from the RBI, MUDRA, Banks, NBFC-MFIs, NBFC and investors attended the event which included HDFC Bank, IndusInd Bank, IDFC Bank, Tata Capital, JSW Ventures, Satin Creditcare, Svatantra Microfin, Grameen Koota, Agora Microfinance and Fullerton India Credit among others.

About Microfinance Institutions Network

Microfinance Institutions Network (MFIN) is the premier industry association and Self-Regulatory Organisation (SRO) for the microfinance industry in India and its current membership/associates consists of 48 leading NBFC (Non-banking Financial Company) Microfinance Institutions (MFIs) in the country. MFIN seeks to work closely with regulators and other key stakeholders to achieve larger financial inclusions goals through microfinance.

For more information, please contact-
Pooja Chauhan
Mob: 9971627588 | Email- pchauhan@perfectrelations.com