RBI GOVERNOR'S PRE-POLICY CONSULTATION MEETING

Market participants (Associations), Sept 17, 2025

POLICY SUGGESTIONS OF INAFI INDIA

Revisiting extant regulatory framework of Micro Finance Loans

RBI has been periodically taking a review of the existing regulatory frameworks in the financial system including Micro finance loans given by all commercial Banks and NBFCs including NBFCMFIs with a view to revise / revamp and simplify for greater efficiency. The current framework has deregulated the pricing of Micro credit as also linked the income of the households to providing loans. This has led to unintended consequences of misstatement of income and the resultant build-up of unsecured loans. There has also been unhealthy competition among MFIs to build portfolios through excessive lending. The status quo ante regulations have simple definition of micro credit linked to the loan amount with a cap of Rs.1 Lakh. It is therefore suggested to restore loan cap as the defining criteria for micro finance loans and to dispense with income of households as criteria. However, with efflux of time the loan cap can be fixed at Rs.2 Lakhs which can be periodically revised upwards as warranted.

Needless to emphasis, with the deregulation of interest rates and given the recent deviant conduct of some MFIs doing usurious pricing of micro credit eternal surveillance and vigilance by RBI with the support of Banks, SLBC, DLCC is necessary, given the limitations of SROs.

Rating- an anathema in the simple microcredit ecosystem of MFIs:

What began as a matter of opinion / reference for making investment decisions in the capital markets, rating has slowly crept into the whole financial system particularly the formal credit dispensation and has become all pervasive.

Despite the regulatory advice that rating is not mandatory, by delinking the risk weights viz-a-viz unrated credit exposure, many banks continue to insist and rely on credit rating of MFIs which adversely affects, in particular,

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the small MFIs with not-for-profit character. This is dampening and denying credit to many small MFIs. Further, it added additional cost to the MFIs every year. Banks would do well to go by their comprehensive due diligence/appraisal rather than relying on rating to take a call on providing credit lines to MFIs. We seek RBI directive to commercial Banks that rating should not be sought.

Policy compulsion to become member of SRO in the micro credit sector:

Many of smaller MFIs (including not-for-profit) are facing many strange conditionalities when they approach the banks for credit lines. They have been asked to become member of SRO in MF sector to become eligible to seek loan from the respective banks. For many MFIs, SRO themselves remain suspect when it comes to protection of micro credit clients. Furthermore, the choice of becoming a member of SRO should be of free will and rest with the MFIs and there cannot be any coercion on whatever grounds to become a member of SRO. **What is more, a penalty of 1% is loaded to the cost of borrowing for not being member of SRO. This coercion goes against the code of fair lending practices stipulated by RBI.** RBI would do well to address this aberration with the sense of urgency and instruct banks suitably.

Credit Score: Need for Transparency in assigning the score

RBI has introduced the system of credit score to build good credit culture and bring about the discipline among the people in availing and utilizing the credit – responsible borrowings and prompt repayments. The metrics of scoring is virtually shrouded in secrecy with the parameters and the weights / scores assigned for each parameter to arrive at the final score is not known to the public. This opaque system puts the public at greater disadvantage for they would not be in a position to know where their score is less and to take steps to improve their score for accessing Bank credit. RBI being the regulator of Credit system and also CICs could come out with metrics for assigning the score by CICs through stakeholder consultation and bring out transparency for the benefit of public.

ABC of Financial Inclusion (Attitude, Behaviour and Culture of Empathy)

The advent of JAM (Jan Dhan + Aadhaar + Mobile) has been making a transformative impact by connecting millions of excluded segments of populations with the Banks. The RBI scaled up project of Centres of Financial Literacy (CFL) and special campaigns now and then similar to the current Jan Suraksha has been sustaining the process of FI. This progress of financial inclusion has been validated by the rising Findex as released by the RBI. **Nevertheless, we are witnessing a creeping barrier to the momentum of FI and more importantly sustaining the financial engagement with the Banks following the FI through JAM and Jan Suraksha campaign.**

This has to do with ABC of the Banks staff at the desk and the people from low-income backgrounds suffer the most and for simple transactions including updating KYC they are made to make four or five visits to branches whereby they lose wages. Massive and sustained campaign of Customer First and Customer service, like the ones run by IBA earlier is absolutely necessity now besides the in-house customer orientation and greater weights for customer service in promotions etc, shall be initiated. There is also a need to have deterrent sanctions against poor customer service at the branches and its outlets through BCs / BF network.