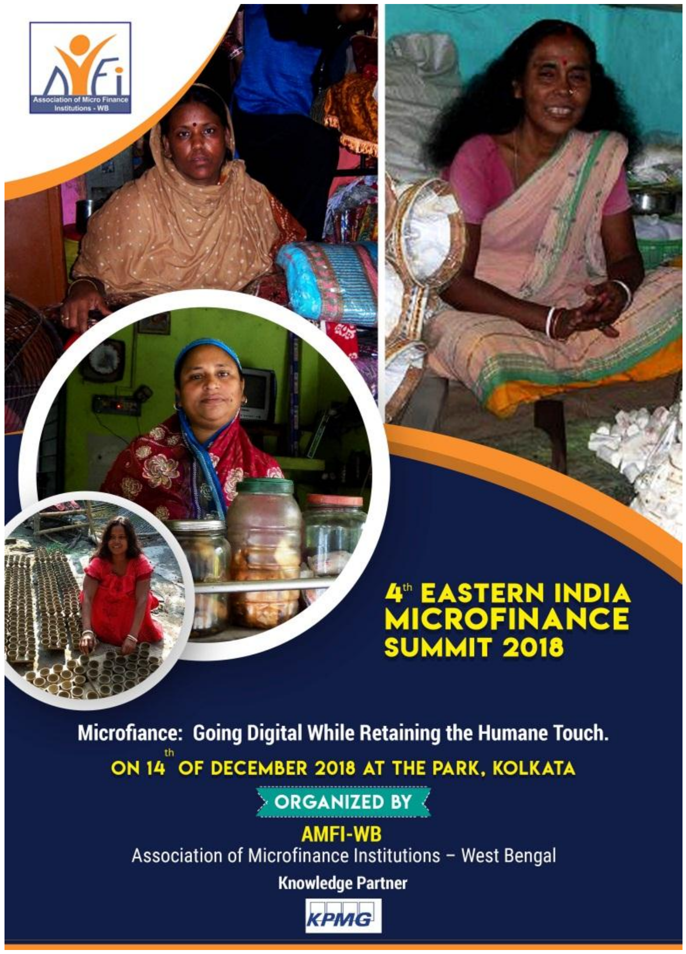

Announcement Press Meet for 4th Eastern India Microfinance summit 2018

Date: 4th of December 2018
At Press Club, Kolkata

Press Note

About the Summit:

Given the recent disruptions in the environment and regulatory actions, it is necessary that the micro-lenders, the bankers, the policy-makers, allied financial service providers and researchers join hands on common platform. ***To this end, the Association of Micro Finance Institutions – West Bengal, along with its member MFIs and knowledge partner KPMG – is hosting the 4th Eastern India Microfinance Summit 2018 titled, "Microfinance: Going Digital While Retaining the Humane Touch". This is being held on 14th December 2018 at The Park Hotel, Kolkata.*** The purpose of the summit is to actively engage key stakeholders in discussions relevant to current and future aspects of financial inclusion.

Announcement Press Meet for 4th Eastern India Microfinance Summit 2018

Discussions in the 4th Eastern India Microfinance summit will focus on the following themes:

- The Next Wave of Growth for Microfinance:
  - The microfinance institutions (MFIs) have typically been growing through increase in rural penetration (across different products) and expansion to more geographies. The MFI penetration is on the rise in North, East and Central regions in addition to Northeast India which have been underpenetrated. This trend is likely to continue.
  - Large MFIs which have converted to small finance banks (SFBs) are tapping the market through wider product offerings on the liability as well as the asset sides. They are also extending their presence in urban areas for increase in overall ticket size and volume of loans.
  - With the underlying growth potential remaining strong, the MFIs have attracted investors' interest, leading to a spurt in M&A and PE activities. While the growth has been significant, competition has intensified.
  - As MFIs seek to continue on the growth path, they are evaluating geographical expansion and product portfolio expansion opportunity to cross-sell other financial products such as mutual fund and insurance. Besides, they are also investing in technology and looking for strategic alliances with Fintech players.
  - The success of these strategic initiatives will depend on regulatory environment, development of technology-based ecosystem and management of credit and operational risks.

- Allied Ecosystem for MFIs
  - As the competitive intensity for MFIs increase, the pressure on net interest margin (NIM) will increase considerably. So, the need for the MFIs to focus on non-interest income/ credit plus products becomes very important.
  - The MFIs can help improve social impact through distribution of products such as solar lamps, LED bulbs and lights, sanitation products, water purifiers, etc.
  - The MFIs can additionally enhance penetration of insurance in general and life insurance sector with simple, contextual and small-ticket products, based on the needs of the segment.
  - The MFIs will need to strategize to build technology or buy technology solutions available in the market and leverage their presence in order to achieve social and financial goals by expanding the products or services for the target segment.
  - For a sustainable growth of MFIs, an ecosystem needs to develop and all other stakeholders such as solar, LED light manufacturers, insurers, water purifier manufacturers and technology solution providers, among others, need to play a role in enhancing the lives of the financially and socially backward sections of the society. This can be done by offering them access to cheap energy solutions, hygiene-related products, protection and medical coverage in addition to meeting credit needs for basic occupation and other personal needs.

- Collaboration with Fintech firms:
  - Scalability of the microfinance model has been driven by branch-led expansion which is an expensive strategy, especially when the threat of disruption to the model has increased.
  - Competition from Fintech players operating in the same space of small-ticket loans is increasingly felt in the urban areas; same scenario is likely to be replicated in rural pockets too very soon.
  - While implementation of core banking systems and loan management systems are underway at many MFIs, there is a need to digitize across the value chain, focusing on customer on-boarding, underwriting, collections and governance mechanisms.

- The MFIs have a strong local presence and connect with groups or individuals at the time of sourcing and collections, with both field-based and branch-based collections models prevalent in the market.
- Technology can be incorporated while retaining the human touch which is characteristic of MFIs.
- Collaborations with Fintech firms across distribution, collection, cross sell of products, monitoring and customer education is imperative.
- The focus of technology strategy should be on increasing operational efficiency, reduction of cost, arranging wide cross-sell, and data analytics with clear goals.

- <u>Regulatory and Risk management implications in the changing landscape:</u>

As MFIs embark on a journey to enter the next phase of growth, a regulatory framework needs to be put in place to ensure the following:

- Widening of the MFI space across lending ecosystem – the segments currently targeted by banks such as lending to small and medium enterprises, loan against property (LAP), personal loans, etc.
- The regulator may review the cap for MFI loans besides the need for additional SROs, employee associations, etc.
- A balanced approach can be adopted to help fuel the MFI growth through product expansion. Of course, at the same time, we need to ensure that the borrowers are not over-leveraged.
- Potential introduction of borrower / household level monitoring of the debt burden, especially for smaller ticket loans.
- Over-leveraging of this borrower segment through multiple credit facilities in a household and absence of a common bureau could have an adverse impact, especially in light of external shocks to the system including and not limited to the likes of demonetization, rumors, political stability etc.

The MFIs need to put in place a risk framework for the following reasons:

- The entry of SFBs and banks in this borrower segment will impact A) Pricing; B) Ticket sizes; C) Product features; D). Repayment behavior; and, finally, E) sustainability of the MFIs that would have to compete with the SFBs, larger NBFCs and banks.
- Impact of changes in the collection model – from group meeting and collections to individual collection model. This may have an impact on the repayment behavior and collection efficiency levels, thereby impacting the credit quality.
- Going forward, the need to evaluate the overall indebtedness of the borrower and households at the time of underwriting would be critical, given the exposure of this segment to multiple lending forms. This will impact the operations (including wage costs) of the MFI which primarily rely on income declaration and residence proofs of the borrowers.
- The MFIs may need to introduce additional cross-selling of products, including top-ups, demand loans, secured loans to compete with the array of products being offered by the SFBs and banks to this segment of borrowers.

At an overall level, the regulatory framework needs to be balanced across different types of players who are currently offering microfinance – Banks, SFBs, NBFC-MFIs, NGOs, BCs, etc.

&&&&&&&&&&&&&&&&

Some of the key discussion points to understand the microfinance industry nationally as well in Eastern India Perspective:

- In the current scenario, public sector banks (PSBs) are grappling with multiple challenges such as pilling of bad loans, increasing incidents of frauds, 11 banks being restrained from giving fresh loans (they are under prompt corrective action or PCA), etc. Over the past couple of years, it is evident that PSBs' ability to support NBFCs as well as NBFC-MFIs has declined considerably.
- The major role of MFIs is to catalyze the rural economy through requisite financing. In the absence of bank funding, NBFC-MFIs have struggled to raise funds at competitive rates in the aftermath of IL&FS crisis. A regulatory framework for banks (particularly PSBs) to support NBFCs and MFIs may be put in place to ensure that there is consistent fund flow.
- Several microfinance bodies including AMFI-WB feel the prevailing regulations for the microfinance industry, have been in force since 2012 following the recommendations of the YH Malegaon Committee, should be revisited. Over the past five years, there have been several significant changes impacting the microfinance industry with different types of players, technology and financial disruptions, different risk elements. However, the regulations have remained the same.
- The average ticket size of microfinance has been steadily increasing. Given that the loans are unsecured, the financing institutions have been providing for higher risk weightage on the loans. Also, pricing is a concern for the MFIs given that there is an upper limit cap for the NBFC-MFIs whereas there is no floor for institutions such as banks who have access to lower cost of funds.
- There is a significant overlap in the loan portfolio of NBFCs-MFIs, SFBs, banks and MSME lending institutions as there is no integrated platform which lists individual exposures from all these entities. This has increased the risk of delinquencies in MFI loans.
- AMFI-WB also feels that priority should be given to domestic equity. The foreign equity cap in NBFC-MFIs needs to be made mandated. While mature MFI institutions have their roots in NGOs and development organizations, many new MFIs, run by former bankers and backed by private equity players, have shifted their focus to business growth instead of development..
- Indian Microfinance Fund was created in 2012 by then finance minister Mr. Pranab Mukherjee with a corpus of Rs100 crore. The amount remains same even after six years in spite of huge growth in the industry in last couple of years.
- **In West Bengal**, this industry directly employs at least 27,000 people and most of them are from low income families with limited educational qualifications. The MFI segment created huge micro and small entrepreneurship in the state, covering more than 7.5 million women who are mostly from the underprivileged segment. The government needs to be more proactive in terms providing safeguards to this industry in matter of issuance of trade license, shop and establishment registration and other compliance processes.

****