Next-gen microfinance: The role of digital technology

Association of Micro Finance Institutions - WB

Foreword from PwC

The microfinance sector has seen considerable growth and transformation in aspects such as consumer, technology and regulations over the last decade. Acting as an enabler in promoting the financial inclusion agenda, the microfinance industry – with a vision to foster economic and social development in the country – has played a key role in providing financial services to the underbanked and unbanked low-income groups and micro-credit to small and medium-sized businesses (SMBs). The microfinance industry in India has witnessed 80% growth in loan disbursals in Q1 FY 2022–23[1] compared to the previous year, with eastern and northeast India constituting 37%[2] of the total non-banking financial companies-microfinance institution (NBFC-MFI) portfolio in the country as of November 2022.

Recent developments in the sector – technological interventions, demonetisation and the COVID-19 pandemic – have catalysed both growth and expansion led by digital adoption. The Jan-Dhan, Aadhaar, mobile (JAM) trinity, business correspondent (BC) act and enablement of Indian digital rails have contributed to the growth of MFIs in terms of widening the reach and accessibility of microfinance services to underserved customers. Moreover, developments in the regulatory space such as the recently released Reserve Bank of India's (RBI) guidelines for banks, NBFCs and SFBs that increase the income limits for microfinance loans could help MFIs in acquiring and serving more customers.

Further, business innovations such as the co-creation of products, partnerships and ecosystem collaborations among banks, microlenders and FinTechs have strengthened the overall value proposition of the industry. Thus, MFIs could cater to their customers by offering tailored solutions using technologies such as big data analytics, artificial intelligence (AI)/machine learning (ML), and mobile and internet services.

If we look at the current scenario, the evolving microfinance landscape not only requires a framework to navigate through various challenges across the value chain – such as financial and digital literacy, data regulation and fraud – but also the talent and workforce development. Therefore, the concerted efforts of stakeholders in the microfinance ecosystem should not only be limited to reinforcing the foundations of growth and sustainability but must also extend further to help the industry in advancing significantly in the financial inclusion landscape.

Through this report, we present to you the current MFI landscape in India – particularly in West Bengal and the northeast region – challenges across the value chain and corresponding opportunities which can be leveraged with the help of technology. Additionally, the report highlights and analyses the strategic roadmap for the microfinance industry to build products and services, bridge talent gaps, adopt an environmental, social and governance (ESG) framework, and serve its customers better by leveraging digital tools and technologies.

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1 https://www.thehindubusinessline.com/money-and-banking/microfinance-sector-sees-80-per-cent-growth-in-loan-disbursals-at-45830-crore-in-q1-fy-23/article65922167.ece

2 https://m.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=21397

Foreword from the Association of Microfinance Institutions (AMFI)

The last two years were quite eventful for eastern India and the microfinance industry. Due to the COVID-19 pandemic, the country went into a complete lockdown in March 2020. However, the situation improved after June 2021, both in terms of decreasing COVID-19 cases and the formation of majority and stable governments in West Bengal and Assam. With most of the lockdown guidelines being removed or relaxed across India, the local economy started to see a growth trend. The microfinance business and portfolio in eastern India saw an increase of 4% from INR 94,820 crore on 31 December 2020 to INR 98,587 crore on 31 December 2021, with 3.8 crore loan accounts as per self-regulatory organisations (SROs) and the Microfinance Institutions Network (MFIN).[3] As of November 2022, the eastern and northeast India regions constituted 37%[4] of the total Indian microfinance portfolio being served by universal banks, small finance banks (SFBs), NBFCs, NBFC-MFIs and other entities.

In West Bengal, the AMFI-WB continues to focus on the proliferation of financial services (particularly micro-credit) to underserved segments. AMFI-WB has catered to over 9.6 million poor women by addressing their credit needs.[5] AMFI-WB has a membership of 48 MFIs, banks, FinTechs, IT, insurance, health service providers and software companies. In FY 2021–22, the total portfolio among the AMFI-WB members in West Bengal was INR 378 billion.[6]

As this space continues to evolve with FinTech disruptions, technology innovation and regulatory advancements, it is beneficial for industry stakeholders to come together to share and exchange ideas and best practices. Hence, the AMFI-WB, along with its member MFIs, banks and PwC, is hosting the '7th Eastern India Microfinance Summit 2023'. The purpose of the summit is to actively engage key stakeholders in discussions relevant to current and future aspects of financial inclusion. We are certain that this report will propel further thought and discussion, encouraging an interesting and useful exchange of ideas.

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3 https://amfi-wb.org/wp-content/uploads/2022/09/Annual-Report-2021-22-AMFI-WB-10-MB.pdf

4 https://m.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=21397

5 https://www.hnexpress.in/2022/04/23/amfi-wb-organizes-the-6th-eastern-india-microfinance-summit-202/

6 https://mfinindia.org/assets/upload_image/publications/MicrometerSynopsis/Micrometer%20Q2_FY_22-23_Synopsis.pdf

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Introduction

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The concept of microfinance, since its inception in the 1970s from the Grameen Bank model, has emerged as one of the key aspects in nurturing financial inclusion. Microfinance empowers low-income households to tackle deprivation by providing financial services and micro-credit that aids in income generation, improve livelihood and enable community integration. The microfinance industry typically caters to segments of rural and marginalised groups – especially women – and small and micro industries, with a vision to encourage self-reliance among them. At a global level, as of 2018,[7] women accounted for 80% of the microfinance industry's total client base of more than 140 million borrowers.

The microfinance models in India have traditionally followed a feet-on-street approach to undertake various operations such as customer onboarding (know your customer [KYC]), loan disbursal and repayment collection. Following this approach, the Indian microfinance industry has provided a wide array of employment opportunities to almost 120,000 individuals, operating with an extensive network of more than 14,500 branches, as of 31 March 2022.[8]

Banking correspondents (BCs) engage with the unbanked and underserved segment at the last mile, typically in terms of face-to-face interactions, to promote awareness of financial offerings and incorporate trust. Furthermore, the microfinance industry can leverage technology to personalise offerings and interactions with its clients.

Since the beginning of the twenty-first century, the evolution of technology, public digital rails (e.g. India Stack) and initiatives (like Jan-Dhan, Aadhaar, mobile [JAM]) – have played a significant role in the growth of the microfinance industry in India. Multiple pilot projects were created to strengthen the agenda of technology adoption. Regulatory bodies focused on marginalised communities through guidelines such as the use of a business facilitator, BCs[9] and directives to regional rural banks, urban cooperatives and small finance banks (SFBs) for last-mile customer enablement and inclusion. The Reserve Bank of India (RBI) diktat in 2016 allowing SFBs and non-banking financial companies (NBFCs) to become BCs for commercial banks[10] gave the microfinance institution (MFI) landscape the required leeway to invest in technology for both mid- and back-office efficiencies as well as last-mile customer enablement.

This report highlights the analysis of the latest technology trends and scenarios in microfinance at global and domestic levels (including trends in the Northeast and West Bengal region) with a focus on various opportunities in business innovations, technology, workforce development, and environmental, social and governance (ESG). It proposes measures for MFIs to navigate towards the next-gen digital-driven landscape.

7 https://www.adb.org/sites/default/files/institutional-document/691951/ado2021bn-microfinance-social-development.pdf

8 https://www.nabard.org/auth/writereaddata/tender/2707225843somfi-2021-22-final-english.pdf

9 https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2234

10 https://rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=854

02 Analysing the financial inclusion landscape

The global market size for the microfinance industry is estimated to grow by USD 122.46 billion from 2021 to 2026 at a compound annual growth rate (CAGR) of 11.61%.[11] Rapid adoption of technology has been one of the primary contributing factors for the growth of the microfinance sector. Moreover, global development agencies and several governments have been making concerted efforts to alleviate poverty by enabling financial inclusion products, such as micro-credits, to the underserved segment.

Owing to the growth in financial technology aided by the widespread adoption of mobile and internet services across the world, the microfinance industry was able to establish a firm standing globally. As of 2021, 55% of the world population – equivalent to 4.3 billion people – used mobile internet.[12]

11 https://www.globenewswire.com/news-release/2022/09/13/2514771/0/en/The-Global-Microfinance-Market-is-expected-to-grow-by-122-46-billion-during-2022-2026-accelerating-at-a-CAGR-of-11-61-during-the-forecast-period.html

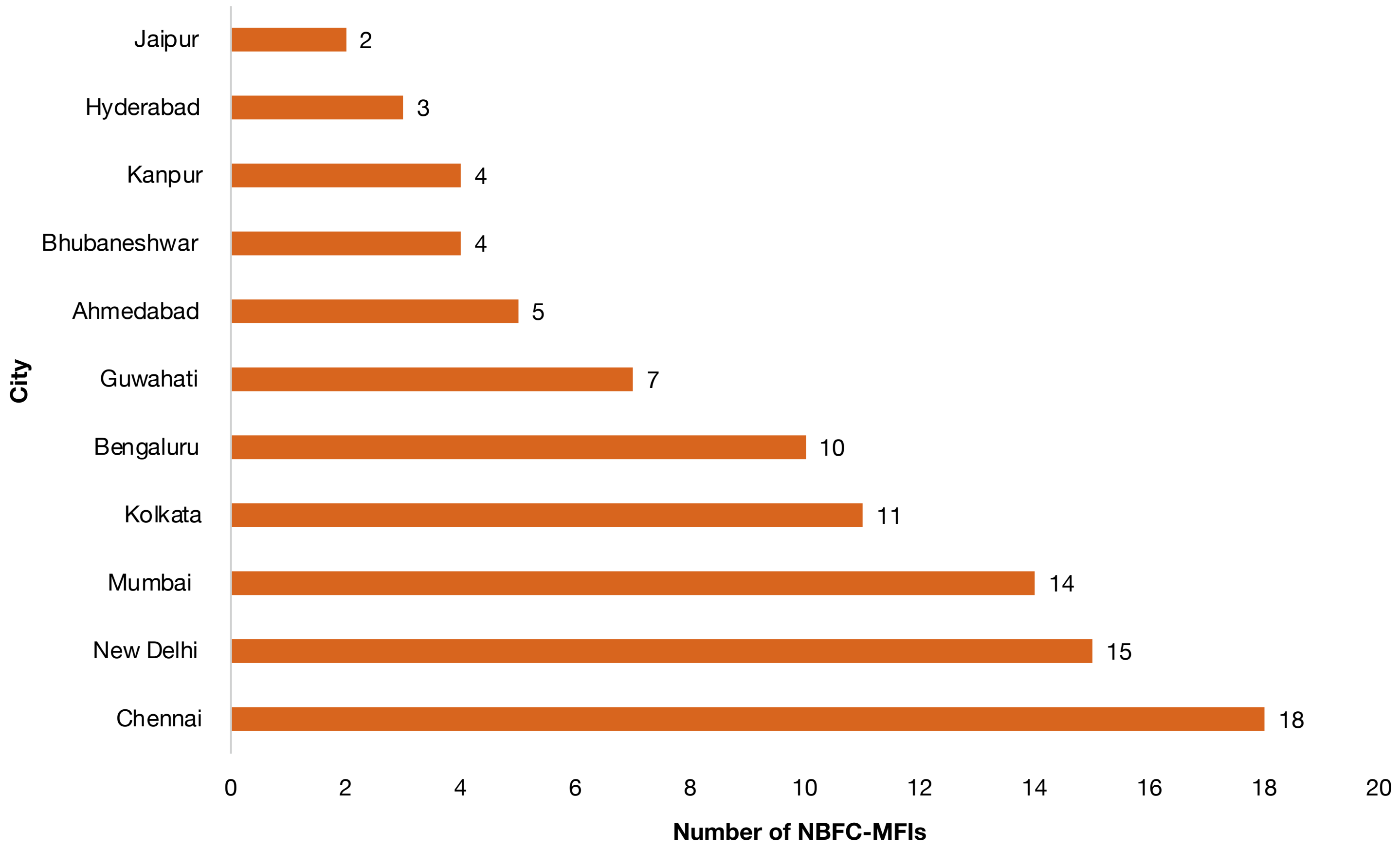
12 https://www.statista.com/topics/779/mobile-internet/#topicHeader__wrapper

2.1. The evolution of microfinance in India

As we observed in a previous report on the microfinance sector, India aims to become a USD 5 trillion economy by 2025, and the microfinance industry will play a leading role in uplifting the lives of millions of low-income households by enabling them to contribute to the country's economic growth. The future course of the industry will be determined by the ability of players to forge new partnerships, develop new products, create new investment channels and leverage technology to meet the demands of consumers.[13]

From February 2017 to June 2022, the microfinance sector in India has acted as a financial support system for low-income households by offering credit access to 60 million unique borrowers via 118 million loan accounts.[14] During this period, the microfinance landscape in the country underwent multiple transformations in terms of inclusivity and expansion, with an underlying vision for income generation and expansion for its target segments. As of June 2022, the cumulative gross loan portfolio (GLP) of the microfinance industry stood at INR 2,930 billion.[15]

Figure 1: Number of NBFC-MFIs in India (January 2022)



Source: Statista

13 https://www.pwc.in/assets/pdfs/consulting/financial-services/vision-of-microfinance-in-india.pdf

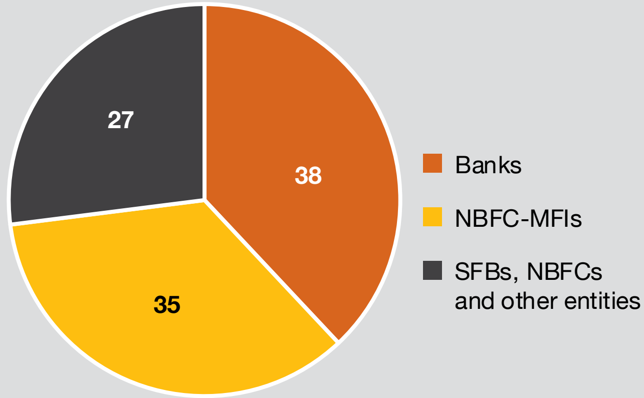
14 https://mfinindia.org/assets/upload_image/news/pdf/Micrometer%20Q1%20FY%2022-23%20Press%20Release.pdf

15 https://m.rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1336

In India, microfinance operations span over all of the 28 states and nine union territories,[16] with a region-wise distribution for the eastern and Northeast regions constituting the major share at 37%.[17] The second-largest share is held by the south at 27%, followed by the west at 15%.[18]

Figure 2 shows the loan portfolio distribution of various institutions in India. Distribution-wise, as of June 2022, banks hold the majority of the share at 38%, followed by NBFC-MFIs with a 35% share. SFBs, NBFCs and other entities constitute a 27% share.[19]

Figure 2: Market share of financial institutions (FIs) in outstanding portfolio



Source: RBI

The Indian microfinance industry primarily functions through two operational modalities:

1. Self-help group-bank linkage programme (SHG-BLP)

The SHG-BLP is the largest microfinance programme in the world, with a total membership of over 11.9 million SHGs across India as of March 2022.[20] The SHG-BLP was initiated in February 1992,[21] directing banks to treat SHGs as formalised customer segments and provide payments and credit facilities. This was a significant step towards the evolution of the banking sector which catered to poor and low-income households that didn't have access to traditional banking.

2. MFIs

MFIs typically lend via the joint liability group (JLG) concept which constitutes a 5–10 member informal group, seeking loans individually or in a group. JLGs have a faster turnaround and their non-performing assets (NPAs) have historically been less than 1% and therefore more scalable as compared to the SHG model with a historical NPA range of 7–8% (as per data as of 2019).[22]

16 https://m.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=21397

17 Ibid.

18 Ibid.

19 Ibid.

20 https://www.nabard.org/auth/writereaddata/tender/2707225843somfi-2021-22-final-english.pdf

21 https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=942

22 https://www.pwc.in/assets/pdfs/consulting/financial-services/vision-of-microfinance-in-india.pdf

Figure 3: The microfinance journey in India

Before 2010	2010–17	2017–present
Expansion | Growth and transformation	Demonetisation | Recovery | Rapid growth	Digital innovations and transformation
Know your customer (KYC)	**Jan-Dhan accounts**	**Aadhaar-enabled identification**
01	02	03

Source: PwC analysis

Before 2010

This phase was represented by the growth of various players in the microfinance sector, from NGOs to a rising number of licenced MFIs such as NBFC-MFIs. Access to technological integrations was mainly in the form of computers, telephones, fax machines, automated teller machines (ATMs) and rudimentary internet/mobile banking services.

2010–2017

Post 2010, the microfinance industry grew rapidly due to regulatory developments and operational regimes such as the emergence of self-regulatory organisations (SROs), capital support from institutions such as multilateral agencies and sovereign wealth funds, and digitisation of the microfinance ecosystem. One of the noteworthy recognitions during this period was the issuance of a full-fledged banking licence to an MFI[23] and eight NBFC-MFIs to operate as SFBs.[24] In 2016, the GLP volume stood over INR 532 billion.[25] However, in November 2016, due to demonetisation, the microfinance industry faced a temporary growth hiatus, affecting 67% of the rural population,[26] as the majority of MFI transactions depend on cash.

2017 to present

From 2017 onwards, the microfinance industry embraced the digital wave marked by innovations and transformation. Digital delivery channels such as mobile banking, e-wallets and bank transfers paved the way for the microfinance sector to adopt digitisation at a large scale.

An NBFC-MFI association ran a pilot project in 2019, across 19 branches in India, along with six NBFC-MFI members in order to assess the viability of loan collections through digital payment tools. Post-completion, it was inferred that Aadhaar-based payment was one of the modes preferred by MFI borrowers with the potential for scalability.[27]

The Aadhaar-enabled identification system in India has around 1,277.9 million live users, as of June 2022,[28] and it has been useful in carrying out microfinance activities at a greater pace, reducing operational costs and enabling MFIs in customer onboarding and fraud detection.

The COVID-19 pandemic, which immobilised markets, also served as a catalyst for MFIs and customers to adopt technology for use cases such as digital onboarding, credit disbursement and collections.

23 https://bandhanbank.com/Our-Story#:~:text=2015,started%20with%202%2C523%20banking%20outlets

24 https://www.livemint.com/Industry/1Jqz0fDRUpIUeYSJs8tCmK/RBI-grants-small-banks-licence-to-10-applicants.html

25 https://www.statista.com/statistics/721281/india-gross-loan-portfolio-of-microfinance-industry/

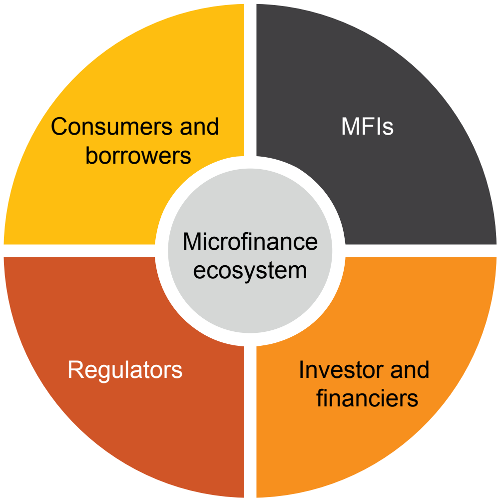
26 https://www.macrotrends.net/countries/IND/india/rural-population

27 https://mfinindia.org/assets/upload_image/publications/Studies/Project%20Report%20on%20Incubating%20Models%20of%20Digital%20Transcations%20of%20Microfinance%20Lending.pdf

28 https://www.uidai.gov.in/images/AADHAAR_NUMBERS_ENGLISH.pdf

2.2. Understanding the microfinance ecosystem in India

Figure 4: Components of the microfinance ecosystem



Source: PwC analysis

The microfinance ecosystem encompasses the following components.

Consumers and borrowers: These are microfinance customers who require financial services, usually in the form of microloans or micro-credit. Typically, the loan availed by the consumers is for the purpose of income generation, financing an asset or mitigating an unforeseen event.

The microfinance clientele includes self-employed individuals and small business owners. For instance, clients in rural regions comprise small farmers, traders and daily-wage workers. Similarly, in urban regions, street vendors, shopkeepers and artisans are some of the common segments that avail of microfinance services.

MFIs: MFIs are financial organisations that provide financial products such as small loans to the underserved and underbanked strata of the economy, typically residing in Tier III and beyond cities. MFIs aim to reduce poverty, create employment and improve social capital, thus empowering marginal groups. Other MFI offerings could include savings accounts, microinsurance, investments and pension products.

In offering such services, MFIs typically play the role of a distributor and hence generate fee income from the manufacturers – such as commercial banks and insurance companies. Therefore, the technology to improve reach and provide a comprehensive suite of financial services to end customers is an important lever for growth and revenue generation. The cumulative micro-credit loan portfolio of 225 lenders – including NBFC-MFIs, banks, SFBs and NBFCs – stood at 2,625.99 billion as of March 2022.[29]

Investors and financiers: Typically, scheduled commercial banks (SCBs), NBFCs and SFBs deploy the capital to MFIs as a part of priority sector lending (PSL). The RBI-prescribed Master Directions-PSL for microfinance has allowed banks to extend credit to NBFCs, other MFIs and also SHG/JLG members under the agricultural sector.[30] This master direction by the RBI has elevated and diversified the capital base for MFIs to deploy more credit and reach out to a wider consumer base.

The other category of investors includes institutions, development and multilateral agencies, and corporates which, as part of their vision statement or corporate social responsibility (CSR) initiative, provide funds to the MFIs with a focus on long-term value creation.

Regulators: The RBI is the primary regulator for MFIs in India, which helps in laying out the necessary frameworks and policies to maintain confidence in the ecosystem. The apex regulatory body focuses on the protection and enhancement of the stability of the financial system by securing the appropriate degree of protection for consumers.

29 https://www.nabard.org/auth/writereaddata/tender/2707225843somfi-2021-22-final-english.pdf

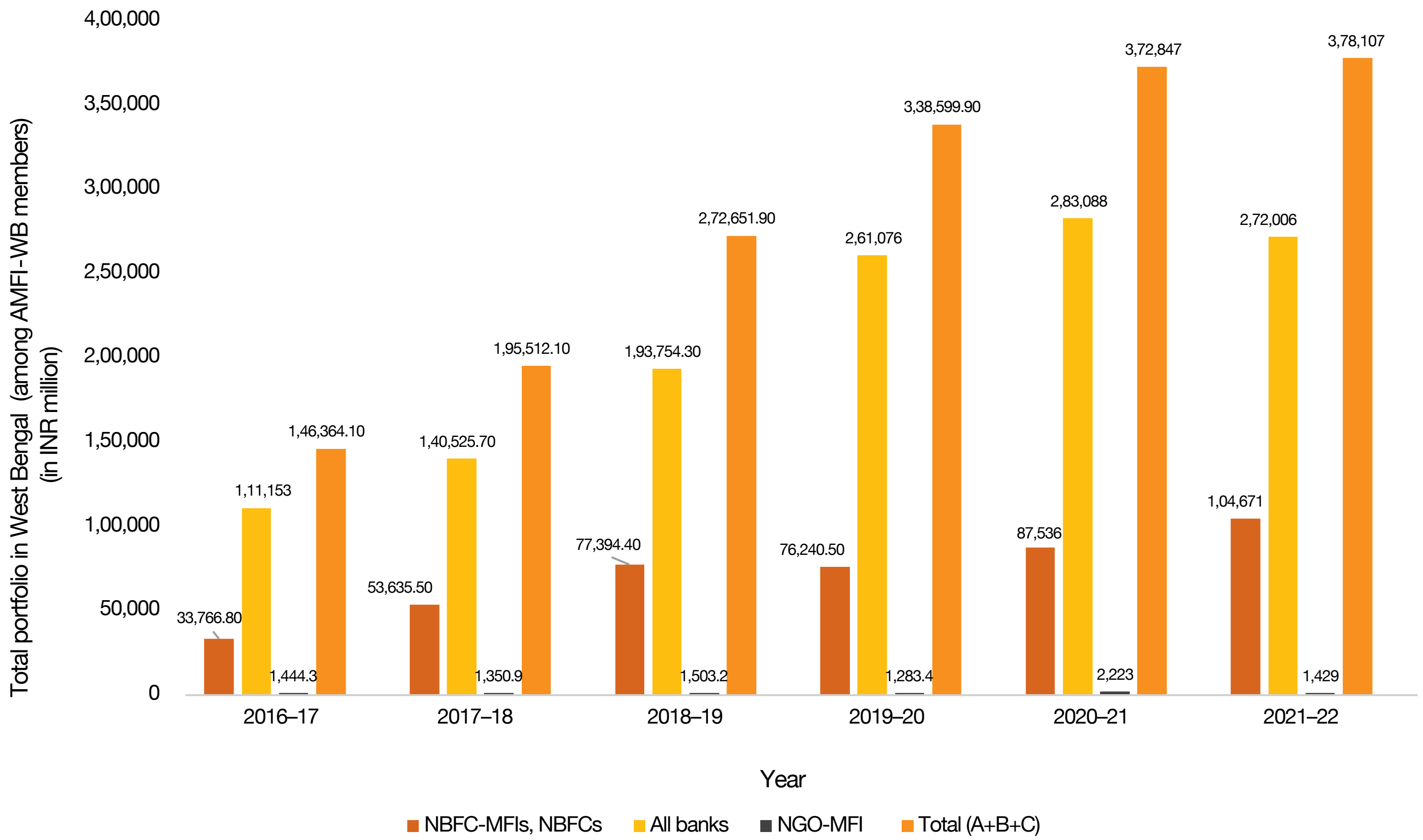
30 https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11959&Mode=0

2.3 Key MFI trends in West Bengal and Northeast region

As of November 2022, the eastern and northeastern Indian regions comprised 37%[31] of the total microfinance portfolio in India.

In West Bengal, institutions have always been at the forefront in terms of offering financial services such as micro-loans to low-income groups. The state stood third in terms of MFI loan portfolio outstanding, after Tamil Nadu, and Bihar as of September 2022.[32]

Figure 5: Category-wise portfolio outstanding in West Bengal



Source: AMFI Annual Report 2021–22

In 2021, the Assam government introduced the Assam Microfinance Incentive and Relief Scheme (AMFIRS) aimed to sustain microfinance initiatives in order to support the economic activities of the poor and low-income households in the state. The scheme was expected to help more than 1.4 million microfinance customers, with the state government planning to disburse INR 72 billion.[33]

31 https://m.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=21397

32 https://mfinindia

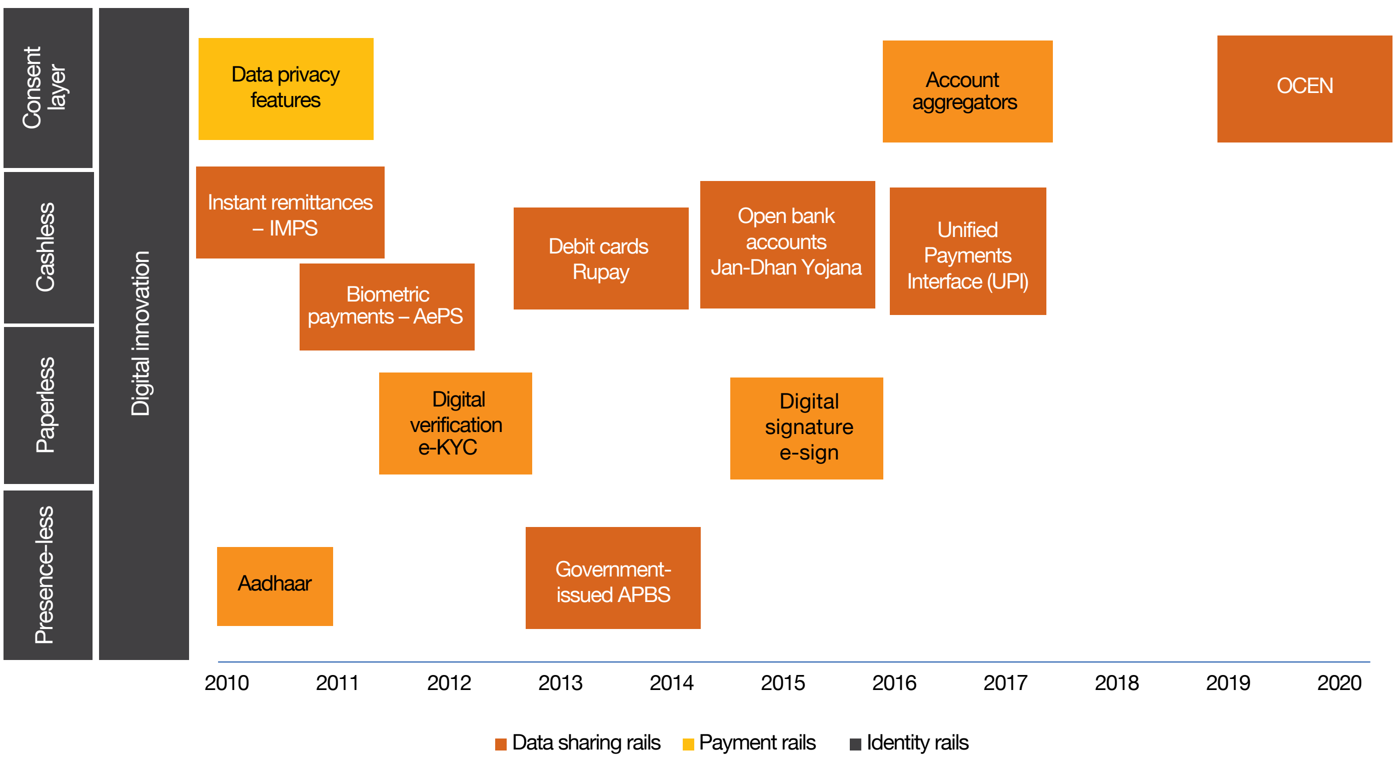
33 https://amfi-wb.org/wp-content/uploads/2022/09/%E2%80%9CReimagining-Micro%EF%AC%81nance-in-Light-of-the-Emerging-Regulatory-Paradigm-Thought-Leadership-Paper-2022.pdf

2.4 Public digital rails enabling MFIs in India

The use of technology has been instrumental in MFI growth and a key part of the regulator's agenda since the early 2000s, buoyed by the continual shifts in consumer literacy and increasing adoption of digital modes of communication. For example, research conducted by the National Payments Corporation of India (NPCI) for assessing the digital payments adoption in India indicated that 25% of consumers in lower income groups (average income of household/year: INR 110,000) are likely to opt for digital modes of transaction.[34]

India Stack has provided the necessary digital infrastructure and rails having various interconnected services for customers on unified national platforms. Furthermore, it has four core principal layers that revolve around a paperless, cashless, presence-less and consent-based economy. India Stack envisions financial inclusion for more than a billion potential Indian internet consumers.

Figure 6: India Stack overview



Source: PwC analysis of RBI's published chart

Below are some illustrations of how some rails have helped the MFI space.

Onboarding: A financial services focused BC company that focuses on last-mile outreach across the Indian rural segment employs the use of biometrics to facilitate customer identification, customer onboarding and transactions through mobile technology. With the Aadhaar Enabled Payment System (AePS), a significant number of bank accounts have been registered across multiple branches under the BC model.

Disbursement: A private sector bank in India employs the Aadhaar payment bridge system (APBS) for the purpose of microloan disbursements. Developed by the NPCI, the microfinance sector could achieve 80 million loan disbursements annually by leveraging APBS. Through this digital rail, MFIs can disburse loans directly to their customer bank accounts that are linked with Aadhaar.[35]

Collection: An Indian MFI has partnered with an international bank to facilitate seamless EMI loan payments through Unified Payments Interface (UPI) platforms for its borrowers. The platform integration will enable the strengthening of the collection framework process by reducing risks in cash management and enhancing customer experience and process efficiency.[36]

34 https://www.npci.org.in/PDF/npci/knowledge-center/Digital-Payment-Adoption-in-India-2020.pdf

35 Ibid.

36 https://www.npci.org.in/PDF/npci/press-releases/2017/NPCI-pilots-APBS-and-UPI-tools-to-digitize-the-Microfinan.pdf

Technological interventions in the microfinance industry

Wide use of mobile technology, internet and mobile banking services have augmented the operational processes at lower costs for the MFIs to promote financial inclusion.

Examples:

1. In 2015, an Indian microfinance company was the first in its league to employ mobile technology for approving and disbursing loans. The benefit of this large-scale technological implementation helped the company in monitoring real-time transactions, digitising their physical records and synchronising reports which helped in optimising processes and nurturing transparency across its value chain.[37]
2. The SHG-bank-linked sector facilitates its operations through various technological integrations for providing access to affordable credit. A development bank with a focus on agriculture and allied ecosystem launched a programme that aims to promote the digitisation of self-help groups. The objective of the programme is to resolve issues like book-keeping quality for the microfinance collectives, members' credit history and multiple memberships records of the SHG members.[38]

37 https://www.sonataindia.com/downloads/Annual-Report-2017.pdf

38 https://www.nabard.org/demo/auth/writereaddata/File/E-Shakti%20Pilot%20Project%20on%20Digitisation%20of%20SHGs.pdf

Opportunities and challenges for MFIs across the value chain

03

For sustainable growth, MFIs need to consider different technological interventions which may expand customer access, reduce operating costs and introduce opportunities for developing more dynamic products. While technology plays an important role, MFIs need to weigh the options of expanding their technological capabilities through internal investments or via strategic alliances and partnerships. In this section, we will look at some of the key challenges for MFIs across the value chain, potential technological interventions and partnership opportunities.

3.1. Business and innovation

In a survey conducted by PwC, 32% of executives of FIs believe that FinTech partnerships can provide FIs with the required technological innovations for a higher-value delivery to the borrowers.

Over the last decade, FinTech firms have successfully built various products and platforms for MFIs that have reduced the turnaround time, increased efficiency and made it more cost-efficient.

Figure 7: Sample lending value chain and its components

Customer acquisition → Underwriting and risk management → Services and collection → Fraud detection → Product management

Source: PwC analysis

Customer acquisition

Challenges

Customer acquisition and management have been a challenge for MFIs due to the following factors:

- Lack of customer awareness and literacy: A key challenge for MFIs is the customer's lack of awareness related to the financial products available for them.
- Dependence on physical modes of interaction: The traditional MFI model is dependent on physical sales and service channels to meet the consumer demands. MFIs usually serve the low-income and rural economic segments that lack trust in financial products and have lower digital adoption and heavy dependency on physical channels for sales and services.

How tech integration can assist customer acquisition

- Several FinTech players have combined technological capabilities with smart incentive structures to equip alternate last-mile digital channels such as kirana shops, mobile recharge shops and local influencers. These last mile BCs, equipped with digital solutions and products such as mobile point-of-sales (mPoS) are able to interact, acquire and serve underserved customers by providing them with a seamless digital experience in a trusted environment.
- A number of technology players have developed customer onboarding solutions that use Indian tech stacks such as Aadhaar-based KYC and e-sign along with customised intuitive digital customer journeys to streamline the end-to-end onboarding and financial transaction processes. These solutions are further supported by video-based KYC, verification of various available national IDs using optical character recognition (OCR) and AI technology for fraud detection and early warning signs.

Examples

- An Indian FinTech focused on last-mile financial service delivery has partnered with a retail bank to onboard 10,000 women BCs to digitise transactions via the SHG modality. With an aim to improve banking access and income generation for these women, the company endeavours to offer solutions to expand their financial inclusion agenda. The women BCs cater to this agenda by acting as enablers for direct benefit transfers (DBTs) and helping to familiarise underbanked customers with banking services.

39 https://www.pwc.in/assets/pdfs/consulting/financial-services/vision-of-microfinance-in-india.pdf

40 https://bfsi.economictimes.indiatimes.com/news/banking/paynearby-onboards-10000-women-business-correspondents/83982871

- An NBFC-MFI set up by an Indian private bank has enabled 200,000 kirana stores with banking technology applications and infrastructure to serve the last-mile customers by providing services such as biometrics-based transactions for cash deposit, withdrawal and utility bill payments.[41]
- An Indian FinTech company has built a platform to provide microfinance players with the ability to disburse micro-credit quickly and remotely. The technological capabilities aid the MFIs to leverage the platform for faster processing of loan applications. Features such as geo-tagging, paperless application, multi-bureau integrations and instant verification help the MFIs to complete processes such as underwriting capabilities and faster onboarding.

Underwriting, verification and risk management

Challenges

- A majority of the borrowers who take micro-credit belong to low-income households who usually do not have a credit history. Additionally, potential borrowers also lack sufficient documentation and collaterals for assessing their creditworthiness.

How tech integration can assist MFIs in underwriting, verification and risk management

Conventionally, the MFI borrowers are thin-filed customers. Thus, technology plays a crucial role to assess the ability and the willingness of the customers to pay. The aggregation and optimisation of surrogate data touch points such as utility bill payments, mobile recharge data, land records data, etc. can aid MFI lenders to better assess the borrowers and build products based on cash flows rather than assets owned. Hence, developing the necessary application programming interface (API) capabilities to facilitate smooth integration with different data providers becomes a key technological requirement.

Similarly, willingness to pay also plays an important role for the new to-credit customers. Technologies such as behavioural analysis and facial expression analysis can aid MFIs in conducting psychometric analysis of the customers which further aids in the risk assessment of the potential borrowers.

Technologies such as big data analytics, geo-tagging and AI can also aid MFIs in portfolio monitoring and build early warning sign systems for better loan management collections.

Examples

- An NBFC-MFI in India has partnered with a financial services firm to develop a psychometric tool with technological integrations for the credit worth assessment of the borrowers. The tool aids in making credit decisions by determining the borrower’s intent to repay loans.
- An Indian neo-banking platform that focuses on underbanked segments has leveraged a digital financial services platform for capturing large amounts of data and utilising it for making robust underwriting decisions through data analytics and AI support.

41 https://www.thehindubusinessline.com/money-and-banking/bharat-financial-to-roll-out-2-lakh-kirana-points-in-16-states/article9726696.ece

Services and collection

Challenges

- The nature of customer segments in the microfinance ecosystem is quite diverse. The consumer behaviour and loan requirements for different customer profiles such as small farmers, vendors and labourers may vary. Different customer segments may require different levels of services based on their comfort with financial products and digital literacy. Therefore, MFIs should cater to the different customer segments with customised products with parameters aligned to the segment's needs.
- The dependence on physical modes of interaction poses a challenge for the MFIs to reach their last-mile borrowers. The conventional touchpoints for payments such as reliance on BCs form a gap in the collection process, resulting in a lack of trust amongst the customers.

How tech integration can assist MFIs in services and collections

- Through appropriate technological interventions, MFIs can build customised offerings and omnichannel experiences targeting different personas.
- To combat digital literacy challenges, FinTechs are serving the underbanked customers through multilingual chatbots to provide resolutions to frequently generated queries. Multilingual voice bots automation calls are also developed to provide support through calls.
- The advent of mobile technology has accelerated opportunities for MFIs to address the repayment challenges. Similar to a utility payment model, the interoperable payment system through various digital rails such as UPI and AePS could facilitate timely loan repayment. MFIs could also look to leverage digitised distribution channels for collections. Using these methods, customers can make digital payments either online or via assisted services provided by BCs, thereby saving time spent in making physical visits to bank branches.

Examples

- A digital solutions company offers chatbot services for microfinance clients in the form of a conversation environment enabling digital literacy. The chatbot assists the customers in educating them about the financial services available for them, eligibility criteria for loan applications, etc.
- An Indian FinTech solution provider has recently partnered with an association of microfinance institution by developing and promoting digital payments for non-smart-phone users in the microfinance segment. By enabling non-smartphone UPI payment infrastructure for auto repayment of loans, this innovation could benefit millions of non-smartphone users to carry out digital financial transactions such peer-to-merchant, utility bill and loan payments.
- An Indian NBFC-MFI has partnered with a payments bank company for facilitating digital repayments and mitigating the challenges of cash collections such as requirement of physical touchpoint at the last-mile, settlement and reconciliation delays and potential frauds and thefts related to cash handling. The MFI has additionally introduced the option of cash-drop facility which reduces the reliance on physical BC touchpoints and allows customers to pay back in cash.

Fraud detection

Challenges

Operational frauds such as borrowers with fake identities and non-existent clients are some of the types of fraud that occur during loan disbursements and repayment. Some of the common instances of fraud involve the provision of loans to unverified customers, and lack of records for the actual loan amount disbursed.

How tech integration can assist in fraud detection

- To tackle the risk of identity verification, several technology players have created solutions that leverage AI/ML and data analytics to detect fraudulent documentation, fake videos and ghost identities.
- Another key strategy adopted is the utilisation of advanced analytics along a wider array of transactional, behavioural and other alternate data points to identify potential fraud occurrences in real time.

Examples

- An Indian FinTech company has built sophisticated AI/ML algorithms for enabling fraud management systems and detection. Through facial detection, image matching and computer vision, the ML algorithm processes specific data points to determine the customer score and validate it with the existing data. The facial recognition feature confirms the authenticity of the user's existence in real time.
- A microlending company based in India uses alternative data collected from the user's mobile phone and AI/ML capabilities to assess potential frauds. The transactional and behavioural analysis helps in conducting the predictive analysis and prevents fraud.

Product management

Challenges

Given the very nature of customer segments catered to by MFIs, there is a need for more customised product offerings that meet the unique requirements of these different target segments. Such customisations could be in the form of tenure, ticket size, repayment cycles, the purpose of loans, etc.

How tech integration can assist in fraud detection

- The MFIs have been partnering with FinTechs to offer financial guidance to the customer at the early stage of their journey by leveraging ML algorithms. This can help the institutions to recommend relevant products to their customers at the right time based on different triggers (e.g. current assets and liabilities, potential future cash flows, customer lifetime milestones, etc.).
- The Bharat customer is typically defined as someone living in Tier III and beyond on marginalised earnings and working in the unorganised sector. It is being witnessed that the Bharat customer, especially the Gen Z, is becoming more digitally native and aspirational due to the penetration of content-driven products and its consumption on the mobile phone. The increasing awareness and aspiration of the customer also lay the ground for contextual financial products such as payments, investments, buy now pay later (BNPL), etc.

Example

- An Indian MFI offers customised products along with skill training and literacy initiatives catering to women entrepreneurs. These women lack access to formal banking services, especially in rural areas. For example, the company has created flexible repayment options (weekly and monthly collection schemes) to suit the needs of its customers.

3.2. Alliance and ecosystem strategies through expanded partnerships beyond financial services

The advent of emerging technologies, increasing customer demands, and the need for increased customer engagement and stickiness have accelerated the need for a strategy that encompasses building internal capability as well as developing operations and distribution competencies through partnerships and alliances.

As covered in the previous section, FinTechs look for ways to transform operational processes and redefine customer journeys with a focus on a core value chain or a product/service with agile systems. FinTechs are also expected to play a significant part in the increased digital adoption and financial inclusion for the underbanked and underserved customers. Therefore, FinTechs are important alliance partners to consider for MFIs as they can play an important role in enhancing internal capabilities as well as distribution and last-mile customer service.

Additionally, there have also been significant technological disruptions across sectors such as agriculture, healthcare and education which have given rise to startups, SaaS players, TechFins and other technology players, utilising strategies to digitise their respective ecosystems and thus inadvertently creating distribution channels and access points for customer segments that have traditionally been less viable to access formal banking products and services.

Strategic partnerships between MFIs and other startups, SaaS players and TechFins can improve customer acquisition, consumer experience and product offerings. Partnerships and alliances built on complementing capabilities can also help to bring down manpower expenditure which is a significant expense category for MFIs.

Customer acquisition, engagement and retention will be strategic priorities for MFIs in an increasingly competitive environment. Additionally, increased scrutiny from the RBI and further demarcation of roles and responsibilities of regulated and unregulated business models set the tone for the potential collaboration between MFIs, banks, FIs, FinTechs and other technology players. Each player is expected to focus on the core capabilities across the value chain to provide a unified and seamless experience to the customers.

A few illustrative examples of ecosystem collaborations for MFIs are given below:

1. MFIs who acquire and engage customers at the last mile can leverage pre-existing distribution with large presence and activity on the ground through corporate partnerships with institutions such as fast-moving consumer goods and logistics.
2. MFIs usually lack the technology, infrastructure and know-how to integrate with FIs for products such as co-origination, which can help MFIs to lend more and efficiently manage risks. MFIs' partnership with TechFin/SaaS players enabled by APIs can help them in integrating with incumbent FIs systems, enhancing underwriting parameters and strengthening process compliance.
3. MFIs in partnership with FinTechs and other consumer tech platforms can leverage government digital services and technology stacks such as permanent account number (PAN) issuance, direct benefit transfer (DBT), UPI, account aggregator (AA) and Open Network for Digital Commerce (ONDC) to further enable last-mile distribution and provide value-added services to drive inclusion and serve low-income households.

ESG and its importance in the microfinance industry

MFIs are creating products and solutions that provide opportunities of financial inclusivity and women empowerment thereby fostering social equality and income growth for lower-income groups. A number of MFI products also impact the livelihood and sector growth which have a direct impact on the environment. The MFI ecosystem is therefore uniquely placed to have a positive influence on the environmental and social levers of India's ESG ambition.

Environment

MFIs are becoming instrumental in improving the rural ecosystems with a sizeable share of its financial offerings impacting the agricultural and allied activities. These MFIs also focus on sustainable development by promoting and financing energy generation through renewable methods.

E.g.: An Indian NBFC-MFI has provided clean energy for over five lakh homes resulting in the reduction of over three lakh tonnes of CO_2 emissions.[42]

Social

Several MFIs have brought changes in the society through their outreach programmes. Some programmes include skill development and training with a focus on women's empowerment to aid them on their entrepreneurial path. Such programmes can increase potential growth opportunities through bringing financial stability to both women and men.

E.g.: An Indian NBFC-MFI has raised an ESG loan from a global financial institution to focus on its ESG objectives for reinforcing women's entrepreneurship in the country.

42 https://bfsi.economictimes.indiatimes.com/blogs/how-mfis-can-contribute-to-the-esg-framework/5039

An overview of regulatory stakeholders and their role

04

4.1. Enabling the regulatory framework and the role of the RBI

Evolution of the regulatory framework

Currently, microfinance is offered through various institutions such as SCBs including SFBs and regional rural banks (RRBs), lending both directly and through BCs and SHGs, cooperative banks, NBFCs and MFIs registered as NBFCs.

Owing to its diverse and dispersed nature, the microfinance sector in India remained largely unregulated for a long time. Disruptions such as the Andhra Pradesh microfinance crisis[43] and other such incidents increased the demand for regulation of this segment. Exercising the powers vested with the RBI to regulate the NBFC under the RBI Act, the RBI started regulating the MFIs operating in the company form. The initial attempts to regulate this segment were focused on bringing in a regulatory framework for the classification of microfinance loans, addressing the issues related to over-indebtedness considering the lower-income and lower-middle-income group of customers opting for microfinance loans, regulating the rate of interest, and facilitating higher transparency and disclosures to enable the borrowers to make an informed decision.

The RBI has remained cognisant of the growing importance of microfinance and recognises it as a paradigm having immense potential, and has been playing a significant role in its growth by enabling a regulated environment. One of the major regulatory interventions in the sector was the recognition of a separate type of NBFC as NBFC-MFI. This was one of the major recommendations of the Malegam Committee.[44] The notification of NBFC-MFI was a landmark in the regulatory history of the microfinance sector. Critical aspects such as eligibility criteria for microfinance loans, prudential norms, qualifying assets, capital adequacy and grievance redressal were bought in by the RBI to build a strong regulatory environment around the microfinance sector. The RBI also issued instructions to commercial banks providing financing to other MFIs.

Additionally, the RBI also announced its intent to recognise select industry bodies as SROs which will be entrusted with the supervision over the code of conduct compliance and other related matters. Further, all MFIs were mandated by the RBI to become members of such SROs to remain registered as an NBFC-MFI. As of today, the RBI has recognised notable industry bodies like MFIN and Sa-Dhan as SROs. These SROs have not just helped in supervising the implementation of the code of conduct but also in raising awareness on compliance matters and consumer protection thereby supplementing the efforts of the RBI.

Revised regulatory framework

As the microfinance sector has grown over the years, it has also come up with its own challenges on which the RBI keeps a close watch. These challenges are primarily centered around customer protection in matters such as over-indebtedness and multiple loans by the customers who generally belong to lower-income or lower-middle-income groups, pricing of microfinance loans which remained regulated for a longer period of time due to which the customers couldn’t get the benefit of competition.

With the objective of addressing these challenges, the RBI released a consultative document on the revised regulatory framework for MFIs in June 2021. Pursuant to detailed deliberation on feedback, and representations received from multiple quarters, in March 2022, the RBI issued the Master Directions for Regulatory Framework for Microfinance Loans to mark the beginning of a new era of the MFI sector.

Some of the key features of the revised regulatory framework[45] are given below.

- The revised regulatory framework is now applicable to all regulated entities including all commercial banks (excluding payment banks), all cooperative banks and all NBFCs including microfinance institutions (MFIs) and housing finance companies (HFCs). Additionally, the not-for-profit entities with asset size greater than INR 100 crore will also be required to take NBFC MFI to licence. The annual household income criteria for a microfinance loan has been increased up to INR 300,000 from the previous limit of INR 125,000 and INR 200,000 for rural and urban/semi-urban households respectively. This criterion shall be extended to all regulated entities for the purpose of the common definition. The household income must be determined in line with the policy approved by the board of the MFI in this regard.
- To address the concerns of over-indebtedness, the loan amount has been linked to the household income to ensure that the monthly repayment loan obligations should not exceed 50% of the monthly household income.
- MFIs are now allowed to decide the maximum interest rate on loans with a rider but the rate should not be exorbitant for the borrowers and will remain subject to supervisory review at the RBI’s end.

43 http://www.microsave.net/files/pdf/AP_MFI_Crisis_Report_MicroSave_CMF_Ghiyazuddin_Gupta.pdf

44 https://www.rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12256&Mode=0#:~:text=A%20consultative%20document%20on%20regulation,microfinance%20loans%20which%20are%20enclosed

45 https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12256

- The minimum net owned fund (NOF) for an NBFC-MFI has increased to INR 10 crore. Existing NBFC-MFIs have been provided with a transition timeline to achieve the revised NOF.
- The qualifying asset requirement for an NBFC-MFI has been brought down to 75%. This change has enabled other regulated entities to grant microfinance loans up to 25% of their asset size which would contribute to a larger customer base and a better growth rate in the industry.
- The RBI has also put in place compliance requirements for regulated entities regarding the submission of income and other related information of microfinance borrowers to the credit information companies (CICs) which in turn ensures adequate supervision over the compliance with the level of indebtedness of each borrower vis-a-vis their incomes.

Customer protection

While acting as an enabler of the microfinance sector, the RBI has proactively worked to protect customer interests. Some of the key initiatives in this regard are:

- Mandatory disclosures related to interest charged by various institutions to the public in general, thereby giving the customers the power to make a choice while availing of a credit facility.
- Compliance obligations on the lenders/institutions/financiers in creating customer awareness at the time of loan application.
- Increased disclosure norms with respect to the total pricing of the loan.
- Mandatory disclosure of the details of the recovery agent or the representative who shall collect the repayment amount.
- All communications to the borrower should be explained and written down in a language understood by the borrower.
- Option for the borrower to select the periodicity of the repayment obligation.
- Detailing and explaining the other terms and conditions of the credit facility to the borrower before loan sanction.
- No penalty on defaults in repayment.
- Displaying details with respect to the grievance redressal committee – the person responsible, contact details, etc. – on all its communications with the borrower, the website and offices of the lender.

Throughout the evolution of the regulatory environment, as a regulator the RBI has played an important role in being an enabler of the microfinance industry and has made adequate regulatory interventions in the required spheres from time to time.

It is evident that the success of an industry largely depends on the regulatory environment it works in. The regulator and the policymakers have a great responsibility in terms of bringing in the right practice at the right time to ensure the sustainability of the industry. A sustainable ecosystem requires a cooperative approach of the government, the regulatory bodies and SROs to work together to create opportunities and benefits for the end customers. So far, the industry is adequately regulated and is showing a great amount of stability in its functions. This stability is a result of the decisions taken and the regulations implemented by the regulator and policymakers. The RBI and other stakeholders are also working closely to analyse the avenues that can be explored by the industry.

4.2. Evolving role of SROs in changing regulatory and macro landscape

The major SROs in the microfinance segments such as MFIN and Sa-Dhan have played an important role in the development of the microfinance segment. The formation of SROs in microfinance was first recommended by the Malegam Committee Report.[46] When the committee actively recommended the creation of a new category of NBFC called NBFC-MFI to bring the focus of the non-banking sector into microfinance, it also recognised the need for SROs in the industry to promote good regulatory practices.

An SRO is a voluntary organisation appointed by the industry participants and recognised by the concerned regulator to monitor the functioning of the members and bring in a favourable degree of standardisation in the industry practices by setting out its own rules for fair conduct and ethical practices.

MFIN has been one of the major organisations to support the RBI with various initiatives in the MFI space such as developing the notification of the creation of the NBFC-MFI category. MFIN facilitated the launch of the credit bureau for the microfinance sector even before it was recognised as an SRO. Similarly, MFIN and Sa-Dhan have undertaken many initiatives to facilitate the microfinance sector and continue to do the same.

The SROs are actively taking part in strengthening the regulatory environment for microfinance institutions by designing the best practices, the code of conduct and ensuring that the regulatory measures implemented by the regulator are properly followed by the players in the industry. The RBI also recommends that the SROs implement adequate checks and balances in the industry and use the SROs as an extended regulatory arm of the RBI.

The SROs have a vital role in ensuring the stability and sustainability of the microfinance ecosystem. The following are the aspects/areas in which the SROs have an important role to perform:

Customer education and protection

- SROs play an active role in providing customer education and protection from a regulator's perspective – MFIN mobile literacy application[47] is an example of the same. As MFIs continue to innovate and expand in terms of customer reach, through partnerships with FinTechs, there will be a further impetus by stakeholders for the last-mile customers on building awareness of digital technologies and financial product nuances. The SROs conduct awareness campaigns for the industry players as well as customers and these campaigns work as a catalyst to promote customer awareness and protection.

Digital lending, technological adoption and collaborations

- The emerging FinTech business model has made a huge impact across the banking and financial services industry including the microfinance segment and has brought about a much-needed innovation across all aspects of the customer journey from marketing and onboarding to collections thereby strengthening the efforts towards financial inclusion and extending access to last-mile customers. However, like any emerging business model, there are bound to be structural gaps and operating issues. Recognising these potential gaps and challenges related to digital lending, the RBI released the digital lending guidelines (DLG)[48] in September 2022 to provide the regulatory framework for digital lending.
- SROs also have an equally important role in sensitising the digital lending industry players. The role of SROs in this segment is not just limited to ensuring the regulatory compliance of the DLG and promoting best business practices around it. SROs can also act as a facilitator for technological adoption by the players. Though technological adoption/upgradation is an expensive affair, it also comes with substantial benefits. SROs can bring together MFIs to develop common technological platforms which can provide open Application Program Interfaces (APIs) to the players in the market. Such open-source architecture will be key for industry participants to collaborate, foster partnerships and drive innovation. The SROs will have a crucial role in enabling the MFIs to adopt technological platforms because only an independent body can absorb the risk possessed by such systems and efficiently implement the same.

Hence, SROs play an important role in the sustenance of the microfinance industry and its participants, and their role is constantly evolving. It is important to note that regulations alone cannot maintain the trust and confidence of the stakeholders. Successful implementation of the regulations, adaptability and development of an enabling environment is imperative for efficient industry operation and growth, and this is where SROs play an important role.

46 https://www.rbi.org.in/Scripts/NotificationUser.aspx/NotificationUser.aspx?Id=12256&Mode=0#:~:text=A%20consultative%20document%20on%20regulation,microfinance%20loans%20which%20are%20enclosed.

47 https://www.pwc.in/assets/pdfs/publications/2017/microfinance-in-asia-a-mosaic-future-outlook.pdf

48 https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12382&Mode=0

Way forward: Drivers for growth

05

Apart from being a key instrument driving financial inclusion and inclusive growth, the Indian microfinance sector is poised to take advantage of the technological developments owing to the innovations by FinTechs. The following are seven themes which would enable and drive the growth of the microfinance sector in India:

Figure 8: Themes enabling the wider adoption of microfinance in India

- Customer-focused digital development
- Growth led by rural consumption
- Adapting to regulatory developments
- Embracing continuous innovation
- Rationalisation of capital cost
- Platform banking and new business models
- Talent development and capacity building

Source: PwC analysis

Customer-focused digital development

Significant growth in the penetration of mobile phones, affordable data and usage of mobile applications in areas such as content and consumer engagement by the rural and lower-income segments have paved the way for microfinance organisations to develop customer-centric offerings and enablement. Leveraging customer data from multiple digital touchpoints and UI/UX enablement in the vernacular, MFIs have the potential to enhance the lending journey from paperless onboarding, disbursement, and monitoring to servicing and collections. Increased adoption and use of digital processes and platforms also aid in offering personalised products and services as well as value-added non-financial services, thereby providing a differentiated customer experience for each customer and increasing the revenue pools of the MFIs.

Growth led by rural consumption

In recent times, the consumption narrative of India's rural sector has become highly sought after. Positive consumer sentiment and a surge in rural demands are expected to be driven by factors such as availability and accessibility of lower priced alternatives to white goods, apparel, packaged goods, etc., reverse migration during the pandemic and growing opportunities available in Tier II cities, formalisation of sectors such as agriculture and manufacturing resulting in growing incomes, and government support through various benefits, schemes and job creation initiatives.

These factors, coupled with digital enablement, are expected to drive income, consumption as well as the need for tailored financial products for seamless payments and lending. Demand for consumption financing is expected to continue to increase, underpinned by the under penetration of access to formal credit and overall growth in consumption.

MFIs have an opportunity to capture the demand for unsecured retail credit with higher adoption by millennials and new credit customers, especially in semi-urban regions.

Adapting to regulatory developments

Incidents of usurious lending, unscrupulous collection methods and lack of governance oversight have drawn regulatory scrutiny. To safeguard consumer interest and secure markets, the RBI has introduced guidelines and regulations for the lending sector. While the terms may change and evolve, the underlying credit need remains. MFIs have an opportunity to be the voice of the underserved and lower-income customer segments and help the RBI in issuing the guidelines and recommendations, and have an opportunity to partner with FinTechs to serve these customer segments with products such as low-limit credit cards and financing solutions at the point of sale.

Access and integration to AA platforms also present an opportunity for MFIs to acquire, serve and access cash economy customers by accessing multiple data points, building credit profiles, managing risk and streamlining costs.

Embracing continuous innovation

India is a large country with a diverse customer base. Therefore, a financial product which is suitable for one section of the customer base may not be suitable for another. Knowledge and understanding of local value chains, demographics and socio-economic variations can help in creating customised offerings for the consumers. Technologies such as big data, AI and predictive analytics can be utilised by MFIs to acquire, engage and service customers. MFIs need to proactively track the latest innovations and developments in the technology arena which may help them in their business processes such as underwriting and distribution. This, along with a streamlined partner/vendor onboarding process, will help MFIs in upgrading their technological capabilities and keeping abreast with the latest technological innovations for their business growth.

Rationalisation of capital cost

Increasing interest rates and MFIs' dependence on commercial banks for funding is expected to further increase the cost of capital for the MFIs. An optimum cost of capital not only helps in offering competitive rates to the customers but also aids in higher net interest margins (NIM), a major contributor to MFIs' bottom line. Higher NIMs and subsequent net profit for MFIs also help them in deploying funds for initiatives such as talent development, product innovations and better customer experience.

Some of the measures that can help MFIs in diversifying and lowering their cost of capital include partnerships with private donors such as development agencies, impact investment firms, foundations and global trust funds. MFIs could also explore fundraising options such as social impact bonds (SIBs) to access low-cost funds.

Platform banking and new business models

Servicing the underserved is not limited to having a bank account or access to conventional credit products but includes access to a wide range of curated financial products. The need for revenue expansion and better customer engagement has led to the emergence of new business models and the advent of platform banking. While MFIs continue to provide their core products on lending, the integration with various FS and non-FS partners to provide a seamless experience with multiple products and services to the end customer helps in customer acquisition and expansion as well as adding multiple fee-based revenue streams.

MFIs should equip financial products and value propositions focused on customer lifestyle needs. For instance, for a farmer, the provision of equipment financing and crop insurance with repayment and premium cycles aligned to the crop cycle would be a significant value addition to the existing services. Similarly, for a marginal worker in the mining industry who is prone to injuries and environmental hazards, the provision of a customised micro health insurance policy and awareness of medical networks is a beneficial value addition. Providing these composite value propositions via platforms and partnerships with multiple contextual products may significantly increase customer engagement and stickiness.

Talent development and capacity building

MFIs often interact with stakeholders with limited financial literacy and formal education. They face a unique challenge where they have to not only enable their customers on digital and financial literacy but also upskill their workforce, including banking correspondents, for effective last-mile delivery. MFIs can tackle this through initiatives such as structured talent capacity development programs along with incentives and rewards for both customers and banking correspondents to learn and adapt to the changing landscape.

The programme/approaches mentioned below could aid MFIs to become digitally enabled, human-empowered organisations:

- Training the trainers
- Partnerships with government programmes on financial literacy initiatives
- Nugget and vernacular programmes for rural branch managers
- Formation of a community on knowledge sharing among borrowers on benefits of digital enablement
- Utilising digital channels for training and information delivery to distribution agents
- Equipping distribution sales representatives with sales to assist mobile applications that provide nudges, suggestions and information on products and enable better sales and collection productivity

The microfinance industry promises to deliver on the financial inclusion agenda with a sustainable approach driven by various transformations towards digital enablement, partnerships, alliances and ecosystems as well as regulatory developments. Technology-based interventions could further improve last-mile enablement for the underbanked customers through innovations, collaboration, digital transformation and talent development. However, it is crucial for MFIs to assess the growing competition from both existing MFIs as well as other emerging SFBs and FinTechs and address challenges specific to the industry. Therefore, MFIs should focus on building secured customised solutions for their customers that fulfil the scalability and reliability aspect for better adoption of their products.

About AMFI-WB

AMFI-WB is an institution which endeavors 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 90 lakh poor women by providing them with financial services, especially micro-credit. With a membership of 48 MFIs, banks, FinTechs, IT, insurance, health service providers, and software companies, approximately 37,000 employees from these sectors hail from lower economic background.

AMFI-WB's primary goals include encouraging MFIs to maintain healthy relationships with banks, ensuring that MFIs stay on track and focused as per the guidelines 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 and workshops, and member meetings on matters of mutual interest.

The sole objective of AMFI-WB is to initiate a significant change by empowering the poor, especially women, who are socially disadvantaged and economically exploited. With this objective, AMFI-WB monitors MFIs to ensure that they are compliant with the RBI guidelines and that they adhere to the codes of conduct prescribed by the RBI, MFIN and Sa-Dhan. It boasts of being a first-of-its-kind initiative in the state's collective fraternity of key MFI players and has been instrumental for the enhancement of income-generating activities among poor women through the help of microfinance services in the state.

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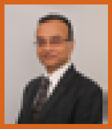

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