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SBI to foray into microfinance, may offer loans at lower interest rates

BY [ATMADIP RAY](#), ET BUREAU | UPDATED: MAR 12, 2020, 08.00 AM IST

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Kolkata: [State Bank of India \(SBI\)](#) has decided to enter the [microfinance](#) market that has shown immunity to economic downturn.

The move by India's largest lender is likely to roil the segment because it is planning to offer micro loans at rates lower than that is prevailing in the market nationwide through its wide network of branches.

The state-owned lender is setting up a vertical, Financial Inclusion & Micro Market (FIMM), to handle its microfinance operations and has assigned a deputy managing director for the task. It is doing the groundworks for a national roll-out of the business soon.

"We have a big presence in retail and the corporate segment. Micro lending is one segment where we find great opportunities going forward," said KV Haridas, who has been re-designated the deputy managing director in charge of FIMM. "We are already contributing majorly to all government initiatives including Mudra, SHG Financing, PMEGP, etc. There is huge potential in micro lending and we would now like to make the most of the opportunities available," he added.

The bank has identified about 8,000 branches, mostly in the hinterlands, for offering loans to borrowers such as tea-stall owners, tailors and rickshaw pullers and would rely on Aadhaar numbers for customer identification. A pilot run is underway at Patiala in Punjab.

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SBI is the first state-owned bank to enter the microfinance market

SBI will offer loans without the need to form joint liability groups

One-fourth of the market is currently controlled by Bandhan Bank, which lends at **17.95%**

Other pvt banks in this segment, like HDFC Bank and Axis Bank charge more than **20%**

SBI's microfinance plan may be different from others in the sense that it may provide loans to individuals without the need to form joint liability groups, which is a common microfinance practice.

"The entry into micro lending is in sync with the government's objective of inclusive growth," Haridas said. SBI's entry into the segment will help micro borrowers get credit at far lower rates compared with what they are paying now, he added.

SBI is the first state-owned bank to enter the microfinance market, about one-fourth of which is currently controlled by Bandhan Bank. [Bandhan Bank](#) lends at 17.95%, while other private

lenders in this segment, such as [HDFC Bank](#) and [Axis Bank](#) charge more than 20%.

Micro lending needs a robust collection mechanism and SBI plans to use its existing business correspondents to carry out this task. The bank may also engage retired bank officials to supplement the structure.

The microfinance sector caters to 5.64 crore borrowers. The segment's gross loan portfolio grew 24% year-on-year to Rs 2.11 lakh crore at the end of December 2019, despite the economic slowdown and rural distress. Banks as a cluster hold the largest share of micro-credit portfolio with Rs 83,876 crore loan outstanding at the end of 2019.

Bandhan Bank has projected the current market potential at Rs 7.3 lakh crore saying that the industry can grow seven to eight times in the next five years.

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