



Microfinance – contributions to financial inclusion; opportunity and challenges ahead



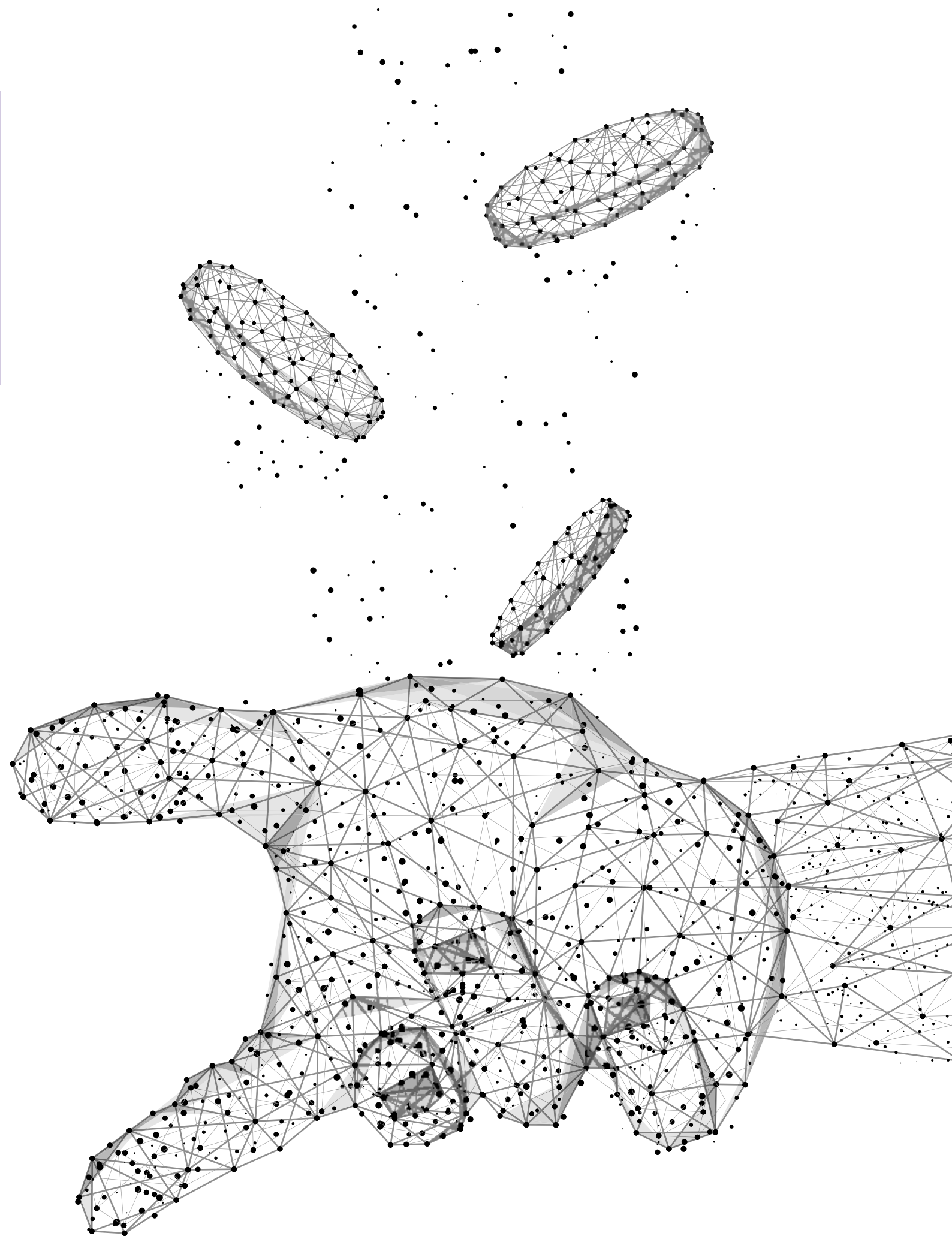
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Message from AMFI-WB (Association of Microfinance Institutions – West Bengal):

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 Banks and Knowledge Partner KPMG in India– is hosting the 5th Eastern India Microfinance Summit 2019 titled, “Microfinance – Contributions to Financial Inclusion; Opportunity and Challenges Ahead”. The purpose of the summit is to actively engage key stakeholders in discussions relevant to current and future aspects of financial inclusion.

The microfinance industry’s gross loan portfolio (GLP) stood at INR 1,87,386 crore at the end of March 2019, up 38 per cent year-on-year, as per the MFIN 2018-19 annual report. The total number of microfinance accounts was 9.33 crore at the end of March 2019, showing a growth of 21.9 per cent, as per Microfinance Institutions Network (MFIN), an RBI-

recognised self-regulatory organisation and industry association of the microfinance industry. Non-Banking Finance Company-Microfinance Institutions (NBFC-MFIs) hold the largest share of portfolio in micro-credit with the total loan outstanding of 68,868 crore, which is 36.8 per cent of total micro-credit universe. As on March 31, 2019, aggregated GLP of NBFC-MFIs stood at INR 68,207 crore, a 47 per cent year-on-year growth compared to March 2018, according to data shared by MFIN.

In West Bengal, this industry (among the AMFI-WB Members i.e. MFIs and Banks) directly employs at least 39,000 people, with most of the employees stemming from low income families with limited educational qualifications. The MFI segment has supported micro and small entrepreneurship in the state, covering more than 8.5 million women.

We are certain this report will excite further thought and discussion, encouraging an ironic exchange of ideas. We hope this report is helpful and we welcome any thoughts you may have.

Warm regards



Ajit Kumar Maity
Chairperson
AMFI-WB



Chandra Shekhar Ghosh
Former Secretary
AMFI-WB



Kartick Biswas
Secretary
AMFI-WB

Message from KPMG in India

KPMG in India is happy to be associated with the Eastern India Microfinance Summit for the third year in a row as Knowledge Partner. With each version of the summit we have witnessed an increased participation with an emphasis on exchange of thoughts, ideas and recommendations from the leading participants across the value chain of microfinance.

Microfinance growth is critical to the upliftment of the financially excluded from the mainstream. This is evident from their contribution to improving financial inclusion, particularly in semi-urban and rural locations. Most MFIs started off with the social objective of reaching the unprivileged sections of society with their betterment as one of their chief goals. Many of the players valuable time and money in education and skillset training of the communities they serve, and we are seeing an increasing offering of non-MFI loans that can help improve the livelihood of the end customers.

East and North East regions have the highest share of Gross Loan Portfolio of microfinance (35 per cent of the total) across different types of institutions (Banks, SFBs, NBFC-MFIs, NGO NFIs). Eastern zone is also the largest contributor of New To Credit (NTC) customers across different lender categories which highlights the importance of microfinance in the region. While this augurs well for the region, we are looking at a situation where the customer has several choices of institutions and offerings in the evolved financial inclusion landscape. In light of this, we believe that it is important to look at how microfinance is balancing social and commercial obligations and how it impacts the key stakeholders in the process – customers, financial institutions and regulators.

Microfinance players have also been actively pursuing activities beyond lending in order to meet their social objectives as well as improve their

margins. This also calls for changes in the operating model, product portfolio, partnership models and delivery capabilities of the players.

There is a growing global demand for digital enablement of financial services and with the increasing smart phone penetration in India, the clients of MFIs will be no exception. Data and digital is playing a vital role across the value chain from origination, underwriting, sanctioning, disbursement to collections and servicing.

As MFIs have grown in the past decade or so, some of the MFIs have matured into small finance banks who are now transforming and adapting to the new regulatory environment. The regulators have responded to the requests of the NBFC-MFI players and amended the lending cap restrictions in order to provide a more level playing field against the small finance banks who lend to the same customer segment but have higher lending caps.

This paper highlights the opportunities and challenges faced by microfinance lenders and highlights key initiatives to be undertaken to sustainably continue being the torch bearers of financial inclusion in the country.



Gayathri Parthasarathy

National Head
Financial Services

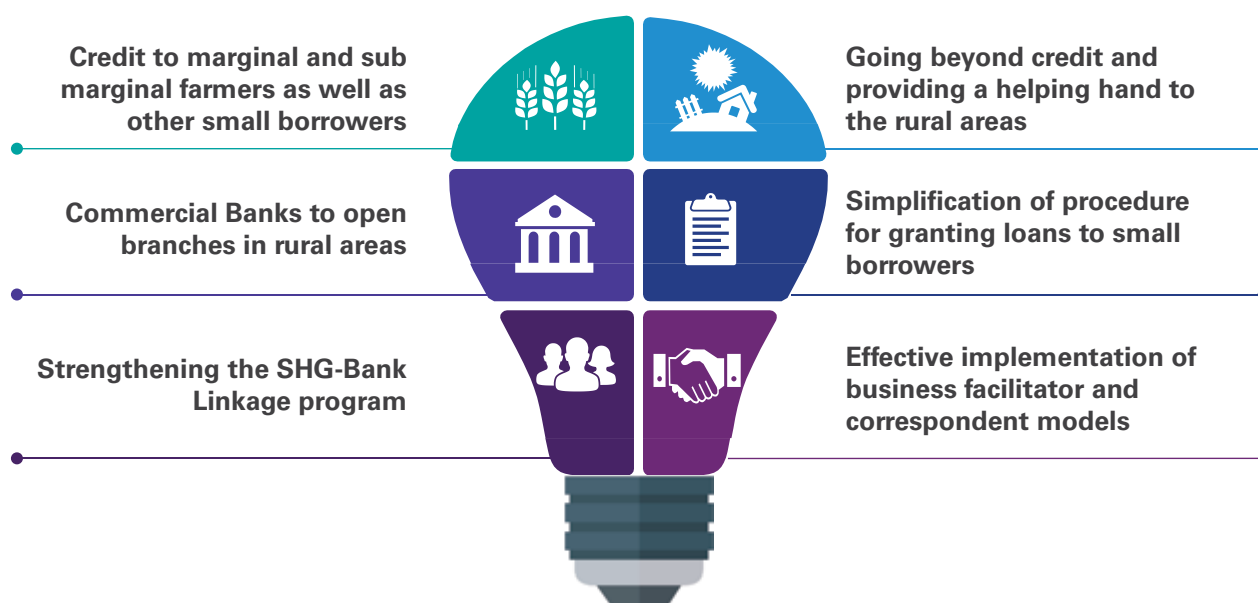
Introduction to Microfinance in India



Since the beginning, microfinance has been playing a key role in financial inclusion in India, having come into existence to specially serve the smaller and more overlooked sections of society. In laymen's terms, micro credit is a loan of a very small amount given to the self-employed rural population, to help them live better and improve their living conditions. The common types of employment of the individuals who seek micro credit are vegetable vendors, artisans, farmers, rickshaw pullers, fishermen, etc. The basic idea behind microcredit is to provide economic inputs to those in rural areas that are willing to pull themselves out of poverty. The need for credit is demonstrated by the fact that Microfinance Institutions (MFIs) constitute one of the fastest growing segments in recent years in terms of reaching out to small borrowers.

Microfinance in India started through the Self-Help Group-Bank Linkage model which was an initiative by National Bank for Agriculture and Rural Development (NABARD) in 1992, to link the unorganised sector to the formal banking sector. This industry has evolved over the last two decades and reached over 25 per cent penetration level in the total addressable market, in 2019¹. The microfinance lenders aim to provide easy access to formal credit to customers that need it the most and would not typically be eligible for bank credit, thus providing inclusion for a large rural and urban population of the country. A vast majority of the borrowers constitute women who are just above the poverty line and striving to improve the living conditions of their household.

According to Dr. C. Rangarajan there are six approaches to financial inclusion², and they are as follows:



As evident from the infographic above, almost all of them pertain to the microfinance industry. Microfinance is contributing towards all these approaches and slowly but successfully accelerating financial inclusion.

The regulators play an important role in driving responsible, inclusive formal credit while striking a balance between providing growth, managing risks and not over burdening borrowers with excess

debt. Given the importance of MFIs in providing credit to the masses and the rapid growth of NBFC-MFIs, the regulator - the Reserve Bank of India (RBI) recognised Microfinance Institutional Network (MFIN), followed by Sa-Dhan as two Self-regulatory Organizations (SRO) formed to assist the Microfinance sector. All NBFC-MFIs are encouraged to be part of at least one SRO and are expected to follow the code of conduct of that particular SRO.

1. KPMG in India analysis 2019 based on discussions with industry participants

2. Report of the Committee on Financial Inclusion in India (Chairman Dr. C. Rangarajan), Government of India, 2008

The RBI saw the need to create some structure in compliance and keep the welfare and interest of the growing number of NBFC-MFIs as a priority and thus has given the lenders a platform of their own. These SROs and the regulator work together to deal with some of the problems faced by microfinance lenders

and present timely solutions taking into consideration feedback from member NBFC-MFIs. One such recent change that may act as a catalyst for growth for these member MFIs includes the increase in lending caps for MFI borrowers.

Recent RBI regulatory updates

In response to the request of the microfinance lenders and to further encourage the growth of the MFI industry, the RBI recently increased the lending cap for borrowers in rural and semi-urban areas.

Revised lending cap (October 2019):

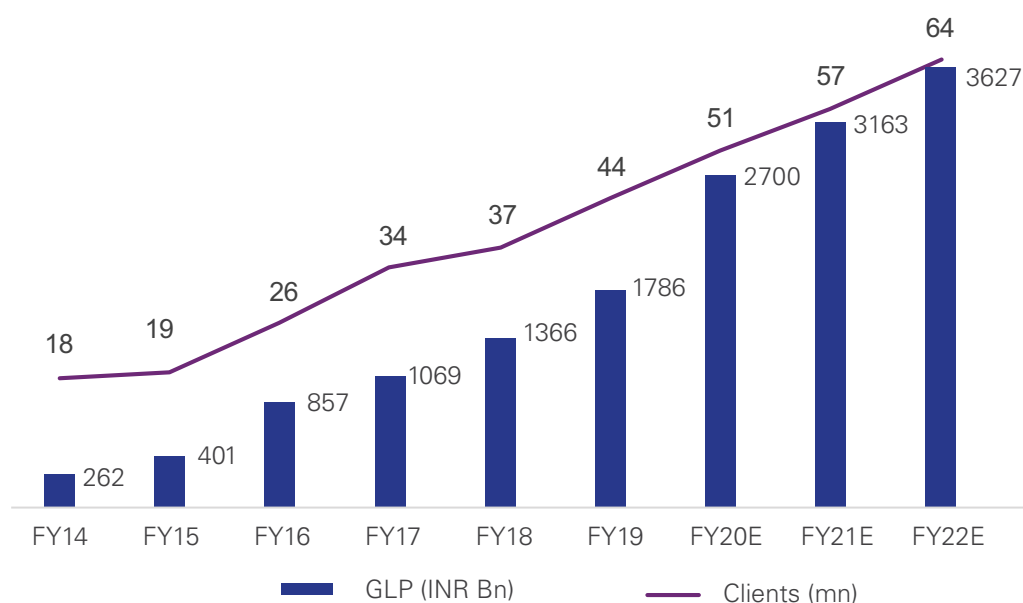
1. The annual household income eligibility in rural areas has increased from INR1 lakh to 1.25 lakhs, and in urban/semi-urban areas from INR1.6 lakhs, to 2 lakhs
2. There is an increase in the lending limit per borrower for the first cycle from INR60k to INR75k and for subsequent cycle INR1 lakh to INR1.25 lakhs.

The RBI is keen to deliver the necessary credit to those at the bottom of the economic pyramid and facilitate this through NBFC-MFIs.

The Self-Help Group- Bank linkage model has evolved to the current hybrid Self-Help group (SHG) and Joint Liability Group (JLG) models in India with the policy support of Reserve Bank of India and started linking the same to banks. The essence of this model was moving from a paper-backed guarantee to a social support guarantee from a nearby group. Millions of

families have been brought into formalized credit over the past decades due to microfinance and it holds to the key to reaching the last man on the ground. About 99 per cent beneficiaries of microcredit in the country are women and the social strata of the model guarantee that the group repays the loans.

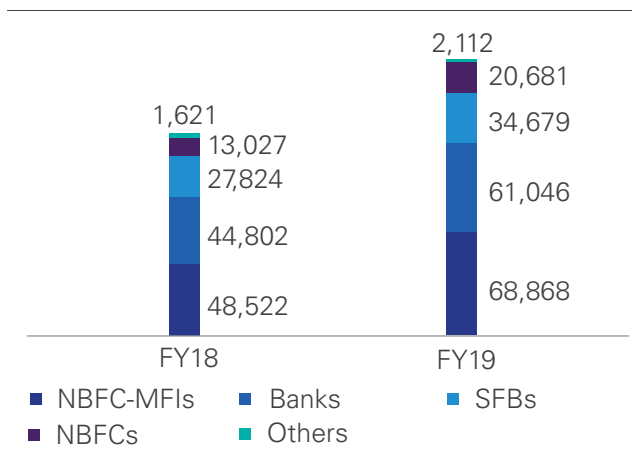
Historical JLG growth in portfolio size/number of clients and forecast



Source: MFIN Micrometer reports FY14-19, KPMG in India analysis 2019 based on discussions with industry participants

Over the past decade or so, the microfinance industry has seen a rapid growth and a healthy influx of new customers to sustain the growth. In the last five years microfinance portfolio has seen a tremendous growth at a Compound Annual Growth Rate (CAGR) of nearly 48 per cent from INR26,200 Cr. to INR 1,87,400 Cr. in FY 19. The client base has also grown from 180 lakh to 440 lakh within the same time frame at a CAGR of 20 per cent. This growth has been contributed by a range of financial institutions including but not restricted to NBFCs, microfinance institutions and banks. As of 31 March 2019, 82 NBFC-MFIs hold the largest share of portfolio in micro-credit with the total loan outstanding of INR68,868 Cr, which is 36.8 per cent of total micro-credit universe. This is followed by banks which are the second largest provider of micro-credit with a loan amount outstanding of INR 61,046 Cr., accounting for 32.6 per cent of the total industry portfolio. In 2016, Reserve Bank of India released Small Finance Bank licenses for 10 lending companies across the country in order to provide universal banking access to the bottom of the pyramid. Out of the 10 entities, 8 were microfinance institutions. Growth in the MFI portfolio of these SFBs has also been significant with a loan amount outstanding of INR 34,679 Cr contributing a share of 18.5 per cent in the overall micro-credit portfolio.

MFI portfolio by category of player



Source: MFIM Micrometer reports FY18-19

MFIs are lending at an aggressive pace with a relatively low interest rate regime. Some of the MFIs have grown their disbursements at a CAGR of nearly 50 per cent in the last three years. This type of growth is unprecedented, and we will continue to see similar trends in the coming years because there is a huge underlying growth potential. This has

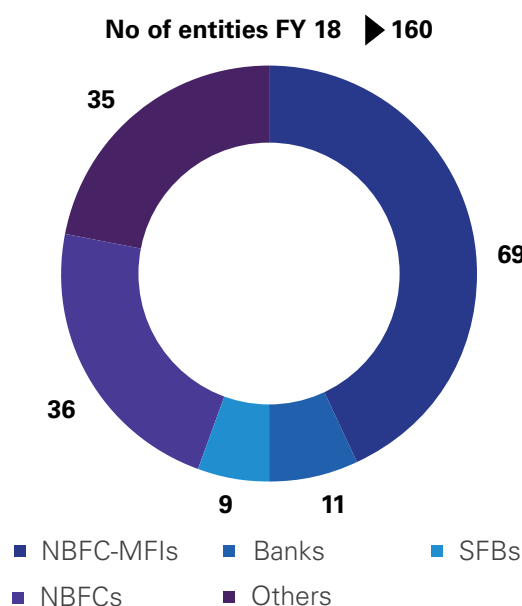
attracted investor interest in the industry leading to a spurt in M&A and PE activity. While there has been a significant growth in the in the MFI portfolio, the same cannot be attributed to the existing players. There has been an increase in competitive intensity, with the number of entities growing from 160 in FY 18 to 192 in FY19. With the number of players in this segment having reached significant size, RBI has started granting banking licenses to these players. Bandhan was given Universal Banking license in 2015 when it was one of the largest MFIs in India. They have also put forth guidelines for on-tap licenses for MFIs to convert into SFBs⁴.



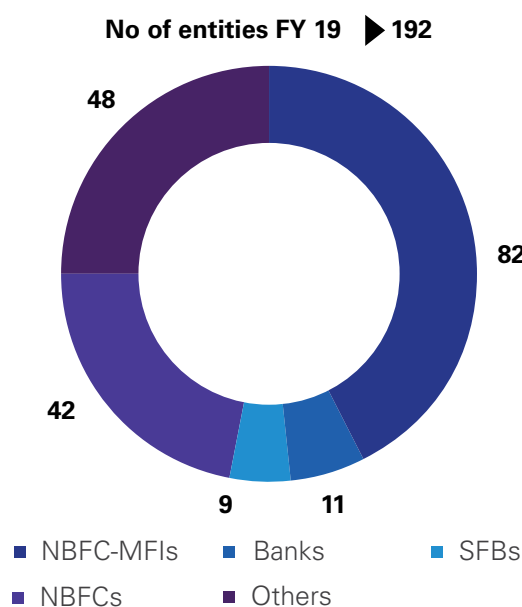
3. MFIM Micrometer reports FY14-19, KPMG in India analysis 2019 based on discussions with industry participants

4. MFIM Micrometer reports FY18-19

Number of MFI players by category:



Source: MFIN Micrometer reports FY18-19



Source: MFIN Micrometer reports FY18-19

The transition of NBFC-MFIs to Small finance banks has led to a new dynamic in the current market with the large and mid-size MFIs potentially considering making the initial investment required for conversion to a bank to get access to lower cost of funds and embrace the lack of restrictions in spread and maximum borrower exposure.

Geographical presence

Despite significant increase in outstanding Gross Loan Portfolio (GLP), the penetration of micro-credit is biased. Currently, microfinance institutions operating under the JLG/SHG hybrid model have a high gross loan portfolio in the southern states of Karnataka, Tamil Nadu, western states of Maharashtra and Madhya Pradesh and eastern states of Bihar and Orissa. Bihar has one of the highest number of microfinance institutions operating under the JLG/SHG hybrid model (32 microfinance institutions as on March 2019) followed by Maharashtra with 26 microfinance institutions.⁵

Top 10 States by Number of MFIs

State	No of MFIs	GLP (Gross Loan Portfolio) (INR Bn)
Bihar	32	79.91
Maharashtra	26	62.76
Uttar Pradesh	25	60.86
Orissa	25	73.29
Madhya Pradesh	24	45.15
Rajasthan	21	29.16
Chhatisgarh	21	15.64
Gujarat	19	13.53
West Bengal	19	59.58
Tamil Nadu	17	54.68
Haryana	16	11.84

Source: SIDBI-Equifax Microfinance Pulse report April 2019 and MFIN Micrometer report Q4FY19

5. MFIN Micrometer reports Q4FY19

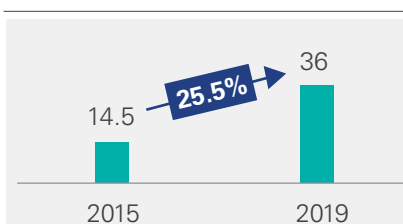
The disparity in the distribution of the outstanding loan portfolio is illustrated by the fact that top five states viz. Karnataka, Bihar, Odisha, Maharashtra and Uttar Pradesh, account for 52 per cent of the total loan outstanding with microfinance institutions and the top 10 states account for 84 per cent of the total outstanding loans. While states like Tamil Nadu, Karnataka and Odisha are likely to see high penetration levels of more than 70 per cent⁶, a majority of the states in the rest of the country including key states in the northern and central region like Gujarat, Rajasthan, Maharashtra, Uttar Pradesh etc. which possess a significant potential for MFI growth are expected to remain underpenetrated, which gives a significant headroom and opportunity for MFIs to grow. MFIs have typically been growing through increase in rural penetration and expansion to more geographies. MFIs have recognized the potential in the underpenetrated North, East and

central regions in addition to the North East region and have started expanding into those geographies. This trend of increasing penetration of micro-credit in the underpenetrated regions is likely to continue.

Financial inclusion in India

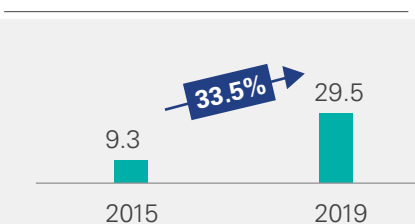
In 2006, Government of India constituted a 'Committee on Financial Inclusion' which was headed by Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister. They broadly defined financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost. This definition is not limited to banking services but also includes universal access to Insurance and Risk Management products at reasonable prices.

PMJDY Accounts Opened (Cr)



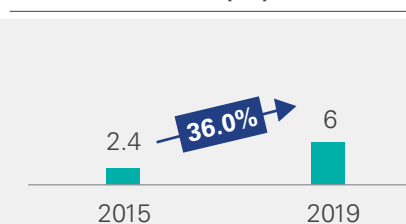
Source: SIDBI MSME Pulse report June 2019

Credit to MSMEs (Lakh Cr)



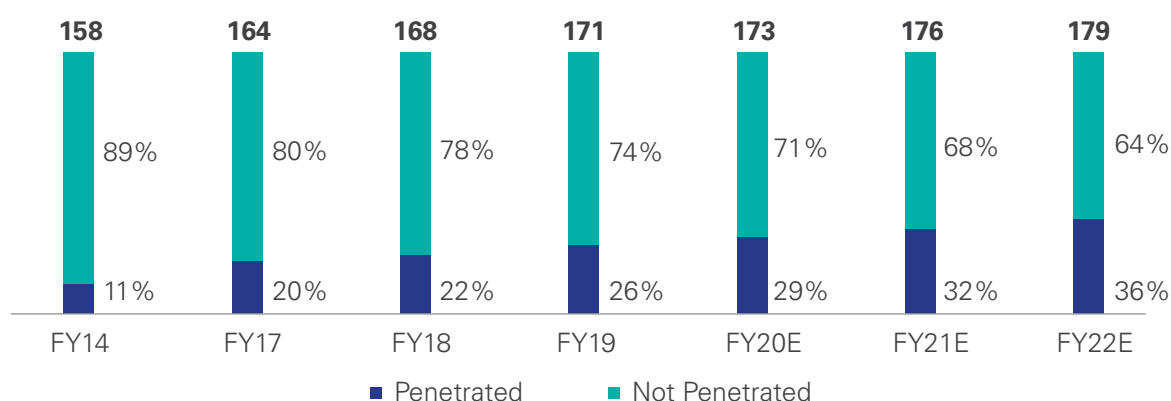
Source: IRDAI Annual Report 2018

New Lives insured through micro-insurance (Cr)



Source: PMJDY: PMJDY Official Database (2019)

Household penetration of MFI in India



Source: KPMG in India analysis 2019 based on discussion with industry participants

6. MFIN Micrometer report Q4FY19

Key opportunities in the MFI sector in India



Eastern and North-Eastern parts of India accounted for 64 per cent of the financially excluded farmer households.⁷ At the same time indebtedness to formal sources of credit of these three regions accounted for only 20 per cent.⁸ This was a major concern for the Government of India. The disparity wasn't just limited to banking services. Only 27 per cent of the total farmer households in India had access to formal sources of credit and 51 per cent of the farmers were excluded from both formal and informal credit sources.⁹ Financing gap of INR 19 lakh crore existed in the MSME segment largely contributed by micro and small industries¹⁰. Even Insurance was following a similar path. Nearly 70 per cent of Indians (88 Cr.) did not have access to life insurance policies, largely in the low-income segment.¹¹

The initial growth in microfinance lending was driven by small ticket loans to new customers but the future growth opportunity for microfinance lenders lies in deepening the relationship with its existing customer base and growing the focus from income generating loans to consumption-based loans for a select group of mature customers.

In light of the improving financial inclusion scenario in the country, microfinance lenders can look at distributing additional products, leveraging the plethora of data available with them and exploring collaborations with fintech players to increase their reach and efficiency.

A

Credit plus/additional products and services

Going beyond helping lower-income groups financially through micro credit, MFIs can further expand into product/service diversification and help the same target group gain access to other necessities that help in their standard of living, and the overall economic development. This can include aspects of education, healthcare, better infrastructure (such as power), etc. MFIs can partner with firms that have a social cause/NGOs, and provide support for these specific areas, e.g. providing micro education loans, or affordable insurance. Given the pathway that MFIs have already created to reach the rural areas of India, they have an upper hand in expanding their credit-plus products/services and gaining a larger consumer base, while retaining existing customers.

B

Role of data in driving growth

While most of the microfinance lenders have already made the move to digital disbursements, there are a plethora of tools available for these players to analyse the pool of data available with them and offer suitable loans to their clientele by using predictive analysis. As the vintage of the customer increases, the lender can use the data to analyse the level of maturity of these borrowers and not only increase the ticket size of the next cycle loans but also offer miscellaneous consumption loans that will work towards benefitting the household of the borrower.

The data available with the credit bureaus has been evolving and the lenders can leverage this data to ensure that customers have access to the additional credit they can service. The data available with these credit bureaus combined with the non-financial credit checks made available by select fintech players can provide a pre-acquisition risk profile of the customer basis which the lender can offer additional fee based and non-income generating loans as well.

7. Financial Inclusion in India – An Assessment - Speech delivered by Shri P. Vijaya Bhaskar, Executive Director, RBI in 2013

8. Financial Inclusion in India – An Assessment - Speech delivered by Shri P. Vijaya Bhaskar, Executive Director, RBI in 2013

9. Financial Inclusion in India – An Assessment - Speech delivered by Shri P. Vijaya Bhaskar, Executive Director, RBI in 2013

10. IFC- Financing India's MSMEs (Nov 2018)

11. IMF Data – Consumer Access to Basic Financial Services

C

Collaboration with fintech and other players

By partnering with fintech players, microfinance lenders can reduce their operational costs and reach a larger audience of borrowers without having to hire additional field officers. While some Fintech offerings may allow the lenders to source new borrowers, other players are focused on improving the productivity of field officers and staff by using the data of the existing borrowers and providing Artificial Intelligence based analysis, thus reducing the time taken at each step of the value chain. Microfinance lenders are seen leveraging the explosive penetration of the smartphones in urban and rural India to improve standardised delivery of their offerings to the customer.

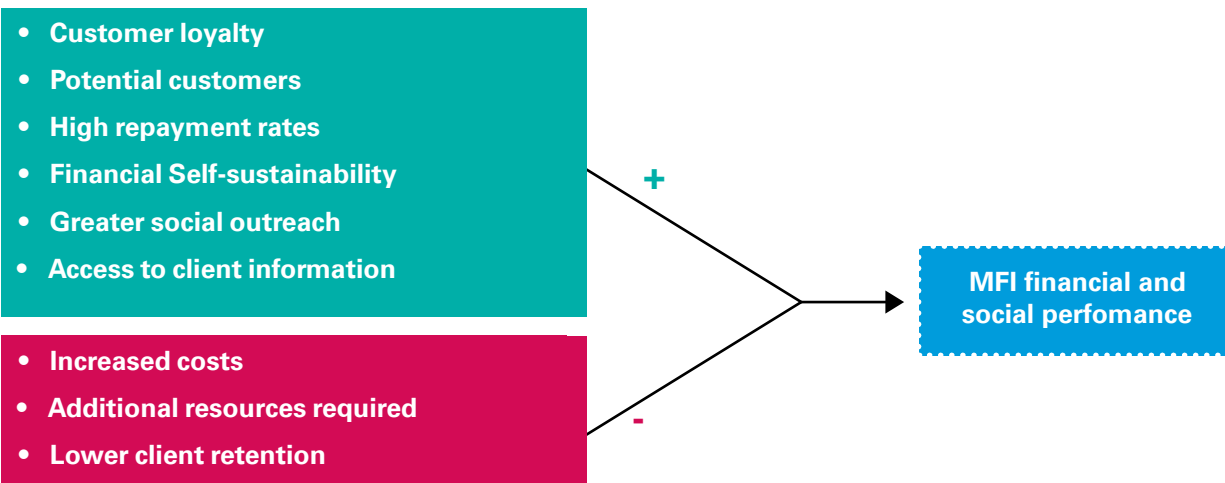
A. Credit plus products

Microfinance was initiated to act as a tool for economic development and poverty alleviation, and over the years, MFIs have placed themselves throughout the country to spread their resources and help achieve these goals. MFIs are transforming themselves to deliver more than just financial products to their customers. They leverage the relationship with the customers and the community to offer aspects of education, health, environment,

energy, and even insurance products both directly and through partnership with other service providers. Credit plus activities are especially important for MFIs backed by NGOs, for a social cause but these offering these products make good business sense, increase customer satisfaction and customer retention. The qualitative impact of credit plus activities include:









Impact of microfinance credit plus activities

Microfinance 'plus' outcomes



Source: KPMG in India Analysis 2019

Credit plus loans provided by leading microfinance lenders

Product	Avg Loan Ticket Size 	Loan Tenure 	Rate of Interest %	Indicative List of Players offering
 Solar	INR 2,000-8,000	6-12 months	22%-24%	Satin Creditcare, Muthoot Microfin
 Water and Sanitation	INR 5,000-INR 50,000	12-48 months	18%-24%	GrameenKoota, Ujjivan SFB, Satin Creditcare, Arohan FS, Muthoot Microfin
 Home Appliances	INR 1,000-10,000	4-12 months	18%-24%	GrameenKoota, Ujjivan SFB, Satin Creditcare, Arohan FS
 Cycle and Personal	INR 1,000-5,000	6-12 months	20%-24%	Ujjivan SFB, Satin Creditcare, Arohan FS
 Mobile	INR 1,000-9,000	6-12 months	21%-24%	Ujjivan SFB, Satin Creditcare, Arohan FS, Muthoot Microfin
 Home Improvement	INR 15,000-1,50,000	12-48 months	18%-26%	Utkarsh SFB, Grameen Koota, Ashirvad MF, Annapurna MF, Ujjivan SFB

MFIs in India hold the key to unlocking access to low-income household market. Given the increasing penetration of MFIs, players need differentiators to attract and retain their customer base. To further the benefit to the community and increase literacy rates, microfinance lenders have also been offering education loans for younger children, with longer tenures and reducing interest depending on the loan amount.

Micro insurance:

In addition to access for non-income generating credit, MFIs have also taken the initiative of providing micro insurance products to offer risk protection to their clientele. The insurance penetration in India is currently at 3.69 per cent, compared to the global average of 6.5 per cent, allowing for high potential for growth¹². Micro insurance schemes are currently being offered in the tier 2 and 3 regions, though at a nascent stage and form a very small part of the insurance industry in India. The nature of the insurance industry is being modified with

Insurtech companies and their innovative business models. Products such as micro-insurance and on-demand insurance vary significantly from traditional insurance because of their short-term nature and are dependent on time and usage.

Although the distribution of micro-insurance products by microfinance lenders have been allowed by the IRDA since 2005, the upward trend has only begun since 2014, with Insurance companies increasing their collaboration with Microfinance lenders with the aim of increasing insurance penetration. The increased awareness due to the promotions focused on this target audience by the IRDA, LIC and their agents has also played an important role in increasing the access to such products. Each year, the MFI borrowers face a crisis in the form of weather uncertainty, political instability or other natural calamities. These crises form an opportunity for the Microfinance lenders to raise the level of awareness of the insurance products and offer the low-income households products in addition to credit; in this case an appropriate means of managing their risk.

12. 2017-18 Annual report - IRDAI

CSR initiatives by microfinance lenders:

Given that a majority of the MFI clientele comprise women from rural areas, the lack of financial awareness to make informed financial decisions for the betterment of the household is one of the challenges most of the microfinance lenders are trying to address. 'Mudra' (Micro Units Development and Refinance Agency Bank) for example, focuses its CSR activities primarily around physical and cognitive health of their communities while the Grameen foundation has focused on training over a 100 thousand beneficiaries on digital financial literacy. The end goal of the CSR activities by leading lenders

in this space continue to be around the following themes:

1. Skill training and education
2. Woman empowerment
3. Social welfare for the community
4. Better health and sanitation.

While the regulators mandate that the lenders spend approximately 2 per cent of their net profits (of the past three years) on CSR activities, we have seen evidences of microfinance lenders spending over and above the statutory requirement to provide a holistic empowerment to the community.

Industry views by senior management at leading microfinance lenders:

"Distribution of 'plus' products helps develop the required rapport with the borrower base which comes around handy in difficult times such as political events, natural calamities or any other ad-hoc event that can affect the industry"

"CSR (Corporate Social Responsibility) is integral to the philosophy of every established mMicrofinance lender which has or has still not defined it's social objectives. The mandated 2% per cent spend on such activities is a mere quantification of the efforts undertaken by MFI players whose initiatives through their trusts and affiliates far exceed the mandated 2% per cent spend on spends focused towards social inclusiveness and benefit"



B. Role of data in driving growth

The Government of India is taking measures to increase financial inclusion, as well as adoption of modern-day banking methods that are built on the foundation of internet and mobile devices. Since the early adoption of this technology, the financial services industry has seen a proliferation of data sources making it more challenging for the organisations to do justice to the customer data. The adoption of data analytics is the key to making banking more convenient and personalised to user needs and at the same time play a major role in managing risks, improving operations and cutting costs.

With last-mile connectivity established to reach over 200 million clients across the world at least once a month¹³, microfinance is fast evolving into a powerful channel to achieve one of the national priorities – financial inclusion. Microfinance has made a huge amount of granular data available. Considering the profile of customers, this data set is quite rich and diverse covering age, gender, occupation, income estimates and repayment patterns. Various credit bureaus are working alongside these microfinance institutions, whose combined data can be essential to the growth of MFIs. Data analytics can be used by MFIs in a variety of ways contributing to every aspect of the customer lifecycle:

Product development



Based on the existing data base of loans, MFIs can harness data analytics to service customers immediately, estimating their needs and providing them with the right loan size and repayment frequencies. It also allows them to predict their future portfolio behaviors across various parameters like geography, customer segments and predict defaults and losses accurately. This will also help in risk pricing of the loans offered thereby charging optimized interest rates to customers.

Product and service positioning



Data analytics will allow MFIs to offer services that the customer needs rather than design products internally. This would also enable them to cross-sell other services like bank accounts, pensions, insurance, investments, etc. that contribute towards the financial inclusion as these products have been previously unavailable to the people in the remote areas. This is possible by using the analytics to generate a database of the needs of the customer, customer segmentation and price modelling.

Risk and data-based credit decisions



Data analytics can enable MFIs to develop scorecards for effective and unbiased selection of customers. These scorecards can also use data derived from other industries that is available with the credit bureaus like customer behavior patterns. These credit scorecards can be made available to the field officers using hand-held devices, enabling them to make credit decisions on the go and improve customer experience. Eventually MFIs can harness big data analytics-based algorithms that make automated customer loan processing, approval, disbursement and crediting the customer's account in seconds.







C. Collaboration with fintech and other players

Introduction

Microfinance growth over the last four to five years has been driven by geographical expansion. With the emergence of SFBs and entry of new NBFC MFIs, the competitive intensity in this space is

growing, leading to an increasing pressure on yields. Various players in this space are opting to integrate technology and collaborate with players across the value chain primarily to optimise costs and reduce portfolio risk.

13. Revolutionizing Microfinance: Insights from the 2017 Global Symposium on Microfinance, World Bank Group, 2017

 Origination	 Underwriting	 Sanction	 Disbursement	 Servicing/ Monitoring	 Collections
<ul style="list-style-type: none"> Lead Management KYC Data Entry Document Collection 	<ul style="list-style-type: none"> Bank and financial statement analysis Credit Bureau Check Field Investigation Alternate credit scoring models Geotagging 	<ul style="list-style-type: none"> System Generated sanction letter SMS 	<ul style="list-style-type: none"> Disbursement modes: Credit to Wallet, NEFT, Cheque payment, Smart Card 	<ul style="list-style-type: none"> Branch Services Door step services Cell Center Self Service Kiosks Online Portals Mobile apps Chat Bots Social Media Apps 	<ul style="list-style-type: none"> Branch based collections Field Collections PDC NACH

The MFI value chain contains the key elements of origination, underwriting, sanction, disbursement, servicing/monitoring and collections. Currently, most of the key MFI players and SFBs are focusing on technology integration and collaborations with players in the underwriting and disbursement processes. Going forward, these players will need also collaborate with players to improve collection and monitoring processes.

Collaborations in the MFI segment

• **Improvement in the operational efficiency and operating margins of players**

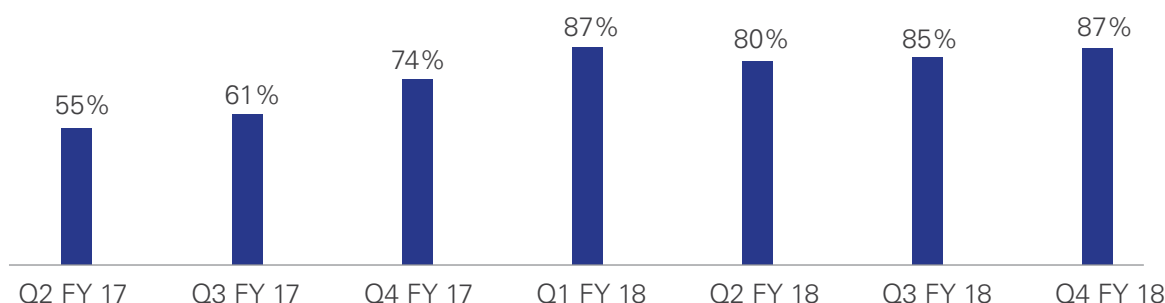
In order to improve operational efficiency, MFI players typically target loan origination/sanction, loan disbursal and loan servicing processes. Digitisation of these processes by collaborating with fintech players and developing in-house capabilities has been the focus of most of the MFIs and SFBs over the past few years.

Over the last few years, MFIs are moving towards moving to cashless disbursal of loans for their portfolios. Approximately 30 per cent of the NBFC MFIs disbursed >90 per cent of loans via cashless route in FY 18. In Q1 FY 19, approx. 87 per cent of the total loan amount disbursed was through the cashless mode.¹⁴



14. MFIN Micrometer FY19

Growth in cashless disbursements in NBFC MFIs



Source: MFIN Micrometer FY19 page 28

Cashless disbursement offers various advantages over cash-based disbursement modes like reduction in the turnaround time from three to four days to a few hours, reduction in cash reconciliation efforts, reduction in cash management costs and operational risk mitigation, reduction in operational cost, reduction in frauds etc. It also increases the group transparency as each JLG group member gets the correct proportion of the total amount.

Earlier, loan officers were required to visit branches in the morning to get the demand and disbursement sheets printed and then again in the evening to update the data. With the use of tablets, loan officers can update the data recorded during field visits in real time. This also reduces data entry errors, reduces turnaround times and improves the productivity of loan officers.¹⁵

- **Streamlining the underwriting process**

The underwriting process has evolved with the additional non-traditional data points being used to evaluate the potential customer's ability to pay. While there is still some subjectivity in underwriting, some MFIs and NBFCs have managed to fully digitise the process with the usage of robust algorithms. This has significantly reduced the turnaround time of disbursement.

Future trends

- **Making collections cashless and decreasing turnaround time**

While a large number of MFIs are shifting to cashless disbursement of loans, cashless collection still remains a challenge and is an area which is likely to see integration of technology and collaborations.

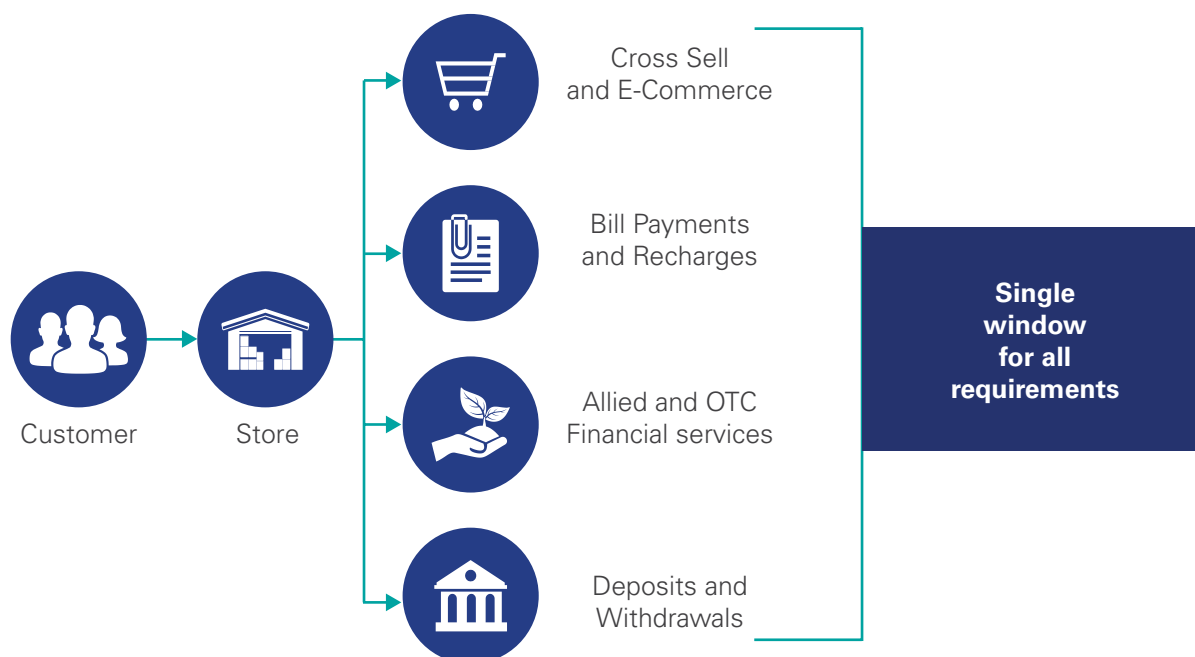
During FY 18, BFIL piloted the Retail Distribution Service Points (RDSP) model under the Business Correspondent arrangement with IndusInd Bank Limited to offer its members basic banking services like cash deposits and loan repayments through a retail/kirana store.

This model is expected to increase the engagement with its members, thereby providing more insights about the members' financial behavior. Further, the company expects improvement in productivity of its loan officers which will improve the company's overall operational efficiency. This model is also expected to create cross-selling opportunities (e.g. solar, mobile, sewing machines, etc.) to non-MFI customers, apart from existing members. This will further enhance the company's outreach.¹⁶

15. Aarohan AR FY19 page 26

16. BFIL annual report page 37

Collaboration of MFIs with kirana stores for cashless disbursal and collection



Source: BFIL annual report FY18, page 22

Industry views by senior management at leading microfinance lenders:

"The first mover MFIs have collaborated with Payments banks to provide payment and remittance facility in remote areas where banking penetration is very low. With operationalisation of these banks and the use of e-KYC, opening a new bank account is now a matter of minutes and MFIs play an important role in educating customers of these financial services."

"With the emphasis on going paperless, an MFI adopted Aadhaar-based biometric identification (e-KYC) of clients. This enabled instant credit bureau verification, reduced turnaround time for loan disbursements and improved data quality, thus reducing the instances of fake clients."

"Digitalisation is changing the face of every industry. The footfall at the branches is falling gradually. Customer preference is slowly but surely shifting towards the digital medium."

23. "Ports, 2019" India Brand Equity Foundation

24. "Ports, 2019" India Brand Equity Foundation

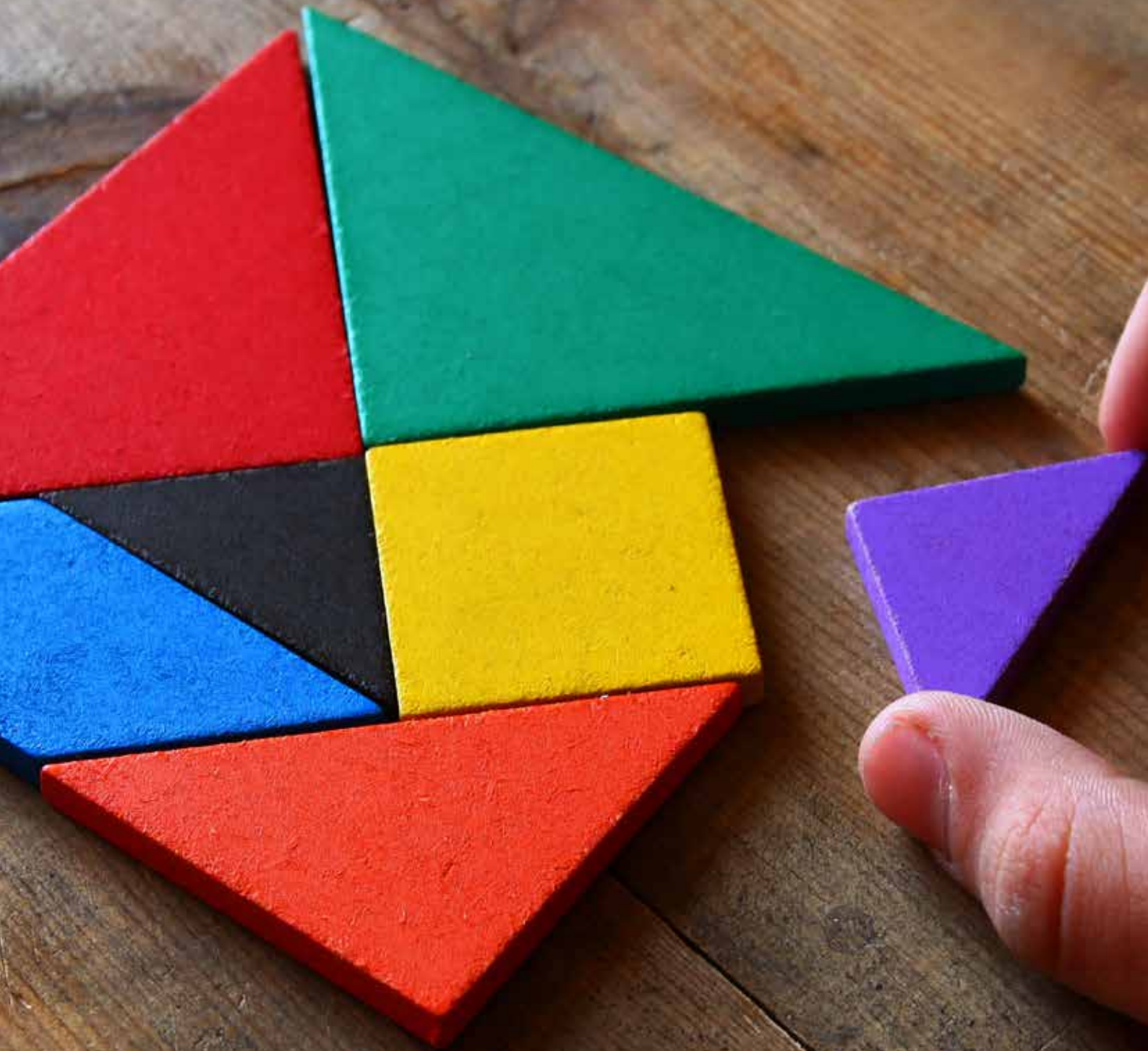
25. "Projects worth Rs. 44.6 k crore underway for rail connectivity to ports", Economic Times, December 2018

26. "India's Mega Port Development Project 'Sagarmala': An explainer for investors", India Briefing, August 2018

27. "Warehousing may pull in USD10 billion in the next 4-5 years", Economic Times, February 2019



Conclusion



Financial inclusion has been a key focus area for RBI and Govt. of India over the past decade to improve penetration of financial services across the country. Determined to achieve universal financial inclusion in India, there have been sustained efforts in the past two decades to increase the penetration of formal financial services for the unbanked; including adding small finance banks, NBFCs, microfinance Institutions, BCs etc. and the big push on Pradhan Mantri Jan Dhan Yojana and digital transactions. Technology is shaping the future of finance and with it customer expectations are increasing around transparency and safeguarding interests like data privacy and protection. Partnerships with fintech players are providing an impetus to the microfinance sector in many ways. In the times to come, the microfinance players will be seen leveraging data analytics and artificial intelligence to increase efficiency and their reach.

Offering a loan for a cycle, sanitation or solar cooking and energy solutions amongst others can significantly improve the livelihood of the borrower, while the MFI lender has the opportunity to further deepen their relationship with the existing clients and attract new clientele alike. For these products to have a significant impact on both, the borrower and the lending institution itself, we will have to see an increase in the volume and value of such loans dispersed in the coming years. MFI lenders will have to diversify their product portfolio and include fee-based products such as micro-insurance to tackle the pressure on NIMs arising from the rising competition in the sector.

While financial inclusion has improved significantly over the last five years, it is still a priority agenda for the regulators who have responded to this by increasing the cap per MFI borrower. In many instances, microfinance lenders are the only solution available to women from the underserved regions.

By responsibly lending to microfinance borrowers, the microfinance lenders can ensure that the borrowing household is not stressed by taking on additional debt that it may not have the ability to repay.

It is important for microfinance lenders to adopt a customer-centric approach and leverage the data and technology available to more effectively and efficiently continue to provide credit to the financially excluded women from society. With one-stop-shop being the mantra in the financial services sector, microfinance lenders are well-positioned to soon embrace the same and extend services beyond lending.



About AMFI-WB

AMFI-WB is an institution which endeavours to promote and develop microfinance in the state of West Bengal. Founded as a self-regulatory organisation, and registered as a Public Charitable Trust in 2010, AMFI-WB encompasses a community of microfinance organisations that operate in West Bengal.

It was formed to deliver better services to the poor, thereby helping these populations improve their standards of living. AMFI-WB envisions a community of microfinance institutions who are committed to initiating a significant change in the lives of the poor, especially women. AMFI – WB currently caters to around 60.75 lakh poor women by providing them with financial services, especially micro credit. With a membership of 27 Micro Finance Institutions especially micro credit through approximately 14,600 employees who hail from a lower economic background.

Their primary goals include: encouraging MFIs to maintain healthy relationships with banks, ensuring that MFIs stay on track and focused with the guideline prescribed to them, and mediating between various government officials and other important sector stakeholders. AMFI – WB regularly conducts stakeholder meets at the district level, management development programs for its members, microfinance industry-related seminars & workshops, and member meetings on matters of mutual interest. Some of the major initiatives/events recently conducted include the 2nd Eastern India Micro Finance Summit 2016 and HR Workshop on Legal Issues with the MD/CEO/HR personnel of all MFIs.

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KPMG in India offers services to national and international clients in India across sectors. We strive to provide rapid, performance-based, industry-focussed and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

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