

RBI Deputy Governor says customer protection core of microfinance regulation

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The central bank's Deputy Governor M Rajeshwar Rao has said that customer protection lies at the core of microfinance regulation and it, and it has been RBI's guiding light while revamping the regulatory regime for the microfinance sector.

Rao said this while delivering the keynote address at the launch of MFIN's India Microfinance Review in Mumbai on 4 November.

"We have attempted to move from a rule-based approach to a principle-based approach thus creating enabling environment for more financial institutions to serve the excluded, while protecting their interests through competition and transparency," Rao said in his address.

In his concluding remarks, Rao said he was hopeful that the regulatory reforms will provide the requisite impetus for the long but immensely fulfilling journey toward an inclusive and responsible microfinance sector.

MFIN has been instrumental in multiple initiatives to strengthen the sector during the decade and to develop the microfinance ecosystem, he said.

Microfinance Institutions Network is an association for the microfinance sector in India. Its member organizations constitute the leading microfinance institutions in the country.

In his address, Rao said, "Microfinance has emerged as one of most important tools to foster financial inclusion. It enables the poor and low-income households to come out of poverty, helps women to become owners of assets, have an increased say in decision making and lead dignified lives embodying the concept of a collective good. Indeed, microfinance plays a critical role in promoting inclusive growth by way of making credit available at the last mile and therefore, acts as a safety net for those at the bottom of the pyramid."

"I believe that the holistic impact of microfinance goes much beyond the impact created by any other credit facility. Borrowers often utilize the loans for health and education apart from income-generating activities and it helps them deal with everyday emergencies that they encounter," Rao added.

As on 30 June, 2022, the total microfinance loan portfolio stands at ₹2.93 lakh crore, in which banks hold the largest share of 38 per cent followed closely by NBFC-MFIs at 35 per cent. SFBs, other NBFCs and other entities have a combined share of 27 per cent.

Taken together with the loan portfolio under SHG-bank linkage, the overall size of the microfinance loan portfolio is around ₹4.82 lakh crore.

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Just to provide a perspective of the scale of the microfinance sector, the aggregate credit of all NBFCs (excluding HFCs) stood at ₹28.5 lakh crore in March 2022. From a macro perspective, the microfinance loan portfolio across all lenders is roughly 15 per cent of the aggregate NBFC credit.

Talking about the reach of the microfinance sector, microfinance operations cover 28 states and 9 union territories (UTs). Speaking of regional distribution, eastern & north-eastern regions of the country have the largest share at 37 per cent followed by south at 27 percent and west at 15 per cent.

He also said that while microfinance is present in almost all nooks and corners of the country, in terms of geographical distribution, 82 per cent of the loan portfolio is concentrated in ten states, he said.

(With inputs from ANI)