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PRESS RELEASE

Microfinance Industry Network (MFIN) takes proactive steps for strengthening responsible lending

Micro Finance Industry Network (MFIN), an industry association of banks, NBFC-MFIs, SFBs & NBFCs involved in microfinance and an RBI-recognised self-regulatory organization, held its 15th Annual General Meeting on 28th June 2024 at Gurugram.

The microfinance sector serves the low-income borrowers below an annual income of INR 3 lacs. Supported by conducive regulations and focused efforts of lenders, the sector now has a Gross Loan Portfolio of Rs. 4.33 lakh crore as on 31 March 2024. Expansion into newer geographies and adoption of technology has helped the MF sector reach nearly 7.8 cr. Unique borrowers. The financial inclusion efforts have resulted in a rapid addition of new to credit (NTC) borrowers. In Q4, '24, NTC borrowers had a share of 25.7% in terms of the value of originations.

Due to the specific borrower profile, customer protection including guarding against over-indebtedness is the responsibility of the microfinance lenders. While the RBI regulations and the Industry Code of Conduct (CoC) form the bedrock of responsible microfinance, as a self-regulatory organization (SRO) of microfinance lenders, MFIN is responsible for taking additional steps to ensure that microfinance continues its high focus on client centricity. After multiple rounds of engagement with all stakeholders over the last 8-10 months, MFIN members have taken important steps to facilitate responsible lending, prioritize customer protection and promote a steady and calibrated growth of the sector.

Assessment of the borrower household's income and loan repayment obligations before approving a new loan is an important part of loan underwriting. This ensures that the borrower does not overstretch herself and is able to honor her repayments on time. While all the lenders strictly adhere to the RBI regulations which cap the loan repayment obligations to income ratio to 50%, to further strengthen this process, the members have agreed to the following additional guard rails.

1. Restrict the number of microfinance lenders to a borrower to a maximum of 4.
2. Limit the total microfinance indebtedness to INR 2 lacs. With nearly 80% of the loans having a tenure of 1.5 years or more, a limit of INR 2 lacs effectively mean much lesser repayment obligation than the permissible regulatory limit.

The members also discussed and agreed to continue to focus on their vibrant partnership with the credit information companies to improve the quality of data available for underwriting. Measures to strengthen the group culture and make the microfinance sector an employer of choice for young professionals were also discussed.

Speaking on this, MFIN CEO said "the new guardrails demonstrate the commitment of the sector to take proactive steps for being client centric and furthering the agenda of responsible microfinance. The fact that these steps are in addition to the RBI regulation and the Industry CoC underlines the maturity of the sector".

