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RBI deputy gov M K Jain flags concerns over rising stress in Mudra loans

Banks need to focus on repayment capacity at the appraisal stage and "monitor the loans through the life cycle much more closely, said M K Jain

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RBI deputy governor M K Jain

Reserve Bank of India (RBI) Deputy Governor M K Jain on Tuesday expressed concern about the rising bad debt level in Mudra loans.

Speaking at a SIDBI event on microfinance, Jain said with the growing mobilisation of financial services, banks must enhance the capabilities of borrowers so that individuals in the new

income group could not merely avail the offered services but are also capable of demanding preferred products and service suitable to their needs and choices.

“Mudra is a case in point. While such a massive push would have lifted many beneficiaries out of poverty, there have been some concerns at the growing level of non-performing assets (NPAs) among these borrowers,” Jain said.

Banks, therefore, need to focus on repayment capacity at the appraisal stage and “monitor the loans through the life cycle much more closely”, he said. This is not the first time a central bank official is warning against the

rising bad debt to banks. In a meeting with public sector bank chiefs in July, RBI Governor Shaktikanta Das had red-flagged the high bad debt in the collateral free loans, according to sources.

There are three categories of loans under Mudra: Shishu, covering loans up to Rs 50,000; Kishor, covering loans above Rs 50,000 and up to Rs 5 lakh; and Tarun, covering loans above Rs 5 lakh and up to Rs 10 lakh.

According to RBI estimates, NPAs in Shishu amounted to 12.39 per cent of the loans, and in the Kishor category, they were about 10.19 per cent, at the end of fiscal 2019, according to sources. However, the total bad debt in Mudra loans made public was much lower, and not more than 2-3 per cent.

According to the deputy governor, the introduction of GST has made micro and small borrowers having a digital footprint, which the banks could tap to give loans.

“As a result of much improved digital footprint, micro and small enterprises have become attractive clients for banks and NBFCs and MFIs, reducing the dependence of these borrowers on informal source of funds,” he said.

This will lower the cost of credit for the micro and small enterprises meaningfully, “as lending will shift from collateral based lending to cash flow based lending”. The application of technology in finance can have its own share of risks and challenges for the regulators and supervisors, the deputy governor said. Similarly, systemic risk may arise from unsustainable credit growth, increased inter-connectedness and financial risk manifested by lower profitability.

“Data confidentiality and consumer protection also need to be addressed,” he said, adding the MFIs should focus on digital micro finance and the micro lenders must put the interest of clients and engage in responsible lending.