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# MFIN plans more checks and balances to ward off any possible danger

By *Atmadip Ray*, ET Bureau | Updated: Apr 04, 2016, 05.37 PM IST

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KOLKATA: With the astronomical level of growth being back in the field, the [Microfinance Institutions Network](#) (MFIN), the sector's self-regulator, is planning to put more checks and balances to ward off any possible danger of the sector falling from grace again like in 2010.

The Andhra Pradesh [microfinance](#) crisis that put the entire sector on the verge of collapse is still fresh in everybody's mind and MFIN is no exception. Before the crisis, the sector was known for 100% growth year after year while borrowers took loans beyond their capacity to repay leading to the undoing of many of the leading micro lenders.

According to initial estimates by MFIN, the sector has seen about 60% growth this fiscal, almost similar to what it had witnessed the fiscal before this.

MFIN has now decided to make Aadhaar number compulsory for customer identification to restrict the cases of frauds and impersonation. This will also stop over-lending to same borrowers beyond the permissible limit of Rs one lakh at any point of time.

The self regulating organisation (SRO) is planning to implement this rule from July and therefore, lenders will be barred from fresh lending to people without Aadhaar card three months from now.

There are 65 NBFC-MFIs operating in the country at present and of this 53 are members of MFIN.

"We have internally discussed the issue of high growth and was thinking of putting restrictions to minimise the problem that comes with growth," MFIN president Manoj Kumar Nambiar told ET. "We are putting an ecosystem so that growth comes in a prudent way."

The SRO may also bar its members from selling third party products like insurance within 30 days of first disbursement of loan to avoid forced-selling of products. At present, some MFIs follow this deadline on voluntary basis, Nambiar said. FMCG companies also use the vast MFI network to cross-sell products.

Nambiar said that while this practice of cross-selling may not be stopped by MFIN, but it is planning to put restrictions for the members.

The sector has come a long way from 2010 when there was no regulation on the sector. The 2010 crisis served as a clarion call and the sector is now regulated by [Reserve Bank of India](#) and has a set of code of conduct to follow. MFIs nowadays also take inputs from credit bureaus for checking indebtedness of borrowers.

"We have tried to move from passive SRO to a proactive SRO to fulfil the responsibility RBI given to us," Nambiar said. MFIN tries to ensure that proper checks and balances are put in place by members and that they comply with RBI regulations. It performs random spot checks on regular basis.

The industry body had recently reported 84% jump in loans disbursed by its members in the third quarter compared to the year ago period to Rs 42,331 crore (excluding non-performing portfolio in Andhra Pradesh). Number of beneficiaries of MFIs grew by a third to 2.88 crore. Average loan size for each beneficiary has also grown to Rs 17,917 compared with Rs 14,409 last year.

Local level of coordination between MFIN and Sa-Dhan is much stronger now which helps in cutting down the response time in handling local troubles. Sa-Dhan is the industry body and self-regulatory organization for the 200-odd NGO-MFIs.

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