Publication	The Economic Times
Edition	Delhi
Date	25th December, 2019
Page No.	14

MICRO-CREDIT

No Longer the Loan Ranger

Sugandh Saxena

Micro-credit is small-value, unsecured loans to low-income individuals to finance income-producing activities, build assets and meet consumption needs. The regulatory framework is focused on customer protection. Business is unmatched on scale, outreach, efficiency, portfolio quality and private capital. And the enabling infrastructure — credit bureaus, transparency, ratings, self-regulation, standards — ensures that micro-credit is responsibly and efficiently delivered.

Since 2011, micro-credit has grown nine-fold across India, disbursing 33 crore loans to nearly 12 crore customers (99% women) amounting to ₹7.5 lakh crore. It employs three lakh youth, two-thirds from hinterland and low-income strata. Defaults are under 1%. About 60% of the business is with publicly listed companies. Last year, industry disbursed close to two lakh loans a day, mostly to customers' bank accounts, supporting five crore customers' access to banking.

It has significantly contributed in building customer's credit history to graduate her access to higher-value loans from banks. What could be a better testimony of micro-credit than the fact that of the 12 licences given for banks and small finance banks (SFBs) over the decade, nine were given to micro-credit companies.

But the micro-credit industry continues to draw flak for being unregulated, usurious and predatory. Such arguments are dated and don't factor in the transformation that has taken place in the last few years.

Since 2011, when RBI issued directions for NBFC-MFIs, the micro-credit industry has been tightly regulated. Today, NBFC-MFIs, along with other regulated lenders, account for 99% of supply. Indeed, micro-credit regulations are only applicable to NBFC-MFIs. Nonetheless, many lenders voluntarily follow the broad regulatory norms prescribed for NBFC-MFIs under the Code for Responsible Lending (CRL).

The other criticism is that customers are charged high interest rates, oblivious to cost for lenders/customers and alternatives. Interest rate charged to customer is a function of three costs — financial, operational and provisioning — and profits. Costs vary. However, a lender typically works with an average financial cost of 9-14%, operational costs of 6-9% and provisioning costs of 1-2%. Private risk capital to a business, which is unsecured and highly concentrated to single product and market segment, comes at risk premium.

For better beak-wetting

Overlaying profits, cost to customer comes to 19-24% on a reducing balance basis, below the RBI benchmark rate of 25.33%. So, customer pays interest of ₹10-13 in a year for a ₹100 loan priced at 19-24%. This is the real cost of timely and convenient delivery of micro-credit.

While there is no exact comparator to micro-credit, unsecured lending (like personal loan) from formal sector typically hovers at 18-24%. For customers, the alternative is either lost opportunities, or interest of 60-120% from moneylenders.

Finally, it is often said that micro-credit is exploitative. But the industry has the most detailed customer-protection framework through regulatory and industry standards covering fair interaction, disclosures, suitability, privacy and grievance redressal. A regulatory norm that customers can't cross a total indebtedness of ₹1.25 lakh is strictly adhered by all lenders, and is closely monitored by regulators and self-regulatory organisations. Independent data show high adherence to this norm, with almost 98% customers below the indebtedness cap prescribed by RBI.

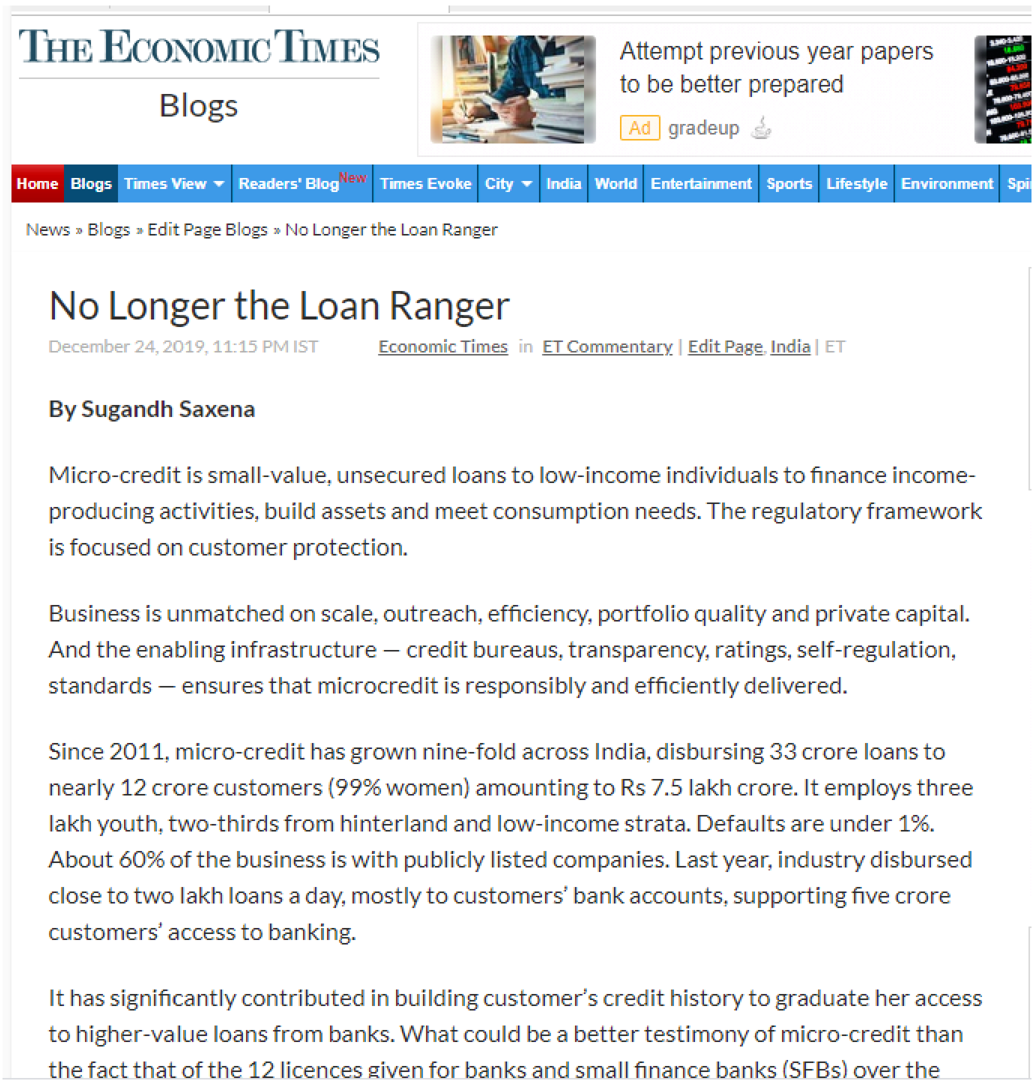
This is not to say that the industry has no flaws. Customer protection needs tighter vigilance and uniform regulatory standards across lenders. Credit discipline and rising risks demand closer coordination among lenders. It desperately needs innovation in products, sourcing and underwriting tools to meet evolving customer needs.

But vilifying ghosts of the past should not overshadow real issues. The micro-credit industry expects, and deserves, next-level scrutiny to make it better and allow it to continue to be the driver of financial inclusion.

The writer is head, self-regulation & compliance officer, MicroFinance Institutions Network (MFIN)

Publication	The Economic Times (Blogs)
Edition	Online
Date	24th December, 2019

URL: https://economictimes.indiatimes.com/blogs/et-commentary/no-longer-the-loan-ranger/



The Economic Times

Blogs

No Longer the Loan Ranger

December 24, 2019, 11:15 PM IST Economic Times in ET Commentary | Edit Page, India | ET

By Sugandh Saxena

Micro-credit is small-value, unsecured loans to low-income individuals to finance income-producing activities, build assets and meet consumption needs. The regulatory framework is focused on customer protection.

Business is unmatched on scale, outreach, efficiency, portfolio quality and private capital. And the enabling infrastructure — credit bureaus, transparency, ratings, self-regulation, standards — ensures that microcredit is responsibly and efficiently delivered.

Since 2011, micro-credit has grown nine-fold across India, disbursing 33 crore loans to nearly 12 crore customers (99% women) amounting to Rs 7.5 lakh crore. It employs three lakh youth, two-thirds from hinterland and low-income strata. Defaults are under 1%. About 60% of the business is with publicly listed companies. Last year, industry disbursed close to two lakh loans a day, mostly to customers' bank accounts, supporting five crore customers' access to banking.

It has significantly contributed in building customer's credit history to graduate her access to higher-value loans from banks. What could be a better testimony of micro-credit than the fact that of the 12 licences given for banks and small finance banks (SFBs) over the

No Longer the Loan Ranger

By Sugandh Saxena

Micro-credit is small-value, unsecured loans to low-income individuals to finance income-producing activities, build assets and meet consumption needs. The regulatory framework is focused on customer protection.

Business is unmatched on scale, outreach, efficiency, portfolio quality and private capital. And the enabling infrastructure — credit bureaus, transparency, ratings, self-regulation, standards — ensures that microcredit is responsibly and efficiently delivered.

Since 2011, micro-credit has grown nine-fold across India, disbursing 33 crore loans to nearly 12 crore customers (99% women) amounting to Rs 7.5 lakh crore. It employs three lakh youth, two-thirds from hinterland and low-income strata. Defaults are under 1%. About 60% of the business is with publicly listed companies. Last year, industry disbursed close to two lakh loans a day, mostly to customers' bank accounts, supporting five crore customers' access to banking.

It has significantly contributed in building customer's credit history to graduate her access to higher-value loans from banks. What could be a better testimony of micro-credit than the fact that of the 12 licences given for banks and small finance banks (SFBs) over the decade, nine were given to micro-credit companies.

But the micro-credit industry continues to draw flak for being unregulated, usurious and predatory. Such arguments are dated and don't factor in the transformation that has taken place in the last few years.

Since 2011, when RBI issued directions for NBFC-MFIs, the micro-credit industry has been tightly regulated. Today, NBFC-MFIs, along with other regulated lenders, account for 99% of supply. Indeed, micro-credit regulations are only applicable to NBFCMFIs.

Nonetheless, many lenders voluntarily follow the broad regulatory norms prescribed for NBFC-MFIs under the Code for Responsible Lending (CRL).

The other criticism is that customers are charged high interest rates, oblivious to cost for lenders/customers and alternatives. Interest rate charged to customer is a function of three costs — financial, operational and provisioning — and profits. Costs vary.

However, a lender typically works with an average financial cost of 9-14%, operational costs of 6-9% and provisioning costs of 1-2%. Private risk capital to a business, which is unsecured and highly concentrated to single product and market segment, comes at risk premium.

Overlaying profits, cost to customer comes to 19-24% on a reducing balance basis, below the RBI benchmark rate of 25.33%. So, customer pays interest of `10-13 in a year for a Rs 100 loan priced at 19-24%. This is the real cost of timely and convenient delivery of micro-credit.

While there is no exact comparator to micro-credit, unsecured lending (like personal loan) from formal sector typically hovers at 18-24%. For customers, the alternative is either lost opportunities, or interest of 60-120% from moneylenders.

Finally, it is often said that microcredit is exploitative. But the industry has the most detailed customer protection framework through regulatory and industry standards covering fair interaction, disclosures, suitability, privacy and grievance redressal.

A regulatory norm that customers can't cross a total indebtedness of Rs 1.25 lakh is strictly adhered by all lenders, and is closely monitored by regulators and self-regulatory organisations. Independent data show high adherence to this norm, with almost 98% customers below the indebtedness cap prescribed by RBI.

This is not to say that the industry has no flaws. Customer protection needs tighter vigilance and uniform regulatory standards across lenders. Credit discipline and rising risks demand closer coordination among lenders. It desperately needs innovation in products, sourcing and underwriting tools to meet evolving customer needs.

But vilifying ghosts of the past should not overshadow real issues. The micro-credit industry expects, and deserves, next-level scrutiny to make it better and allow it to continue to be the driver of financial inclusion.

The writer is head, self-regulation & compliance officer, MicroFinance Institutions Network (MFIN)