FINANCIAL SECTOR REFORMS: MUST FOR SUSTAINABLE GROWTH OF NBFC-MFI IN INDIA

Dr. Priti Bakhshi
Assistant Professor,
Jaipuria Institute of Management, Indore (MP)–India

ABSTRACT

In this study an attempt is made to analyse various Financial Sector reforms in the context of NBFC-MFIs in India along with their performance. The Study is based on secondary data and the scope of study is limited to Inclusion in India mainly for the year 2014 and 2015 but reforms are studied since 1991. The study is exploratory in nature. Analysis is done mainly to understand the Financial Reforms that has taken place in India mainly in context of MFI and also to study the performance or ease of doing business by MFI because of these reforms. The Financial reforms in context of MFI has been of much help in the growth and better performance of NBFCs MFI. There is a huge scope for the further growth of Micro Finance Institutions for the growth of Indian Economy.

Key words: Micro Finance Institutions, Financial Inclusion, Financial Sector Reforms


1. INTRODUCTION

An NBFC-MFI is defined as a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) with Minimum Net Owned Funds of Rs.5 crore (for NBFC-MFIs registered in the North Eastern Region of the country, it will be Rs. 2 crore) and having not less than 85% of its net assets as “qualifying assets”.

Processing charges by NBFC-MFIs should not be greater than 1% of gross loan amount and they should not be included in the margin cap and only the actual cost for the group insurance can be recovered by NBFC-MFIs. NBFCs MFI are transparent and does not take any Security deposit or margin or collateral from the borrowers, provides Loan Card reflecting effective interest rate, terms & conditions, instalment...
details and do not charge any penalty on delayed payment. As per RBI regulations, it is mandatory for NBFCs MFI to disclose the effective rate of interest.

All the NBFC-MFI must be a member of all the four Credit Information Company (CIC) formed under the CIC Regulation Act 2005 and must provide accurate and timely data to the CICs so that available data can be used to ensure compliance with the conditions regarding membership of SHG / JLG, level of indebtedness and sources of borrowing.

All NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital of minimum 15 per cent of its aggregate risk weighted assets. The total of Tier II Capital at any point of time should not be more than 100 per cent of Tier I Capital.

2. OBJECTIVES
The main objectives covered in this paper are:

- Study of Financial reforms in context of MFI
- Performance of MFI in India

3. METHODOLOGY
The Study is based on secondary data collected from various authentic sources. The scope of study is limited to Inclusion in India mainly for the year 2014 and 2015 but reforms are studied since 1991. The study is exploratory in nature.

4. ANALYSIS
Analysis is done mainly to understand the Financial Reforms that has taken place in India mainly in context of MFI and also to study the performance or ease of doing business by MFI because of these reforms.

1. The main financial sector reforms in context of MFI are:

A. THE MICRO FINANCE INSTITUTIONS (DEVELOPMENT AND REGULATION) BILL, 2012

- The objective of Bill is to set mandatory framework for regulation and development of the MFI.
- The RBI - regulator of the micro finance sector has set an upper limit of lending rate and for setting the margins for MFIs.
- The Bill contains provisions for creating councils and committees at district, state and central level for regulating the MFI.

B. THE FIRST SELF-REGULATORY ORGANISATION (SRO) is MFIN in the financial services sector recognized by the RBI for regulating NBFC-MFIs for accountable lending and safety of client. NBFC-MFIs are motivated to turn into members of at least one SRO even though the Membership is not compulsory.

C. RBI MASTER CIRCULARS FOR NBFC-MFIs: Has made many Master Circulars for NBFC-MFIs for instructions, Fair Practices Code, Corporate Governance, directions, Know Your Customer Guidelines, Prudential Norms, Exemption etc and keep on amending the same as and when required.

- NBFCs MFI: There are master circulars on NBFC – MFIs covers Credit Pricing, Types of NBFCs, Priority Sector Lending, etc.
Financial Sector Reforms: Must for Sustainable growth of NBFC-MFI in India

- **Fair Practices Code:** There are even Master Circulars on Fair Practices Code for NBFCs and Grievance Redressal Mechanism.
- **SRO:** There is also a Master Circulars on SRO for NBFC-MFIs.
- **CIC Regulations:** There is Credit Information Companies Regulations, 2006 which covers Data Format for Furnishing of Credit Information to CIC and other Regulatory Measures and membership guidelines.
- **RBI Committee Report:** There is Report of the Sub-Committee of the Central Board of Directors of RBI to study issues in the MFI Sector, Committee on Comprehensive Financial Services for Small Businesses and Low Income Households and a Report of the Committee to advise Data Format for Furnishing of Credit Information to CIC.
- **Business Correspondent:** Financial Inclusion by Extension of Banking Services – Use of Business Correspondents
- **Know Your Customer (KYC) Norms /Anti-Money Laundering (AML) Standards for NBFCs MFI:** There are master circulars on KYC Norms/AML Standards/Combating of Financing of Terrorism (CFT)/Obligation of Payment System Operators under Prevention of Money Laundering Act (PMLA), 2002 Obligation of Payment System Operators – Amendment to Prevention of Money-Laundering (Maintenance of Records) Rules 2013. There is a provision of recognising E-Aadhaar as an ‘Officially Valid Document’ under PMLA
- **Regulatory Framework for NBFCs MFI:** There are circulars for Revised Regulatory Framework for NBFC and IRDAI (Micro Insurance) Regulations, 2015.
- **Other Relevant Frameworks:** Some of the relevant frameworks are Framework for Revitalising Distressed Assets in the Economy; NBFC-MFIs – Directions; Corporate Governance; KYC Guidelines, AML, Prevention of Money Laundering Act, 2002; Non-Banking Financial (Non – Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; Allied activities – Entry into insurance business, issue of credit card and marketing and distribution of certain products; Miscellaneous Instructions to NBFC- ND-SI; Frauds – Future approach towards monitoring of frauds in NBFCs; Non-Banking Financial Companies Auditor’s Report Directions 2008; Requirement for Obtaining Prior Approval of RBI in Cases of Acquisition / Transfer of Control of NBFCs MFI; Exemptions from the provisions of RBI Act, 1934; Distribution of Mutual Fund products by NBFCs MFI
- **NBFC-MFIs:** The circulars under this are NBFC-MFIs – Directions; Modified NBFC-MFIs – Directions; Modifications in Pricing of Credit – Margin cap; Introduction of New Category of NBFCs; Modifications in “Pricing of Credit”
- **Fair Practices Code:** The circulars under this are Guidelines on Fair Practices Code for NBFCs and Grievance Redressal Mechanism for Nodal Officer
- **Priority Sector Lending:** The main circulars covered under this section are Targets and Classification; Bank loans to MFIs – Amendment in income generation criteria; Bank loans to MFIs -lending pricing criteria
- **Corporate Governance:** There is Master Circular on Corporate Governance
- **CIC Regulations:** The main regulations covered under this are CIC Regulations, 2006; Data Format for Furnishing of Credit Information to CIC and other Regulatory Measures; Membership of Credit Information Companies (CICs)
- **Charter of Customer Rights:** There is also a draft Charter of Customer Rights
- **RBI Sub Committee Report:** The circulars covered under this head are
  - Report of the Sub-Committee of the Central Board of Directors of RBI to Study Issues and Concerns in the MFI Sector
  - Committee on Comprehensive Financial Services for Small Businesses and Low Income Households
Dr. Priti Bakhshi

- Report of the Committee to Recommend Data Format for Furnishing of Credit Information to CIC
- The various RBI guidelines/circular issued by IRDA are Entry of NBFCs into Insurance Business; Introduction of New Category of NBFCs – ‘NBFC-MFIs’ – Directions

D. MICRO INSURANCE GUIDELINES BY IRDA

The various Micro Insurance guidelines/note issued by IRDA are as under:

- IRDA Micro – Insurance Regulations, 2005
- Micro Insurance Agents
- Exposure Draft on Micro Insurance (Modification) Regulations
- IRDA’s Micro Insurance Modification Draft Regulations 2014

On 21st September 2012, IRDA issues a draft note on standard product for rural and social sector.

- Exposure draft of Standard Product for Rural and Social Sector Intermediary
- Draft IRDA(Insurance Marketing firm) Regulations 2014

E. NACHIKET MOR COMMITTEE

RBI released the Nachiket Mor committee report in 2014 on Comprehensive Financial Services for Small Businesses and Low Income Households that covers six vision statements for financial inclusion in India’s financial sector. RBI considered these six vision statements carefully, and in 2015 implemented a number of recommendations from the report. They are:

1. A universal electronic bank account
2. Universal access to payment services and deposit products at nominal cost
3. Reasonable access to formal credit
4. Universal access to deposit and investment products at affordable cost
5. Universal access to insurance and risk management products at affordable cost
6. The right to suitability

2. Another objective is to study the performance or ease of doing business by MFI mainly due to various financial sector reforms. Some of the main points in this context are:

A. Start Performer: India

As per Global Microscope 2015, India was the star performer. It has enhanced its benchmarking score by more than any country (10 points on scale of 1-100), and reached overall fourth place. The Global Microscope measures 12 indicators for 55 countries on the quality of the policy, regulation, and institutional environment for financial inclusion. Though India is not the top scoring country, India has revealed the most positive change mainly in five areas: regulatory and supervisory capacity for financial inclusion, prudential regulation, regulation and supervision of credit portfolios, regulation of electronic payments, and market conduct rules.

B. New Banks

In India the definition of “bank” became more inclusive. RBI granted new banking licenses to become full banks to two institutions - IDFC and Bandhan. As on August
2015, Bandhan has started its operations with more than 500 branches across the country with rigorous expansion plans.

C. Categories of Banks
Recently RBI has created two new categories of bank i.e. small finance banks and payment banks. In August 2015, RBI has given licenses to 11 institutions for Payment Banks with a period of 18 months to fulfill the requirements set by the RBI. The small finance banks licenses were announced in September 2015 where in 10 microfinance institutions got the permission to begin the process of converting to full-service banks at a smaller scale with small size loan rural customers with lower income group. Both the payment banks and the small finance banks have less capitalization requirement and will serve populations that large banks have not reached.

D. Biometric Technology
Till November 2015, around three-quarters of India was covered by a biometric identification that serves as address proof and identity anywhere in India. It verifies identity quicker under Know Your Customer (KYC) regulations during opening of bank account.

E. Setting Harmless Environment
Smart Certification under Smart Campaign has certified another five Indian financial institutions resulting into total nine number of certified institutions in the country. The five institutions certified this year are Arohan, Grameen Koota, Janalakshmi, Sonata, and Utkarsh. Around fifteen million clients are protected through Smart Certification which is about half of the total microfinance sector.

F. Fixed Base Rate
Base rate is the minimum lending rate below which an MFI cannot lend. Reserve Bank of India has fixed base rate at 9.45 per cent for NBFC Micro Finance Institutions (MFIs).

The new base rate is effective from the quarter beginning from 1st January, 2016.

G. MAJOR INITIATIVES
Eleven new niche bank licences were issued in 2015. Two new full service banks, IDFC Bank and Bandhan Bank started operation during the second half of the year 2015-16. Ten new small finance bank licences were granted out of which eight are micro-finance institutions. Disha Microfinance is looking to launch its bank by the third quarter of 2016-17, The north-east based RGVN (North East) Microfinance is looking to launch its bank by April 2017, Suryoday Micro Finance is targeting to launch its bank by August 2016. Utkarsh Micro Finance plans to raise Rs 500 crore by Private Placements. Ujjivan Financial Services has filed draft papers with Sebi to raise at least Rs 650 crore through an IPO. There are many such initiatives which are taking place on daily basis in MFI Sector.

5. CONCLUSION
The Financial reforms in context of MFI has been of much help in the growth and better performance of NBFCs MFI. There is a huge scope for the further growth of Micro Finance Institutions for the growth of Indian Economy.
REFERENCES


