

MFIN and Sa-Dhan collaborate to launch 'Code for Responsible Lending' for microfinance industry

~The two Industry Self-Regulatory Organisations also released 'Code of Conduct' for MFIs~

~CRL aims to bring more transparency and address customer-centric issues such as multiple lending~

New Delhi, 16 September, 2019: Microfinance Institutions Network (MFIN) and Sa-Dhan, the RBI recognized self-regulatory organisations and industry associations for the microfinance industry, along with FIDC, have jointly released 'Code for Responsible Lending' (CRL) for the micro-credit industry. The launch was done today at Sa-Dhan's 15th Annual National Conference in New Delhi. The CRL, which aims to lay down uniform principles for customer-conduct in micro-credit, is sector specific and entity agnostic. In addition to the CRL, a revised industry Code of Conduct (CoC) was also released for Microfinance Institutions (MFIs) that will act as a binding and compulsory set of principles w.r.t. lending practices.

According to Mr. Manoj Nambiar, Chairperson, MFIN, *"Microfinance sector has seen a robust growth over the last few years and after the segregation of various entities in this segment, the landscape has evolved markedly. While it has added to the overall expansion of the industry, it has also presented us with a challenge where there is no uniform regulation for different regulated entities serving micro-credit clients. This is a significant self-regulatory step across all RBI regulated entities & others that aims at safeguarding the interests of low-income customers through enhancing transparency and compliance. We are happy to note that over 90 entities have signed up for the CRL as "**Responsible Lenders**" and are hopeful that soon all microfinance lenders will come forward to endorse and adhere to it."*

Speaking on the launch, Ms Vijayalakshmi Das, Chair, Sa-Dhan, said, *"This launch is in line with our objective of furthering responsible finance across the entire sector. Many lenders of diverse legal form are coming on-board, as the Code engages with all those catering to the same microfinance client. It is hoped to bring about a level playing field for all and ensure client protection is more adequately addressed. Meanwhile the Industry Code has been strengthened in the areas of risk management, responsible lending and HR practices which includes training and client education."*

A significant development in the CRL adoption was the signing up of the Finance Industry Development Council (FIDC), the Self-Regulatory Organization for Registered NBFs. This makes the CRL more inclusive in its coverage.

Mr Raman Aggarwal, Chairman - FIDC, said, *"We are pleased to sign the Code for*

Responsible Lending along with MFIN and Sa-Dhan. The NBFC sector has been going through a challenging scenario for the last one year where banks, which are the major source of funding, have become risk averse. CRL shall be a step in the right direction to restore the confidence in the Non-Bank lending community, as this shall bring better discipline and harmony among the Asset Financing, Loan Financing and Micro Financing NBFCs."

Over the last two decades, the micro-credit sector has successfully mainstreamed itself as a key delivery channel to provide credit to low-income households. Currently a wide range of Providers such as NBFC-MFIs, Banks, SFBs, NBFCs and Non-profit/Section 8 MFIs, under different regulatory framework, provide micro-credit to over 5 crore customers from low-income households. Building on key regulatory customer-protection measures as described in RBI Master Directions for NBFC-MFIs, RBI Fair Practice Code for Banks and NBFCs, Industry Code of Conduct and RBI Charter of Customer's Rights for micro-credit sector, CRL includes most critical elements which are required to be adopted by providers while delivering micro-credit loan.

One of the major guidelines in CRL mandates that only three microcredit entities can lend to a client at the same. This means that if a client has three active loans from any Provider, then a fourth entity will not be able to lend to the client. NBFC-MFIs are additionally required to ensure that not more than 2 NBFC-MFIs lend to a customer. Moreover, prior to sanctioning of loan, a micro-credit provider should ensure that the total indebtedness should not exceed Rs 1 lakh per customer.

Further, the revised industry Code of Conduct (CoC) released by MFIN and Sa-Dhan for the microfinance sector aims to enhance responsible lending behavior and practices which is central to customer welfare. Given that customers of micro-credit may not always fully understand the product and its impact, it is imperative that providers take greater responsibility to ensure that customers' interests are protected through internalizing these practices.

Both CRL and CoC aim at promoting and advancing 'responsible lending' practices in the microfinance. A microfinance customer as defined by the RBI (for NBFC-MFIs) is a person with an annual household income of Rs 1 lakh in rural India and Rs 1.6 lakhs in urban India.

As per MFIN's Q1FY20 Micrometer report, the entire microfinance industry has witnessed a growth of 42.9% YoY. Banks hold 40.9% share of the total micro-credit universe while NBFC-MFIs are the second largest provider of micro-credit accounting for 30.2% share. SFBs have total share of 17.0%, NBFCs 10.8% and other MFIs account for 1% share in the microfinance universe.



About Microfinance Institutions Network

MFIN is the premier industry association and Self-Regulatory Organization (SRO) for the microfinance industry in India and its current primary members consists of 54 NBFC-MFIs along with 38 Associates including Banks, Small Finance Banks (SFBs) and NBFCs. MFIN works closely with regulators and other key stakeholders to achieve the larger financial inclusions goals through microfinance.

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