mfin powering responsible finance

MICROFINANCE INDUSTRY NETWORK

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PRESS RELEASE

Microfinance Industry Network (MFIN) members take additional measures for strengthening microfinance operations and responsible lending.

Micro Finance Industry Network (MFIN) is an industry association of banks, NBFC-MFIs, SFBs & NBFCs providing microfinance credit and an RBI-recognised self-regulatory organization. MFIN as the first Self Regulatory Organisation (SRO) in India has been working with its members to ensure that microfinance operations continue their critical role in building an Inclusive India. The microfinance sector at present caters to the financial needs of nearly 8 crore low income clients and has emerged as a vital instrument of financial inclusion.

MFIN as an SRO monitors emerging developments in the sector and based on it issues Directives and Advisories to members. During the year 2024, MFIN issued two directives -1) Guardrails on 8 July – limiting the number of microfinance lenders to a client to 4 and capping the total microfinance loans to a client at Rs. 2 lakh and 2) Underwriting related on 7th October, wherein a proposed approach was suggested for taking into account loans with missing EMIs in Credit bureau report while underwriting microfinance loans. The MFIN monitoring based on credit bureau data for the months of August and September shows good adherence to the guardrails issued in July.

Continuous monitoring and refinement in guidelines are required as post RBIs (Regulatory Framework for Microfinance Loans) Directions, of March 2022, the regulatory approach has changed from being prescriptive to principles based and has placed greater responsibility on MFIN as SRO.

Continuing with its vigilant monitoring, data analysis and feedback from members, it has been decided to introduce new norms. The changes are:

- Number of microfinance lenders to a microfinance client reduced to 3 from 4.
- The total indebtedness or outstanding loan amount of a microfinance client to be Rs. 2 lakh. However, it will include both microfinance loans and unsecured retail loans.
- The existing Industry norm of not lending to a NPA client [overdue for >90 days] with an outstanding amount of >Rs.3,000 has been tightened to " no lending to a delinquent client [overdue for >60 days] with an outstanding amount of >Rs.3,000.
- Interest rates to be closely reviewed by the Board of member REs to ensure that efficiency gains are passed on to clients. Further, other than processing fee and credit life insurance, no other charges can be deducted from the sanctioned loan amount.

Industry Network MFIN Microfinance

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- In order to strengthen KYC process and improve underwriting, while validated voter ID will continue to be the primary ID, the sector has set an ambitious and aspirational target to seed PAN for 50% of borrower accounts by March, 2025.

These measures pertain to facilitating responsible lending, prioritizing customer protection and promoting a steady and calibrated growth of the sector.

In order to give sufficient time for REs to implement these changes, these new norms come into effect from 1 January, 2025.

Speaking on this, Dr Alok Misra, CEO & Director of MFIN said "The sector has been taking voluntary steps in line with emerging issues and being over and above RBI regulations and showcase sector's commitment to responsible lending practices. MFIN is confident that with the existing and new measures, the sector will become more resilient and continue to play its vital role in financial inclusion. MFIN as an SRO will continue to watch the sector closely and its adherence to the new guardrails"

Alok Misra

[Dr. Alok Misra]

CEO & Director

Microfinance Industry Network