

# RBI takes measures to boost MFI lending and regulate PPI issuers

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## Introduction

The monetary policy committee at its meeting held on 04 October, 2019, cut repo rates for the fifth time this year, with an aim to boost economic growth. Simultaneously the RBI has issued the Statement on Developmental and Regulatory Policies<sup>1</sup>. The statement bring in various measures for:

- Regulation & Supervision;
- Financial Markets, and;
- Payments and Settlement System

The salient highlights of the same are covered in this write up.

## Changes in Regulation & Supervision

### 1. Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI)

The MFI framework came into place in the wake of the micro finance in Andhra Pradesh in 2010. A sub-committee was formed of the Central Board of the Reserve Bank to study issues and concerns in MFI sector. Based on the recommendations of the committee, it was decided to create a separate category of NBFC, namely, NBFC-MFI.

An NBFC-MFI is a special type of NBFC which gives small sized loans to borrowers. They have different regulatory requirements relating to NOF (Net Owned Funds), provisioning norms, etc. The RBI has taken several measures in the past to boost MFI lending considering their role and importance in the micro sector.

An NBFC-MFI is defined as a non-deposit taking NBFC that fulfils the following criteria:

- i. Minimum Net Owned Funds of Rs.5 crore.
- ii. Not less than 85% of its net assets are in the nature of “**qualifying assets**”

Further Qualifying assets, means a loan which satisfies the following criteria:

- a. Loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 1,00,000 or urban and semi-urban household income not exceeding Rs. 1,60,000
- c. Total indebtedness of the borrower does not exceed Rs. 1,00,000.

Since a very low annual household income and loan limit was in place and was last revised in 2015, the RBI has now decided to increase the household income limit and loan limit for borrowers of NBFC-MFI's as follows:

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<sup>1</sup> [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=48318](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=48318)

- Increase household income limit from current levels as under:
  - Rs. 1.25 Lakh for Rural areas;
  - Rs. 2.00 Lakh for Urban and Semi-urban areas;
- Raise the lending limit from Rs. 1 Lakh to Rs. 1.25 Lakh per eligible borrower.

Detailed Guidelines in this regard are yet to be issued.

## **Payment and Settlement System Changes**

### **1. Internal Ombudsman by large non-bank Prepaid Payment Instrument (PPI) Issuers**

An Ombudsman Scheme for Digital Transactions is already set up by the RBI. In order to further strengthen the grievance redressal mechanism at the entity level itself, following change has been proposed:

- Institutionalise an internal Ombudsman Scheme at the large non-bank PPI issuers (i.e. entities who have more than 10 million PPI's outstanding)
- The internal ombudsman is intended to facilitate a swift and cost-effective complaint redressal mechanism within the entity and provide an additional tier for grievance redressal.

Instructions in this regard will be issued by October 15, 2019.

### **2. Payment System Data Dissemination**

In light of rapid development in the digital payments space, it has now been decided to publish the entire gamut of payment systems data on the RBI website as well as RBI Bulletin.

## **Conclusion**

Detailed Guidelines on the recommended changes are awaited, some of the guidelines are to be issued this month itself. The revised limits for NBFC-MFI loan limits are likely to bring about higher credit delivery in the country.

Further the minutes of the meeting of the Monetary Policy Committee (MPC) will be published by October 18, 2019. The next meeting of the MPC is scheduled during 3-5 December, 2019.

Links of related articles:

<http://vinodkothari.com/2017/06/should-we-get-an-mfi-license/>