

MICRO MATTERS: MACRO VIEW

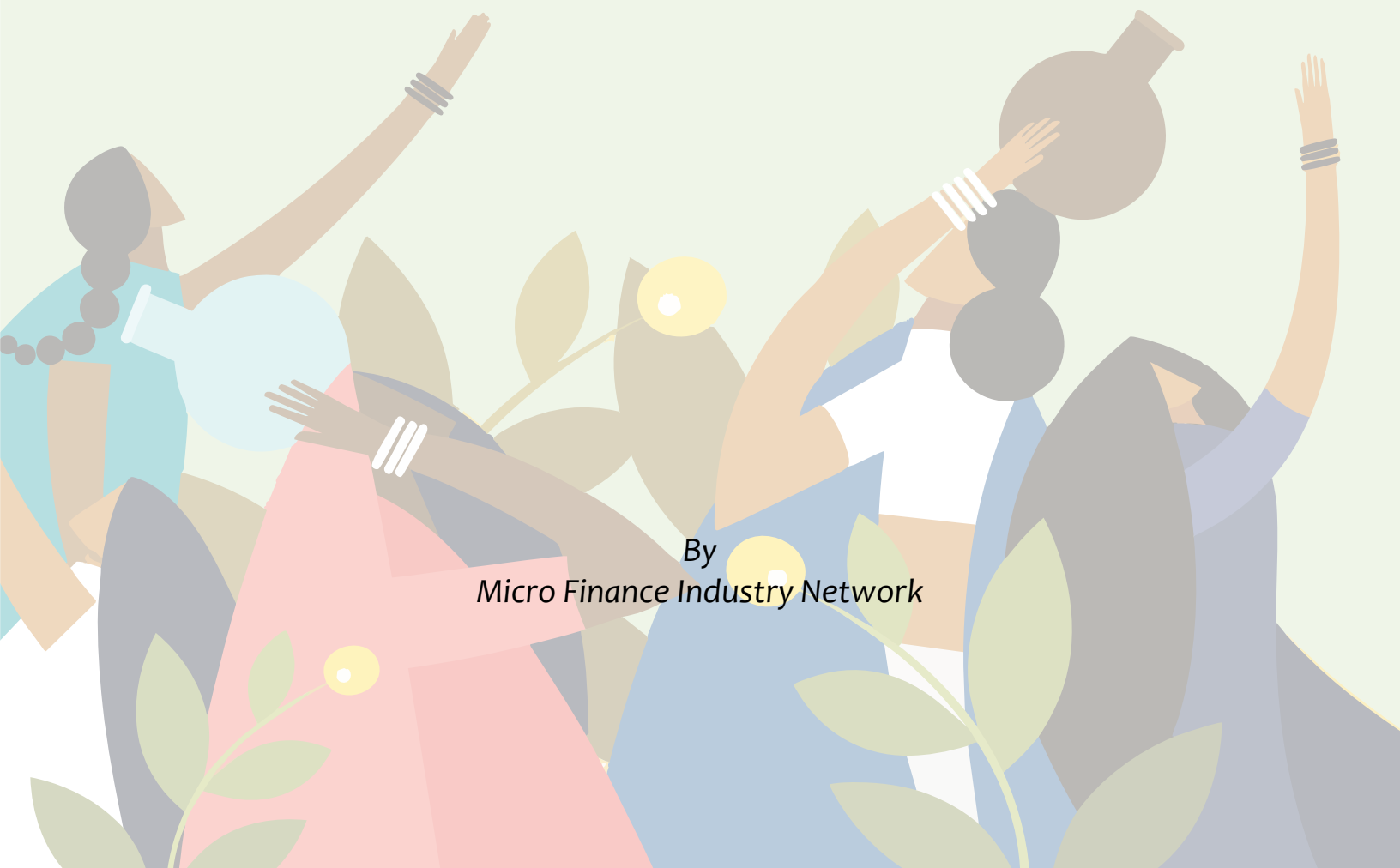
India Microfinance Review | FY 2024-25

An MFIN Publication | November 2025



MICRO MATTERS: MACRO VIEW

India Microfinance Review | FY 2024-25



By
Micro Finance Industry Network

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Abbreviations

ABPMJAY	Ayushman Bharat Pradhan Mantri Jan Arogya Yojana
ABJMS	Akhil Bhartiya Janwadi Mahila Samiti
AC	Accounts
ADB	Asian Development Bank
AEPS	Aadhaar Enabled Payment System
AMFIRS	Assam Micro Finance Incentive & Relief Scheme
API	Application Programming Interface
APR	Annual Percentage Rate
ARC	Asset Reconstruction Companies
ASUSE	Annual Survey of Unincorporated Sector Enterprises
BL	Base Layer
BNPL	Buy Now Pay Later
BOP	Bottom-of-the-Pyramid
BSBD	Basic Savings Bank Deposit
BSBDA	Basic Savings Bank Deposit Accounts
BSR	Basic Statistical Returns
CAIIB	Certified Associate of Indian Institute of Bankers
CB	Credit Bureau
CCIR	Company Credit Information Report
CCIRA	Credit Information Companies (Regulation) Act
CFSS	Core Financial Services Solution
CG	Credit Guarantees
CGRM	Customer Grievance Redressal Mechanism
CIC	Credit Information Company
CIR	Credit Information Report
CL	Consumption Loans
CLA	Co-Lending Arrangement

CLM	Co-Lending Model
CMIE	Centre for Monitoring Indian Economy
Cr	Crore
CSR	Corporate Social Responsibility
DBT	Direct Benefit Transfer
DLG	Default Loss Guarantee
DRI	District Risk Index
ECB	External Commercial Borrowing
ECLGS	Emergency Credit Line Guarantee Scheme
EIR	Effective Interest Rate
EMDE	Emerging Market and Developing Economies
EOW	Economic Offences Wing
FCR	Financial Cost Ratio
FI	Financial Inclusion
FIDC	Finance Industry Development Council
FPC	Fair Practices Code
GAR	Guardrails Adherence Report
GCC	Global Capability Centres
GCS	Grameen Credit Score
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GNDI	Gross National Disposable Income
GNPA	Gross Non-Performing Assets
IBA	Indian Bank's Association
IDRBT	Institute for Development and Research in Banking Technology
IGL	Income Generation Loans
IIP	index of industrial production
IMF	International Monetary Fund
INR	Indian Rupee



IOD	Institute of Directors
IOI	incidence of indebtedness
IPO	Initial Public Offering
IRACP	Income Recognition, Asset Classification and Provisioning
IRDAI	Insurance Regulatory and Development Authority of India
JAIB	Junior Associate of the Indian Institute of Bankers
JAM	Jan Dhan, Aadhar and Mobile
JLG	Joint Liability Group
KCC	Kisan Credit Card
KFS	Key Fact Sheet
KLEMS	K: Capital, L: Labour, E: Energy, M: Materials and S: Services
KMA	Karza Mukti Abhiyan
LAB	Local Area Bank
LCR	Liquidity Coverage Ratio
LFPR	Labour Force Participation Rate
LIH	Low-Income Household
Lk	Lakh
MDPI	Multi-Dimensional Poverty Index
MF	Micro Finance
MFAP	Microfinance Awareness Programmes
MFI	Microfinance institution
ML	Middle Layer
MOB	Months of Business
MoSPI	Ministry of Statistics & Programme Implementation
MPC	Monetary Policy Committee
MPCE	Monthly Per Capita Consumer Expenditure
MSC	MicroSave India Consulting Pvt Ltd
MSME	Micro Small and Medium Enterprises
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NBFC-MFI	Non-Banking Financial Company - Micro Finance Institution

NCAER	National Council of Applied Economic Research
NCGTC	National Credit Guarantee Trustee Company Ltd
NFHS	National Family Health Survey
NHB	National Housing Bank
NIM	Net Interest Margin
NNPA	Net Non-Performing Assets
NOF	Net Owned Fund
NOHFC	Non-Operative Financial Holding Companies
NPA	Non-Performing Asset
NPCI	National Payments Corporation of India
NPS	National Pension Scheme
NRC	Nomination and Remuneration Committee
NRLM	National Rural Livelihood Mission
NSFI	National Strategy for Financial Inclusion
NSO	National Statistical Office
NSSO	National Sample Survey Office
NUCFDC	National Urban Cooperative Finance and Development Corporation Ltd
OCEN	Open Credit Enablement Network
OER	Operating Expense Ratio
OMO	Open Market Operations
OTP	One Time Password
PAN	Permanent Account Number
PCA	Prompt Corrective Action
PER	Personnel Expense Ratio
PF	Processing Fee
PFCE	Private Final Consumption Expenditure
PFI	Partner Financial Institution
PFRDA	Pension Fund Regulatory and Development Authority
PIB	Press Information Bureau
PLI	Production Linked Incentive



PLI Scheme	Production Linked Incentive Scheme
PMAY	PM Awas Yojana
PMI	Purchasing Managers' Index
PMJAY	Pradhan Mantri Jan Arogya Yojana
PMJJBY	Pradhan Mantri Jeevan Jyoti Bima Yojana
POS	Portfolio Outstanding
PPP	Purchasing Power Parity
PSL	Priority Sector Lending
PSB	Public Sector Bank
PVB	Private Sector Bank
QA	Qualifying Assets
QoQ	Quarter on Quarter
RE	Regulated Entity
ROA	Return on Assets
ROE	Return on Equity
RRB	Regional Rural Banks
Rs	Rupees
SA	Statutory Auditor
SBA	Small Borrowal Accounts
SBLP	SHG Bank Linkage Programme
SBR	Scale Based Regulation
SCA	Statutory Central Auditor
SCB	Scheduled Commercial Banks
SCM	State Chapter Meeting
SDG	Sustainable Development Goal
SDM	Sub-Divisional Magistrate
SFB	Small Finance Bank
SFTP	Secure File Transfer Protocol
SHG	Self-Help Group
SHM	Stakeholders Engagement
SIDBI	Small Industries Development Bank of India
SIT	State Initiative Team
SLA	Special Liquidity Assistance

SME	Small Medium Enterprises
SMS	Short Message Service
SPD	Standalone Primary Dealers
SRO	Self-Regulatory Organisation
SRS	Sample Registration System
STPL	Short-term Personal Loans
SVB	Silicon Valley Bank
TA	Technical Assistance
TAT	Turn Around Time
TOT	Training of Trainers
TPE	Third-Party Evaluations
TPP	Third-Party Products
TSP	Technical Support Providers
TWG	Technical Working Group
UAP	Udyam Assist Platform
UB	Unique Borrower
UCB	Urban Cooperative Bank
UCRF	Unified Credit Reporting Format
UI	User Interface
UIDAI	Unique Identification Authority of India
UL	Upper Layer
ULI	Unified Lending Interface
UO	Umbrella Organisation
UPI	Unified Payments Interface
UR	Unemployment Rate
UT	Union Territory
UX	User Experience
VID	Virtual Identity
VRR	Variable Rate Repo
WAIR	Weighted Average Interest Rate
WC	Working Capital
WGDL	Working Group on Digital Lending
WPR	Worker Population Ratio
WRMS	Weather Risk Management Services
YoY	Year on Year





Message from the Chairperson

Financial inclusion remains central to India's vision of Viksit Bharat – a goal rooted not just in economic growth, but in making it sustainable and equitable. To fully leverage factors of economic growth (land, labour and capital), India must nurture grassroots entrepreneurship, making financial inclusion an imperative, not an option.

Supporting micro and small entrepreneurs, often outside the banking system due to limited digital footprints or accessibility, through small, unsecured loans remains essential. The microfinance sector, though only ~8% of total NBFC advances (~Rs 3.5 Lk Cr), impacts millions of lives, accounting for ~30% of total NBFC borrowers (~7.3 Cr). The sector has played a critical role in boosting the financial inclusion index up by 24% (from 54 in 2021 to 67 in 2025), serves as a first-time formal employer for many rural youths, and contributes ~3% to GVA (NCAER, 2021).

The RBI deserves credit for recognising the sector's maturity and introducing asset-based regulation, allowing all regulated entities to serve responsibly. This shift, from proxy parameters and caps to underwriting-based and risk-based pricing, has strengthened governance across the ecosystem.

Salient features that make this sector uniquely transparent include:

- Strict adherence to COC and FPC, monitored by MFIN as SRO and the RBI.
- Mandatory financial literacy as part of loan disbursement, with doorstep service for lending and collections.
- Three-tier grievance redressal mechanism – RE, MFIN, and RBI.
- Sector-wide transparency in product pricing, with quarterly public disclosures, in KFS, and in loan cards; unsecured microloans are often priced below secured MSME loans.
- Publications with detailed data of REs by SRO.
- No outsourcing of sales or field collections.
- Minimal legal recourse for recoveries.
- Daily credit reporting to the microfinance bureaus with household income data. Lender name is transparently shown in tradelines.
- Contribution to multiple SDGs: SDG 1 (No Poverty), SDG 5 (Gender Equality), SDG 8 (Decent Work), SDG 9 (Industry, Innovation & Infrastructure), and support for SDG 2 (Zero Hunger).

Like any sector, microfinance faces cyclical, amplified by income volatility among semi-urban and rural clients. The last fiscal witnessed a trough caused by systemic, climatic, and post-pandemic factors leading to debt overleverage. The industry, under MFIN's aegis, responded responsibly by adopting self-imposed Guardrails to contain stress.



With adherence and calibration, green shoots are now visible, and normalcy is expected by H2 FY26. However, after a 17% decline in AUM last year, renewed book building is vital to meet credit demand and rebuild confidence. Continued support from Government (e.g., credit guarantee schemes) and lending partners will be critical for stability.

For the sector to sustain its impact and expand inclusion, it must grow 15–20% annually, requiring about Rs 10,000 Cr in equity and Rs 3.5 Lk Cr in annual liabilities. Collaboration among regulators, investors, FIs, policymakers, and local administrations is key to maintaining momentum toward inclusive growth. Finally, players must remain anchored in responsible lending, through:

- Strong governance and risk management;
- Technology-led innovation;
- Robust data security;

- Greater digital footprint creation (via PAN, Voter ID, etc.); and
- Continued transparency in pricing and product design.

The sector will always attract scrutiny as it serves India's most vulnerable. Perception often shapes reality, hence, stakeholder support is vital for the shared vision of Viksit Bharat.

I remain confident that the sector will continue to resonate the resilience of its customers and adapt as per the changing times.

“The oak fought the wind and was broken, the willow bent when it must and survived.” Robert Jordan

Warm regards,

Vineet Chattree

Chairperson - MFIN, 2025-26





Prologue

What started in 2021 as an attempt to present the authentic picture of microfinance; has not only broadened the canvas to cover macro-economic situation and broader financial inclusion but also emerged as the premier document of the sector. As such, it gives me immense satisfaction that this in-house annual publication enters its 5th year.

A review of macro-economic situation brings out mixed signals. Globally, while growth is picking up and inflation is cooling, twin uncertainties in the form of conflicts and tariffs cloud the prospect. Domestically, while GDP growth remains above 6%, despite policy push on capex and rate cut, private investment remains tepid and consumption and sentiments continue to fluctuate. Banking sector shows resilience; reflected in GNPA ratio but regional skew and dominance of personal loans remain areas of concern. During the year under review, the issue of deposit growth lagging behind credit growth as a result of behavioural shift towards capital market also remained in focus. This is a critical policy dilemma for a developing country like India, where banking system needs to have a pivotal role in expanding credit outreach.

On Financial inclusion front, while PMJDY has catapulted India to the top in bank account ownership and RBI's FI Index has inched up to 64.2, a few structural issues persist. About 23% of PMJDY accounts are inoperative and BC outlets in villages continue to decline each year. People not doing even minimal banking transaction in turn impedes viability of BCs and possibly point to the

structural issue of stagnant income for majority of the population. Related to this is the picture on household assets and liabilities. Household liabilities (which were in the range of 3%-4%) in previous decade, have now reached 6.1%. Putting it all together, it seems reliance on borrowings -personal loans- to meet expenditure needs is the trend. To reverse this, Indian economy needs to raise incomes and prioritise productive use of credit. The Government has done its part, and all eyes are on private sector engine to start firing.

In this milieu, the role of microfinance becomes significant in ensuring that rising tide of economic growth lifts all boats. Both models of microfinance put together today reach around 150 million low-income clients and its role in building Inclusive India has been acknowledged by none other than the Honourable Prime Minister of India.

An analysis of both models despite outreach gains, also points to areas needing thought for corrective actions. SHG Model remains South focussed with 40% share in credit linkage and other parameters. In Andhra Pradesh, 94% of SHGs formed have received credit but the same figure falls to 15% in Punjab. The original concept of savings: credit linkage and no subsidy approach has also been diluted.

FY25 for the MFI model was an year of challenge. A combination of heatwave, external incitement of borrowers in several states, stories around overleveraging and Karnataka Government's move on small loans all combined led to decline in



credit quality. As the decline peaked in September-December 2024, liquidity became a challenge. As a combined impact, sector's GLP fell by 14% by Mar'25.

While the report provides a detailed overview of the year, it is critical to highlight a few issues. It is nobody's case to say that there is no scope for improvement, but the sector is faced with wrong perceptions. Overleveraging was flagged as a major concern and the industry under MFIN took cognisance of it and formulated Guardrails. However, to put things in perspective, the problem was exaggerated as at the start of FY25, only 5.8% clients had more than 3 lenders and 1.1% had >2lakh loan outstanding. Despite this, the sector adopted Guardrails, reflecting the maturity of the sector.

MFIN has long advocated that plugging gaps like KYC, daily reporting to the Credit Information Companies and loans to microfinance clients by non-microfinance players without adhering to the microfinance rules are key to having fool proof underwriting. Hopefully, coming year will see progress on this as the sector has done its best to ensure sustainable finance.

Other initiatives and work of MFIN are detailed in the last chapter. The focus of the work; be it field outreach, Microfinance Awareness Programs, Digital adoption, Grievance redressal, Certification among others has been on safeguarding clients and educating them on financial basics and at the same time ensuring that financial institutions remain prudent.

As the report nears its release date, turmoil of the past year seems to be fading and the hope is that all round improvement will bring liquidity back in the system.

I hope the readers will find the report informative and factual. My profuse thanks to my team especially Swetan, Rama, Gaurav, Amit, Sheetal, Kshama, Kabir and Raj for putting together this report.

“Life can only be understood backwards; but it must be lived forwards.” **Søren Kierkegaard**

Dr Alok Misra
CEO & Director, MFIN



01

Macroeconomic environment



1.1 The state of global economy – continued disruptions

“The clouds are beginning to part. The global economy begins the final descent toward a soft landing, with inflation declining steadily and growth holding up. But the pace of expansion remains slow, and turbulence may lie ahead.”

Pierre-Olivier Gourinchas, Economic Counsellor and Director of the Research Department, IMF

If the year 2023-24 showed how resilient the global economy could be, then the year 2024-25 laid bare the difference between advanced and emerging markets. The strong rebound that followed the pandemic gradually gave way to slower, steadier growth as geopolitical tensions and persistent inflation weighed on the momentum.

According to the International Monetary Fund (IMF), the global economy is expected to move onto a steadier, more sustainable path over the next 2-3 years. Global growth (**Table 1.1**) which is projected to ease from 3.3% in 2024 to 3.0% in 2025 is expected to improve slightly to 3.1% in 2026. While these figures are below the pre-pandemic average of 3.7%, they point to a period of greater stability, with economies adjusting to new global realities for the future.



Table 1.1: Global output projection

Projection for	2023	2024	2025	2026
World Output	3.5%	3.3%	3.0%	3.1%
AEs	1.8%	1.8%	1.5%	1.6%
EMDEs	4.7%	4.3%	4.1%	4.0%

Source: IMF World Economic Outlook Update, Jul'25

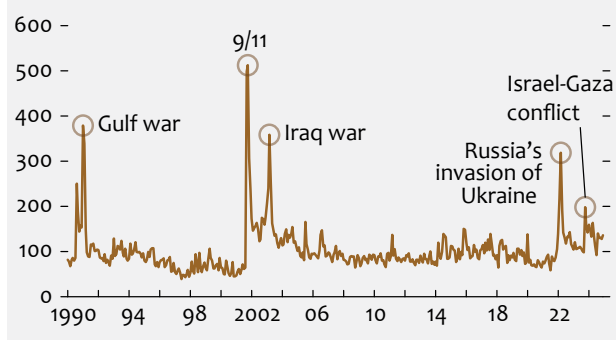
Both Advanced Economies (AE) and Emerging Market and Developing Economies (EMDE) faced conflicts, trade strains, and inflation through the year, but their growth paths diverged. In recent years, AEs recorded modest growth ranging between 1.5% and 1.8%, while EMDEs expanded at a much stronger pace of 4.7% and 4.3% in 2023 and 2024 respectively. Looking ahead, this divergence is expected to persist with growth in AEs projected to remain subdued at 1.5% in 2025 before a slight improvement to 1.6% in 2026. By contrast, emerging markets are forecast to grow at a faster pace, though gradually moderating from 4.1% in 2025 to 4.0% in 2026¹.

The shadow of geo-political conflict looms large

Over the past year, the world has continued to be shaped by overlapping geopolitical shocks. The ongoing conflicts in Russia-Ukraine (now in its fourth year) and Israel-Gaza have had ripple effects beyond their borders. The war in Ukraine continued to disrupt energy and food supplies, driving volatility in global commodity markets. In the Middle East, the Israel-Gaza conflict and repeated attacks on commercial shipping in the Red Sea disrupted one of the world's busiest maritime routes. These disruptions forced vessels to reroute around Africa, significantly increasing shipping time

and costs.² Moreover, according to IMF, “such conflicts increased fragmentation pressures and raised defence spending as countries implement measures to strengthen their economic and national security”³.

Two indicators from the IMF - Trade Policy Uncertainty Index and Geopolitical Risk Index (Figure 1.1) demonstrate how unpredictable the global economy has become over the last few years. Both indices show that the overall trend in the past two decades has been much higher than the relatively stable 1990s. This shift [highlights](#) how businesses and governments are now operating in a far more uncertain environment, with significant implications for trade, investment, and energy security.⁴

Figure 1.1: Rise in global geopolitical tensions

Source: IMF, Apr'25. “Global Financial Stability Report

U.S. tariffs and global trade protectionism on the rise – services sector hit badly

Since early 2025, the U.S. under the Trump administration raised tariffs on more than 90 countries. By the end of Aug'25, the average effective tariff rate had reached an estimated 19.5%, the highest since 1933⁵, up sharply from around 9% in May'25 and from 2.5% in 2024. This surge has

¹ IMF, Jul'25. “World Economic Outlook”

² IMF, Apr'25. “Global Financial Stability Report - Enhancing Resilience amid Uncertainty”

³ IMF, Jun'24. Article titled, “Navigating Fragmentation, Conflict, and Large Shocks”

⁴ Ibid

⁵ OECD, Sep'25. “Economic Outlook”

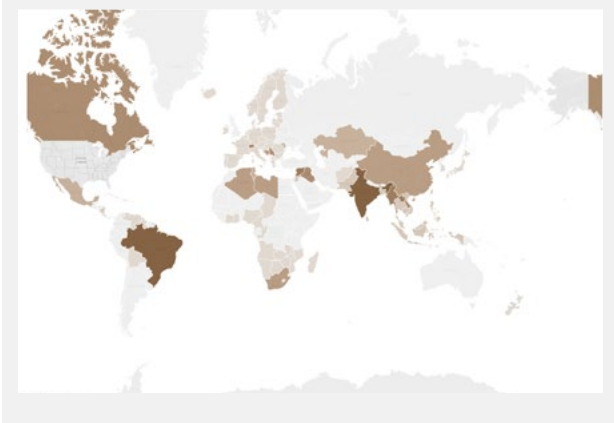
contributed to further geoeconomic fragmentation, prompting supply chain realignment and shifts in global investment flows⁶. India and Brazil were hit with the steepest tariffs of 50%. **Figure 1.2** gives a broad view of tariff rates levied across various US trade partners. For India, the U.S. pointed to its continued imports of Russian oil, while in Brazil the move was linked to political uncertainty following the trial of its former president. These actions showed that tariffs were being used not just as a trade tool, but also as a broader instrument of foreign policy.

According to the World Economic Forum (WEF), this measure has not reduced global trade yet; in fact, trade volumes increased by USD 300 billion in the first half of this year, driven by frontloading of shipments ahead of expected tariff changes⁷. According to the World Trade Organization's (WTO) trade forecasts, the world's merchandise trade is projected to grow by 0.9% in 2025, significantly lower

than the 2.7% estimate before the tariff increases. While the effects of these tariffs are still emerging, they are expected to have a dampening effect on trade in the latter half of 2025 and throughout 2026.⁸

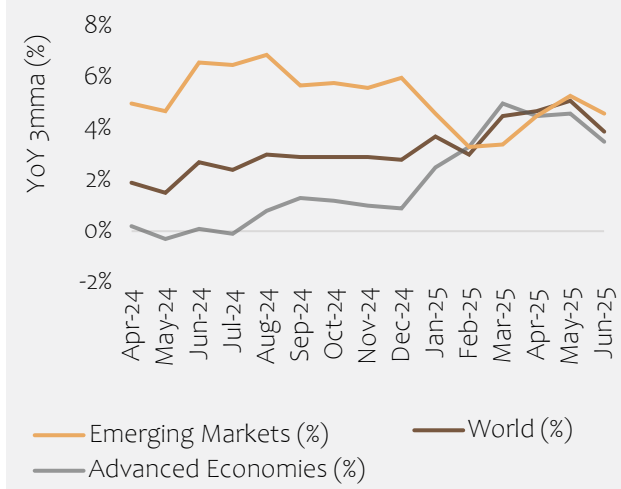
World merchandise trade volumes weakened through much of 2024, contracting by nearly 2% YoY, before showing a modest rebound to around 1% growth by mid-2025, as shown in **Figure 1.3**. Though AEs remained subdued, this slowdown in trade was sharper for emerging markets. In contrast, industrial production held relatively steady, with AEs maintaining growth close to 1% and emerging markets recording stronger gains of around 3% - 4% since late 2024 into mid-2025. This indicated that even as global trade came under pressure, resilient industrial activity, particularly in emerging markets, helped cushion the broader economic slowdown.¹⁰

Figure 1.2: US reciprocal tariff rates as on 1st Aug'25



Source: The Tax Foundation⁹

Figure 1.3: Global merchandise trade volume growth



Source: CareEdge Global Economy Update, Sep'25

Note: 3mma=3-Month Moving Average

⁶ WEF, Sep'25. "Chief Economists' Outlook – Insight Report"

⁷ Ibid

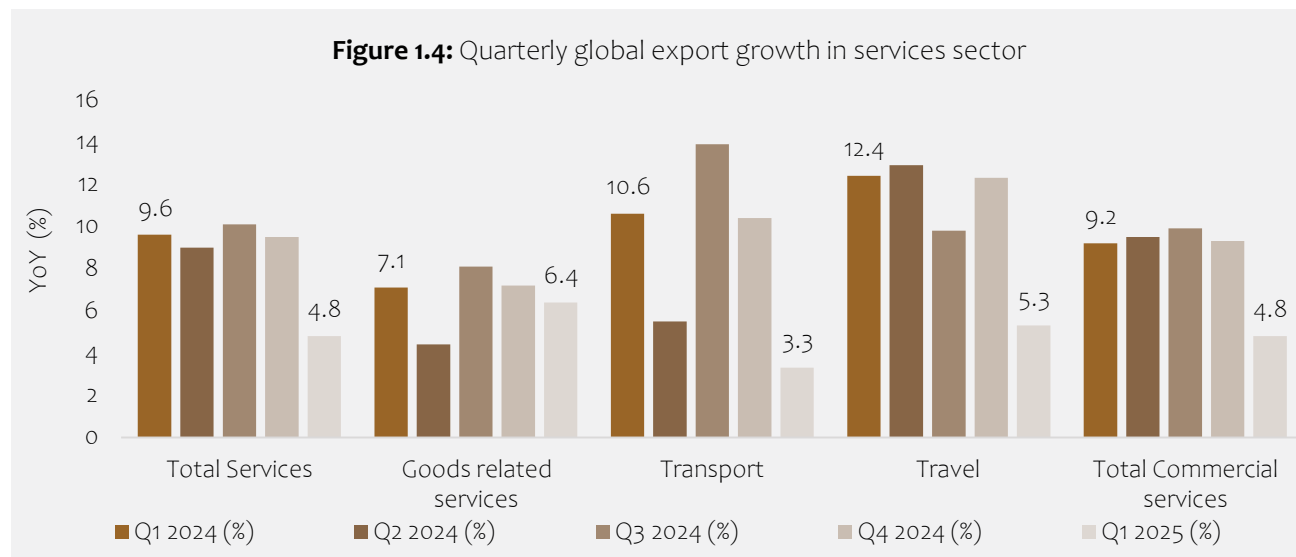
⁸ WTO Trade Forecasts, 08th Aug'25

⁹ Tax Foundation, Oct'25. "Article on Tracking the Economic Impact of the Trump Trade War"

¹⁰ CareEdge Global Economy Update, Sep'25

Global services exports, which showed strong momentum in 2024, experienced a sharp slowdown in early 2025. Growth in total services nearly halved, falling from 9.6% in Q1 2024 to just 4.8% in Q1 2025

(Figure 1.4). Commercial services, including financial, professional, and IT-related exports, also weakened, moderating from 9.2% to 4.8%.



Source: CareEdge Global Economy Update (Sep'25)

Price levels across the world have stabilised but remain in an uncertain zone

Global headline inflation (**Table 1.2**) eased from 6.7% in 2023 to 5.8% in 2024 and is projected to decline further to 4.2% in 2025 and 3.6% in 2026.¹¹ While this marks progress, inflation is still projected to stay above pre-pandemic averages in several regions, reflecting lingering supply-side pressures and tight labour markets.

If we observe the data since 2017, while remaining steady, the inflation across EMDEs surged to multi-decadal highs in 2022. By contrast, Emerging Asia maintained relatively low and stable inflation throughout. Since 2024, inflation has begun to ease across most EMDEs and is projected to decline further by 2026, though remaining above

pre-pandemic averages¹². On the other hand, with the imposition of tariffs sending a supply-shock across the economy, consumer prices in the US are expected to rise in 2025, as the price increase gets passed-on to the end-customer. The global outlook for inflation will hence remain fragmented by countries.

Table 1.2: Global headline inflation

Year	2023	2024	2025 [P]	2026 [P]
Global headline inflation rate	6.6%	5.6%	4.2%	3.6%
AEs	4.6%	2.6%	2.5%	2.1%
EMDE	8.0%	7.7%	5.4%	4.5%

Note: (P): Projected

Source: IMF, Oct'24 & Jul'25. World Economic Outlook Update

¹¹ IMF, Oct'24 & Jul'25. "World Economic Outlook Update"

¹² IMF Annual Report 2024

Outlook for Emerging Markets

The global economy in FY 2023-24 stood at crossroads, balancing resilience with fragility. The global growth held steady but was constantly tested by conflicts, trade disruptions, and consequent inflation, creating an air of uncertainty.

The challenge ahead will be to achieve a “soft landing”, i.e., cooling inflation without stalling growth which will require critical policy choices and global cooperation. In the coming time, the growth is set to remain under pressure, with advanced economies subdued and emerging markets driving momentum. How well emerging markets adapt, push reforms, and stay resilient will not only decide their own future but also influence the course of the global economy in a world that feels more divided than ever.

1.2 The Indian context - mixed signals despite fiscal and monetary policy push

India has been unequivocally branded, by domestic and international reports alike, as a “resilient” economy in the face of global, political and economic headwinds. The year was dotted with several significant events impacting the country, beginning unfavourably with India experiencing a long and extreme heatwave during the first quarter of FY 2024-25. The Lok Sabha elections held in early 2024 resulted in the ruling party taking charge of the nation’s affairs for a third consecutive term with a coalition government. Subsequently, the Union Budget for FY 2024-25 was presented by the Finance Minister in Jul’24 and it centred around the government’s priorities for achieving the idea of ‘Viksit Bharat’. A few of the Budget’s highlights were changed income tax slabs, employment

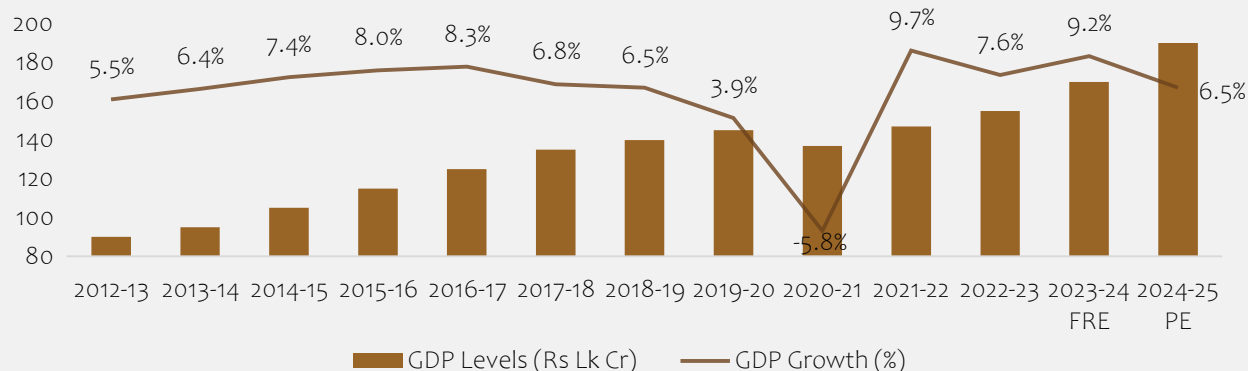
linked incentives and youth skilling programme, and credit guarantee scheme for MSMEs involved in manufacturing. To anchor rising price levels post-Covid-19, the RBI had started tightening its monetary policy such that the repo rate was raised from 4% in FY 2022-23 to stand at 6.5% in Feb’23, which stayed unmoved through the rest of 2023 and 2024. As inflation level started to moderate, the Monetary Policy Committee (MPC) began shifting its stance to accommodative with a reduction in repo rate by 25 basis points to 6.25% in Feb’25. This was followed in the months to come by further lowering of this key lending rate, to spur economic growth while price levels stayed stable. This also came at a time when the banking system faced a crunch, with liquidity deficit reaching a 15-year high of Rs 3.15 Lk Cr in Jan’25. The RBI hence resorted to additional measures such as Open Market Operations (OMO) purchases, reduction in Cash Reserve Ratio (CRR) and Variable Rate Repo (VRR) auctions that infused liquidity to the tune of Rs 5.5 Lk Cr into the system in the last quarter of FY 2024-25.¹³

1.2.1 GDP growth sustained - industrial production slows down & services drag the growth

Growth of real Gross Domestic Product (GDP) in FY 2024-25 stood at 6.5%, driven primarily by improved domestic demand. This is slower compared to the unusually strong growth in FY 2023-24 (9.2%), with the last three years showing continued recovery from Covid-19, as can be seen in **Figure 1.5**. At a pace slower than that previously projected by the government, the Indian economy has sustained a growth momentum in the face of precarious global conditions and uncertainties. However, GDP growth has not bounced back to levels seen in the decade before the Covid-19 pandemic occurred.

¹³ RBI Bulletin, Ma’25



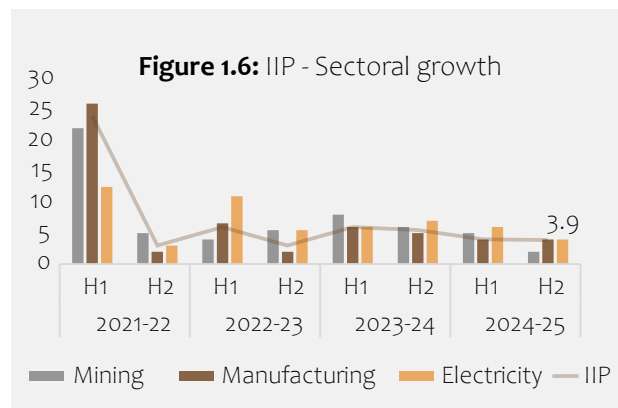
Figure 1.5: Annual GDP estimates & growth rates at constant prices

Source: Provisional Estimates of Annual GDP for 2024-25, MOSPI

Industry: One of the measures of how the industrial sector performed, the Index of Industrial Production (IIP), saw a reduction in growth from 5.9% in FY 2023-24 to 4.0% in FY 2024-25.¹⁴ In fact, FY 2024-25 saw the slowest growth in IIP in 4 years which was broad-based. All three sectors covered under the measure saw a YoY decline. Despite holding a share of 16% in Indian GDP¹⁵, manufacturing, a component of IIP, grew at a slower pace of 3.9% in FY 2024-25 compared to 5.5% in the previous FY. Expansion of the electricity component was recorded at 5.1%, down from 7.1% in FY 2023-24. The mining sector took the largest hit in FY 2024-25, falling to 2.9% from the previous 7.5%, owing mainly to the heavy monsoon.¹⁶ The trend of IIP, along with its components, over the previous few years can be seen in **Figure 1.6**.

Growth of the largest component of IIP by weight, manufacturing, was slower than the past year despite the government's efforts and initiatives to boost the sector. Implementation of schemes like Production-Linked Incentive (PLI) that incentivises domestic manufacturing in 14 key sectors of the economy was envisaged to positively impact both

production as well as employment. As of Mar'25, actual investments through PLI scheme reached Rs 1.76 Lk Cr, sales made by participants in the scheme crossed Rs 16.5 Lk Cr, and more than 12 Lk direct and indirect employment opportunities had been created.¹⁷ Tax incentives were also given through corporate tax rate cut made in 2019 for domestic manufacturing companies. However, despite the government's efforts, it can be noted from **Figure 1.6** that IIP growth has remained flat around the current level since the latter half of FY 2021-22, which was a bounce back from the sharp Covid-19 dip.



Source: RBI Annual Report 2024-25

¹⁴ MoSPI, GoI

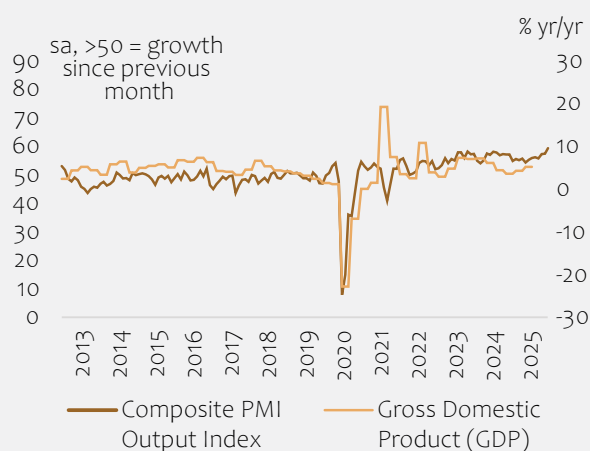
¹⁵ Trading Economics. "India GDP from Manufacturing"

¹⁶ MoSPI, GoI. "IIP 2011-12 series"

¹⁷ GoI, PIB, Aug'25. "PLI Scheme: Powering India's Industrial Renaissance"

Another industrial metric tracking the private sector is the Composite Purchasing Managers' Index (PMI) (**Figure 1.7**) which is a monthly index that covers private manufacturing and services sector, both shown in **Figure 1.8**. Composite PMI showed some strength towards the end of the FY as it reached a 7-month high of 59.5 in Mar'25. The uptick here coincides with a marginally higher Manufacturing PMI in FY 2024-25 (**Figure 1.8**) of an average 57.4, compared to 57.2 in FY 2023-24.¹⁸ The composite index continues to lie in the 'expansionary' zone, which is above the neutral 50¹⁹, but is indicative of milder output expansion compared to the above-60 PMI maintained for most of 2023 and the first half of 2024.

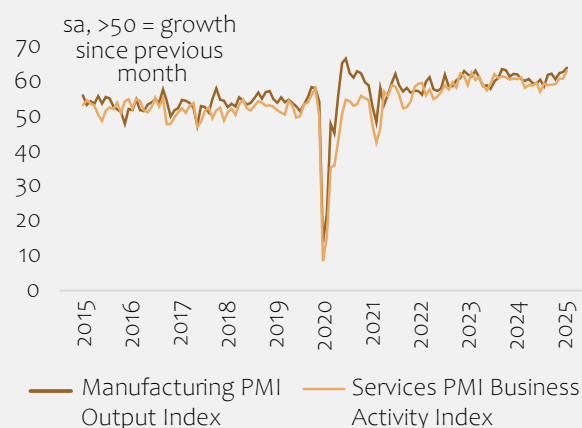
Figure 1.7: Composite PMI Output Index



*sa = Seasonally adjusted

Source: HSBC India Services PMI, Apr'25

Figure 1.8: PMI: Manufacturing & Services Index



*sa = Seasonally adjusted

Source: HSBC India Services PMI, Apr'25

Looking into the specifics of industrially produced items, there were contractions in the year in the manufacture of textiles, pharmaceuticals, chemicals, and electronics. Most of these sectors cater directly to consumers and hence seem to hint at some weakening of demand in the economy. US tariffs are likely to further affect these sectors in the time to come.

Agriculture & allied activities: On the brighter side, a growth of 4.6% was recorded in FY 2025 in GVA by agriculture, livestock, forestry & fishing, a jump from 2.7% in FY 2024.²⁰ This, however, has limited implications for the performance of the economy as the sector accounts for only around 18% of the GVA.²¹ **Figure 1.9** shows growth at constant prices in the agriculture sector over recent years. A big role here was played by a timely, above-normal and well-distributed south-west monsoon. Rains led to expansion of the area under kharif and rabi grains and seeds and helped replenish reservoir levels. Foodgrain production in FY 2025 is estimated to have shown an increase of 4.8% over FY 2024²².

¹⁸ EY, Apr'25. "Economy Watch – Monitoring India's Macro-Fiscal Performance"

¹⁹ HSBC, [News Release](#), Apr'25. "HSBC India Services PMI"

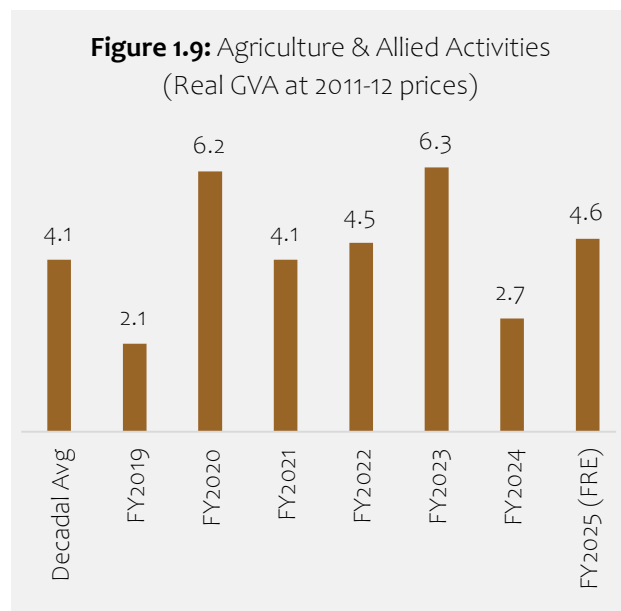
²⁰ NABARD Annual Report 2024-25

²¹ MOSPI, GOI, "Percentage Share of Gross Value Added by Different Economic Sector for 2011-12 to 2024-25 (PE) (Base year: 2011-12)"

²² RBI Annual Report 2024-25

State agencies ended up faring better as well in the wake of improved agricultural performance in the country. The public stock held by Food Corporation of India (FCI) was more than adequate, with rice stock being 4.6 times and wheat stock being 1.6 times the respective buffer requirements. The government also had a hand in the improved performance as it worked towards equipping

Figure 1.9: Agriculture & Allied Activities
(Real GVA at 2011-12 prices)

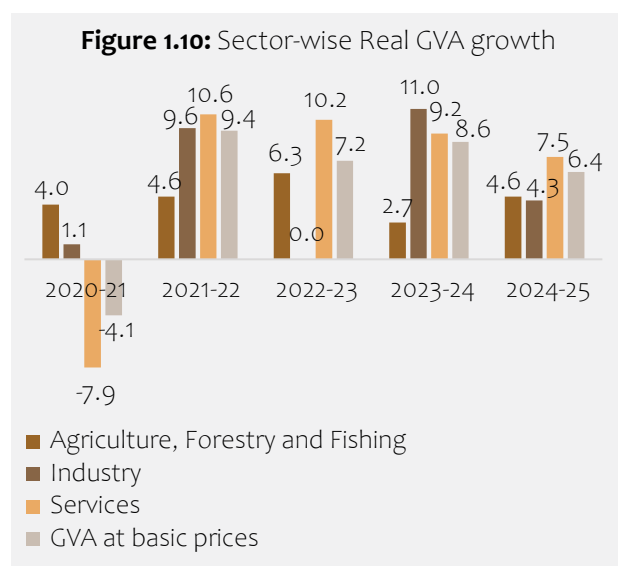


Source: NABARD Annual Report 2024-25

farmers and cultivators with agency and support. Major crops of paddy and wheat received a boost with an increase in minimum support price (MSP) from the government and there was relaxation of export restrictions on rice. Farmer-focussed schemes such as PM-KISAN and PM-Fasal Bima Yojana continued aiding the sector. Digital outreach to the sector was also expanded through initiatives such as e-NAM (National Agricultural Market) and Krishi Vigyan Kendras.

Services: India's service sector accounts for an estimated 55% of the GVA as of FY 2025.²³ However, the sector's contribution to GVA grew by 7.5%²⁴ only in FY 2024-25 as can be seen in **Figure 1.10**. The figure shows that this is the slowest growth witnessed by the sector in the last four FYs. Services PMI in FY 2024-25 stood at an average of 59.2 compared to 60.3 in FY 2023-24 - a dip in the economy-driving sector.²⁵ High frequency indicators that are combined and monitored through the Service Sector Composite Index (SSCI)²⁶ also declined for the first half of the year and saw a slight recovery in the latter half owing to an uptick in trade and construction.

Figure 1.10: Sector-wise Real GVA growth



Source: RBI Annual Report 2024-25

The crucial sector has been supported by conducive government policies, reforms to promote FDI and ease of doing business, technological developments, especially in digital payments, and the central bank's push towards credit growth.²⁷ However, the biggest drivers of services sector in India, the Indian IT firms, face the risk of slow growth on account of weakening of demand in the US where spending will become more discretionary under the Trump administration's restrictions on labour mobility.

²³ Niti Aayog, 2025. "India's Services Sector – Insights from GVA Trends and State Level Dynamics"

²⁴ MOSPI, GOI, 30th May'25. "[Press note on provisional estimates of GDP for 2024-25](#)"

²⁵ EY, Apr'25. "Economy Watch – Monitoring India's Macro-Fiscal Performance"

²⁶ Excludes public administration, defence and other services

²⁷ Axis Mutual Fund, May'25. "Scaling New Heights: India's Service Sector"

1.2.2 A look at how GDP components fared

Consumption: Domestic demand which heavily backs growth in a populous nation like India, showed some promise as private consumption increased in FY 2024-25. Specifically, private final consumption expenditure (PFCE) constitutes 57% of Indian GDP and it saw a bounce back to 7.6% in FY 2024-25 from 5.6% in FY 2023-24.²⁸

It was rural India that was primarily behind this pickup in demand as was seen through the rising sales of tractors, two-wheelers and FMCG products. Growth in domestic tractor sales had fallen consecutively in FY 2023-24 with a plunge to a negative 22.9% in Q4 FY 2023-24. This de-growth started reversing in FY 2024-25 with Q1 showing growth of a small but positive 0.5%. Looking at YoY growth in domestic sale of tractors in each quarter of FY 2024-25, there is consistent improvement to be noted with the FY ending at a YoY growth figure of 23.4%. This trend has been indicative of revival in rural demand over the last FY. Prospects in the near future can also improve given the recent reduction in GST rates.

Urban demand on the other hand has lagged. Tepid growth in urban demand in FY 2024-25 can be seen in the trend of proxy measures such as sale of passenger vehicles (PVs) and consumer non-durables. In Q4 FY 2024-25, YoY growth in sales of PVs was 3.6%, as compared to a YoY growth of 10.8% shown in Q4 of FY 2023-24²⁹. In terms of volume, sales of FMCG goods to urban consumers was also sluggish. Overall, decreasing consumer confidence seems to be signalled by the declining urban demand.

Investment & Government Spending: Overall, the growth in Gross Fixed Capital Formation (GFCF) has slowed to 6.1% in FY 2024-25 from 8.8% in FY 2023-24.³⁰ Total gross capital formation is composed of investments from the government, private sector as well as households and as a share of GDP, it fell from 41% in 2011 to 30% by Dec'24. The Economic Survey of 2024-25 notes continuously increasing capital expenditure by the government from FY 2020-21 to FY 2023-24. It is worth noting however that even the combined government capital outlay (Centre and States) recorded a YoY decline of 2.7% during the period Apr'24 to Feb'25, in contrast to a robust growth of 31.2% in the same period of 2023-24. This trend naturally coincided with reduced consumption of steel and production of cement and capital goods.

Government's consumption expenditure growth has shrunk to 3.8% in FY 2024-25 which had been growing faster over the previous two years (8.1% in FY 2023-24 and 4.3% in FY 2022-23).³¹ While this could positively reflect improved fiscal consolidation and restrained public spending, it puts a heavier weight on private consumption to boost aggregate demand.

Simultaneously, the share of private sector in total fixed investment also shrunk from 40% in 2015-16 to 33% in 2023-24 (**Figure 1.11**). One of the reasons behind this is a reduced risk appetite of corporates in India that are navigating plans of capital investment with a lot of caution. This can be stemming from the high indebtedness that companies suffered from in the decade of 2010 or from subdued optimism towards demand due to global economic unpredictability. After the pandemic, the government's thrust on public capex increased but for a long-term and sustained economic growth, capital expenditure by the private sector needs to be ramped up.

²⁸ RBI Annual Report 2024-25

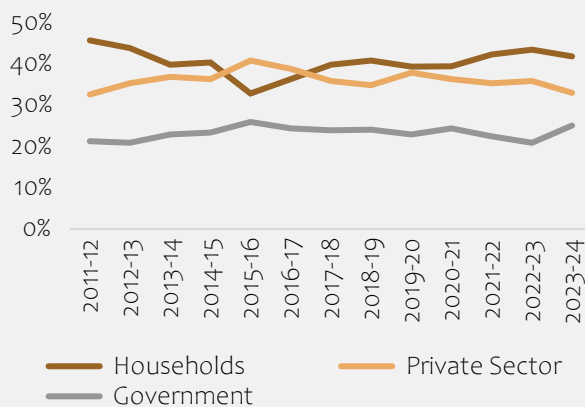
²⁹ Ibid

³⁰ Ibid

³¹ Ibid



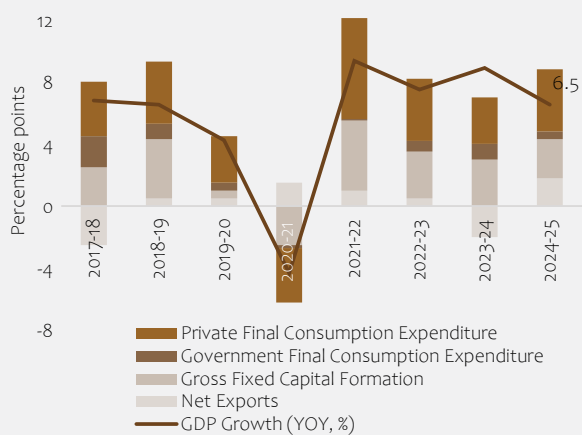
Figure 1.11: Contribution of government, private sector and households in total investment



Source: The Daily Brief by Zerodha³²

Net exports: Total exports showed a strong YoY growth of 6.01% in FY 2025 versus 0.2% in the previous FY.³³ Contribution of expenditure components to GDP growth is shown in **Figure 1.12**. Growth registered by merchandise exports was a mere 0.08%. It was services export that drove the momentum in total exports and helped offset the effect of merchandise export on trade balance, with a growth rate of 13.6% in FY 2024-25.

Figure 1.12: Expenditure Component Weighted Contribution to GDP Growth



Source: RBI Annual Report 2024-25

³² The Daily Brief by Zerodha, 14th Oct'25. "Is there a private capex crisis in India?"

³³ PIB, 02nd May'25. "India's Total Exports Grow by 6.01%"

³⁴ RBI Annual Report 2024-25

³⁵ Ibid

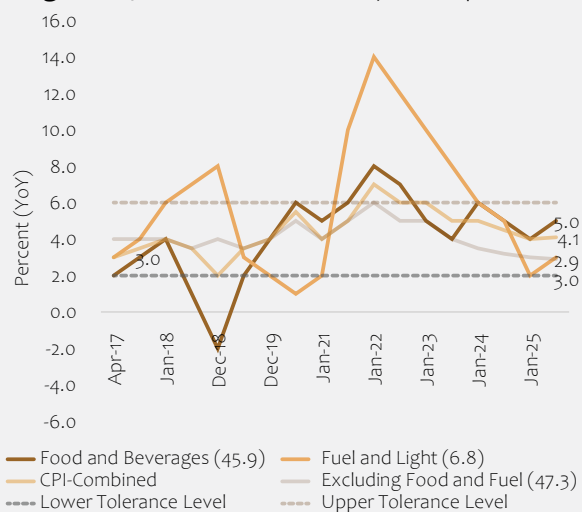
³⁶ RBI, 9th Apr'25. "Survey of Professional Forecasters on Macroeconomic Indicators"

1.2.3 Price levels and inflation

Headline inflation softened to 4.6% in FY 2024-25 compared to 5.4% in FY 2023-24 and was the lowest since 2016-17 when it was at 4.5%.³⁴ The main factor reigning in price levels was the reduction in food prices arising from a good year of monsoon and resultingly, agricultural output. YoY food inflation in Mar'25 hence stood at 2.69%, the lowest it has been in the last 4 years. India also reduced her expenses towards import of oil because of lower crude oil prices globally in the recent past. This helped to reduce the cost of fuel domestically including reduction in input cost for industries. Core inflation also eased to 3.5% during FY 2024-25 from 4.3% in the previous FY.³⁵

Figure 1.13 shows the breakup of inflation across major components. As can be seen, inflation last year remained well within the tolerance band, including the volatile component of food and beverages. The recent trend of decline in inflation is expected to sustain in the coming future. The same is also signalled by the MPC's move in late FY 2024-25 to reduce the repo rate and is expected to further boost consumption demand and economic growth. As per RBI's Survey of Professional Forecasters, headline inflation is expected to ease to 4.2% in FY 2025-26 and remain at 4.3% in FY 2026-27.³⁶

Figure 1.13: Inflation across major components



Source: RBI Annual Report 2024-25

1.2.4 State of informal economy – employment improved while productivity fell

As per the Annual Survey of Unincorporated Sector Enterprises (ASUSE) that covers unincorporated non-agricultural establishments in manufacturing, trade and services³⁷, the total number of establishments increased to 7.34 Cr in 2023-24 from 6.50 Cr in 2022-23, a healthy growth of 12.84%. The highest establishments were reported in the states of Uttar Pradesh, West Bengal and Maharashtra. Between Oct'23 and Sep'24, over 12 Cr workers were employed by the unincorporated non-agricultural sector³⁸ - a growth of 10.1% from 10.96 Cr workers' employment generated in the previous reporting period. Here as well, manufacturing contracted with GVA per establishment falling by 6.7% over the previous year. This sector is crucial to India's large informal economy in terms of both output as well as employment. It is also pertinent to note here that about 90% of workers in the Indian labour market however are employed informally. So, the mentioned decline in productivity becomes an important area for focussed policy work that can aid in improving efficiencies in such firms and establishments. One of the optimistic takeaways of the survey is more inclusive growth which was reflected in an increase in the share of female-owned proprietary establishments from 22.9% in 2022-23 to 26.2% in 2023-24.

1.2.5 Employment - structural unemployment is a concern

In the PLFS³⁹, the usual status of activities measures long term state of labour market in the country such as the state of structural employment present in the

economy (**Table 1.3**). On the other hand, captured over a shorter reference period (only 7 days) than usual status, Current Weekly Status (CWS) is a more appropriate activity status for labour indicators in the short-run (**Table 1.4**).⁴⁰

Usual Status: On a national level, the reported figure on usual status unemployment rate (UR) worsened between 2023 and 2024, standing at 3.2% in 2024, up from 3.1% in 2023. Any improvement in unemployment rate that was observed was for urban women which brought down the overall unemployment rate for urban India (from 5.2% in 2023 to 5.0% in 2024). At the same time, however, more women, primarily from rural areas, also exited the labour force compared to the previous year. Looking at this by region and gender, we see that all India LFPR was pulled down in 2024 by reduction in rural LFPR, particularly of women.

Current Weekly Status: LFPR by CWS activities mostly showed trends like those in usual status activities although across country LFPR by CWS stayed constant at 56.2% (**Table 1.4**). Unemployment however showed divergent patterns wherein by CWS, UR either declined (for men) or remained unchanged (for women) which is the opposite of worsening UR for both genders under usual status activity.⁴¹

It is thus important to look at measures based on both these activity status in conjunction as it reveals that while the state of short-term employment in the country seems more optimistic with an increasing number of people finding more temporary work (CWS figures), structural unemployment in India is becoming a deeper problem (worsening usual status figures). Particularly for the youth, employment prospects are less than promising as the age group

³⁷ Excluding construction

³⁸ MOSPI, PIB, 29th Jan'25. "ASUSE Results for 2023-24"

³⁹ All reported PLFS figures are for the period Jan'24 to Dec'24 for people of 15 years of age and above

⁴⁰ PLFS, 2024. "Key Employment Unemployment Indicators for Jan'24-Dec'24"

⁴¹ PLFS Quarterly Bulletin, Apr'25



Table 1.3: Labour market indicators as per Usual Status activity

Indicator	Rural		Urban		Rural + Urban	
LFPR	2023	2024	2023	2024	2023	2024
Male	79.8%	80.6%	74.9%	76.2%	78.3%	79.2%
Female	47.3%	45.8%	27.2%	27.6%	41.3%	40.3%
Person	63.4%	62.9%	51.4%	52.2%	59.8%	59.6%

UR

Male	2.7%	2.8%	4.4%	4.4%	3.2%	3.3%
Female	1.9%	2.1%	7.5%	6.7%	3.0%	3.1%
Person	2.4%	2.5%	5.2%	5.0%	3.1%	3.2%

Source: PLFS

of 15-29 years is facing a UR of 13.7% in rural areas and 17.9% in urban areas as of May'25. India's youth unemployment rate in the last ten years has been close to 22%⁴² leading again to concerns of jobless growth in the country.

As of 2022, 62% of women were involved in self-employment, a much higher share compared to men who are at 53.1%. This proportion was higher for women in rural India (67.7%) than in urban India (39.3%). Further, in the self-employment category, the predominant activity rural women were engaged in was unpaid family work.⁴³

MGNREGA: As opposed to 312 Cr person-days generated in FY 2023-24, only 291 Cr person-days of work were generated in FY 2024-25. Demand for employment under the scheme in rural India

Table 1.4: Labour market indicators as per Current Weekly Status activity

Indicator	Rural		Urban		Rural + Urban	
LFPR	2023	2024	2023	2024	2023	2024
Male	78.3%	79.2%	74.3%	75.6%	77.0%	78.1%
Female	39.6%	38.6%	25.5%	25.8%	35.4%	34.7%
Person	58.8%	58.6%	50.3%	51.0%	56.2%	56.2%

UR

Male	4.6%	4.3%	6.0%	6.1%	5.0%	4.9%
Female	3.8%	3.9%	8.9%	8.2%	4.9%	4.9%
Person	4.3%	4.2%	6.7%	6.7%	5.0%	4.9%

Source: PLFS

is reducing from its Covid high of FY 2020-21 and at the same time, budget allocation has also reduced to Rs 86,000 Cr in FY 2024-25 from Rs 1,11,500 Cr in FY 2020-21. From the gender perspective, participation of women in MGNREGA has increased steadily in the last decade, growing from 48% in 2013-14 to 58.2% in 2024-25, indicating inclusion of women, economically, in rural India.⁴⁴ Even though demand for manual unskilled labour employment in India has been decreasing YoY, the number of person days of work generated as well as budget allocated for MGNREGA are still above the pre-Covid level. It is however still a point of debate among experts whether the reduced budget is sufficient for ensuring livelihood security of rural India. Additionally, a modest hike in the minimum wage under MGNREGA of 2% to 7% was announced for FY 2025-26 by the GoI⁴⁵.

⁴² Centre for Monitoring Indian Economy (CMIE)⁴³ ILO & Institute for Human Development, 2024. "India Employment Report"⁴⁴ PIB, 26th Aug'25. "MGNREGA: Building Rural Resilience"⁴⁵ Indian Express, 28th Mar'25. "Centre Hikes MGNREGS wages by 2-7% for FY26"

1.2.6 Poverty – marked reduction but does the measure capture the reality?

People living on less than USD 2.15 per day, termed as “extreme poverty”, fell to 2.3% in 2022-23 from 16.2% in 2011-12, according to World Bank’s Poverty and Equity Brief of Apr’25. In absolute figures, the number of extremely poor in India has fallen from 431 million in 1990 to 129 million in 2024. On the domestic front, SBI Research cited 4.6% as the reduced figure for extreme poverty in India in 2024⁴⁶.

Recently, in Jun’25, the World Bank adopted 2021 PPP over 2017 PPP whereby the International Poverty Line (IPL) was raised from USD 2.15 per day to USD 3 per day for low-income countries and from USD 3.65 to USD 4.2 for lower-middle-income countries. Despite using a higher poverty line definition for estimation, India shows a marked reduction in poverty to 5.25% in 2022-23 from 27.12% in 2011-12. The data used by World Bank for its poverty estimates is Gol’s Household Consumption Expenditure Survey (HCES) of 2023-24. Specifically, the Household Consumption Expenditure Survey of 2023-24 reported average MPCE of Rs 4,247 and Rs 7,078 for rural and urban India respectively, including value of goods from social welfare programs. This is a marked increase from HCES 2011-12 as can be seen in **Table 1.5**.⁴⁷

Table 1.5: Poverty Rate and MPCE

Year	Poverty Rate	Poverty Rate	Poverty Rate	MPCE	
	(USD 2.15)	(USD 3.00)	(USD 3.65)	Rural	Urban
2011-12	16.22%	27.12%	61.80%	1,430	2,630
2022-23	2.35%	5.25%	28.10%	4,247	7,078

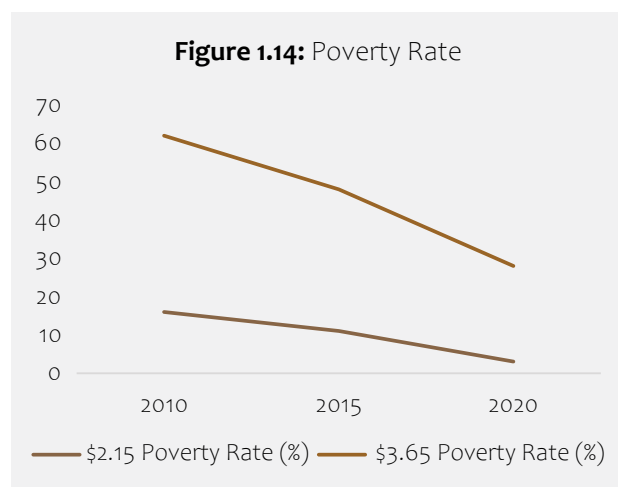
Source: Press Information Bureau, Gol

⁴⁶ SBI Research 2024

⁴⁷ GOI, [PIB](#) Jun’25. “India’s Poverty Story Transformed”

⁴⁸ IMF, 2025. “Implied Conversion Rates”

This also shows a drastic reduction in extreme poverty rate from 12.9% in FY 2021-22. A measure of improving income inequality, Gini coefficient declined for both rural as well as urban India. The Economic Survey of India 2024-25 highlights that between the surveys of 2022-23 and 2023-24, the bottom 5–10% of rural and urban India both saw the largest increase in average MPCE of 22% and 19% respectively. Poverty rate in India over the last decade and a half as per evolving global standards is shown in **Figure 1.14**.



Source: Poverty and Equity Brief, Apr’25, World Bank

It is crucial to evaluate the meaning of these optimistic figures for assessing the actual state of poverty in India. As of 2025, the implied PPP conversion rate, which is expressed as national currency per international dollar, for India is 20.26⁴⁸. The current IPL of USD 3 per day thus works out to Rs 61 approximately. The question that hence arises in the discussion on poverty is whether Rs 61 is enough to cover the cost of living for a day in India, despite the improvement in national poverty levels reported widely.

Outlook

By the end of the FY25, announcements and speculation around international trade policies had begun to impact the global and Indian market. Shock

to India's GDP growth was cushioned compared to other Asian countries that have a higher share of exports making up their economic output. In Apr'25, US levied a baseline reciprocal tariff of 10% on countries it imports from, with some countries facing a higher tariff based on what trade deficit US had with the country. Between Jul'25 and Aug'25, reciprocal tariff of 25% were levied by the US on Indian imports and it shot up to 50%. US is India's largest trading partner with India selling goods worth USD 87 billion to the US in FY 2024-25, 20% of India's overall exports. Since the tariff came into effect in Aug'25, India's exports to the US have fallen by 14% M-o-M. Notably, exports are a relatively small share of India's GDP, 21% of GDP in 2024, compared to other East Asian countries.⁴⁹

Labour-intensive sectors such as textiles & apparel, gems & jewellery and seafood are the most impacted by the high tariffs imposed by the US. Jobs to the tune of 21 million, not considering the informal labour employed in these industries, are expected to be impacted by the hit that these sectors will be taking. Small-scale businesses engaged in these industries or engaged in the supply chain of these exported products will suffer from a drastic fall in demand. India's GDP has shown promise by expanding at a higher-than-expected YoY growth of 7.8% in the first quarter of the FY 2025-26. However, the imposition of 50% tariff by the US on exports from India have the potential of reducing the growth projection by 0.5% to 0.6% in the current FY⁵⁰, as it is expected to start showing effect by the second and third quarters of FY 2025-26.

The impact of RBI's repo rate cuts on economic activity will be lagged in nature, and the changes are expected to be seen gradually on the back of lowered borrowing rates, improved banking liquidity and a boost to the MSME sector. Overall, the government continues to emphasize its support to domestic manufacturing and accelerating industrial growth for which budget allocations under the PLI Scheme were increased for 2025-26.⁵¹ The IMF has projected real GDP growth for India in FY 2025-26 to stay buoyant at 6.4% while domestic

institutions have pegged it in the range of 6.2% to 6.9%. In the wake of the recent tax relief measures, the disposable income level is expected to rise and fuel consumption demand. An uncertain global environment could however dampen India's growth expectations vis-à-vis tariff impositions that are impacting India's export sector and increased cost of purchasing oil. This has the potential of spilling over to private sector by depressing confidence and business sentiments.

1.3 Banking sector credit flow – muted: deposit constraint or RBI's impact on flow direction?

The total outstanding credit by Scheduled Commercial Banks (SCBs) was Rs 1,87,86,865 Cr (Rs 187 Lk Cr) as on 31st Mar'25. The YoY credit growth in FY 2024-25 at 11.1% showed a decline in comparison to the YoY growth of 19.1% in FY 2023-24. The main reasons for the slowdown in credit growth can be attributed to the RBI's move of increasing the risk weights and thereby raising the capital requirement for unsecured retail lending (personal loan, credit card etc) making the lending more capital heavy for the banks. Another factor has been the slowdown in YoY deposits growth as well to 10.3% in FY 2024-25 in comparison to 13.4% in FY 2023-24, limiting the funding base for credit expansion and as also the need to maintain a healthy Credit to Deposit (C:D) ratio, which was at 80.1% as of Mar'25. A shift in the savings behaviour of individuals, moving from banking to capital markets, due to advancements in technology and better return than deposits has also contributed to the slowdown in deposits. **Table 1.6** shows the credit outstanding & deposit balances of SCBs in India, over the last 10 years.

Table 1.6: Credit & deposits of SCBs, Rs Lk Cr

	2015	2020	2025
Credit O/s	68.8	105.2	187.9
Deposits	89.2	137.5	234.5
CD Ratio	77.1%	76.5%	80.1%

Source: Handbook of Statistics on Indian Economy 2024-25, RBI

⁴⁹ [Financial Times](#). "What Donald Trump's tariffs mean for India's economy"

⁵⁰ [Indian Express](#), 15th Oct'25. "US tariffs could cut 0.5% from India's GDP in FY26"

⁵¹ GOI, [PIB](#), 24th Aug'25. "PLI Scheme: Powering India's Industrial Renaissance"

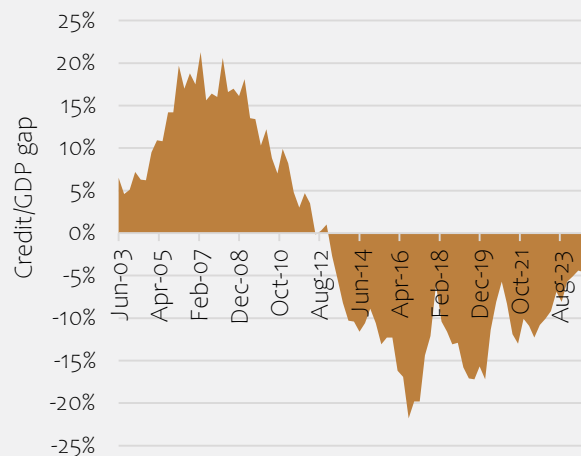
1.3.1 Credit to GDP ratio- still below optimal threshold

Flow of credit is the lifeline for any economy, for delivering financial resources for production, consumption, financial inclusion and overall growth and stability. Credit to GDP ratio is a good statistic to evaluate where an economy stands in the financial cycle. A ratio significantly greater than its trend value indicates potential build-up of credit stress while a ratio lower than trend indicates ample room for growth (Giese 2014⁵²).

As such, credit deepening can catalyse GDP growth but beyond a critical threshold it may adversely impact the overall economic performance. Analysis of data from 2001 to 2022 of 16 Advanced Economies (AEs) and EMDEs suggest a credit threshold at 113.1% of GDP for the sample countries, though it may vary for each country. India's total credit-to-GDP ratio (including credit extended by banks as well as NBFCs) at 90.1% in 2022 was below that of AEs and of emerging market economies (EMEs) as well as the estimated threshold. As such, higher credit growth remains supportive of economic growth (RBI 2024⁵³).

The past trends shows that there was a positive credit/GDP gap⁵⁴ in India from 2006 to 2012 indicating excessive credit growth, which coincided with an investment boom over that period. In the period after that, 2012 to 2024, higher NPAs for banks limited their ability to lend, which slowed down the credit growth. **Figure 1.15** portrays the credit/GDP gap in India during this period and indicating a potential for a favourable credit-up cycle⁵⁵ coming up in near future (MoF 2025⁵⁶).

Figure 1.15: Indian economy witnessing the commencement of a new credit up-cycle



Source: Bank for International Settlements (BIS), data accessed on 9th Sep'25

Further, a comparison with AEs such as US, UK & Japan, indicates a lower bank credit⁵⁷ to private nonfinancial sector to GDP ratio for India. The ratio is lower in comparison to EMEs as well but higher than of Indonesia and Mexico, as shown in the **Figure 1.16**. This highlights revival of the credit environment in India from the crisis in the second decade, backed by a strong policy on financial inclusion which reflects from the rise in RBI's Financial Inclusion Index from 53.9 in Mar'21 to 64.2 by Mar'24 (MoF 2025).

⁵² Giese, J., Andersen, H., Bush, O., Castro, C., Farag, M., & Kapadia, S. (2014). The credit-to-GDP gap and complementary indicators for macroprudential policy: Evidence from the UK. *International Journal of Finance & Economics*, 19(1), 25-47.

⁵³ RBI 2024. "Trends and Progress of Banking in India, 2023-24"

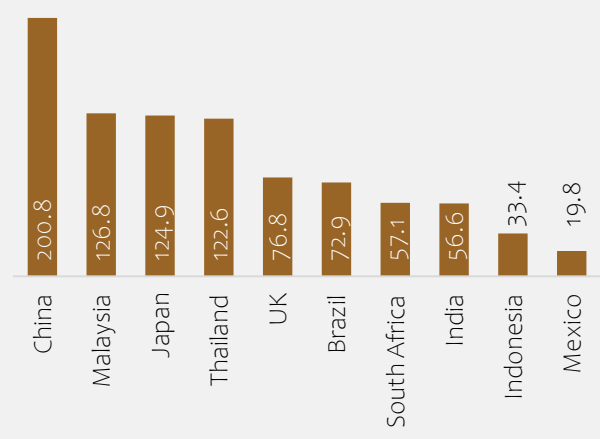
⁵⁴ The credit-to-GDP gap is the difference between the current credit-to-GDP ratio and its long-term average or trend.

⁵⁵ Credit/GDP includes all lending sectors (bank and non-bank) and all borrowing sectors (Household & NPISHs, General Government, Non-financial sector and non-financial corporations).

⁵⁶ MOF, GOI 2024. "Economic Survey of India, 2024-25"

⁵⁷ Average of bank credit to the private financial sector as percentage of GDP in the first two quarters of 2024

Figure 1.16: Cross-country comparison of bank credit to private non-financial sector as % of GDP



Source: Bank for International Settlements (BIS)

1.3.2 Sectoral credit flow: slow brakes on personal loans, but job creator-Industry still in slow lane

Table 1.7 shows the CAGR of the sectoral credit over that last ten (2015-2025) and five (2020-2025) periods. As evident, personal loans have witnessed the highest growth over the last 10 years, but the CAGR of last 5 years indicates a slowdown in comparison to other sectors. Actually, the major slowdown in personal loans occurred in FY 2024-25 during which the YoY growth was just 11.6%, much lower than the 27.5% YoY growth as of Mar'24 and 20.7% as of Mar'23.

Table 1.7: CAGR of credit flow to various sectors

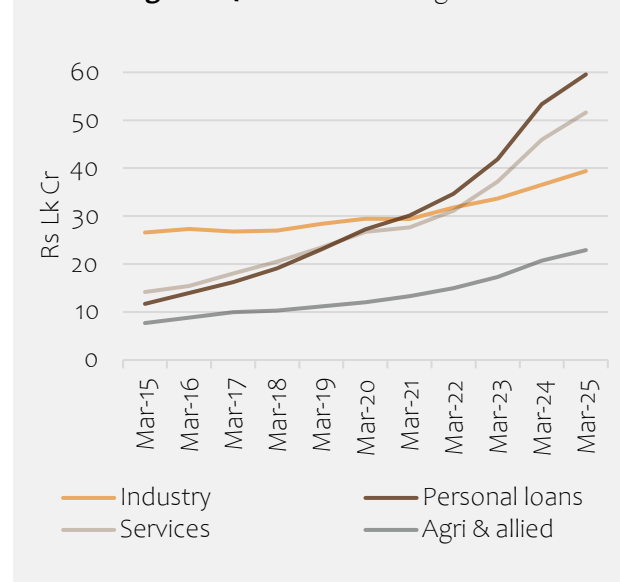
	CAGR (2015 to 2025)	CAGR (2020 to 2025)
Agri & allied	11.6%	13.7%
Industry	4.0%	6.0%
Services	13.8%	14.1%
Personal loans	17.7%	16.9%
Overall	10.9%	12.0%

Source: Handbook of Statistics on Indian Economy 2024-25, RBI

Sensing the systemic risk which the high growth in unsecured personal loan segment can cause, in [Nov'23](#) the RBI increased the risk weights on consumer credit exposure of commercial banks and NBFCs (which excluded microfinance) to 125%. Further, in case of exposure of SCBs to NBFCs the risk weights were raised by 25 percentage points over and above the risk weights as per external ratings, in all such cases where the risk weight was below 100%.

Later in [Feb'25](#), the RBI decided to restore the risk weights applicable on exposures of SCBs to NBFCs, as per the external rating. Though it will be effective from 1st Apr'25, the relaxation is understood to support the credit flow to the low-income segments and address the liquidity issue which the NBFC-MFIs were facing because of the regulatory squeeze making the banks reluctant to lend to them. **Figure 1.17** shows the growth of various sectors from 2015 to 2025.

Figure 1.17: Sectoral credit growth



Source: Handbook of Statistics on Indian Economy 2024-25, RBI

However, despite the slowdown, personal loans continue to have the largest share of 34.3% of credit outstanding of SCBs as on 31st Mar'25, a slight increase from 34.1% as on 31st Mar'24. This slight increase seems to have come at an expense of the exposure to industry, which reduced to 22.7% of total credit outstanding of SCBs as on 31st Mar'25 from 23.3% as on 31st Mar'24. The share of agriculture and allied sector remained at 13.2% and the contribution of services increased to 29.8% (Mar'25) from 29.3% (Mar'24).

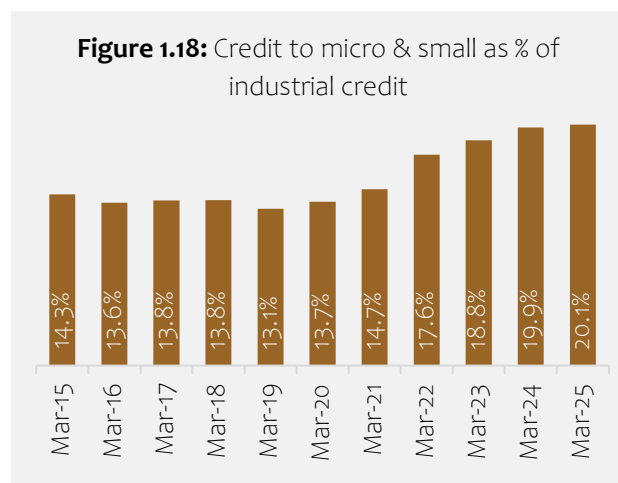
As per [RBI report on sectoral deployment of credit](#), the decline in YoY growth in personal loans (14.0% as of Mar'25 comparative to 17.6% Mar'24) has been mainly due to decline in growth in 'other personal loans', 'vehicle loans' and 'credit card outstanding'. The YoY growth of agriculture and allied also declined to 10.4% in Mar'25 from 20.0% in Mar'24. The relative decline in the services sector (13.4% as of Mar'25 from 20.8% as of Mar'24) was primarily due to decelerated growth in credit to NBFCs though credit growth to 'professional services' and 'trade' segments remained robust.

Credit outstanding with NBFCs was Rs 16.4 Lk Cr as of Mar'25 in comparison to Rs 15.5 Lk Cr as of Mar'24, showing a YoY growth of 5.7%. However, this was much lower than YoY growth of 15.3% as of Mar'24 and 29.9% as of Mar'23 – a clear impact of the increase in risk weights for NBFCs as discussed above.

In a landmark NBFC symposium hosted by DFS, MoF on 10th Jul'25, the Hon'ble Finance Minister acknowledged the role of NBFCs in financial inclusion and set a target for NBFC credit to grow to 50% of overall bank credit by 2047, among other policy directions. Currently, NBFC credit is only 1/4th of the overall bank credit in the economy. The FM also stated that NBFCs play a major role in supporting the banks in achieving their priority sector goals due to their better reach and last mile connect and banks should co-opt them as their partners.

In case of industry, the YoY growth of 8% as of Mar'25 was similar to the previous year. Among major industries, outstanding credit to 'petroleum, coal products and nuclear fuels', 'basic metal and metal products', 'all engineering' and 'construction' recorded an accelerated YoY growth. However, credit growth in the infrastructure segment decelerated. Credit outstanding to micro and small enterprises (MSE) increased to Rs 7.9 Lk Cr as of Mar'25 in comparison to Rs 7.3 Lk Cr as of Mar'24, a YoY growth of 8.2%. However, the credit growth to MSE this year decelerated in comparison to YoY growth of 14.7% last year and a average growth of more than 22% in the previous three years. Apart from the larger slowdown trend, it appears that the major factor has been the slowdown of credit to NBFCs and in particular NBFC-MFIs that lend to MSEs – the microfinance sector has degrown by 13.5% during FY 2024-25 (MFIN Micrometer Q4 FY 2024-25).

Figure 1.18 shows the credit to MSEs as a proportion to overall industry credit.



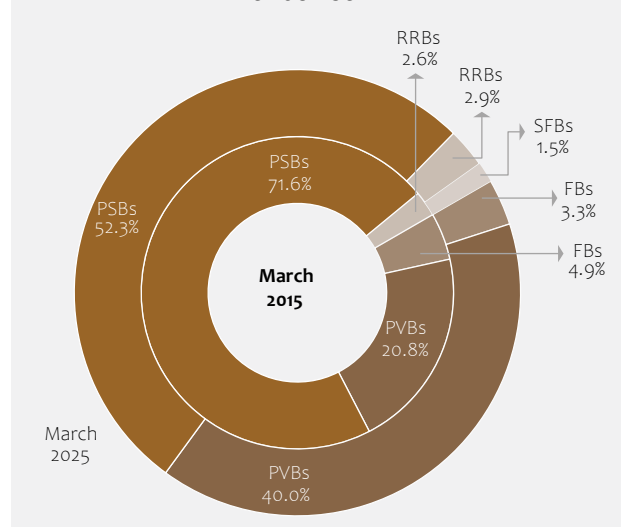
Source: Handbook of Statistics on Indian Economy 2024-25, RBI

1.3.3 Credit contributions by type of banks – PSBs steal a march after 10 years

Across banks, the YoY credit growth of Public Sector Banks (PSBs) at 12.2% as of Mar'25, outpaced that of the Private Sector Banks (PVBs) at 9.5% after more

than a decade (FSR 2024-25⁵⁸). **Figure 1.19** shows the contribution of different types of banks to the credit flow in Mar'25 and Mar'15.

Figure 1.19: Contribution to the credit flow by various banks

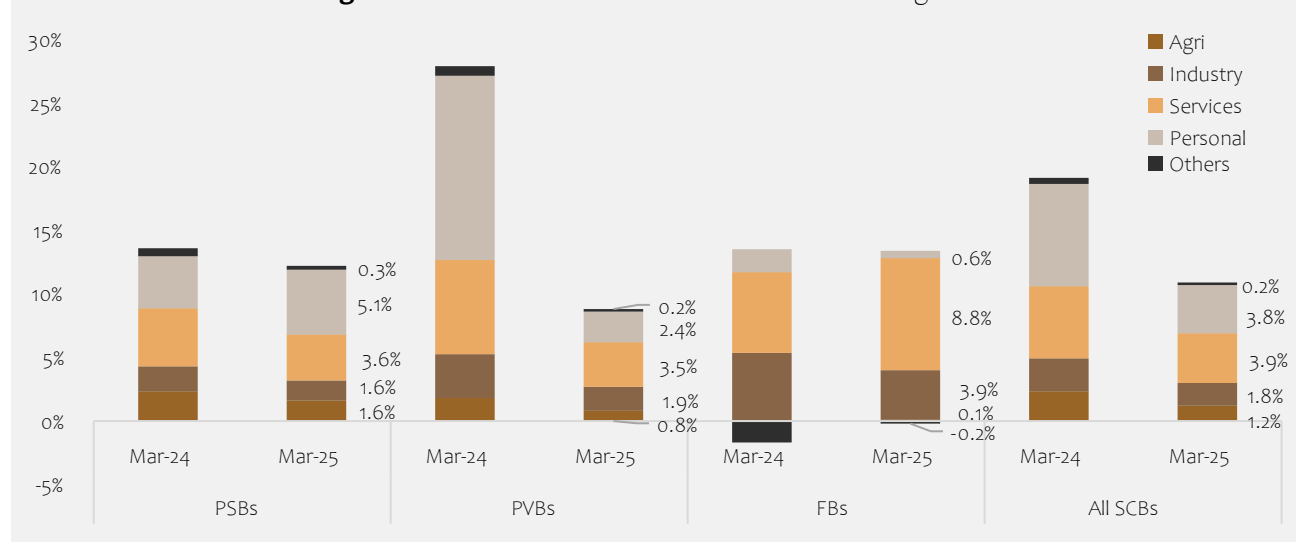


Source: Handbook of Statistics on Indian Economy 2024-25, RBI

Though PSBs continues to be the major contributor followed by PVBs, their market share over the last ten years have significantly reduced. As present, PSBs and PVBs together have 92.3% of the market share and the remaining 7.7% are with the Foreign Banks (FBs), Regional Rural Banks (RRBs) and Small Finance Banks (SFBs).

The composition of sectoral credit within various bank types shows a well distributed portfolio for PSBs across personal, services and industry with agriculture having the lowest share. In case of PVBs, personal loans (followed by services & industry) had the largest share and for FBs the industry and services had the largest share. **Figure 1.20** shows the contribution of the select sectors in the growth of credit for various banks. While personal loans and service sector loans are the top two contributors for all SCBs, in case of PVBs, personal loans which was a major contributor (14.5%) to its 27.9% growth in FY 2023-24 reduced significantly to 2.6% out of 8.8% in FY 2024-25. The contributions of various sector in case of PSBs and FBs remained similar in FY 2024-25 in comparison to the previous year.

Figure 1.20: Contribution of select sectors to credit growth



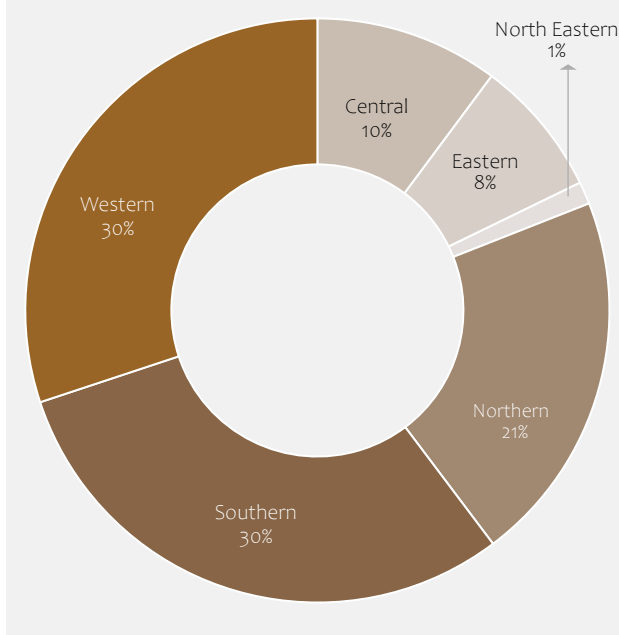
Source: Financial Stability Report, Jun'25

⁵⁸ RBI 2025. "Financial Stability Report, Jun'25"

1.3.4 Regional distribution of credit: 60% accounted by South & West

South and west have been the dominant regions in terms of credit distribution, together accounting for around 60% of the market share over the last 15 years. While the skew persists, south had displaced west as the largest region with 30.1% market share in Mar'21 and has held its position since then. **Figure 1.21** shows the regional distribution of credit as of Mar'25.

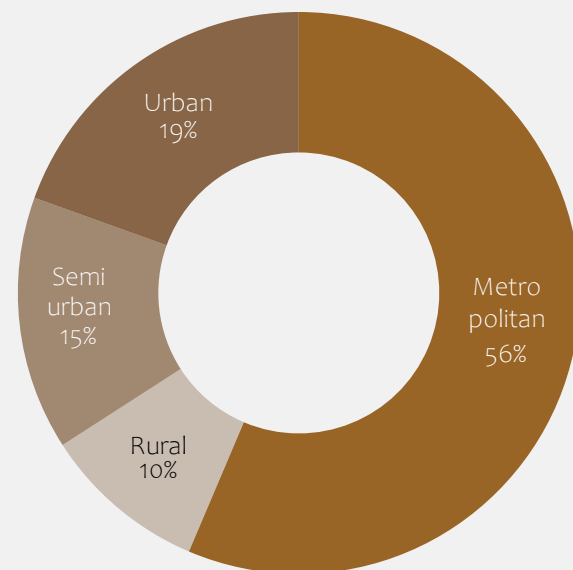
Figure 1.21: Regional share of banking credit as of Mar'25



Source: Handbook of Statistics on Indian Economy 2024-25, RBI

The distribution of credit by population groups, shows that major uptake of 56.4% as of Mar'25 is in the metropolitan areas followed by 19.5% in urban locations. This skew has also remained similar over the last 15 years with some fluctuations across population groups. **Figure 1.22** depicts the distribution of credit by population groups as of Mar'25.

Figure 1.22: Share of banking credit by population group as of Mar'25



Source: Handbook of Statistics on Indian Economy 2024-25, RBI

Summing up

The world economy is going through uncertain times. As inflation and supply chain disruption ease, new factors stoking uncertainty like Tariffs, setback to climate change efforts and visa restrictions by the US have emerged. The global order seems to be heading towards a realignment with gradual weakening of multilateralism. It remains to be seen whether this is temporary; but it is clear that countries need to focus on domestic production and demand as well as eke out bilateral deals with trading partners.

Indian scene gives mixed signals. Policy push by the Government for few years in the form of higher Capex, schemes like PLI and corporate tax cuts have yet not fired the animal spirits. With inflation moderating, RBI has also joined the fiscal push by cutting policy rate and CRR. The policy measures coupled with above normal monsoon point to an improved economic activity. However, major global uncertainties can upset the delicate Growth-Inflation dynamics.

Credit flow especially to Bottom-of-the-Pyramid (BoP) segment underpins broad based growth. However, last year, credit growth remained muted and microfinance sector recorded negative growth. Hon'ble Finance Minister has set out a vision for NBFCs credit to be 50% of banking credit by 2047 to spur inclusive growth [currently at 10%]. NBFCs especially medium and small continue to rely heavily on banking sector for their debt requirements, but banks continue to be passive in lending.

Despite favourable macro numbers, high dependence on informal sector, wide regional disparities, low HDI score point to certain key imperatives. In order to boost domestic demand, income growth is needed and that is possible through higher flow of credit for productive purposes. At present, the credit engine is stalled exacerbating the sluggishness in demand.

Hope is that the Government and the RBI will kickstart the virtuous cycle of credit flow – rise in incomes – rise in demand – rise in private sector capex – growth in GDP.



Financial inclusion



Financial inclusion efforts in India began soon after Independence in the 1950s although the term, “Financial Inclusion” came much later. The National Credit Council meeting (July 1968) set the stage for key milestones such as the Priority Sector Lending (PSL) guidelines, nationalisation of major private banks (1969), and the launch of the Lead Bank Scheme (1969). The RBI’s branch expansion policy during the 1970s, which mandated rural branch openings alongside urban ones, laid the foundation for today’s extensive banking network. Experiments with group-based lending models and the growth of microfinance institutions further integrated previously unserved populations into the formal financial system.

Interestingly, these efforts predated the formal recognition of the term “financial inclusion”, which first appeared in the RBI’s Annual Policy Statement for 2005–06, when Governor Dr. Y. V. Reddy highlighted the problem of financial exclusion resulting from restrictive banking practices.

The 2030 Agenda for Sustainable Development, adopted by United Nations member states, recognizes financial inclusion as a critical enabler for achieving seven of the seventeen Sustainable Development Goals (SDGs). The World Bank has similarly underscored its importance, positioning



financial inclusion as a cornerstone of development and monitoring global progress through the Global Findex Database, which tracks adults' access to and usage of financial services worldwide. This chapter on financial inclusion starts with few interesting highlights from the [Global Findex 2025](#), illustrating global progress and then details financial inclusion progress in India across savings, credit, insurance and pension.

2.1 Financial inclusion – a global perspective

The Global Findex Database released by the world bank is the demand-side survey on financial inclusion and serves as a leading source of data on how adults across the globe access and use financial services. Since its launch in 2011, the Global Findex has offered critical insights into financial inclusion, digital payments, savings, and borrowing behaviours across diverse economies. It also highlights key trends, including the growth of digital financial services and persistent gender gaps in account ownership.

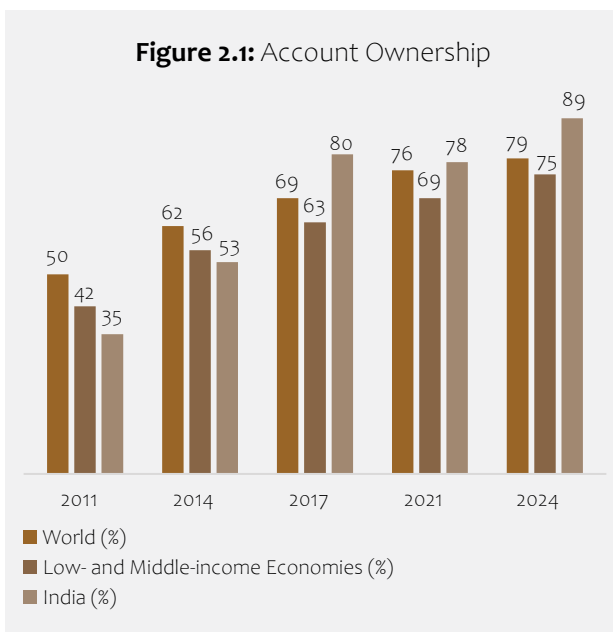
The Global Findex 2025 introduced the Digital Connectivity Tracker, a new component that measures access to and use of mobile technology. When combined with financial inclusion data, it provides a comprehensive view of how mobile infrastructure is expanding access to financial services and strengthening economic resilience.

Some key findings from the report are detailed below:

Account Ownership

- Worldwide, 79% of adults have an account either at a bank or similar financial institution, or with a mobile money provider, or both, up from 76% in 2021. **Figure 2.1** indicates the progression of account ownership since 2011. Noteworthy is the fact that from being below world average in 2011, India is now the leader in account ownership - thanks to PMJDY.

- Adults in high-income economies enjoy near-universal account ownership. Most adults without accounts live in low- and middle-income economies, and 53 % of them—more than 65 Cr adults—reside in just 8 economies - Bangladesh, China, the Arab Republic of Egypt, India, Indonesia, Mexico, Nigeria, and Pakistan.
- Both China and India have account ownership rates of nearly 90%, yet they are also home to the largest number of adults without accounts due to their large population base.
- In India, 16% of account owners do not have an active account; the average for all other low- and middle-income economies (LMIEs) is 4%.



Source: Global Findex Reports – World Bank

Mobile phone ownership and Internet usage

- Worldwide, 86% of adults own mobile phones, though smartphones are less common in some regions than others.

- In LMIEs, 84% of adults own a mobile phone, mostly smartphones, except in Sub-Saharan Africa. About 67% of adults use the internet primarily through a smartphone and 45% use social media.
- Interestingly, 40% of mobile phone owners in LMIEs do not have a password on their device and 19% have already been exposed to online scams.

Digital payments - only 42% poorer adults in India use digital payments

- Payments represent the strongest area of financial inclusion. Globally, 82% of account holders made or received a digital payment in 2024, highlighting digitalization's reach.
- The use of digital payments among account owners is high across all regions except South Asia where just 57% of account owners made or received digital payments. In India, its share is only 54 %.
- Across LMIEs, 62% of all adults either made or received at least one digital payment in the 12 months prior to the survey. In India, the rate for making or receiving a digital payment is 48%.
- India contributes substantially to the income gap observed in digital payment use: 42% of poorer adults with accounts in India use digital payments, compared with 62% of wealthier adults with accounts in the region.
- In LMIEs, 73% of government transfer recipients and 45% of wage earners received payments directly into accounts.

Savings

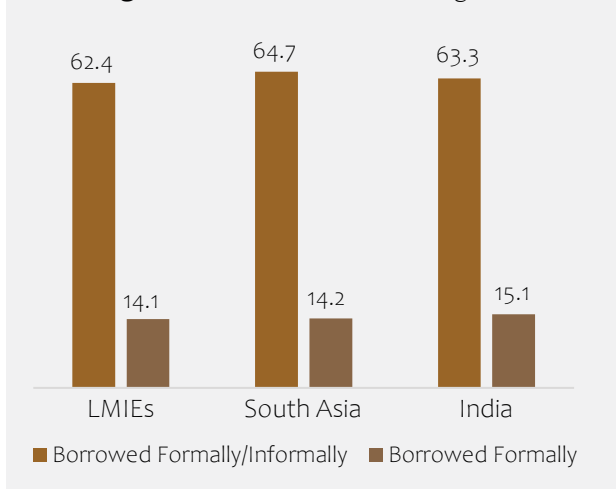
- Financial usage patterns have also broadened alongside growing account ownership. Savings in account is the most common way to save, and this has seen an upward trend in every region.

- In 2024, 40% of adults in LMIEs saved formally using an account (up from 24% in 2021). In contrast, 27% of adults in India saved formally.
- 23% of adults in LMIEs saved formally and received interest on or additional money for their savings. Nearly half of the adults who saved did so on a monthly basis.

Borrowings - 15% adults in India borrow from formal sources

- Formal borrowing is much less common than formal saving or digital payment usage across LMIEs. Formal borrowing in India is below the average seen in LMIEs.
- A slightly greater percentage of adults in India engaged in formal borrowing (15.1%) compared to the average for the South Asia region (14.2%) and the average for low- and middle-income economies (14.1%). Formal borrowing of only 15.1% indicates that informal sources continue to dominate credit access in India similar to broader regional trends (**Figure 2.2**)
- Although India has a 90% account ownership rate, the most common reason given by adults without an account in India is that a family member already has an account. This contrasts with the trend in most LMIEs, where the most frequently cited barrier to bank account ownership is not having enough money.
- In India, reliance on a family member's account suggests a potential unmet demand for personal accounts among both men and women. The next most common barrier cited in India is not having enough money, followed by the cost of financial services and financial institutions being too far away; these were cited by about half of adults in India without accounts.



Figure 2.2: Source of Borrowings in %

Source: Global Findex Reports – World Bank

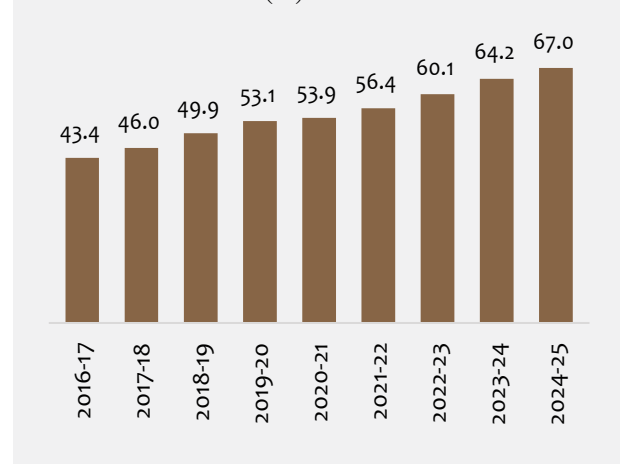
2.2 RBI's financial inclusion index - steady progress but underlying data not disclosed

The Financial Inclusion Index (FI-Index) is a comprehensive measure developed by the RBI in consultation with the Government and sectoral regulators across banking, investments, insurance, postal, and pension services. It consolidates diverse aspects of financial inclusion into a single score on a scale of 0 to 100, where 0 denotes complete exclusion and 100 reflects full inclusion. The index is structured around three parameters—Access (35%), Usage (45%), and Quality (20%)—captured through 97 indicators.

For the year ending Mar'25, the FI-Index stood at 67.0, up from 64.2 in Mar'24 (Figure 2.3). The improvement in FY 2025 is largely attributable to gains in the Usage and Quality dimensions, reflecting the impact of expanding financial inclusion and financial literacy initiatives.

Broadly, one-third of total weight has been assigned to 'Access' where most of the initiatives in the past have been undertaken and which reflects

the extent of supply side financial infrastructure made available. Two-thirds of the weight has been assigned to deepening aspect of financial inclusion, i.e., 'Usage' and 'Quality'. Each of these three sub-indices are further composed of distinct set of dimensions computed based on non-overlapping set of indicators.

Figure 2.3: RBI's Composite Financial Inclusion (FI) Index

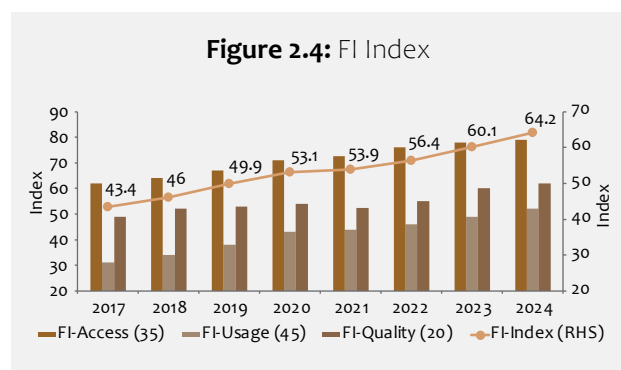
Source: RBI Press Release

'Access' sub-index is further divided into four dimensions, viz., 'Banking', 'Digital', 'Pension', and 'Insurance', and reflects the efforts made on the supply side of financial inclusion. The 26 indicators across four dimensions have been selected to capture number of banking outlets including BCs, NBFCs, and post offices etc., total number of savings accounts including small savings, JAM ecosystem, insurance, pension etc.

'Usage' sub-index is divided into five dimensions, viz., 'Savings & Investment', 'Credit', 'Digital', 'Insurance' and 'Pension'. Comprised of 52 indicators, it is more of a demand side measure and reflects the extent of active usage of financial infrastructure by way of savings, investment, insurance, availing of credit and remittance facilities, etc.

‘Quality’ sub-index has three dimensions, viz., ‘Financial Literacy’, ‘Consumer Protection’, and ‘Inequality’ in the distribution of financial infrastructure with 19 indicators.

As mentioned in the previous edition of Micromatters, the RBI has discontinued publishing detailed data on the sub-dimensions of access, usage, and quality since 2022. However, the RBI’s Annual Report for FY 2024-25 includes a graph (**Figure 2.4**) depicting these sub-indices, which indicates a steady upward trend across all three dimensions up to 2024, although exact values are not provided. The graph suggests that for FY24, ‘access’ has remained broadly at the same level as the previous year, while both ‘usage’ and ‘quality’ have improved, with a more pronounced increase observed in the ‘usage’ parameter.



Source: RBI Annual Report 2024-25

However, there are concerns that not all data underlying the sub-indices are fully disclosed or available in granular form. This reduces the ability of independent analysts / researchers to verify results or examine differences across regions/groups. Publishing more granular data—broken down by region, gender, or rural/urban classification—would offer greater clarity on which segments may be lagging behind.

Also, the “quality” dimension includes items like financial literacy, consumer protection, service deficiencies etc., which are inherently more qualitative, subjective, or difficult to standardize. There may be lags or inaccuracies in capturing improvements (or deterioration) in service quality, especially for underserved or remote areas.

However, one thing is clear, that going forward, more stress should be placed on the underbanked rather than the unbanked, as the accessibility and availability are almost achieved, but the goal of utilization and standard quality of financial services still need to be improved.⁵⁹

The RBI has set the goal to review the Financial Inclusion Index (FI-Index) in the current financial year as per its annual report of FY 2024-25. It is hoped that broad based discussions will be held with key stakeholders, while reviewing the Index.

2.2.1 Other initiatives by the RBI

Financial Literacy Week

Furthering its efforts to promote inclusion through capacity-building initiatives, the RBI has been organizing Financial Literacy Week (FLW) annually since 2016 to disseminate key financial education messages on diverse themes of financial literacy. The theme for the 2025 edition was “Financial Literacy – Women’s Prosperity”, with a specific focus on financial planning, saving and risk management and availing credit for growth. The campaign was conducted from 24th to 28th Feb’25, across the country. Such initiatives are expected to strengthen the ‘usage’ and ‘quality’ dimensions of financial inclusion by empowering individuals—particularly women—with the knowledge and confidence to make informed financial decisions.

⁵⁹ Rituparna Chaudhary and Sumeet Gupta, May’25. “Augmentation of Financial Inclusion: A Structured Review from the Indian Perspective”. *Indian Journal of Finance*

National Strategy for Financial Inclusion (NSFI)- Next 5 year plan is WIP

NSFI is a policy framework prepared by the RBI under the guidance of the Financial Stability and Development Council (FSDC) to ensure coordinated efforts among regulators, financial service providers, and the government for advancing financial inclusion in India. The First NSFI (2019–24) was launched in Jan'20, and it laid down a five-year action plan (till 2024) with six strategic pillars:

- Universal access to financial services
- Providing basic bouquet of financial services
- Access to livelihood and skill development
- Financial literacy and education
- Customer protection and grievance redressal
- Effective coordination among stakeholders

The strategy aimed at deepening access to banking, insurance, pension, and investment services while strengthening consumer protection and literacy. Under NSFI 2019–24, significant progress was achieved through initiatives like PMJDY (banking access), Aadhaar-enabled services, expansion of digital payments (UPI, AePS), micro-insurance schemes and financial literacy drives. The RBI also tracked progress through the FI-Index as indicated in the last section.

The upcoming NSFI (2025-30) is under preparation and should focus on consolidating gains made in the last five years, deepening digital financial inclusion, promoting responsible credit and enhancing resilience of inclusion efforts through consumer protection and digital security.

2.3 Financial inclusion progress across account ownership, savings, liabilities

2.3.1 Bank Accounts and Savings - near universal but 23% inoperative PMJDY accounts

Basic Savings Bank Deposit Accounts (BSBDA) have emerged as a cornerstone of India's financial inclusion agenda, providing individuals with access to formal banking services without the barriers of minimum balance requirements or complex documentation. Designed to encourage savings and facilitate seamless participation in the banking system, BSBDA offers deposit, withdrawal, and remittance facilities along with basic safety and security for one's funds. The total amount in BSBDA accounts shows an increase of 12-13% YoY for the past 3 years (**Table 2.1**). Although the number of accounts opened by Business Correspondent (BCs) dominate over the branch opened accounts, the total amount in both is nearly the same.

Table 2.1: Progress under BSBD accounts

BSBDA through	Dec-21	Dec-22	Dec-23	Dec-24
Branches (No. in Lk)	2,712	2,704	2,780	2,743
Branches (Amount in Cr)	1,18,625	1,23,653	1,35,628	1,45,883
BCs (No. in Lk)	3,919	4,082	4,274	4,458
BCs (Amount in Cr)	95,021	1,16,777	1,36,558	1,58,832
Total (No. in Lk)	6,631	6,786	7,054	7,201
Total (Amount in Cr)	2,13,646	2,40,430	2,72,186	3,04,715

Source – RBI Annual Report 2024-25

Table 2.2: Banking Outreach -27% decline in BC outlets in 3 years

Particulars	Dec-21	Dec-22	Dec-23	Dec-24
Banking Outlets in Villages-Branches	53,249	53,159	53,893	56,579
BC Outlets in Villages>2000 population	15,18,496	13,83,569	13,15,004	10,82,650
BC Outlets in Villages<2000 population	3,26,236	2,95,657	2,77,594	2,72,941
Total BC Outlets in Villages	18,44,732	16,79,226	15,92,598	13,55,591

Source: RBI Annual Report 2024-25

The progress made by the banks in the financial inclusion sphere as captured through various indicators under the Financial Inclusion Plan (FIP) as at end-Dec'24 is set out in **Table 2.2**. The aggregate balance in BSBDA increased by 11.9% (YoY) in Dec'24.

Although, the number of banking outlets in villages had gone up last year, after remaining almost stagnant for few years, the number of BC outlets in villages has been consistently declining, driven primarily by low profitability for agents arising from low commission rates on high-cost and low-volume rural transactions. This trend is further compounded by consolidation in the banking sector, competition from digital payment platforms such as UPI (Unified Payments Interface) and persistent operational challenges, including cash handling issues and susceptibility to fraud risks.

It is, however, to be noted that providing banking access to every village within a 5 km radius/hamlet of 500 households in hilly areas was one of the milestones of the NSFI:2019-24, which was fully achieved in 27 states and 8 UTs as on 31st Mar'25. About 99.99% of the identified villages/hamlets across the country are now covered and efforts are underway to achieve the target for the remaining few villages/hamlets.

Pradhan Mantri Jan Dhan Yojana (PMJDY)

PMJDY, launched in Aug'14, represents one of the most ambitious financial inclusion programmes globally, aimed at ensuring universal access to banking facilities, affordable credit, insurance and pension for the unbanked population. The initiative has been remarkably successful in terms of outreach, with over 55 Cr accounts opened by Mar'25, a majority of which are held by women (56%). Across different types of banks, the public sector banks continue to significantly lead the implementation of PMJDY with maximum number of beneficiaries and deposits as illustrated in **Table 2.3**.

Over the past decade since the scheme's implementation, total deposits have significantly increased by more than 18 times rising from Rs 14,641 Cr in 2015 to Rs 2.64 Lk Cr on 3rd Sep'25.



Table 2.3: Progress under PMJDY

Bank Name / Type	No. of depositors at R/SU centre bank branches	No. of depositors at U & metro centre bank branches	No of female depositors	No of total depositors	Deposits in Accounts (Rs Cr)	No. of Rupay Debit Cards issued to depositors
Public Sector Banks	27.56	16.16	24.11	43.73	2,06,438.30	33.50
Regional Rural Banks	9.11	1.50	6.17	10.61	50,631.39	3.85
Private Sector Banks	0.78	1.07	1.05	1.86	7,840.49	1.51
Rural Cooperative Banks	0.19	0.00	0.10	0.19	0.01	0.00
Grand Total	37.64	18.74	31.43	56.38	2,64,910	38.86

Source: [PM-JDY Progress Report](#); Data as on 3rd Sep'25, all figures in Cr; R=Rural, SU=Semi-urban and U=Urban

It may however be noted that the growth in both number and deposits of PMJDY accounts is on a declining trend when compared on a YoY basis (**Table 2.4**). The deceleration in the growth numbers

is perhaps reflecting the scheme's maturity and near-universal financial inclusion, rather than reduced effectiveness. The focus has to now shift from quantity to quality of inclusion.

Table 2.3: Progress under PMJDY

As on	PMJDY accounts (Cr)	No of PMJDY accounts (male)	No of PMJDY accounts (female)	No of PMJDY accounts (R/SU)	No of PMJDY accounts (U/Metro)	Deposits in PMJDY accounts (Rs Cr)
Mar-15	14.72	7.15	7.39	8.68	5.86	14,641
Mar-16	21.43	10.37	11.05	13.17	8.26	35,672
Mar-17	28.17	13.67	14.49	16.87	11.30	62,972
Mar-18	31.44	14.85	16.60	18.52	12.92	78,494
Mar-19	35.27	16.53	18.74	20.90	14.37	96,107
Mar-20	38.33	17.85	20.48	22.63	15.70	1,18,434
Mar-21	42.20	18.82	23.38	27.86	14.35	1,45,551
Mar-22	45.06	19.96	25.08	30.07	14.99	1,66,459
Mar-23	48.65	21.60	27.05	32.45	16.20	1,98,844
Mar-24	51.95	23.05	28.90	34.58	17.36	2,32,502
Mar-25	55.18	-	-	-	-	2,60,387

Source: DFS Annual Report 2024-25; PMJDY Website; R=Rural, SU=Semi-urban and U=Urban

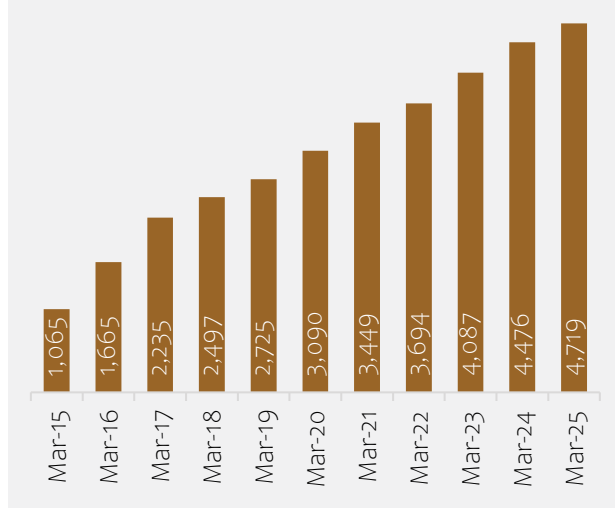


Beyond basic account opening, PMJDY has facilitated direct benefit transfers (DBT), curtailed leakages, and created a foundation for extending financial services to low-income households. Nevertheless, key challenges persist in maintaining regular account activity, strengthening financial literacy, and converting access into meaningful usage—particularly in low-income and remote areas. Despite growth achievements, [23% of PMJDY accounts are inoperative](#)⁶⁰. This becomes more of a concern as the inoperative accounts are defined as accounts with no customer induced transactions for two years. Account dormancy patterns vary geographically, with states like Uttar Pradesh (2.75 Cr), Bihar (1.39 Cr), and Madhya Pradesh (1.07 Cr) showing higher concentrations of inactive accounts.

The Ministry of Finance launched a three-month nationwide campaign (from 1st Jul'25) to promote Jan Dhan Yojana and related schemes, conduct re-KYC, and encourage account holders to activate dormant accounts. DFS continues to monitor inoperative accounts and has directed banks to reach out to customers to make them aware about these issues.

It is also important to mention that despite the impressive scale of account opening, deposit growth in these accounts has remained modest. Average balances continue to be low, reflecting limited income flows and usage, and the overall deposit base has not expanded significantly in proportion to the rapid rise in the number of accounts (**Figure 2.5**). This highlights the challenge of deepening financial inclusion beyond access, towards economic development.

Figure 2.5: Deposit per Account (Rs)



Source: PMJDY Website

Thus, while PMJDY has laid a strong foundation for financial inclusion, its long-term effectiveness hinges on improving account quality, credit linkages and the broader ecosystem of financial empowerment.

Household Savings and Liabilities - Rising household liabilities outpacing savings

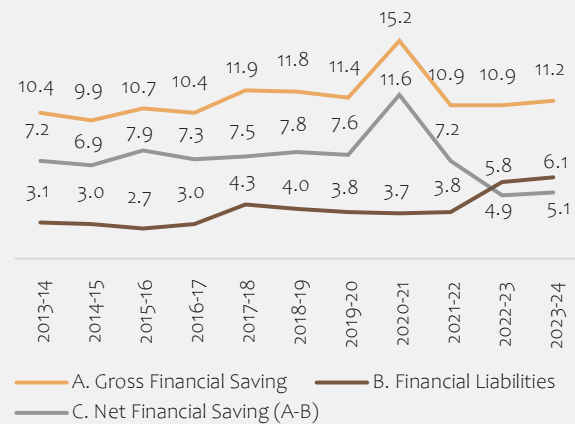
While account ownership and outreach are key indicators of financial inclusion, the real measure lies in the ability to access and actively use the savings held in those accounts. Household savings can broadly be classified into financial savings—such as bank deposits, retirement funds, and investments in mutual funds and equities—and physical assets like land, real estate, and precious metals.

⁶⁰ NDTV news, accessed on 10th Sep'25

As against the increase in household liabilities to 6.1% of Gross National Disposable Income (GNDI), the gross financial saving of households increased to 11.2% of GNDI in 2023-24 from 10.7% in the previous year. Resultantly, household financial saving (net) improved to 5.1% of GNDI in 2023-24 from 4.9% in the previous year (**Table 2.5**). Gross domestic saving as a percent to GNDI remained steady at 30.3% in 2023-24 primarily due to a decline in drawdown by the government, subdued investment demand from households and non-financial corporations and a moderation in savings by financial corporations.

Despite nearly 90% account ownership (as indicated in the Findex report 2025), the growth in savings rate is almost similar to the previous year (**Figure 2.6**), which remains a concern as India has primarily relied on domestic savings to function as an engine of growth.

Figure 2.6: Financial Saving of HH Sector



Source: RBI Annual Report 2024-25

Table 2.5: Financial saving of HH Sector (percent of GNDI)

Item	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
A. Gross Financial Saving	10.4	9.9	10.7	10.4	11.9	11.8	11.4	15.2	10.9	10.7	11.2
1. Currency	0.9	1.0	1.4	-2.1	2.8	1.4	1.4	1.9	1.1	0.9	0.4
2. Deposits	5.8	4.8	4.6	6.3	3.0	4.2	4.3	6.2	3.5	4.1	4.5
3. Shares and Debentures	0.2	0.2	0.2	1.1	1.0	0.9	0.5	0.5	0.9	0.8	0.9
4. Claims on Government	0.2	0.0	0.5	0.7	0.9	1.1	1.3	1.3	1.1	0.8	1.1
5. Insurance Funds	1.8	2.4	1.9	2.3	2.0	2.0	1.7	2.8	2.0	2.0	1.9
6. Provident and Pension Funds	1.5	1.5	2.1	2.1	2.1	2.1	2.2	2.5	2.3	2.3	2.4
B. Financial Liabilities	3.1	3.0	2.7	3.0	4.3	4.0	3.8	3.7	3.8	5.8	6.1
C. Net Financial Saving (A-B)	7.2	6.9	7.9	7.3	7.5	7.8	7.6	11.6	7.2	4.9	5.1

Source: RBI Annual Report 2024-25

2.3.2 Credit to BoP segment; Key role of Microfinance

Credit plays a central role in advancing financial inclusion by enabling individuals and businesses, especially those in underserved and low-income segments, to access timely financial resources. Affordable and responsible credit reduces reliance on informal moneylenders while fostering economic resilience and self-reliance. By bringing more people into the formal financial system, credit unlocks opportunities for growth, productivity, and social mobility. If we look at the BoP segment, there are three main channels: SHG-Bank Linkage programme, JLG based microfinance and Small Borrowal Accounts [loans below Rs 2 Lk] by banks. The performance and trends across these three channels are presented in this section.

Microfinance through SHG and JLG channels of delivery

SHG Bank Linkage Programme - A tale of Two regions or one?

The SHG Bank Linkage Programme (SBLP) started by NABARD in early 1990s is a key microfinance model in India. In the initial days, the concept differentiated itself with JLG model by way of having a larger group size, savings first followed by credit, loan in the name of group, community-based character and no subsidy or grant concept. While the programme continues to be an important pillar of microfinance in India, the start of National Rural Livelihoods Mission (NRLM) in the last decade adopting the same concept and gradually moving the groups under NRLM has eroded quite a few essentials. Now, State has an important role in running it, linkage with savings has gone much beyond the earlier NABARD's norm of 1:4 and there are grants made available to groups.

In this changed landscape, where NRLM has been progressively expanding its role, its share in the total number of SHGs savings-linked to banks has now increased to 69.64%, while its share in loans outstanding stands at 79.45%. However, undertaking a detailed analysis has become increasingly complex, as data is reported by both [NRLM](#)⁶¹ and NABARD⁶², with notable variations between the two sources. For instance, as of Mar'25, NRLM reports SHG loan outstanding at Rs 1,79,638 crore, whereas NABARD places the figure at Rs 2,41,726 crore, though qualifying it by highlighting that the latter also includes SGSY. For the purpose of this analysis, NABARD data has been preferred, as it is sourced directly from banks through the NABARD's ENSURE portal and offers greater consistency and availability across timeline.

SHG Savings-slight decline in number of savings groups in 2024-25

Savings being an important part of SHG programme, an analysis of savings linked SHGs and their savings merits analysis. As of 31st Mar'25, 142.3 Lk SHGs were having savings with banks, while it was 144.22 Lk last year. Assuming per group size at 12, it reflects an impressive coverage of approximately 17 Cr borrowers.

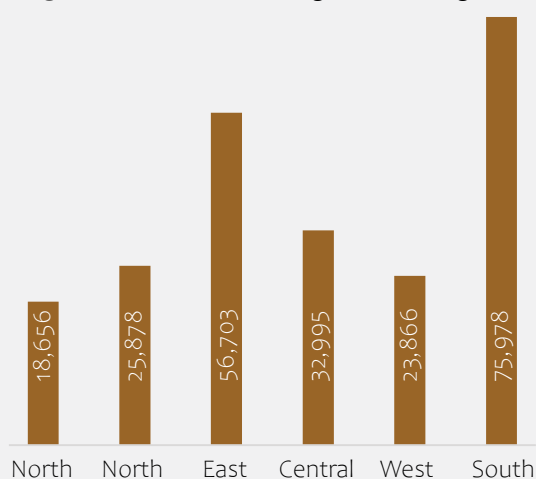
These 17 Cr group members from 142.3 Lk groups had an impressive savings of Rs 71,433 Cr – per group savings of Rs 49,849. However, the All-India average hides wide regional differences in per SHG savings.

Figure 2.7 brings out the regional differences. The national average is primarily because of Southern and Eastern region, while the Northern, NER and Western region are 50% below the national average. Not only does Southern region lead in average savings per SHG, the dominance or skew of SHG-BLP becomes starker while deciphering the pattern of bank credit and savings to credit ratio.

⁶¹ [DAY-NRLM Bank Linkage](#), accessed on 10th Sep'25

⁶² NABARD, 2024-25. "Status of Microfinance in India"



Figure 2.7: Per SHG savings across Regions

Source: Status of Microfinance, 2024-25, NABARD

Savings groups- dominance of South and East

While there are 143 Lk SHGs savings linked to banks, regional disaggregation shows that 58% of such groups are in South and East. The share of these two regions in total savings of SHGs at all India level of Rs 71,433 Cr reinforces their dominance, as both put together account for 78% of all India savings (**Table 2.6**).

Table 2.6: Share in Savings region wise

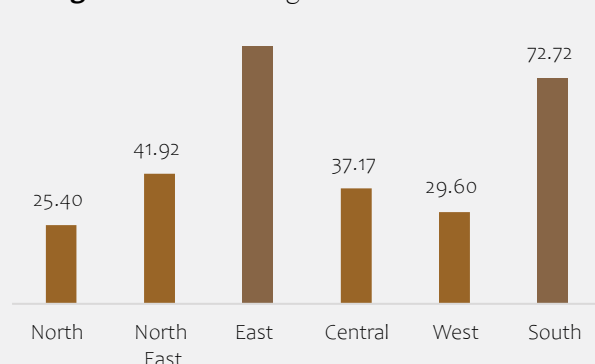
Region	% Share in no. of Savings group	% Share in Total Savings
Northern	6.55	2.45
NER	6.45	3.35
Eastern	28.40	32.30
Central	14.22	9.41
Western	14.50	6.94
Southern	29.88	45.54

Source: Status of Microfinance, 2024-25, NABARD

Thus, while the formation of groups and their savings linkage with banks appear more evenly distributed across regions—despite the higher concentration in

the South and East—the value of savings indicates that other regions are performing relatively poorly. Furthermore, analysing the proportion of savings-linked groups that have been able to access credit, and the extent of such credit linkage, serves as another important indicator of the programme's effectiveness.

At an all India level, out of 143 Lk SHGs, only 84.94 Lk SHGs (~60%) have received bank credit termed as credit linked SHGs. The regional pattern in credit linkage indicating the number of SHGs which have received credit also shows the heavy tilt towards South and East (**Figure 2.8**).

Figure 2.8: Percentage of SHGs credit linked

Source: Status of Microfinance, 2024-25, NABARD

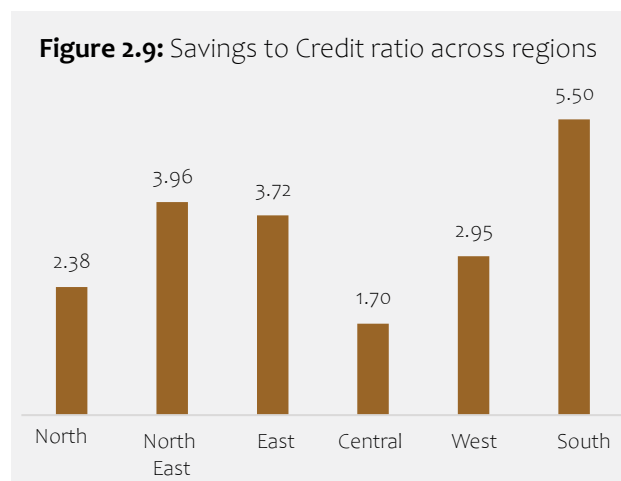
Northern region has the lowest credit linkage of 25.40%, which implies nearly 75% of SHGs formed are yet to receive credit. As against that, 83% and 73% of SHGs in East and South have received credit support.

In short, it can be surmised that 60% of all SHGs are in South and East, accounting for 78% of total SHG savings and majority of SHGs there have received bank credit – stark contrast to other regions.

Credit flow

Analysis of credit flow to 84.94 Lk groups can be done through – savings to credit ratio, credit per SHG

and both seen across regions and timeline (**Figure 2.9**). Much literature focusses on credit per SHG ignoring the link between savings and credit, while as per original framework, this is a cardinal tenet of SHG-BLP.



Source: Status of Microfinance, 2024-25, NABARD

Ratio of Savings to Credit- NE joins South and East

At an all India level, the ratio of credit extended to SHGs and savings of SHGs with banks as on 31st Mar'25 shows a healthy ratio of 4.25, which implies that for Rs 1 saved, SHGs have received Rs 4.25 as credit. This is also near the norm prescribed long

back by NABARD of 1:4. However, regional dive shows the situation to be highly uneven. In South, the ratio goes up to 5.5 and falls to 1.70 in Central region. Also, a redeeming feature of this ratio is that SHGs in Northeast are getting almost 4 times of their savings.

While analysing this ratio, a key aspect is the number of credit linked SHGs. To illustrate the point, example of Northeast can be taken. In Northeast, ~42% of SHGs are credit linked out of total 9.25 Lk SHGs. If only 42% of SHGs credit linked are analysed for this ratio as not all SHGs received credit, the ratio goes to 9.4 for Northeast.

Credit per SHG - Rs 3.58 Lk at all India or Rs 29,848 per member⁶³ - time to move to member level data

Despite the efforts and active NRLM machinery in States like Andhra Pradesh, Bihar and Telangana, the data shows that credit per SHG has remained moderate (**Table 2.7**). It is another matter that for analysis, it has to be assumed that each member of the SHG has received an equal amount as member wise data is not available for SHG-BLP. This also causes problem for other lenders like MFIs in underwriting as even Credit Bureaus do not have member level data.

Table 2.7: Region-wise loans outstanding with SHGs (as on 31st Mar'25)

Regions	No. of SHGs	Amount outstanding (Rs Lk)	Average loan O/s per SHG (Rs Lk)
Northern	2,38,558	4,17,090	1.75
North Eastern	3,87,333	9,46,578	2.44
Eastern	33,82,360	85,73,818	2.53
Central	7,57,348	11,43,756	1.51
Western	6,15,067	14,65,111	2.38
Southern	31,13,786	1,78,79,521	5.74
Total /Avg.	84,94,452	3,04,25,874	3.58

Source: Status of Microfinance, 2024-25, NABARD

⁶³ Assuming 12 members per SHG

State wise picture of average loan outstanding figure reveals the wide disparities (**Figure 2.10**), as while Andhra Pradesh has per SHG loan outstanding of Rs 8 Lk, even Bihar which is a dominant state in SHG-BLP movement under all other parameters has per SHG loan outstanding of Rs 2 Lk.

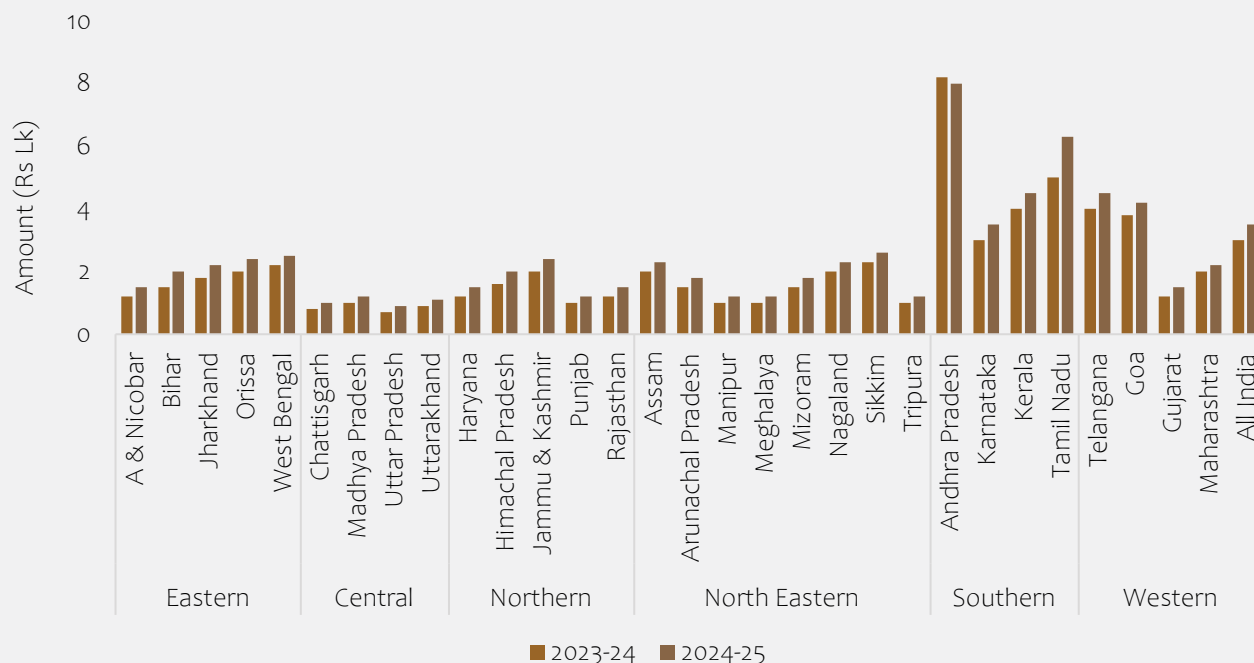
35 years since its start, the SHG movement now touches ~17 Cr clients, out of which around 10 Cr have loans outstanding as on 31st Mar'25 and the movement is Pan India. But the regional skew not only persists but has also got aggravated under few aspects. 40% of those who avail credit are from Southern region, 94% of SHGs in Andhra Pradesh are credit linked, while in Punjab it is 15% and in UP at 35%, Southern region accounts for ~60% of credit flow and per SHG loan in Andhra Pradesh touches Rs 8 Lk compared to Rs 90,000 in UP.

JLG-MFI Model; portfolio shrinks

Complementing the SHG approach, the JLG (Joint Liability Group) model has also become an effective instrument for financial inclusion and rural development and has emerged as a key microfinance delivery channel in India, designed to bring together homogenous members from the same locality and provide loans directly to individual group members.

The role of microfinance through JLG in promoting financial inclusion in India is illustrated in **Table 2.8**. As of Mar'25, the total outstanding portfolio dropped to 3.75 Lk Cr, reflecting a decline of 13.5% from the previous year. NBFC-MFIs hold the largest share of portfolio (39%), followed by Banks (33%), Small Finance Banks (SFBs) (16%) and NBFCs (11%).

Figure 2.10: State wise average loan outstanding per SHG (as on 31st Mar)



Source: Status of Microfinance, 2024-25, NABARD

Table 2.8: Overall status of portfolio, unique borrowers and loan accounts

Type of entity	31-Mar-24				31-Mar-25			
	No. of entities	Unique Borrowers (Cr)	Active loan accounts (Cr)	Portfolio O/s (Rs Cr)	No. of entities	Unique Borrowers (Cr)	Active loan accounts (Cr)	Portfolio O/s (Rs Cr)
NBFC-MFIs	87	3.9	6.0	1,70,903	93	3.7	5.3	1,47,566
Banks	14	3.4	5.2	1,44,022	17	3.2	4.5	1,22,826
SFB	10	2.0	2.4	74,278	10	1.9	2.1	59,252
NBFC	104	1.1	1.3	40,469	92	1.2	1.2	42,129
Others		0.1	0.1	4,026		0.1	0.1	3,256
Total	215	7.8	14.9	4,33,697	212	7.8	13.3	3,75,030

Source: MFIN Micrometer

During the year, the sector saw several adverse events starting from heat wave, followed by concerns on overleveraging, incitement of borrowers by non-state actors and Government intervention in Karnataka; all leading to dip in portfolio quality and drop of 14% in portfolio.

The sector continues to serve nearly 8 Cr low-income clients and along with SHG-BLP credit outreach of nearly 17 Cr emphasises the significance of microfinance in inclusive growth. While there are overlaps between SHG and JLG clients, excluding possible 25% overlap also, the figure is around 13 Cr. Detailed analysis of this model is covered in Chapter 4.

Small Value Loans - An analysis of Small Borrowal Accounts (SBAs)- sharp dip in loans below Rs 2 Lk

In line with the previous year's analysis, this report continues to examine small-value loans as a proxy for financial inclusion. Loans under Rs 25,000 and between Rs 25,000 to Rs 2 Lk are categorized as 'Small Borrowal Accounts' (SBAs), which can be classified as those for low – income clients as well as associated with microfinance lending of banks. Hence, it's important to note that there can be

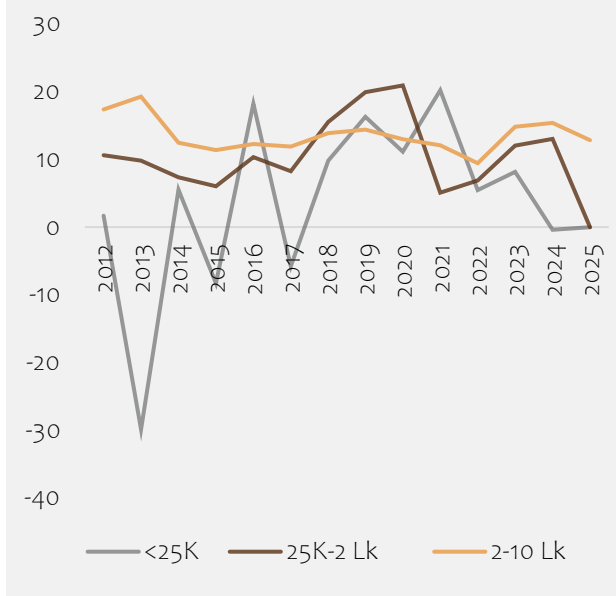
significant overlap between these small-value accounts and microfinance lending.

Figure 2.11 illustrates the annual growth trend in the number of small-value accounts, highlighting a sharp decline across both SBA categories. The Rs 2 Lk–Rs 10 Lk segment recorded a growth of 13%, while both SBA categories together witnessed a 2% decline. Notably, the Rs 25,000 to Rs 2 Lk categories, which grew by 13% last year, declined this year. This slowdown suggests reduced funding in smaller loan segments, with the demand shifting towards the larger ticket sizes. The trend reflects a clear change in borrower preference, underpinned by rising credit appetite and evolving financing requirements.

Similarly in terms of value, the loan amount outstanding in the category of <25,000 witnessed a sharp decline of around 12% compared to a 2% decline in the previous year. Loans <Rs 25,000 continue to account for around 16.5% of the overall accounts below Rs 10 Lk, which is similar to the previous year, however, in value terms their contribution has further declined to 0.92% from 1.12% in the previous year.



Figure 2.11: Annual Percentage growth in accounts of various categories of small loans by SCBs



Source: Basic Statistical Returns (BSR) 1 of SCBs in India Mar'25, DBIE, RBI

Pradhan Mantri Mudra Yojana (PMMY)- credit flow plateauing

PMMY was launched in Apr'15, to provide credit support to non-corporate, non-farm small and micro enterprises. A new product – '[Tarun plus](#)' was announced in the union budget 2024-25, which became effective from 24th Oct'24⁶⁴. With the inclusion of this product, now under PMMY, loans of up to Rs 20 Lk are being extended through Commercial Banks, Regional Rural Banks, Small Finance Banks, Micro Finance Institutions (MFIs), and NBFCs. To meet diverse funding needs across different stages of business growth, MUDRA had introduced four products:

- Shishu – for very small businesses/start-ups, covering loans up to Rs 50,000

- Kishore – for enterprises in need of larger working capital loans of Rs 50,000 up to Rs 5 Lk
- Tarun – for established businesses requiring expansion funds from Rs 5 Lk up to Rs 10 Lk and
- Tarun Plus – for entrepreneurs graduating from Tarun and eligible for higher credit up to Rs 20 Lk.

These categories serve as a graduation ladder, enabling micro units to scale up systematically while ensuring financial inclusion and entrepreneurial growth.

The funding support from [MUDRA](#) are of two types⁶⁵:

- Micro Credit Scheme (MCS) for loans up to 1 Lk financed through MFIs.
- Refinance Scheme for Commercial Banks/ Regional Rural Banks/ Small Finance Banks/ NBFCs.

The share of [MSME credit](#) in total bank credit increased from 15.8% in FY14 to nearly 20% in FY24, showcasing its growing role in the Indian economy. This expansion has enabled businesses in smaller towns and rural areas to access financial support that was previously unavailable, strengthening India's self-reliant economy and driving grassroots job creation⁶⁶.

Women account for 68% of all Mudra beneficiaries, highlighting the scheme's pivotal role in fostering women-led enterprises across the country. At the same time, the loan portfolio has witnessed a distinct transition from micro to small enterprises. The share of Kishore loans (in number of accounts) rose sharply from 5.9% in FY16 to 44.7% in FY25, while Shishu loans declined from 92.9% to 51.7%

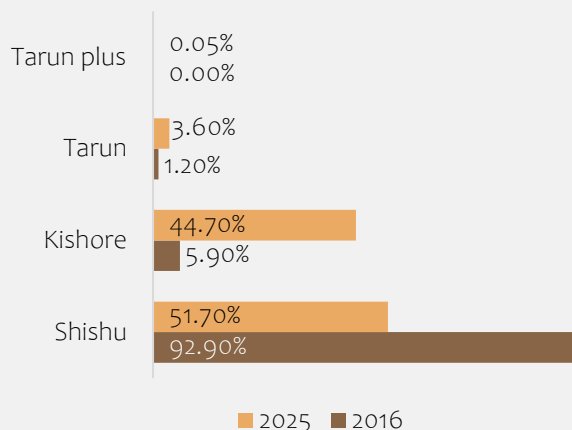
⁶⁴ MOF, [PIB](#), 29th Oct'2024. "PMMY Loan Limit"

⁶⁵ MUDRA website

⁶⁶ MOF, [PIB](#), 7th Apr'2025. "A Decade of Growth with PMMY"

over the same period (**Figure 2.12**). This clearly signals a strategic shift towards medium-ticket lending and meeting relatively larger credit needs. Correspondingly, the average loan ticket size has nearly tripled—from Rs 38,000 in FY16 to Rs 72,000 in FY23, and further to Rs 1.02 Lk in FY25—reflecting a maturing credit market.⁶⁷

Figure 2.12: Scheme wise % share in PMMY number of accounts



Source: [Press Release](#) by the Ministry of Finance on 7th Apr'25

As of 28th Feb'25, since the launch of the PMMY in 2015, Tamil Nadu has recorded the highest disbursement among states at Rs 3.23 Lk Cr. Uttar Pradesh follows with Rs 3.14 Lk Cr while Karnataka ranks third with Rs 3.02 Lk Cr. West Bengal and Bihar have also seen significant disbursements of Rs 2.82 Lk Cr and Rs 2.81 Lk Cr respectively. Maharashtra stands sixth at Rs 2.74 Lk Cr, reflecting the scheme's broad reach and impact across key states over the past decade.

However, this structural evolution in loan composition has been accompanied by signs of moderation in overall credit demand. In FY 2024-25, 547 Lk PMMY loans were sanctioned, representing an 18% decline from the previous year (**Figure 2.13**). While the total sanctioned amount stood at Rs 5.52

Lk Cr with disbursements of Rs 5.41 Lk Cr, the YoY growth was a modest 2%—a sharp contrast to the strong expansion of 34.5% in FY2022-23 and 18.6% in FY2023-24 (**Figure 2.14**).

Figure 2.13: No of PMMY loans sanctioned (Lk)

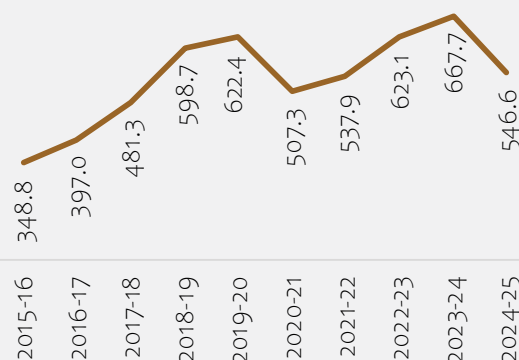
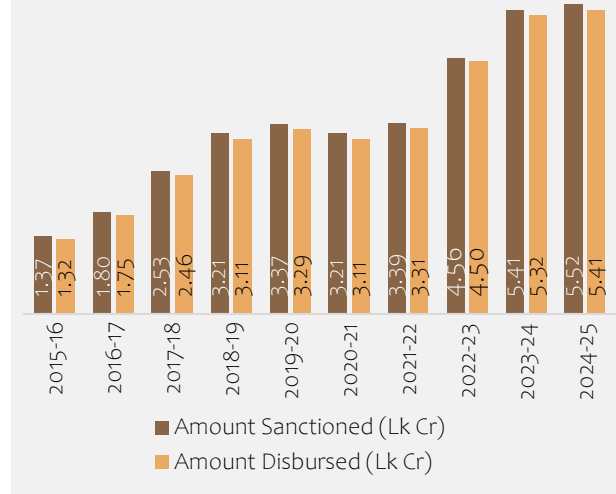


Figure 2.14: Amount Sanctioned v/s Disbursed under PMMY



Source: MUDRA Website

Taken together, these trends suggest that Mudra has entered a stabilization phase, where loan sizes are rising but incremental demand is slowing. This underscores the need for renewed strategies to sustain momentum, expand the beneficiary base, and ensure that the scheme continues to catalyze inclusive growth

⁶⁷ Ibid

Digital Lending – New innovations through ULI

The development of Unified Lending Interface (ULI), previously called as Public Tech Platform for Frictionless Credit (PTPFC) and rechristened as ULI on 26th Aug'24, was announced as part of the Reserve Bank's Statement on Developmental and Regulatory Policies on 10th Aug'23. The ULI pilot commenced on 17th Aug'23. ULI is an enterprise-grade, open architecture platform which connects lenders and data service providers through a standardised, open Application Programming Interface (API) framework operating on a plug-and-play model. By eliminating the need for multiple bilateral integrations by banks, ULI streamlines credit assessments and decision-making by enabling access to a diverse array of data. As on 31st Mar'25, the Platform has recorded 44 lenders including banks and NBFCs, using over 60 data services for 12 loan journeys including KCC loans, digital cattle loans, MSME loans, etc.

One of ULI's standout features is its ability to tap into alternative digital data, enabling access to credit even for those without formal financial histories. Its integration with NABARD's e-KCC portal is expected to extend access to customers of District Central Co-operative and Regional Rural Banks, previously excluded from formal digital channels. Integration of state-level digitized data, such as land records and cooperative databases into the ULI framework, would provide novel cash flow-based lending solutions. Going forward, the potential for ULI to also harness data from e-commerce platforms and gig economy apps could open new doors for credit inclusion for small sellers, delivery workers, and freelancers.

The platform's interoperability with other DPIS, like the Open Credit Enablement Network and Open Network for Digital Commerce (ONDC) creates a more robust ecosystem for credit delivery. Smaller

lending institutions gain access to sophisticated credit assessment tools previously available only to larger banks. Borrowers receive faster credit decisions based on more comprehensive data. As ULI evolves, its potential to close India's credit gap will be essential to achieving the country's economic growth targets and ensuring inclusive financial development⁶⁸.

Since its launch in Aug'23 till 3rd Oct'25, the ULI pilot has now expanded to 120 data sources/services, 58 lenders including banks, NBFCs, co-operative banks with 32 Lk loans sanctioned and Rs 1.75 Lk Cr in lending. The ULI is also enabling use of data by lenders to build alternative credit models, thereby helping expand credit to new-to-credit segments lacking credit history.⁶⁹

2.3.3 Digital Payments - UPI is the king

Access to a bank account serves as the gateway to other financial services, while a robust payments and settlements infrastructure is a critical enabler for the wider adoption of formal finance. Over the past decade, the fundamentals of banking have undergone a transformation with the rise of digital channels such as internet and mobile banking, alongside the rapid growth of digital payment systems like the Unified Payments Interface (UPI).⁷⁰ In FY 2024-25, digital payments surged 35% YoY by volume to 60.81 Cr transactions per day, with UPI accounting for 83.73% of such transactions, while in value terms, it grew by 18%. The extraordinary uptake of UPI stands as a testament to the power of collaborative and use-case-driven innovation in driving financial inclusion. Permissible transaction limit on UPI Lite was revised in FY 2025 from Rs 500 to Rs 1,000 and on UPI 123PAY from Rs 5,000 to Rs 10,000 to encourage their wider adoption. The key milestones in Digital payments evolution through UPI has been illustrated in **Table 2.9**.

⁶⁸ MSC, 07th Jul'25. "From UPI to ULI (Unified lending interface): India's next digital infrastructure imperative"

⁶⁹ Keynote Address by Shri Sanjay Malhotra, Governor, RBI - 8th Oct'25 - at the Global Fintech Fest 2025, Mumbai

⁷⁰ Address delivered by Shri M Rajeshwar Rao, Deputy Governor, RBI - 5th Jun'25 - at HSBC's event for Financial Inclusion in Mumbai

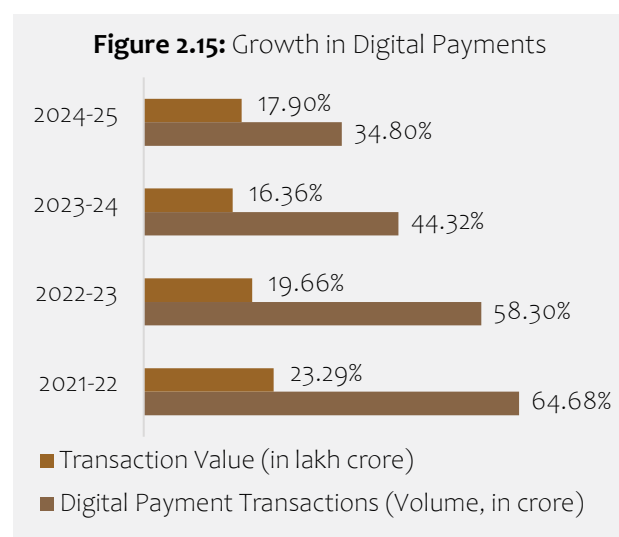


Table 2.9: Key Milestones in Digital Payments Evolution through UP

Year	Key Milestones
2007	India becomes a USD 1 Trillion economy.
2008	Establishment of the National Payments Corporation of India (NPCI) to consolidate and standardize retail payment systems.
2009	Formation of UIDAI to provide every Indian with a unique identity (Aadhaar).
2014	Mobile data costs drop significantly, enabling affordable internet access. Launch of PMJDY.
2014-2015	PMJDY opens over 24 Cr bank accounts.
2016	Launch of UPI by NPCI with 21 banks onboard.
2016	BHIM app launched to popularize UPI usage among the masses.
2016	Demonetization accelerates digital payment adoption, including UPI.
2017	UPI transactions cross 100 million per month. ⁷¹
2019	UPI transactions exceed 100 Cr per month (Oct'19). ⁷²
2020	UPI usage surges 67% post-COVID-19 first wave, as contactless payments rise. ⁷³
2021	UPI accounts for around 74% of total retail digital payment volume in India. ⁷⁴
2023	Monthly UPI transactions reach 1,000–1,200 Cr.
2025	UPI projected to contribute over 84% of India's retail digital payments by volume.

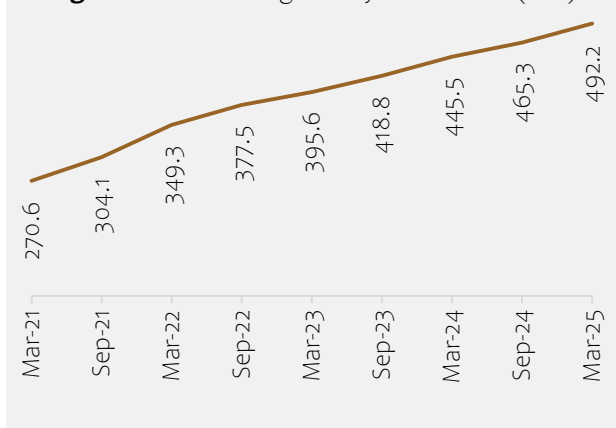
⁷¹ RBI Payment systems Report 2017⁷² NPCI Press Release Oct'19⁷³ NPCI Monthly Data 2020⁷⁴ RBI Annual Report 2021 – Payment systems⁷⁵ Percentages in brackets reflects the weightages

Over the last four years, both the volume and value of digital payment transactions have increased in absolute terms. However, **Figure 2.15** highlights a moderation in the growth rate of digital payment transactions to 34.8% in FY 2024–25, compared with the higher growth observed in the previous three years. Similarly, the growth in transaction value has also continued to decline since FY 2021–22, indicating a gradual stabilization in digital payment expansion.



Source: [Press Release](#) by the Ministry of Finance dated 11th Mar'25 and FY 25 data from the RBI

For Mar'25, the RBI-DPI (Digital Payments Index) stood at 492.2 reflects continued growth in digital payment adoption, infrastructure, and performance across the country (**Figure 2.16**). The RBI has developed the Digital Payments Index (RBI-DPI) to measure the extent of digitisation of payments across the country. The index is published semi-annually and is based on Mar'18 as the base period (Index = 100). It is based on five key parameters⁷⁵ — Payment Enablers (25%), Payment Infrastructure (Demand-side (10%) and Supply-side (15%)), Payment Performance (45%), and Consumer Centricity (5%).

Figure 2.16: RBI's Digital Payment Index (DPI)

Source: RBI Annual Report 2024-25

Each of the five main parameters is assigned a weightage and is comprised of several sub-parameters. The raw data for each sub-parameter is collected by the RBI and is converted into a score. These scores are then combined, weighted by their importance, to produce a single composite DPI score. A rising DPI indicates higher adoption and deepening of digital payments across the country relative to the Mar'18 base year.

There are concerns that the DPI sub-index data are not fully disclosed or available in granular form, limiting independent verification.

For further expanding and deepening the digital payments ecosystem in the country, a Payments Infrastructure and Development Fund has been constituted to encourage deployment of payment acceptance infrastructure. Further, all State and Union Territory Level Bankers' Committees have been advised to identify districts and assign them to designated banks, with an endeavour to make these districts 100% digitally enabled. The objective is to provide every eligible individual in the identified district at least one mode of digital payments viz., cards, net banking, UPI, AEPS, etc. It is understood that as on 31st Mar'25, 514 districts across 15 states and 6 UTs are 100% digitally enabled. This marks a significant milestone in our journey towards a digitally inclusive economy.

As digitalization deepens, enhancing digital literacy is vital to ensure safe and inclusive participation in financial services. To address concerns of rising frauds, REs must adopt stronger authentication measures, use designated communication channels, and invest in resilient cybersecurity frameworks. RBI has also been driving awareness through its 'RBI Kehta Hai' campaign, secure domains, and a public repository of Digital Lending Apps. The RBI has issued various circulars on digital lending since 2022, with the latest being issued in May'25 aimed at enhancing transparency, safeguarding consumer interests, and addressing emerging risks in the rapidly growing digital credit ecosystem.

To combat the increasing instances of fraud in digital payments, the Reserve Bank proposed to introduce an exclusive internet domain for the banks in India in the form of 'bank.in' on 7th Feb'25. This initiative would help in enhancing trust in digital banking and payment services and aid in streamlining secure financial services. The exclusive internet domains would also help identify cybersecurity threats and malicious activities like phishing and considerably reduce instances of financial loss to the general public. Going forward, it is also proposed to have an exclusive domain for other non-bank entities in the Indian financial sector in the form of 'fin.in'⁷⁶.

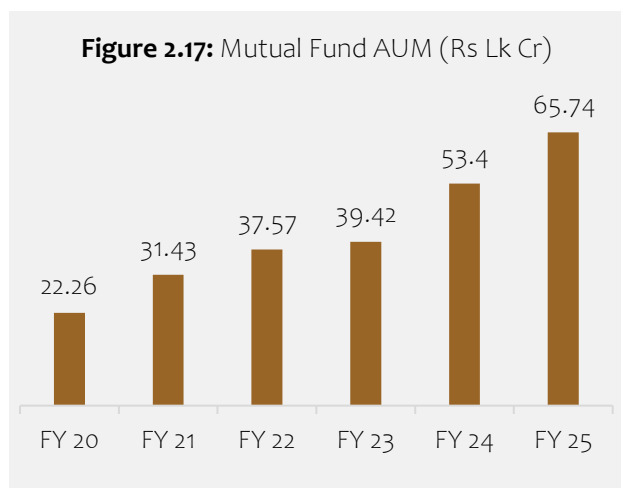
2.3.4 Mutual Funds – up and away-preferred over bank deposits

Mutual funds have become a powerful instrument for advancing financial inclusion in India by allowing individuals to participate in capital markets without the need for large investments or specialized expertise. By pooling resources and investing them in professionally managed portfolios, mutual funds offer households access to diverse asset classes that were once beyond their reach. This collective model lowers entry barriers, distributes risk, and democratizes investment opportunities. In doing so, mutual funds are bridging the gap between

⁷⁶ RBI Annual Report 2024-25

traditional savings options and modern wealth-creation avenues, contributing both to household financial security and long-term economic growth.

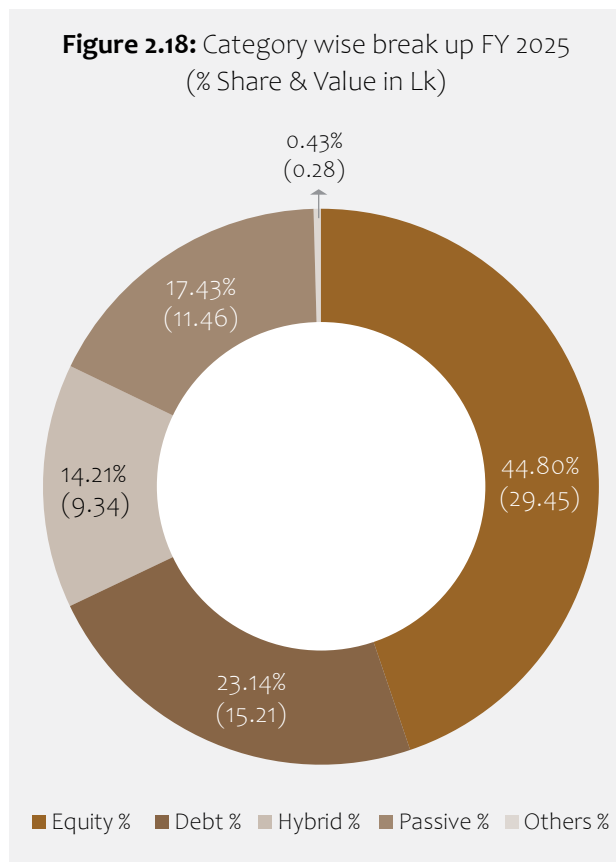
The mutual fund (MF) industry has witnessed exponential growth. Assets under management (AUM) stood at a record Rs 65.74 Lk Cr at the end of FY2025, up from Rs 53.40 Lk Cr in Mar'24—a 23.1% YoY rise (**Figure 2.17**). This expansion has been driven by strong net inflows, reflecting sustained investor interest, supported further by mark-to-market gains in both equity and debt markets.



Source: AMFI Website

A key highlight of this growth story has been the increasing scale of mutual funds relative to bank deposits. As of May'25, the MF industry's AUM stood at Rs 72.2 Lk Cr—equivalent to 31.2% of bank deposits at Rs 231.7 Lk Cr. This signals a gradual reallocation of household financial savings, with mutual funds steadily encroaching on the traditional dominance of bank fixed deposits (FDs). While FDs remain a preferred avenue for risk-averse savers, the growing preference for equity-oriented mutual funds highlights a clear behavioural shift towards higher-yielding assets. The share of mutual funds in household sector gross financial savings has already risen sharply from 0.9% in FY2012 to 6% in FY2023.

Equity mutual funds have emerged and continue (**Figure 2.18**) as the most popular vehicle for household participation in capital markets.



Source: AMFI Annual Report 2024-25

The surge in Systematic Investment Plans (SIPs) has reinforced this trend by combining affordability, accessibility, and long-term wealth creation. With minimum investments starting at Rs 500 per month (and Rs 250 under Chhoti SIP), SIPs have become a key driver of financial inclusion, offering a natural progression from basic savings accounts under PMJDY and digital payments toward investment and wealth-building.

Historical SIP data further illustrates their rising importance (**Table 2.10**). Contributions grew from Rs 43,921 Cr in FY2017 to Rs 92,693 Cr in FY2019,

aided by greater awareness, penetration into smaller towns, and campaigns such as 'Mutual Funds Sahi Hai'. After a brief -4% contraction in FY2021 due to the pandemic, flows rebounded strongly, reaching Rs 2,89,352 Cr in FY2025. For, the current financial year, the contributions continue to be strong with total SIP collections in Aug'25 alone amounting to Rs 28,265 Cr.

Table 2.10: SIP contribution from FY 2016-17

Financial Year (FY)	SIP Contribution (Rs Cr)	Growth
2016-17	43,921	
2017-18	67,190	52.98%
2018-19	92,693	37.96%
2019-20	1,00,084	7.97%
2020-21	96,080	-4.00%
2021-22	1,24,566	29.65%
2022-23	1,55,972	25.21%
2023-24	1,99,219	27.73%
2024-25	2,89,352	45.24%

Source: AMFI: <https://www.amfiindia.com/articles/mutual-fund>

Taken together, the data suggests that mutual funds are increasingly reshaping India's household savings landscape. Their rapid growth is beginning to alter the competitive balance with bank FDs, which are witnessing relative erosion in their share of household financial savings. If this trend persists, it will not only deepen capital market participation but also force banks to rethink deposit strategies in order to retain savers.

2.3.5 Insurance- lot of efforts but penetration dips

Insurance enhances financial inclusion by protecting low-income and underserved communities against health, property and income risks. It provides financial security, empowers marginalized groups

and encourages savings through products like life insurance, thereby building long-term resilience.

India's insurance sector is among the fastest-growing globally, currently ranked 10th, and is projected to become the fastest-growing market within the G20 over the next five years. This optimistic outlook is supported by strong economic growth, rising disposable incomes, a young demographic profile, increasing risk awareness, rapid digital adoption and progressive regulatory reforms.

Table 2.11 shows the types of insurance companies active in India.

Table 2.11: Insurers registered in India as on 31st Mar'24

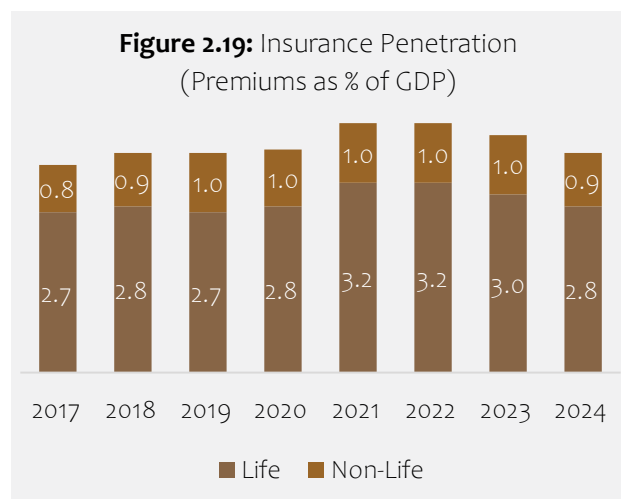
Type of insurer	Public Sector	Private Sector	Total
Life Insurers	1	25	26
General Insurers	6	21	27
Standalone Health	0	8	8
Re-Insurers	1	11	12
Total	8	65	73

Source: DFS Annual Report and IRDAI Annual Report FY2024-25

The United States remains the most prominent insurance market globally, with total premium of more than USD 3 Trillion (\$3 Lk Cr) in 2023-24 followed by China with a total premium of USD 724 Billion (\$0.72 Lk Cr). The UK moved to third place, surpassing Japan, which slipped to fourth. France, Germany, and South Korea maintained their rankings, but lost market share due to negative growth and currency devaluations.

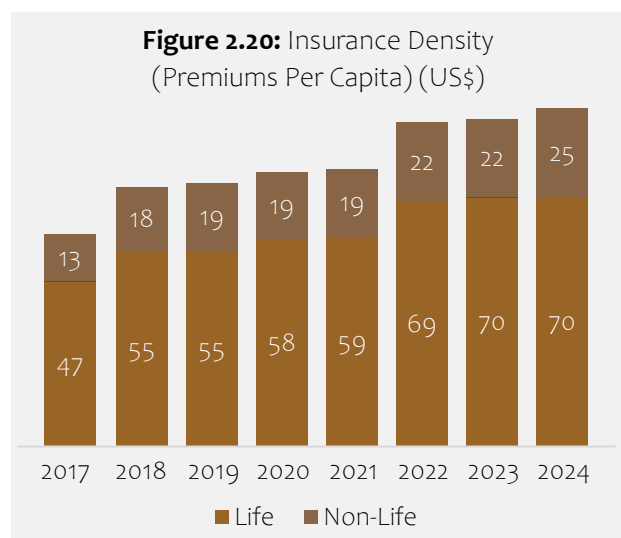
Insurance penetration and density are the two metrics often used to assess the level of development of the insurance sector in a country. While insurance penetration is measured as the percentage of insurance premiums to GDP, insurance density is calculated as the ratio of premium to population (per capita premium).

In 2023-24, India's insurance penetration stood at 3.7%, slightly lower than 4.0% in 2022-23. Within this, life insurance penetration declined from 3.0% to 2.8%, while non-life insurance penetration declined from 1.0% to 0.9% (**Figure 2.19**).



Source: IRDAI Annual Report 2023-24

During the same period, the insurance density in India, however, showed a modest rise, increasing from USD 92 in 2022-23 to USD 95 in 2023-24. Specifically, non-life insurance density increased from USD 22 to USD 25, while life insurance density remained stable at USD 70. This upward trend in insurance density has been consistent since 2016-17 (**Figure 2.20**).



Source: IRDAI Annual Report 2023-24

Although, the total premiums collected across all insurance categories reached Rs 11.19 Lk Cr during the period mentioned above, despite this the insurance penetration remains modest indicating that many people remain uninsured or underinsured. Life insurance accounted for around Rs 8.30 Lk Cr of the total premiums while general insurance and health/personal accident/travel contributed about Rs 1.73 Lk Cr and Rs 1.17 Lk Cr respectively.

The growth in premium is also supported by the increasing use of technology which has facilitated the introduction of innovative insurance models, such as Mobile Insurance (m insurance). These are policies offered through mobile phones, often bundled with prepaid/postpaid recharge packs, digital wallets or mobile banking apps, which enhances access and affordability for low-income individuals. Governments and regulatory bodies have also been promoting financial inclusion by supporting policies that encourage the development and distribution of inclusive insurance products.

Few of the recent developments by the Government to support the insurance industry are:

- DFS in collaboration with the sector regulator IRDAI is taking measures to monitor cybersecurity related issues in public sector insurance companies. DFS has requested IRDAI to conduct a regular review of the cyber security of insurance companies and intermediaries to align with up-to-date security mechanisms for prevention and monitoring of threats.
- With a view to address accessibility needs of persons with disabilities in respect of the facilities and services pertaining to Insurance Sector, DFS has formulated the "Accessibility Standards and Guidelines for infrastructure and services in Insurance Sector" in Aug'24.

- Bima Sugam is a unified digital platform being developed under the Insurance Regulatory and Development Authority of India's (IRDAI) "Insurance for all by 2047" vision. It aims to serve as a one-stop marketplace for all insurance-related services—policy purchase, servicing, claims settlement, and grievance redressal—across life, health, and general insurance. By integrating insurers, intermediaries, and policyholders on a single digital infrastructure, Bima Sugam is expected to simplify access, enhance transparency, and reduce distribution costs, thereby expanding insurance penetration—particularly among rural and low-income segments—and advancing India's broader financial inclusion goals.

Few other initiatives of the government along with their progress are outlined below (status shown in **Table 2.12**):

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

- The Scheme is available to people in the age group of 18 to 50 years having a Bank / Post office account who give their consent to join / enable auto-debit. Risk coverage under this Scheme is for Rs 2 Lk in case of death of the insured, due to any reason at an annual premium of Rs 436 which is to be auto-debited from the subscriber's bank / Post office account.

Pradhan Mantri Suraksha Bima Yojana (PMSBY) -

The Scheme is available to people in the age group of 18 to 70 years with a bank / Post office account who give their consent to join / enable auto-debit

facility. The risk coverage under the Scheme is for Rs 2 Lk in case of accidental death or total permanent disability and Rs 1 Lk for partial permanent disability due to accident at a premium of Rs 20 per annum which is to be deducted from the account holder's bank / Post office account through 'auto-debit' facility.

Pradhan Mantri Vaya Vandana Yojana (PMVVY), implemented through the Life Insurance Corporation of India (LIC) and backed by the Government of India, is a social security scheme for senior citizens aged 60 years and above. It provides an assured minimum pension for 10 years, based on the purchase price of the policy. To ensure this, the Government bears the interest-gap subsidy, i.e., the difference between LIC's actual return and the guaranteed return under the scheme. The maximum investment permitted is Rs 15 Lk, and policyholders can avail a loan of up to 75% of the purchase price after completing three years.

However, while insurers are well-positioned to expand their market share, their ability to attract capital and sustain momentum is hindered by multiple challenges. Despite the regulator's vision of achieving "Insurance for all" by 2047, penetration rates have slipped, showing that insurance growth has not kept pace with India's rapid economic expansion.

A McKinsey report released in Nov'24, titled "Steering Indian Insurance from Growth to Value in the Upcoming Techade" underscores critical gaps in product innovation, distribution

Table 2.12: Status of PMJJBY and PMSBY as on 15th Jan'25

Scheme	Eligibility (years)	Premium (Rs p.a.)	Cumulative enrolments (in Cr)	Number of Claims paid	Claims amount (Rs Cr)	Settlement ratio (%)
PMJJBY	18 to 50	436	22.52	8,80,037	17,600.74	99.83
PMSBY	18 to 70	20	49.12	1,50,805	2,994.75	97.64

Source: DFS Annual Report 2024-25

efficiency, and renewal management, alongside operational inefficiencies, profitability pressures, limited regulatory flexibility, and fast-evolving risk landscapes. Additionally, inadequate financial literacy and weak advisory frameworks have contributed to issues such as mis-selling.

Nevertheless, with India's strong economic fundamentals, rising risk awareness, digital penetration, and regulatory focus, the sector holds immense potential to bridge these gaps and emerge as a more inclusive, innovative, and resilient pillar of financial security in the years ahead

2.3.6 Pension

The National Pension System (NPS) was introduced by the Government of India vide notification dated 22nd Dec'03, to replace the defined benefit pension system by defined contribution pension scheme in order to provide old age income security in a fiscally sustainable manner and to channelize small savings into productive sectors of the economy through prudential investments. The status of NPS is shown in **Table 2.13**.

Table 2.13: Status of NPS as on 31st Oct'24

Sector	No. of subscribers (Lk)	Assets Under Management (Rs Cr)
Central Government	26.8	3,61,216
State Government	67.8	6,63,429
Corporate	21.7	1,98,812
All Citizen Model	39.4	68,080
NPS Lite	33.4	5,932
Total	189.1	12,97,469

Source: DFS Annual Report FY 2024-25

It was made mandatory for all new recruits to the Government service (except armed forces) with effect from 1st Jan'04 and has also been rolled out for all citizens with effect from 1st May'09, on voluntary basis. NPS has been adopted by most State Governments and most of the Central and State autonomous bodies. Subsequently, the Pension Fund Regulatory and Development Authority (PFRDA) Act, 2013 was passed.

New Initiatives under NPS

- A new Life Cycle Fund namely Balanced Life Cycle Fund (BLC) was launched on 1st Oct'24. Equity allocation up to 50% is maintained until the age of 45. This is currently available to subscribers in the private sector (All-Citizen Model and Corporate).
- Same Day Investment of NPS contributions (T+0) received by Trustee Bank. Earlier, NPS contributions received by the Trustee Bank were invested on the next settlement day (T+1), however, from 1st Jul'24, NPS contributions received by the Trustee Bank are invested on the same day.
- To facilitate easier contribution, an additional channel for the NPS contribution has been introduced on Bharat Bill Payment System (BBPS), using multiple payment applications such as BHIM, PhonePe, PayTM etc.
- NPS Vatsalya Scheme, announced by the Hon'ble Finance Minister in the Union Budget of FY 2024-25, was launched on 18th Sep'24. The scheme is designed for parents/guardians to contribute, a minimum of Rs 1,000 per annum with no ceiling on maximum contribution, for minor subscriber. On attaining the age of majority, the account of the subscriber can be seamlessly converted into NPS account. All minors who are citizens of India, are eligible to participate in the scheme, on a voluntary basis. As on 1st Dec'24, a total of 70,561 subscribers were enrolled under the scheme.



Atal Pension Yojana (APY)

The Atal Pension Yojana (APY), launched on 9th May'15, was designed to establish a universal social security system for all Indians, with a special focus on the poor, underprivileged, and workers in the unorganised sector. It is administered by the PFRDA under the broader framework of the NPS.

As of 29th Nov'24, APY had over 7.15 Cr enrolments and assets under management (AUM) of Rs 41,882 Cr. In its press release on 25th Aug'25, PFRDA announced that APY, now in its 10th year, achieved its fastest-ever addition of 50 Lk subscribers in a single financial year, with nearly half (46%) of enrolments coming from youth aged 18–25. PFRDA also urged banks, especially private sector banks, to step up efforts in improving persistency, strengthening financial literacy, and driving pension awareness to accelerate progress toward pension saturation.

The growing participation of young subscribers and the steady rise in enrolments underscore APY's potential to play a pivotal role in building a culture of retirement savings and strengthening India's long-term financial inclusion journey

Conclusion

India's success in achieving foundational financial access stands as a global benchmark, with nearly 90% of adults now holding a bank account, largely enabled by the PMJDY. This widespread coverage links financial inclusion directly with India's commitment to the SDGs. Digital platforms have been the most transformative element of this journey, exemplified by the extraordinary rise of the UPI, which accounted for 83.73% of digital transaction volumes in FY 2024–25. The expanding digital footprint and concurrent improvement in service quality are reflected in the RBI's FI-Index, which reached 67.0 by Mar'25.

However, the strategic focus is now shifting from ensuring coverage for the unbanked to deepening engagement among the underbanked. Despite impressive outreach, gaps in actual usage remain pronounced — formal saving (27%) and borrowing (15%) rates continue to trail the average across low- and middle-income economies. This limited depth is compounded by account dormancy, with 23% of PMJDY accounts remaining inoperative. Structural imbalances in credit delivery systems also persist; for instance, under the SBLP, the Southern and Eastern regions account for nearly 78% of total SHG savings, underscoring regional disparities in access.

Looking ahead, the NSFI 2025–30 seeks to consolidate these gains by strengthening responsible credit mechanisms and promoting consumer protection through enhanced digital security. Emerging digital public infrastructure, such as the ULI, is expected to play a pivotal role in narrowing the MSME credit gap by harnessing alternative data for efficient and inclusive credit assessment. Ultimately, while India has successfully built the digital and institutional foundation for access, sustained financial empowerment will depend on enhancing account functionality, ensuring granular data transparency, and transforming basic inclusion into meaningful and productive financial participation.

Today, financial inclusion has evolved into a core pillar of India's development agenda—focused not merely on access, but on affordability, appropriateness, and active usage. Initiatives such as PMJDY, Aadhaar-enabled systems, and digital payments have vastly expanded access to banking, credit, insurance, and pensions, positioning India among the global leaders in inclusive finance. Yet, to achieve deep and equitable inclusion, sustained policy attention, financial literacy efforts, and technology-driven, customer-centric innovation remain essential to convert access into lasting economic empowerment.



03

Policy & regulatory environment



3.1 Policy updates/amendments and revisions

During the last year, quite a few amendments were made in regulatory norms, some of which were a result of diligent advocacy by MFIN (like changes in the qualifying asset (QA) norm and risk weights on unsecured lending). The major policy updates relevant for the microfinance sector are discussed below.

3.1.1 Qualifying asset norm revision – greater flexibility for NBFC-MFIs

In Mar'22, when the RBI issued the detailed unified guidelines for microfinance loans for all REs, the definition of QA was revised to 75% of total assets from the earlier 85% of its net assets wherein “Net assets” meant total assets other than cash and bank balances and money market instruments. While the overall intent of the new regulation was to provide flexibility and promote innovation in serving the evolving credit needs of microfinance clients, this change unintentionally resulted in a stricter framework, leading to frequent breaches of the norm.



The key challenges included:

- **Liquidity management:** NBFC-MFIs generally maintain 10–15% of their total assets in cash and liquid investments. With 75% of total assets mandated for microfinance, the scope for flexibility was severely limited, especially during periods of slow disbursement, increasing the cash component further and leading to frequent breach of the QA norm.
- **Capital infusion dynamics:** Fresh equity or debt raised by NBFC-MFIs temporarily inflates the liquid asset base, leading to QA breaches until the funds are deployed for lending, which takes some time.
- **Direct Assignment (DA) transactions:** DA portfolios (ranging 10-15% of loan book & single transaction ranging from 3-5% of the loan assets), which are eligible QA but removed from NBFC-MFI books post-sale, distort the QA ratio and result in technical breaches.
- **Limited scope for client graduation and diversification:** The tight QA requirement left only 5–7% room for diversification, restricting NBFC-MFIs from catering to clients who have transitioned into the MSME segment or require larger ticket loans. Being the missing middle, this category is the focus of policy, but unable to get even NBFC-MFI support.

While most breaches were temporary and eventually regularized through RBI's support, they were still viewed as covenant violations by lenders, leading to funding constraints for NBFC-MFIs.

After a concerted advocacy by MFIN, the RBI reviewed and revised the QA norm in its [Jun'25 notification](#), in line with its suggestion. As per the new norm the QA threshold of NBFC-MFIs is 60% of total assets (net of intangible assets).

Impact of the Revised Norm: The revised 60% QA requirement is expected to

- Enhance compliance across NBFC-MFIs by addressing the systemic reasons behind earlier breaches.
- Empower institutions to build a more balanced portfolio.
- Enable NBFC-MFIs to extend their reach to the “missing middle”, through products for clients transitioning to MSMEs, micro-housing etc.
- Strengthen the long-term sustainability of the sector while maintaining focus on the core microfinance mission.

This regulatory change demonstrates the responsiveness of the RBI to the genuine demands of the industry. This change will help NBFC-MFIs be in regulatory compliance at all times, diversify to some extent and yet retain the focus on microfinance.

3.1.2 Priority Sector Lending

The updated [Priority Sector Lending](#) (PSL) guidelines were issued by the RBI in Mar'25 and are applicable to all commercial banks including Regional Rural Banks (RRBs), SFBs, Local Area Banks (LABs) and Primary Urban Cooperative Banks (UCBs) with effect from 1st Apr'25. From the microfinance sector's perspective, the major changes are as below

- Removal of the co-terminus clause of bank loans to NBFCs/Housing Finance Companies (HFCs)
- Individual members of Joint Liability Group (JLG) have been added to the 'weaker sections' category to which PSL is allowed. JLG is also included in the Non-Corporate Farmers definition, provided banks maintain disaggregated data of such loans.



- Removal of processing fee on loans below Rs 50,000 which was earlier Rs 25,000 which means that effective cost to the borrowers (within this loan bucket) will be lesser.

As per the earlier PSL guidelines, bank loans to NBFCs/HFCs for further on-lending to eligible priority sector categories, the maturity of the bank loan had to be co-terminus with the underlying loans given by the NBFC/HFC to the end-borrower. This created an asset-liability mismatch, particularly when the tenure of loans to the end-borrowers were higher than the bank loan tenure for NBFC/HFC, typically noted in case of MSME loans and micro-housing loans.

With the amendment, now, as long as the original on-lent loan by NBFC/HFC qualifies under PSL, the entire bank loan amount is eligible for PSL classification for its full tenor. This has provided the much-needed operational flexibility to the banks

as they can now structure their exposure to NBFCs without worrying about mismatched tenors. It is expected to provide better liquidity to NBFC-MFIs and an increased flexibility to better manage their ALM.

3.1.3 Guidelines on Co-lending-blended cost to benefit clients

The co-lending guidelines, called Co-origination of Loans (COL), were first introduced by the RBI in [Sep'18](#) which allowed SCBs and NBFCs to partner in lending to borrowers for creation of priority sector assets. These initial guidelines were later updated in [Nov'20](#) and renamed the Co-Lending Model (CLM), with further revisions and new directions renamed as Co-Lending Arrangement (CLA) issued in [Aug'25](#) and taking effect from 1st Jan'26. **Table 3.1** captures the evolution of the co-lending guidelines from 2018 to 2025.

Table 3.1: Evolution of co-lending guidelines (major changes)

	COL 2018	CLM 2020	CLA 2025
Scope & applicability	Only PSL. COL can happen only between a SCB and NBFC-ND-SI ⁷⁷ . NBFCs to give an undertaking that its loan contribution is not funded out of borrowing from the co-originating bank or any other group company of the partner bank.	Scope broadened to include all NBFCs and HFCs. Not applicable to foreign banks with >20 branches. Banks not allowed to enter into co-lending arrangement with an NBFC belonging to the promoter group.	Universal scope, not limited to PSL. Applies to both secured and unsecured loans. Applicable to Commercial Banks (excluding RRBs, UCBs, SFBs), AIFIs, all NBFCs including HFCs. Any digital lending arrangement between REs to be guided by both MD-DLD ⁷⁸ & CLA. CLA not applicable to loans sanctioned under multiple banking, consortium lending, or syndication.
Risk sharing	NBFCs to have at least 20% of credit risk on their books by way of direct exposure; Banks could take up to 80%.	Same - NBFCs required to retain a minimum of 20% share of the individual loans on their books.	Each RE under a CLA shall be required to retain a minimum 10% share of the individual loans in its books.

⁷⁷ Non-Banking Financial Companies - Non-Deposit taking - Systemically Important, having asset size >=Rs 500 Cr

⁷⁸ RBI (Digital Lending) Directions, 2025



	COL 2018	CLM 2020	CLA 2025
Structure & operational arrangements	Tripartite loan agreement between Bank, NBFC and the customer.	Master agreement between the two partner institutions, based on Board approved policies. Banks can have the discretion to reject loans subject to its due diligence. NBFC to be the single point of interface for the customer, through a loan agreement.	Agreement between CLA partners (REs) based on their credit policies, which incorporates provisions related to CLA. Roles clearly defined as ‘Originating RE’ and ‘Partner RE’ (which is co-lending). Loan agreement with borrower to be done by the originating RE, as the single point of interface. Any changes in interface requires prior intimation to the borrower. Borrower level asset classification to be the same for both REs. Originating RE may provide default loss guarantee (DLG) of up to 5% of loans outstanding in respect of loans under CLA.
Pricing	Blended interest rate – weighted average (by proportionate funding share) of bank +NBFC rate	Borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders.	Blended interest rate to the borrower based on weighted average rate (by proportionate funding share) of partner REs, subject to regulatory norms applicable to the REs. Any other fee/charges for lending services cannot include any element of credit enhancement or DLG unless permitted.
Disclosures & grievance redressal	Not clearly defined; borrower had to deal with both entities	NBFC as single interface for customers; grievance redressal mandated.	All required details (like interest rate, any other fee, charges etc.) to be disclosed to the borrower as per RBI circular on KFS. REs to disclose a list of all active CLA partners on their website. Loan agreements to disclose grievance redressal mechanism. Each RE to separately report to CIC for their share of loan account.



Clearly the co-lending guidelines have evolved significantly over the years and CLA 2025 has a much expanded scope which can widen credit availability for various segments and not just priority sector; allows various types of REs to partner with each other; reduction in the minimum risk sharing to 10% will allow smaller REs to participate as well; provision of DLG brings in the formal recognition of credit enhancement; there is better clarity in terms of pricing; better asset quality reporting which is uniform & helps avoid hidden NPAs; enhanced disclosure requirements and greater transparency to the borrowers (on interest rate, other costs involves, RE interface etc.). Formalisation of margin sharing through a rule-bound and reportable mechanism enhances regulatory oversight and borrower protection but at the same time may compress the profitability margins for NBFC-MFIs, especially those with higher operating costs. The exclusion of SFBs from CLA 2025 is a bit unclear as they could be a major source of co-lending in microfinance. This puts SFBs in a competitive disadvantageous situation as they could lose customers to cheaper bank-NBFC options. However, the RBI has reduced the PSL target for SFBs from 75% to 60%, providing them with some relief and flexibility.

3.1.4 New guidelines on gold loans – stricter rules and thorough monitoring but opportunity for NBFC-MFIs

In [Sep'24](#), RBI issued a circular citing irregular practices observed in grant of loans against pledge of gold ornaments and jewellery. RBI in its review of adherence of prudential guidelines noticed the following discrepancies

- Shortcomings in use of third parties for sourcing and appraisal of loans
- Valuation of gold without the presence of the customer
- Inadequate due diligence and lack of end use monitoring of gold loans
- Lack of transparency during auction of gold ornaments and jewellery on default by the customer
- Weaknesses in monitoring of LTV and
- Incorrect application of risk-weights, etc.

All regulated entities (REs) were advised to review their policies, process and practices on gold loans to identify gaps and report to RBI in a timebound manner.

In Apr'25, the RBI issued [draft guidelines for the lenders using gold](#) as collateral for securing loans with a view to move towards more principle based and a harmonised regulatory framework (for all REs) which addresses the above gaps. The [final directions were issued in Jun'25](#) and apply to all loans of all REs (all commercial banks excluding payment banks, Cooperative Banks and NBFCs, including HFCs). Following are the main changes in comparison to extant guidelines.

- Uniform rules for all REs, which now extends to silver jewellery/coins also. Earlier, silver was excluded in different circulars for banks/NBFCs.
- Tiered Loan to Value (LTV) cap has been introduced – 85% up to Rs 2.5 Lk, 80% for Rs 2.5 to 5 Lk & 75% above Rs 5 Lk. LTV must be maintained over loan life; for bullet loans, LTV includes principal + interest. Earlier it was maximum 75% (flat cap) on principal amount, applied at sanction.
- Valuation norms have been standardised across REs – in presence of borrower & mandatory testing of purity/weight with calibrated equipment.



- Borrower must declare ownership and lender must verify. No loan if the ownership is doubtful (to prohibit duplicate pledging)
- Loans to be classified as income generating loans (IGL) or consumption loans (CL), with stricter underwriting, monitoring and documentation for IGL. Detailed disclosures for both IGL & CL (ticket size categories, portfolio concentration etc.) and board approved policy/SOP mandated. Earlier, all gold loans were treated similarly.
- Transparent rules around auction of gold (notification to borrower, public auction, surplus refund after dues adjustment etc.) and release of collateral immediately post repayment (penalty for delays).
- Outsourcing permitted but with strict governance and accountability; RE remains fully responsible; internal audit must cover outsourced activities.

The new framework is to be fully implemented by 1st Apr'26. While there are no immediate implications of the new guidelines on the NBFC-MFIs as they do not have a gold loan portfolio, there will be an increase in cost of operations of NBFCs who are in the gold loan space. It is expected that cost increase will be mainly due to higher cost of compliance for improving systems, risk management, monitoring and reporting. The higher LTV of 85% for loan values up to Rs 2.5 Lk suits the microfinance clients and could be a potential product for NBFC-MFIs that are planning to diversify into secured portfolio, which is now possible after the flexibility provided by the amended QA norms.

3.1.5 Other changes/announcements

In addition to the above discussed policy updates, the following are the other changes/announcements made by the RBI which is of relevance to the microfinance sector.

- Risk weights on unsecured loans – now restored to earlier 100%

This amendment has been discussed in Section 1.3 as well. In [Nov'23](#), the RBI raised risk weights and capital requirements for unsecured retail lending and loans to NBFCs, making such lending more expensive for banks. The risk weights on unsecured personal loans (excluding housing, education, vehicle, gold loans and microfinance/SHG loans) were increased to 125%, and on credit cards to 150% for banks and 125% for NBFCs.

The increase was mainly done to slow down the high growth in the personal loan and credit card segment, with concerns around portfolio quality of such loans which could lead to a systemic risk.

However, the RBI in [Feb'25](#) reversed prior tightening by reducing risk weights on SCB loans to NBFCs from 125% back to 100%, and restored the risk-based risk weights for exposures to NBFCs. These changes came into effect from 1st Apr'25 and were expected to ease the liquidity flow to the NBFCs to support on-lending to low-income segments.

- Prepayment charges on loans to individuals and MSEs disallowed

RBI issued a circular on “[Pre-payment Charges on Loans Directions, 2025](#)” to address the restrictive clause in loan contracts which restricts borrowers to switch to other lender that offer lower rate of interest, due to punitive pre-payment charges. This circular is applicable to all commercial banks (excluding payments banks), co-operative banks, NBFCs and All India Financial Institutions (AIFIs) and disallows them to charge pre-payment or foreclosure penalties on floating-rate loans given to individuals and Micro & Small Enterprises (MSEs) with or without co-obligant(s).

However, it allows SFB, RRB, a Tier 3 Primary (Urban) Co-operative Bank, State Cooperative Bank, Central Cooperative bank and NBFC-ML to levy pre-



payment charges on loans to individuals and MSE with sanctioned amount/ limit beyond Rs 50 Lk for business purpose.

The applicability or otherwise of pre-payment charges has to be clearly disclosed in the sanction letter and loan agreement and in the KFS if applicable.

The circular applies to loans sanctioned or renewed on or after 1st Jan'26 and gives flexibility to micro borrowers to prepay without penalty, reducing cost of their borrowing.

- Requirement for 100% High-Quality Liquid Assets (HQLA) for all non-deposit taking NBFCs with asset size $\geq$ Rs 5,000 Cr kicks in from 1st Dec'24

Liquidity is one of the key risks that any financial institution can face and could lead to the downfall of not only the institution but also impact broader economy depending on the size of the institution. While banks are closely monitored by the RBI, it decided to apply similar liquidity risk management framework on large NBFCs in line with scale-based framework to ensure maintenance of sufficient liquidity to withstand period of high stress.

Under the [scale based regulations](#) for NBFC, Clause 89 under Annex XXI mandates large non-deposit taking NBFCs with asset size of Rs 5,000 Cr and above and all deposit taking NBFCs irrespective of their asset size to maintain a Liquidity Coverage Ratio (LCR). Core Investment Companies, Type I NBFCs⁷⁹, Non-Operative Financial Holding Companies (NOFHCs) and Standalone Primary Dealers (SPDs) are exempt from the applicability of LCR norms.

LCR is the ratio of Stock of HQLA⁸⁰ to Total Net Cash Outflows over the next 30 calendar days and is intended to ensure short-term resilience of

NBFCs from liquidity risk. RBI has adopted a phased approach to allow NBFCs gradually attain 100% LCR. This transition period concluded on 1st Dec'24 and now the concerned NBFCs must maintain a minimum LCR of 100% at all times. NBFCs are permitted to use their stock of HQLA during period of stress, even if the LCR temporarily falls below 100%. However, it must inform RBI immediately on such use of stock of HQLA, reasons for such usage and corrective steps initiated to rectify the situation (Clause 3.4 under Annex XXI of SBR).

Maintaining LCR will be vital for NBFC-MFIs to remain resilient during periods of financial stress to meet their short-term obligations without external support. This is evident from the recent liquidity squeeze faced by the NBFC-MFIs but despite that they have been able to remain operationally viable. The relaxation of the QA norms has also enabled them to maintain the required HQLA and not worry about breaching the norm.

3.2 Credit information reporting – lot of action but gaps remain

Information asymmetry across financial institutions has long posed a structural challenge in the Indian financial sector, limiting the flow of credit to vulnerable segments and undermining the broader goal of financial inclusion. To address these concerns, the RBI had constituted a committee in 2013, which recommended a standardized framework for credit information reporting. Since then, RBI has progressively introduced various measures in line with evolving industry practices and newly emerging challenges, gradually strengthening the credit information ecosystem (**Table 3.2**).

The latest in the series of measures is the issuance of the Master Direction – Credit Information Reporting Directions, 2025 on 6th Jan'25, which provides a

⁷⁹ These are non-deposit taking NBFCs that do not accept or intend to accept public funds, and do not have or intend to have customer interface ([RBI 2026](#)).

⁸⁰ HQLA means liquid assets that can be readily sold or immediately converted into cash at little or no loss of value or used as collateral to obtain funds in a range of stress scenarios ([RBI 2019](#)).



comprehensive and consolidated framework for credit information collection, reporting, validation, dissemination and grievance redressal. By reinforcing uniform reporting formats, periodic data quality benchmarking, enhanced transparency in Credit Information Report (CIR) dissemination, robust dispute resolution with compensation and an institutionalized review mechanism through the Technical Working Group (TWG), RBI has sought to balance the twin objectives of improving credit decisioning and safeguarding borrower rights. The framework is expected to foster greater reliability of credit data, strengthen lender confidence and improve customer trust in the financial system.

Issued under Section 11 of the Credit Information Companies (Regulation) Act, 2005, these Directions apply to all Credit Institutions (CIs) – comprising Commercial Banks, SFBs, LABs, RRBs, Co-operative Banks, AIFIs, NBFCs including HFCs and Asset

Reconstruction Companies (ARCs) – and to the four CICs registered with RBI, namely CRIF High Mark, Experian, Equifax and TransUnion CIBIL. The Directions have reiterated the statutory framework for confidentiality, privacy and security of borrower information and provided clarity on obligations of each participant in the ecosystem.

3.2.1 UCRF – confusion and overlap between microfinance and consumer segment persists

RBI has mandated that all Credit Institutions (CIs) report credit information to CICs in a standardised and non-proprietary format, known as the Uniform Credit Reporting Format (UCRF). UCRF provides a common framework for reporting across different segments and is classified into three forms covering consumer, commercial and microfinance loans.

Table 3.2: Timeline of issuance of guidelines on credit information reporting

#	Guidelines	Month/Year
1	Setting up of working group on examining the reporting formats used by Credit Information Companies (CICs) and recommending a standardized data format for furnishing credit information	Mar 2013
2	Report of the committee to recommend data format for furnishing credit information to CICs	Mar 2014
3	RBI guidelines on Data format for furnishing of credit information to CICs	Jun 2014
4	Guidelines on Membership of CIC	Jan 2015
5	Credit Information Reporting in respect of Self-Help Group (SHG) members	May 2016
6	Issue of Comprehensive Credit Information Report (CCIR)	Aug 2017
7	Data format for furnishing of credit information to CICs	Mar 2021
8	Data Quality Index for commercial and microfinance segment	Sep 2023
9	Frequency of reporting of credit information by credit institutions to CICs	Aug 2024
10	Master Directions-Credit Information Reporting Directions, 2025	Jan 2025
11	Reserve Bank of India (Credit Information Reporting) (1 st Amendment) Directions, 2025 - Draft	Sep 2025



The requirement of the frequency of data submission is currently at a minimum of fortnightly basis, as on the 15th and the last day of every month, with a maximum seven-day submission window. CICs are required to ingest the submitted data within five days, with any rejections or validation failures to be communicated back to the CI within seven days.

MFIN, through its directives, has been consistently advocating for daily submission of data to the CICs by its member REs and a significant number of MFIN member NBFC-MFIs have already adopted this practice. However, large banks and diversified NBFCs continue to follow the fortnightly submission cycle, creating an information asymmetry that affects overall credit assessment. Recognizing this gap, the RBI in its recently issued draft guidelines in Sep'25, sought public feedback on its proposal to shift from fortnightly to weekly data submission —a move that represents an incremental but important step towards timely credit reporting.

Other than reporting frequency, UCRF also has certain persistent gaps. To illustrate, while microfinance loan is defined by the regulation and should ideally be reported to microfinance part of the bureau, quite a few banks/NBFCs also report loans which are microfinance as per regulation under consumer side of bureau. Similarly, NBFC-Fintechs whose lending -unsecured and small value- is microfinance as per regulation report loans under consumer segment. 96.6% of NBFC-Fintech loans are below Rs 1 Lk.

MFIN is working on a feasible approach to address these loopholes and the same will be taken up with the RBI for policy change.

3.2.2 Role of Credit Information Companies

CICs play a very critical role in Credit information reporting with their responsibility for data validation and governance as they must maintain transparent validation logic, provide rejection files with clear error

codes and ensure standardization of acceptance criteria across entities. They are also responsible for identifying duplicate or inconsistent records and are also required to conduct a quarterly inconsistency analysis and share findings with reporting institutions and RBI.

CICs are required to issue standardized and comprehensive credit reports consolidating borrower data across identifiers and categories. Borrowers are entitled to one free annual credit report and alert/notify borrowers of any access or default reporting. Disputes are required to be resolved promptly, with compensation for delays, and unresolved cases can be escalated under the RBI's Integrated Ombudsman Scheme (2021).

3.2.3 Reporting of individual member data for SHGs

The RBI has established a structured framework for CIs to collect and report credit information on SHG members to CICs. Initially outlined in a May'16 circular, this process has been further strengthened under the Master Direction issued in Jan'25, which introduces a UCRF for SHG data submission. In line with the harmonised microfinance framework, borrower-level reporting has been mandated to enhance visibility of both group and individual exposures, improve borrower identification, map existing liabilities, and support better credit assessment.

The framework prescribes differentiated reporting requirements based on loan size. For loans up to Rs 30,000, a simplified dataset is required, while exposures above Rs 30,000 demand more detailed member information. In cases, where SHG loans exceed Rs 1,00,000, even non-credit information must be captured and in cases where the NPA levels in SHG lending cross prescribed thresholds, CIs are required to report member-level data for loans of Rs 20,000 and above. Non-compliance with these stipulations may lead to such loans being excluded from PSL eligibility.



However, despite these clear regulatory provisions, reporting of individual borrower-level SHG data remains inadequate. Large public and private sector banks—who dominate SHG lending—have generally not adopted account-level reporting, with only a few private sector banks making progress. As a result, data gaps persist, limiting the effectiveness of the framework.

The lack of borrower-level information for SHG members, has also emerged as a major roadblock in developing the Grameen Credit Score (GCS)—a framework announced in the Union Budget 2025–26 to assess rural borrowers, especially SHG members, using non-traditional indicators such as digital transactions and savings patterns.

In Feb’25, in a meeting with RBI’s Department of Regulation, Indian Bank’s Association (IBA) and all CICs highlighted the challenges, following which, RBI directed Equifax to form a TWG comprising banks, RRBs, SFBs, cooperatives and SROs to review these issues and propose solutions. The group is currently deliberating on the matter and is expected to release its recommendations shortly.

3.2.4 Data Quality Index

The Data Quality Index (DQI) serves as a key measure to assess the quality of data submissions, enabling consistent evaluation, targeted improvements and meaningful comparisons across institutions and over a period of time. The concept of a common DQI was first introduced by the RBI in Jun’14, initially for the consumer segment only. However, with an aim to strengthen the consistency and reliability of the reporting of information by the CIs, DQI was made applicable to Commercial and Microfinance segments in Sep’23. CICs were instructed to develop and provide DQIs for Commercial and Microfinance segments to all CIs latest by 31st Mar’24.

The DQI is computed on a monthly basis, covering demographic and trade fields for consumer data and weighted scoring for commercial and MFI segments. File-level and CI-level scores need to be reported and CICs need to generate industry benchmarks on a half-yearly rolling basis. CIs are expected to review these benchmarks, analyse score movements and present findings to senior management. This is to be done at least on a half yearly basis, with action points and root causes for any score deterioration documented and addressed, thereby embedding a data quality accountability loop within institutional processes.

3.2.5 Technical working group

To ensure consistency and technical refinements, a TWG has been institutionalized in the latest Master Direction on credit information reporting, with representation from Banks, NBFCs, ARCs, AIFIs, CICs, and industry associations/SROs like MFIN. The TWG will review formats annually, standardize data fields, and recommend improvements. A Standing Sub-Group will meet on a half-yearly basis to address operational challenges, including IT systems, evolving reporting needs and validation issues.

Further, the latest RBI Directions also outline customer service standards and best practices. Both CICs and CIs must appoint nodal officers for grievance handling, conduct half-yearly reviews of search-and-match algorithms and monitor root causes of complaints. CICs must establish a feedback loop with CIs for rejected or inconsistent data and adopt enhanced IT safeguards, including data localization and periodic system audits.

Credit information reporting in India has long faced challenges of information asymmetry, inconsistent KYC practices, weak SHG-level reporting and data quality gaps, which undermined effective credit assessment and financial inclusion. Over the years, RBI has progressively addressed these gaps and the 2025 Master Directions, along with recent proposals, mark a comprehensive step towards improving



timeliness, accuracy and transparency in credit reporting, thereby enhancing lender confidence and borrower protection.

3.3 Digital lending – framework evolves but issues like missing interest rate transparency persist

Digital lending in India has expanded rapidly in recent years, driven by technology adoption and rising credit demand, however it has also raised concerns over unregulated entities, predatory practices, data misuse and customer protection. To address these risks, the RBI constituted a Working Group on Digital Lending in 2021, which laid the foundation for a structured regulatory approach. This was followed by the issuance of the first set of digital lending guidelines in Sep'22 and further clarifications subsequently on areas such as Lending Service Providers (LSPs), DLGs, and credit bureau reporting. Culminating this process, RBI issued the Digital Lending Directions, 2025 on 8th May'25, providing a comprehensive and consolidated framework to govern responsible digital lending – a timeline is shown in **Table 3.3**.

Table 3.3: Timeline of issuance of guidelines on Digital Lending

#	Guidelines	Month/Year
1	Setting up of working group on Digital Lending	Jan 2021
2	Report of the working group on Digital lending	Nov 2021
2	Guidelines on Digital Lending	Sep 2022 ⁸¹
3	FAQ on Digital Lending Guidelines	Feb 2023
4	Guidelines on DLG in Digital Lending	Jun 2023 ⁸²

⁸¹ Withdrawn and replaced with May'25 circular

⁸² Ibid

#	Guidelines	Month/Year
5	FAQs on Guidelines on DLG in Digital Lending	Nov 2024
6	Reserve Bank of India (Digital Lending) Directions, 2025	May 2025

The latest guidelines issued in May'25, now apply to all REs and cover both their own digital lending activities and those conducted through LSPs. The framework reflects RBI's efforts to balance the opportunities of technology-enabled credit delivery with the need to address concerns around mis-selling, opaque practices, misuse of customer data and coercive recovery practices.

Microfinance is traditionally not considered as a digital lending product, however, as evident from the table below, it satisfies all the parameters to be classified as one. According to the definition of digital lending, if all key processes in the loan life cycle—customer acquisition, credit assessment, loan approval, disbursement, recovery and customer service—are carried out primarily through seamless digital technologies, the product qualifies as digital lending. By this definition, microfinance clearly fits the bill, as most stages of the customer life cycle are now executed digitally.

#	Activity	Digitally for Microfinance
1	Customer acquisition	Yes
2	Credit assessment	Yes
3	Loan approval	Yes
4	Disbursement	Yes
5	Recovery	Yes/Hybrid
6	Customer service	Yes/Hybrid



Similarly, as by definition, microfinance refers to any unsecured loan extended to a household with an annual income of less than Rs 3 Lk implying that the unsecured, small-ticket loans disbursed by fintechs or digital lenders to borrowers in this income bracket technically fall under the microfinance category, even though they are rarely labelled as such.

This overlap in borrower segment underscores the growing convergence between traditional microfinance and digital lending models. Some of the key features of the digital lending process and the extant regulatory guidelines on those are provided below.

3.3.1 Arrangement between REs and LSPs

In the digital lending ecosystem, regulated entities usually engage LSPs to oversee and execute the complete lifecycle of the loan process for the borrower, ensuring compliance and operational efficiency at each stage. However, every such engagement must be based on a formal, legally binding contract, with clearly defined roles, rights and responsibilities. Before entering such partnerships, RE's are required to carry out enhanced due diligence of the LSP's technical systems, governance standards, data privacy policies and track record in dealing with customers. The regulations have also kept the onus on REs for any acts or omissions of their LSPs, consistent with RBI's outsourcing framework. In cases, where an LSP partners with multiple lenders, it must display all loan offers matching the borrower's profile in a transparent manner, disclose unmatched lenders and provide borrowers with a fair comparison of loan terms such as the Annual Percentage Rate (APR), repayment obligations, tenor and penal charges. Importantly, the content displayed must be unbiased and free from deceptive design practices, ensuring that no specific lender's product is promoted unfairly.

3.3.2 Responsibility of credit appraisal

In the lending process, even if the sourcing is not done by the RE, they must independently assess a borrower's creditworthiness by collecting information such as age, occupation and income, which should be retained for audit purposes. Automatic increases in credit limits are prohibited unless explicitly requested and approved by the borrower.

3.3.3 Rules for loan disbursal, servicing and repayment

Loan disbursals must flow directly into the borrower's bank account and repayments must also be made directly into the RE's account. The use of third-party pass-through accounts, including those of LSPs are strictly prohibited while the fees payable to the LSPs must also be settled by the RE and cannot be charged separately to borrowers. The framework also provides a cooling-off period, determined by the RE's Board but not less than one day, during which borrowers may exit the loan by repaying the principal and proportionate APR without penalty. A one-time processing fee may be retained if disclosed upfront, but foreclosure charges are not permitted during this period.

3.3.4 Transparency and grievance redressal mechanisms - unlike microfinance, no interest rate disclosure

RE's are also required to provide a KFS and digitally signed loan documents, including sanction letters, terms and conditions, account statements and privacy policies, which must be automatically transmitted to the borrower's verified contact points. RE's are now also required to publish a comprehensive inventory of their digital lending products and Digital Lending Apps (DLAs), along with a detailed list of LSPs and their associated DLAs, clearly specifying the functional role of each.



Further, REs are also required to maintain updated details on their websites, providing information on grievance redressal mechanisms, privacy policies and links to the RBI's Complaint Management System (CMS) and the Sachet portal. In the 2022 regime, RE's were required to share recovery agent details while sanctioning of the loans. However, the 2025 Directions go further, mandating that borrowers be pre-informed via SMS/email before a recovery agent can contact them. This creates a clear documentary trail, reducing the risk of harassment claims, especially where rogue agents misrepresent their identity. It also aligns with recent judicial trends emphasising dignity in debt recovery.

Both REs and interfacing LSPs need to appoint designated nodal grievance officers, with their details displayed prominently on their websites, DLAs and loan documents. Facilities for lodging complaints must be integrated into DLAs and websites. While LSPs may be the first point of contact, the ultimate responsibility for redressal rests with the RE. Borrowers unsatisfied with responses or facing delays of over 30 days can escalate their complaints under the RBI Integrated Ombudsman Scheme through the CMS portal or by post to its Chandigarh office.

A major lack of transparency persists in NBFC-Fintech space in respect of interest rates. RBI needs to mandate disclosure of Max, Min and Wt. Average Yield for each product like microfinance.

3.3.5 Data privacy and technology standards

REs must ensure that DLAs collect only need-based data with explicit, auditable consent. Sensitive phone resources like contacts, call logs and media files cannot be accessed and one-time access for onboarding purposes (such as KYC) must be separately consented to. Borrowers should also be accorded the rights to deny or revoke consent, restrict disclosure and request deletion of their

data. LSPs are required to retain only minimal operational borrower data, with REs bearing ultimate responsibility for data security and storage of biometric information is strictly prohibited unless required by law. The guidelines require clear policies on data retention, destruction and breach management, with all data to be stored on servers in India. In cases, where the data is processed abroad, it needs to be repatriated within 24 hours.

3.3.6 Reporting of digital lending activities to CICs

REs must report all loans originated through DLAs (their own or those operated by LSPs) to CICs, ensuring that digital credit activity is fully integrated into the overall credit reporting system. Structured short-term credit and deferred payment products offered digitally must also be reported. Further, RE's are required to report all DLAs deployed or associated with them on RBI's Centralised Information Management System (CIMS) portal in a prescribed format, with details certified by their Chief Compliance Officer or a designated Board-level official. This information will be published on RBI's website, creating transparency for all the relevant stakeholders.

3.3.7 Provisions for Default Loss Guarantee arrangements

REs may enter into DLG agreements only with LSPs which are registered as companies and such arrangements must be backed by explicit, legally enforceable contracts detailing the extent and form of DLG cover. Permitted forms of cover include cash deposits, fixed deposits with liens, or bank guarantees. Importantly, DLG cover is capped at 5% of the disbursed portfolio and while REs retain responsibility for non-performing asset recognition, the DLG cannot be offset against individual loans and cannot be reinstated once availed. Disclosure requirements mandate that LSPs with DLG arrangements publish the number of portfolios



and amounts covered, updated monthly which is expected to enable the risk participation without compromising the attribution of credit risk which remains with REs.

3.3.8 Policy issues for action

Accurate KYC documentation underpins reliable credit reporting, as submissions to CICs must uniquely identify each borrower. Standard identifiers include Voter ID, PAN, Aadhaar, Driving Licence, Ration Card, C-KYC number, or Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) Job Card, with demographic details such as name, address, and date of birth required to match exactly with the KYC document. However, the absence of a uniform identifier across institutions continues to create inconsistencies, as MFIs, FinTechs, and NBFCs often serve overlapping borrower bases and capture KYC details differently leading to mismatches at the bureau level.

To strengthen borrower identification, the Central KYC (C-KYC) framework is being positioned as a unified alternative. While currently mandatory only for individual loans, its adoption is expected to expand gradually across all financial institutions, with PAN as a prerequisite for generating a C-KYC number. The Department of Financial Services (DFS) reviewed the C-KYC revamp in Apr'25, and final directions are awaited. In parallel, MFIN's Guardrails 2.0 (Nov'24) reiterated the use of Voter IDs—with mandatory e-validation—as the primary document for credit bureau checks and recommended mission-mode Permanent Account Number (PAN) seeding to enhance KYC robustness.

Over the years, digital lending in India has witnessed exponential growth, leading the RBI to introduce a comprehensive regulatory framework through the Digital Lending Directions, 2025, encompassing all REs and their LSPs. While this framework marks a significant step toward ensuring transparency

and borrower protection, the rapid digitalization of credit delivery has also blurred the lines between microfinance and digital lending.

Many fintechs and digital lenders now extend unsecured small-ticket loans to low-income households—essentially serving the same segment as microfinance institutions—yet these loans are often not classified or regulated as microfinance.

In contrast, the microfinance sector, while instrumental in advancing financial inclusion, operates under unique regulatory and operational sensitivities. Its reliance on field-level engagement and group-based lending models exposes it to various operational risks. Coupled with its deep grassroots presence, these vulnerabilities make the sector particularly susceptible to external disruptions and misinformation. Over time, such challenges have extended beyond traditional credit and operational risks, underscoring the need for dedicated laws and regulatory standards to safeguard both borrowers and institutions.

3.4 Financial vandalism: misinformation by non-state actors pose risks to systemic stability

Misinformation campaigns and interference of non-state actors have exerted significant pressure on the sector, adversely affecting both asset quality and the reputation of regulated entities. These challenges manifested most visibly through unauthorized loan waiver campaigns and orchestrated protests. They were further amplified by misreporting in print, electronic, and social media, which wrongly attributed coercive recoveries and even secured loan collections to microfinance institutions—eventually triggering state-level interventions in Tamil Nadu and Karnataka. The absence of a clear legislative framework compounded the problem; had the Banning of Unregulated Lending Activities



(BULA) Bill been enacted, its provisions could have provided a buffer, containing much of the fallout and safeguarding regulated entities from undue disruption caused by external incitement and unregulated lending activities.

3.4.1 Orchestrated protests and non-state actors' interference (Karnataka)

In Karnataka, signs of stress began to surface in May'24, first in Tumkur and later spreading to districts such as Belagavi, Kalburgi, Ramanagara, Chamarajanagar, Mysuru, Bidar, and Vijayanagar. Multiple activist organizations—including Akhila Bharatha Janavadi Mahila Sanghatane (ABJMS), Dalit Sangarsh Samiti (DSS), and AHINDA-affiliated groups—staged coordinated protests demanding loan waivers or moratoria in view of rural distress. The convergence of these movements with misinformation campaigns, amplified through print, electronic, and social media, created sustained pressure on the state. This ultimately led to the promulgation of an Ordinance, followed by the enactment of the Karnataka Micro Loan and Small Loan (Prevention of Coercive Actions) Act, 2025 in Q4 FY25.

MFIN engaged in continuous consultations with both the RBI and state authorities, highlighting the misinformation being spread against regulated microfinance institutions and underscoring the strong supervisory framework under which they operate. This advocacy, supported by a half-page newspaper advertisement campaign and a press conference, proved effective. In the final version of the Act, REs were granted exemption, thereby avoiding unintended regulatory burdens on the sector.

Nevertheless, in the interim period—from the Ordinance to the Act's passage—created operational ambiguities and heightened sensitivities on the ground. The distinction between REs and non-REs was not fully understood by district

administrations, borrowers, or non-state actors, leading to confusion and continued disruptions.

To address this, MFIN adopted a multi-pronged strategy:

Engagement with Authorities: MFIN worked closely with district administration and law enforcement agencies to reinforce that all MFIN members are RBI-regulated entities. District Collectors, after being aligned with the provisions of the Act, stopped insisting on registration of REs under the state Act, and any grievances received under the Act in respect of REs were systematically referred to MFIN for resolution.

Capacity Building: Sub-groups of senior operations personnel from member REs were formed and trained to represent the industry effectively at review meetings chaired by District Collectors or In-Charge Ministers. (Table 3.4)

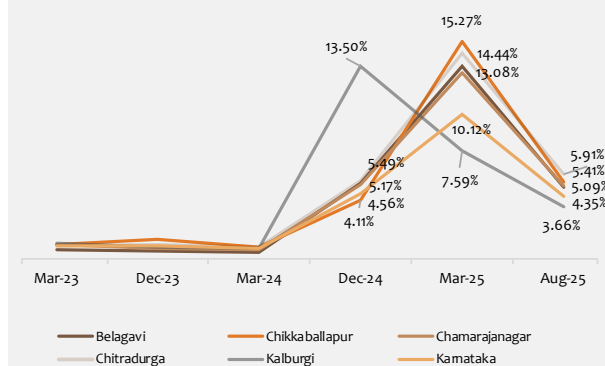
Customer Outreach: In parallel, Microfinance Awareness Programmes were conducted with the involvement of district officials—including the Police (Economic Offences Wing and Cyber Security), Lead Bank, NABARD, and RBI. Borrowers were informed that REs were exempted from the Act, cautioned against being misled by non-state actors, and advised to approach their REs directly in the event of financial stress. They were also directed to MFIN's Customer Grievance Redressal Mechanism (CGRM) toll-free number in Kannada for complaints.

These interventions had a pronounced stabilizing effect. District administrations acknowledged the exemption, operational clarity improved, and borrowers gained confidence in dealing with their REs. While the episode caused a temporary deterioration in asset quality (Figure 3.1), conditions have gradually improved since May'25. The experience underscores the systemic risks posed by organized misinformation and non-state actor mobilization, while also demonstrating the effectiveness of coordinated industry-level advocacy and outreach.



Table 3.4: MFIN review meetings

#	Date of the review	Name of the District meeting held
1	27/01/2025	Haveri
2	29/01/2025	Kodagu, Belagavi, Bagalkot, vijayapura, Mandya, Mysore, Chikkamaglur, Kolar & Tumkur
3	30/01/2025	Dharwad & Davanagare
4	01/02/2025	Belagavi
5	04/02/2025	Chitradurga & Chamarajanagar
6	05/02/2025	Vijayanagar
7	10/02/2025	Bellary, Bidar & Bengaluru Rural
8	15/02/2025	Tumkur & Hassan
9	17/02/2025	Mandya, Kodugu & Bagalkot
10	18/02/2025	Ramanagara
11	19/02/2025	Kalaburagi, Koppal & Chitradurga
12	21/02/2025	Haveri & Davanagere
13	03/03/2025	Mysore
14	20/03/2025	Udupi
15	26/03/2025	Uttara Kannada
16	18/08/2025	Davanagere
17	17/09/2025	Gadag

Figure 3.1: Karnataka District-wise PAR 1–90 days trend (Mar'23 to Aug'25)

Source: CRIF Highmark

[The above chart illustrates the trend of Portfolio at Risk (PAR 1–90) across five most effected Karnataka districts - Chitradurga, Chikballapur, Chamarajanagar, Belagavi, and Kalburgi—as well as Karnataka overall. PAR peaked in the quarter ended Mar'25. By Aug'25, there is a visible improvement in asset quality, with PAR levels declining across all districts.]

3.4.2 Unauthorized loan waiver campaigns (Bihar)

During Q4 FY25, a variant of the earlier Karza Mukti Abhiyan surfaced in Gaya district, Bihar. Volunteers associated with groups such as Janta Sarkar Morcha and Loan Mafia Abhiyan approached low-income borrowers with a narrative built on distorted historical facts about the evolution of the Rupee. Their propaganda speeches bordered on absurdity, claiming that the RBI and all banks were private entities, even labelling them as a continuation of the East India Company.

What began as a localized campaign in Gaya gradually spread to districts in the Mithila region—such as Supaul, Madhubani, Madhepura, and nearby areas—through organizational networks and local media amplification. Despite the geographical distance, the campaign resonated across regions, likely due to shared migrant worker networks. Many households from both regions have family members working together in urban centres, creating channels for cross-exchange of narratives and coordinated messaging.

The campaigners further escalated matters by persuading microfinance borrowers to sign a pre-drafted representation addressed to MFIs. This document—clearly prepared by the campaigners themselves—used the distorted Rupee narrative to pose provocative questions and declared that until “satisfactory responses” were provided, borrowers would suspend loan repayments.

More concerning was their appeal to organize village-level Gram Sabhas, where collective decisions not to repay loans—including those to banks—would be passed and declared “binding” on financial institutions.

On receiving these inputs, MFIN immediately escalated the matter to the RBI and simultaneously reached out to state and district administrations. With RBI’s guidance and swift action by state law enforcement agencies, the campaign was contained before it could gain more traction. Nevertheless, the episode caused temporary disruption in repayment cycles and affected the morale of member field staff.

Box 3.1: MFIN SOP for Handling Loan Waiver Campaigns / Collection Disruptions

- **Information Flow:** Inputs are received through District Forum Meetings (DFMs) or via State Coordination Committee (SCC) Members.

- **Verification:** On receipt, MFIN convenes a special/emergent meeting to assess the veracity of the inputs and gather supporting material such as pamphlets, social media clips, pics or campaign video bytes.
- **MFIN Representation:** A formal representation is submitted to the DC concerned, on behalf of member Regulated Entities (REs), attaching the evidence collected up to that point.
- **District-Level Engagement:** MFIN, along with SCC members, meets the District Collector (DC) to present the field situation, share material proof, and seek support and intervention.
- **Escalation Protocol:** If the campaign spreads rapidly or shows signs of escalation, MFIN escalates the matter to the RBI and seeks its guidance and intervention. MFIN also urges the state government to take swift action against unauthorized loan waiver campaigners.

Further analysis suggests that such campaigns often intensify in the run-up to state or national elections, deliberately targeting low-income clients and, in some cases, collecting sensitive personal data under the guise of advocating their cause. These disruptions not only undermine repayment discipline and damage the reputation of microfinance institutions but also pose risks to the stability of the broader formal credit ecosystem.

3.4.3 Need for legislative framework on unregulated lending activities

The role of regulated entities in advancing financial inclusion for low-income women through responsible, collateral-free lending is frequently undermined by the activities of unregulated players.



While REs—Banks, SFBs, NBFC-MFIs, and NBFCs—operate under stringent RBI Directions, prescribing a comprehensive regulatory and supervisory framework, unregulated entities in the microfinance space, including many digital lenders, are not bound by such oversight.

A few states have attempted to address this through legislation—Andhra Pradesh (2011), Assam (2021), and more recently Karnataka and Tamil Nadu (2025). However, as seen earlier, even where REs were exempted, state enactments created confusion and ambiguity for borrowers and local authorities.

Box 3.2: Extract taken from the Statement of Objects and Reasons of the Karnataka Micro loan and Small loan (prevention of coercive actions) Bill, 2025

“1. The micro loan, small loan, private finance and other unregulated lending mafia are harassing and strangulating the borrowing community like poor rural indigents, urban workers, weaker and vulnerable section of the society. The borrower is constrained to pay sometimes double the amount or more, towards interest. The borrower is driven to streets and driven to commit suicide, on account of lenders. The proposed Legislation is to protect and rescue the helpless who happen to borrow loans and then are doomed in debts.”

In Dec’24, the Government of India, acting on the recommendations of the RBI’s Working Group on Digital Lending (WGDL), circulated a draft BULA Bill for stakeholder consultation. The Bill provides for a comprehensive mechanism to ban unregulated lending activities and protect borrowers’ interests. Once enacted and adopted by states, this central legislation will serve as a critical buffer, containing much of the fallout from misinformation, non-state actors’ incitement, and predatory lending practices, while safeguarding regulated entities from undue disruption.

In conclusion, the recent experiences in Bihar and Karnataka demonstrate how misinformation and non-state actors can rapidly disrupt borrower confidence, repayment discipline, and sector stability. Left unchecked, these campaigns create reputational damage, operational ambiguity, and even trigger legislative overreach. MFIN’s interventions—through engagement with authorities, borrower outreach, and public communication—helped to mitigate these risks, but the episodes underline a deeper systemic vulnerability. A robust central legislative framework, such as the proposed BULA Bill, coupled with proactive state and industry collaboration, is essential to insulate regulated microfinance institutions from the spillover effects of misinformation and unregulated lending activities.

3.5 Efforts in key policy areas

MFIN closely engages with the RBI and DFS for various aspects related to regulations and policy to make it conducive for the regulated entities, in their endeavour to do responsible finance and promote financial inclusion. MFIN’s approach is to present its views based on evidence and facts through representations and one on one meetings with the concerned officials on the need for amendments for certain clauses that create hurdles for the regulated entities to comply with the regulatory norms in letter and/or spirit. During the last year or so, MFIN’s policy focus has been on three fronts – (i) review of QA norm for NBFC-MFIs, (ii) allowing reporting of Aadhaar to CICs and (iii) addressing the liquidity stress. While the effort on QA fructified into a favourable norm for the NBFC-MFIs (discussed in Section 3.1.1), the work on other fronts is on-going. The details are discussed below



3.5.1 Lack of unique identifier for microfinance clients – urgent need for allowing reporting of Aadhaar to CICs

The sector now has a diverse set of REs into microfinance lending. Additionally, ~15% of microfinance clients today avail credit from a variety of sources, including retail lenders and fintech platforms. In this context, accurate borrower identification and robust credit underwriting are critical.

REs currently collect KYC documents and report borrower information to CICs, which in turn generate Credit Information Reports (CIRs). CICs rely on KYC identifiers and associated demographic details for deduplication and to uniquely identify borrowers.

Until 2018, REs primarily used two forms of KYC: Aadhaar and Voter ID for verification as well as CIC reporting, with Aadhaar as the primary. However, following the Honourable Supreme Court's judgment limiting the use of Aadhaar, especially barring CICs from storing Aadhaar, REs had to stop Aadhaar and rely on Voter ID. This has led to significant challenges in borrower identification due to high incidences of duplicate or inconsistent Voter IDs, resulting in poor-quality credit histories and increasing the risk of over-lending.

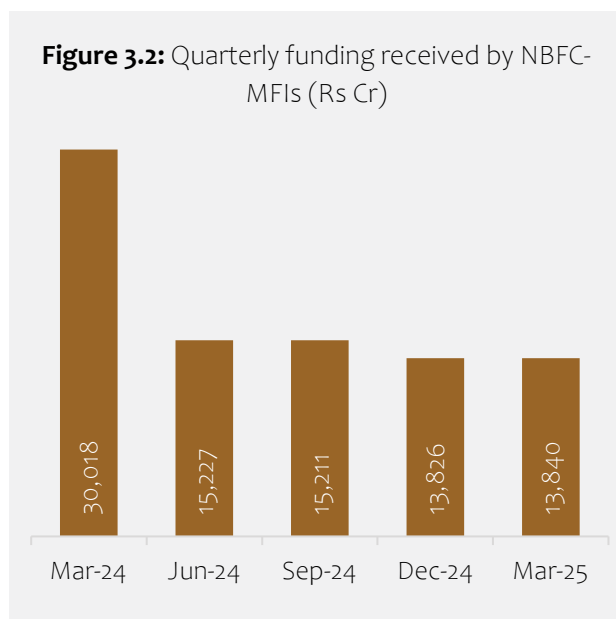
While MFIN has taken several steps to strengthen CIC reporting (discussed in Section 3.2) and improve underwriting practices (discussed in Section 5.1) across the industry and mandated its member REs to validate the Voter IDs and start seeding of borrower accounts with PAN, the absence of a reliable, unique identifier remains a key gap which leads to overleveraging. While Aadhaar E-KYC can authenticate the client, it does not solve the problem as Aadhaar cannot be reported to the CICs.

In light of this, MFIN has requested the support of the DFS in expediting the process to allow REs to report and CICs to store and use the last four digits

of the Aadhaar number. We understand that RBI is in discussions with DFS and UIDAI on this matter. The sector will be greatly benefitted as the last 4 digits of Aadhaar along with other fields like name, address can yield results with much improved correctness.

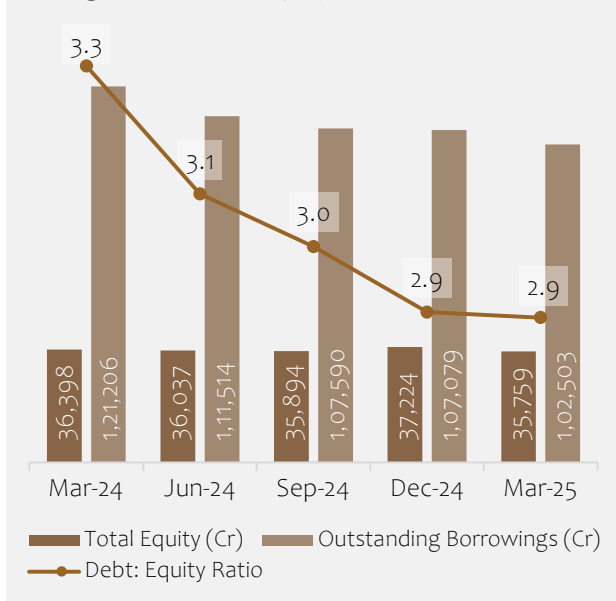
3.5.2 Addressing the liquidity stress faced by the NBFC-MFIs

NBFC-MFIs being non-deposit taking, mainly depend on wholesale lending from banks. However, during the FY 2024-25, the funding received as loans from banks and other FIs slowed down significantly as shown in the **Figure 3.2**. The debt funds received dropped significantly by around 54% from Rs 30,018 Cr in Q4 FY 23-24 to Rs 13,840 Cr in Q4 FY 24-25.



Source: MFIN Micrometer

Figure 3.3 shows that the NBFC-MFIs have become underleveraged and are largely depending on their own equity for continued operations, which is difficult for sustaining growth.

Figure 3.3: Debt-Equity Ratio of NBFC-MFIs

Source: MFIN Micrometer

Overall, the drying up of liquidity impacted the ability of NBFC-MFIs to serve the microfinance borrowers resulting in a decline in client base (~9%) and around 50 Lk clients have been pushed out of the formal sector during FY 2024-25. If this situation persists for medium to long term, many microfinance borrowers may have to go back to the informal lenders, which will undermine the efforts in financial inclusion. To tide over the liquidity crisis, MFIN has been advocating for the revival of the Credit Guarantee Scheme for MFIs (CGSMFI) and creation of a dedicated financing facility for the sector to address the inherent liquidity problem faced by the NBFC-MFIs.

Need for CGSMFI 2.0

In Jul'21, in the wake of COVID-19 pandemic, DFS had launched CGSMFI to provide guarantee coverage to Member Lending Institutions (MLIs) (banks) for the funding provided by them to NBFC-MFIs for on-lending to eligible small borrowers. Some key features of the scheme were:

- Funding provided by Banks to NBFC-MFIs was guaranteed by NCGTC to the extent of 75% of amount in default for a maximum period of 3 years
- Each Bank had to ensure that at least 50% of the funding made and covered under the scheme went to lower rated/graded NBFC-MFIs (i.e. NBFC-MFIs rated/graded MfR 2 or below)
- When on-lending to eligible small borrowers, the NBFC-MFIs had to ensure that 80% of this funding from banks was utilized for creation of fresh loan assets within 4 months from disbursement of each loan tranche
- Interest rate charged to borrowers by NBFC-MFIs on these loans was at least 2% below the maximum rate prescribed by RBI on such loans at the time
- No guaranteed fee was charged from the Banks by NCGTC for the credit facilities provided under this scheme.

The guarantee scheme infused confidence in the banking sector to resume funding to NBFC-MFIs with Rs 7,200 Cr being disbursed to 38 MFIN member MFIs. This was on-lent to about 17.75 Lk microfinance borrowers. Further, despite the disruption caused by Covid in terms of portfolio quality, there was no pecuniary loss to the government.

Of all the guarantee schemes, the CGSMFI was the most useful & impactful for the mF sector and perfectly fits the needs for NBFC-MFIs. It was able to lower the risk perception of the banks which enabled them to lend to even the smaller MFIs and at lower costs. Lower cost for MFIs translates into lower lending rates to microfinance borrowers.

With this background, MFIN approached DFS to restart the CGSMFI and suggested not to apply any interest rate caps for on-lending of debt provided

by the MLIs to NBFC-MFIs to align with RBI's approach of making their Board's responsible for pricing policies. Further, MFIN also recommended to allocate the funds based on size categories (AUM) of NBFC-MFIs – small, medium and large. Moreover, to encourage banks to lend to small and medium MFIs, the scheme should provide higher guarantee coverage for these institutions. CGSMFI 2.0 will be critical to easing liquidity for NBFC-MFIs and restarting the virtuous cycle of lending.

Refinance facility

A dedicated refinance facility will provide much-needed stability to the sector with access to a reliable source of funding at a lower cost. While SIDBI and NABARD provide refinance, it is not only more suited for the larger players (AUM >Rs 500 Cr) but is also not significant and stable. For example, the size of NBFC-MFIs in terms of portfolio outstanding as on 31st Mar'24 was Rs 1,70,903 Cr while the refinance provided by SIDBI to MFIs during 2023-24 was around Rs 11,010 Cr which is just 6.4% of NBFC-MFI portfolio. Lack of funding also creates a systemic stress as the microfinance borrowers, in anticipation of next loans when not received, become sceptical about paying their instalments leading to delinquencies.

Considering the criticality of reaching finance to low-income clients, it is vital that a dedicated refinance facility for NBFC-MFIs be created with SIDBI. It is pertinent that UK Sinha committee on MSMEs had also suggested creation of such a facility to be funded through priority sector shortfall of commercial banks on the lines of RIDF.

The Standing Committee on Finance (2021-22) in its report on "Strengthening credit flows to the MSME sector" has also highlighted the role of

NBFCs in meeting the credit needs to MSMEs. It has also suggested growing the balance sheet size of SIDBI through equity contributions, which can be leveraged to raise market resources. The Committee in its report says *"recommend that the Government could start with an immediate Rs 5,000 to 10,000 Cr equity injection in SIDBI and continue to make contributions of Rs 10,000 to 15,000 Cr for the next few years. These capital contributions will massively increase SIDBI's ability to provide wholesale financing to NBFCs that work with the MSME sector."*

Considering the growing credit demand and size of the sector, MFIN has requested for a dedicated refinance facility of Rs 30,000 Cr for on-lending to NBFC-MFIs with terms & conditions that suit MFIs of different sizes. Importantly, the funding should be at viable but not commercial rates, so that end client gets the benefit of lower interest rate.⁸³ It can be either through priority sector shortfall route or through equity contribution.

Summing up: Over the years, the RBI has taken several steps to bolster the ecosystem supporting small value loans – be it CIC reporting, Co-lending, digital lending or transparency and grievance redressal.

As the landscape keeps evolving, new challenges and old issues in newer form arise. The chapter while indicating key changes during the year has also highlighted future areas of policy action namely – reporting frequency to CICs, Robust KYC, disclosure of interest rates by digital lenders and a central omnibus legislation on unregulated entities to avoid periodic state level action.

⁸³ The pricing policy of financial institutions is primarily based on cost of funds, transaction cost, and risk costs. If one of these factors reduces/increase, it leads to decrease/increase of loan price. In other words, it is passed on to consumers.



Microfinance industry - a performance update



MFIN, since its inception in 2009, has been tracking the performance of the JLG model of microfinance in India. Till 2015, the model was mainly implemented by the NBFC-MFIs and after that banks and SFBs (most of whom had transformed from NBFC-MFIs) and NBFCs also joined the fray, directly as well as through originations from their Business Correspondent (BC) partners. This section analyses the status of the microfinance industry with focus on RBI regulated REs and in particular the NBFC-MFIs that have the largest share of the portfolio.

4.1 Outreach: Dip across GLP, clients and accounts

The **Figure 4.1** captures the microfinance journey over the last 13 years in terms of portfolio, depicting the growth in outreach.

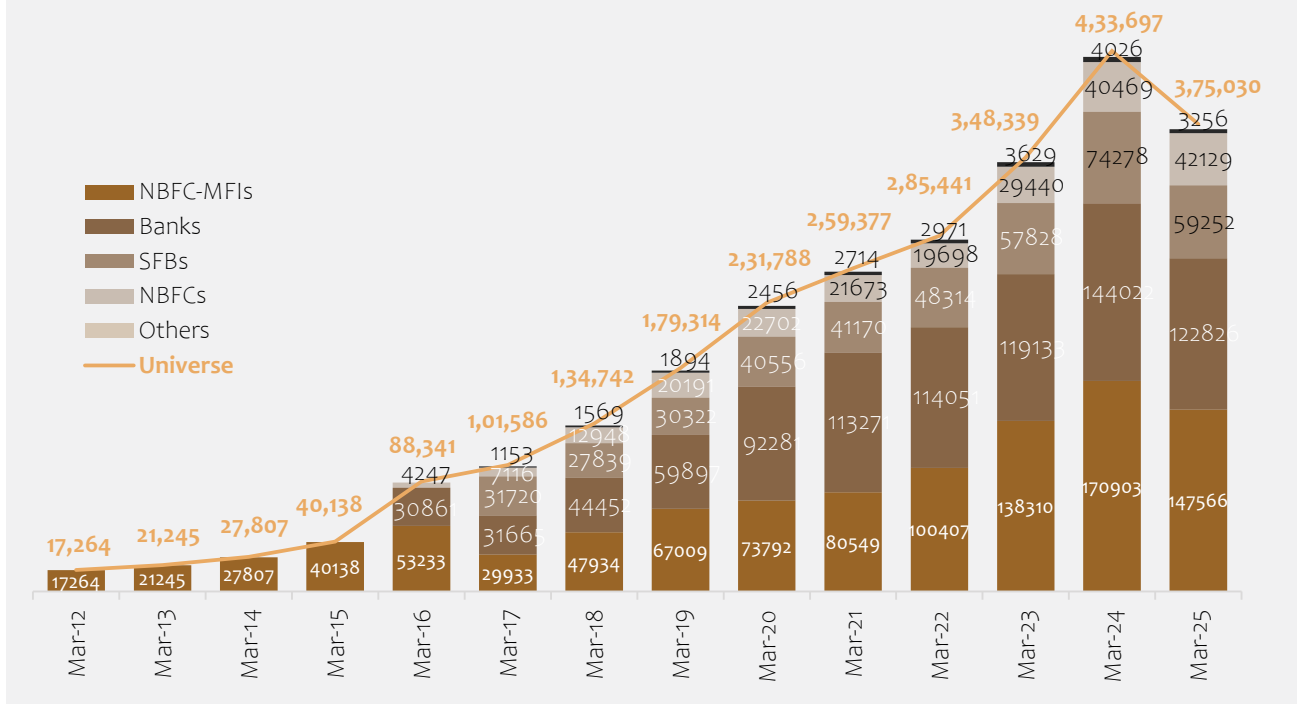
This FY 2024-25, the microfinance industry witnessed a YoY degrowth of around 13.5% in loan portfolio. Three noteworthy events which have impacted the momentum of the industry are as follows:

- Fall in borrowing received in the FY (discussed in detail in Section 4.3.1) leading to lower disbursement
- The delinquency situation & implementation of MFIN guardrails (Section 5.1) to address it

State level issues such as disruption by non-state actors and issues in Karnataka which led to a slowdown in these states (Section 3.4).



Figure 4.1: Microcredit portfolio (Rs Cr)



Source: MFIN Micrometer

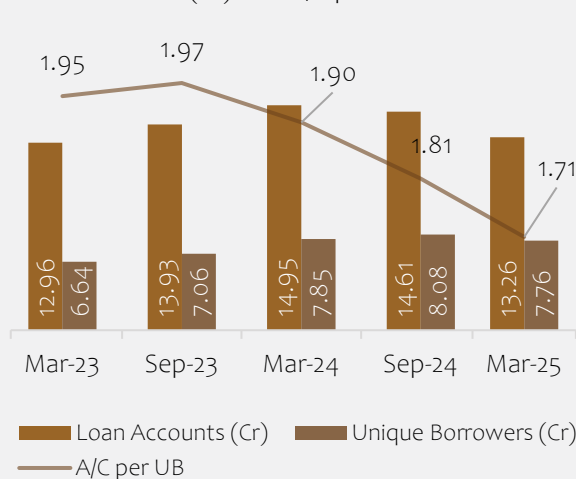
Overall, the industry saw a YoY decline of 11.3% in number of accounts and 1.2% decline in number of unique borrowers – which means that effectively about 9.3 Lk borrowers moved outside the purview of formal finance. As per the latest data available from bureau for Aug'25, another 41.7 Lk borrowers have been impacted taking the total to around 51 Lk borrowers moving out of formal finance over the last year and a half. **Table 4.1** below shows the trend of YoY change in accounts and unique borrowers served by the industry over last three years.

Table 4.1: Change in Unique borrowers and number of accounts

FY	Increase in no. of Unique Borrowers	Increase in no. of Accounts
2022-23	14.6%	14.6%
2023-24	18.1%	15.4%
2024-25	-1.2%	-11.3%

Source: Credit bureau data

As on 31st Mar'25, the microfinance industry catered to 7.76 Cr unique clients through 13.26 Cr loan accounts. Trend of accounts and unique borrowers covered by microfinance industry is shown in **Figure 4.2**. Microfinance operations now cover 718 districts across 29 states and 7 union territories. There has been a marked decline in the account per unique borrower ratio over the last FY, which is a good sign in terms of credit risk and fewer borrowers now have multiple accounts. As on 31st Mar'25, the ratio stands at 1.7 as compared to 1.9 as on 31st Mar'24, this represents a drop of more than 10% and shows the impact of lower disbursement as well as effectiveness of MFIN guardrails.

Figure 4.2: No. of accounts and unique borrowers (Cr) and A/C per UB

Source: Credit bureau data

Another analysis showing noteworthy impact of guardrail is reduction in lender relationship of microfinance clients. **Table 4.2** below shows that the share of unique borrowers having >3 lender

relationship has decreased over the last financial year due to tighter underwriting of loans mandated by the guardrails. As per the latest data available, this share has come down sharply from 6.4% as on 31st Mar'24 to 3.4% as on 31st Aug'25 showing reduction of 47.5%.

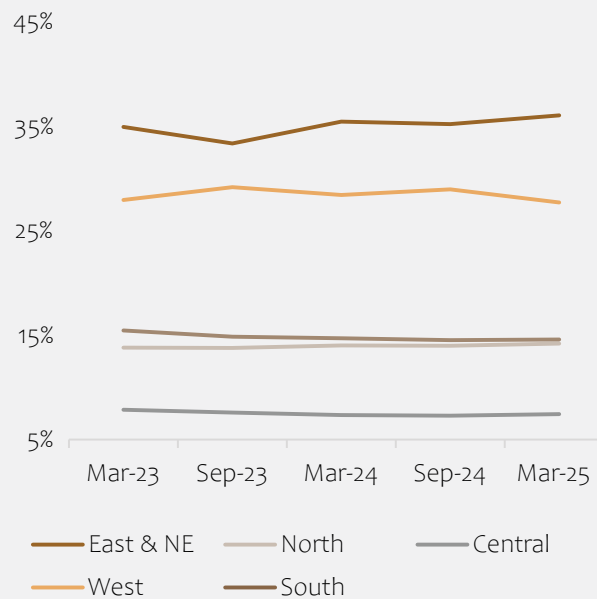
East & North East retain pole position - a contrast to SCB's outreach

In terms of regional distribution, E&NE has further consolidated on the gain of portfolio share continuing the trend of last year. As on 31st Mar'25, the share of E&NE increased to 36% as compared to 35.4% at the end of FY 2023-24. **Figure 4.3** shows the distribution of microfinance portfolio across regions. As can be seen, share of South has reduced from 28.4% to 27.7% during FY 2024-25. A closer look at comparison of portfolio outstanding shows that the drop in portfolio was steeper in the southern states (15.7%) as compared to West (14.7%), Central (12.6%), North (12.4%) and East & North East (12.1%).

Table 4.2: Unique borrower wise active lender association

Active lender association	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Aug-25
<=3	93.6%	93.5%	94.2%	94.6%	95.4%	96.1%	96.6%
4	3.6%	3.6%	3.4%	3.2%	2.9%	2.6%	2.3%
>=5	2.8%	2.8%	2.5%	2.1%	1.6%	1.3%	1.0%

Source: Credit bureau data

Figure 4.3: Regional distribution of GLP

Source: Credit bureau data

Along with the fall in portfolio across all major states due to lower disbursements, Karnataka faced issues due to state government issuing state specific laws which created disruption in operations on ground. Kerala saw significantly lower disbursements and livelihood issue in some districts which led to higher fall in portfolio. In other regions, Punjab and Haryana saw major decline in portfolio of 23% and 18% respectively since most institutions active in these states are still coming to terms with issues created by Karz Mukti Abhiyan (KMA) and similar variants. In E&NE, Odisha saw a decline of 19% on a YoY basis due to lower disbursement and floods in several districts but other major states managed to arrest the fall in portfolio to the tune of percentage fall of the national portfolio or even lower. Bihar which is the largest state in terms of microfinance outstanding saw a decline of 12% and West Bengal saw a drop of 9%. **Table 4.3** below shows the YoY change in microfinance portfolio outstanding in top 10 states.

Table 4.3: Trend of portfolio in Top 10 states

State	Region	CAGR Apr'20 to Mar'23	YoY Growth		
			Apr'22 to Mar'23	Apr'23 to Mar'24	Apr'24 to Mar'25
Bihar	East & NE	23.0%	37.3%	32.4%	-11.9%
Tamil Nadu	South	12.8%	26.9%	24.2%	-19.5%
Uttar Pradesh	North	29.3%	41.3%	36.7%	-9.9%
West Bengal	East & NE	0.5%	-5.0%	23.3%	-8.9%
Karnataka	South	18.0%	29.9%	32.7%	-16.9%
Maharashtra	West	18.1%	25.7%	18.6%	-11.2%
Madhya Pradesh	Central	16.0%	22.3%	16.2%	-13.0%
Odisha	East & NE	15.0%	20.1%	24.8%	-19.1%
Rajasthan	West	19.3%	24.5%	13.2%	-17.8%
Kerala	South	12.5%	21.4%	3.8%	-20.4%

Source: Credit bureau data

4.2 Products – ticket size, tenure, frequency

This section analyses movement in ticket size, tenure and repayment frequency of microfinance portfolio in detail. As mentioned in the previous edition of the report, the change in regulations in Mar'22 has acted as a catalyst for the sector in many ways.

4.2.1 Ticket size - lower growth than earlier years

Average ticket size of microfinance loans went up by 10.9% during FY 2024-25 continuing the trend of increasing ticket size of last few financial years. It has moderated from 12.9% increase during FY 2023-24. Lower increase in this year can be attributed to the implementation of MFIN guardrails which have restricted the extent of lending to an existing client. CAGR of growth in ticket size across last three FY is 10.0%. Change in ticket size across regions is provided in **Table 4.4**. It can be seen that E&NE and North has witnessed lower incremental change in ticket size as compared to other regions which is validated by details shown in **Figure 4.4** as well.

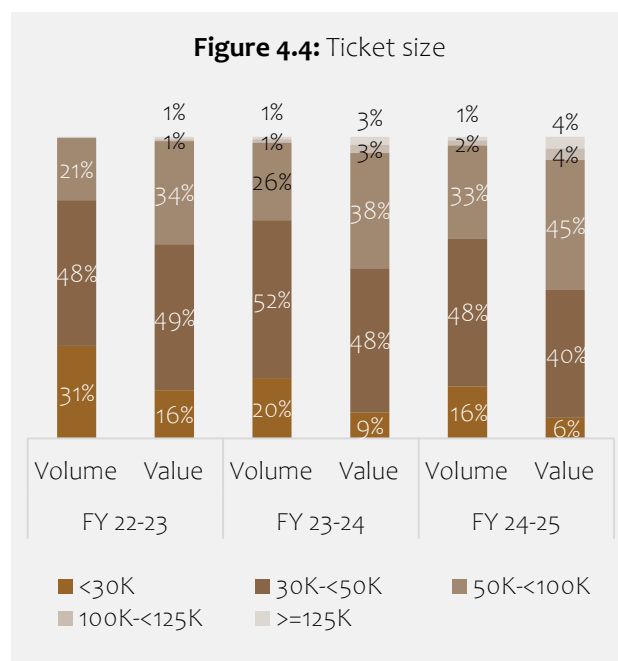
Table 4.4: Region wise average ticket size (Rs)

Region	FY 22-23	FY 23-24	Growth (%)
Central	43,808	49,283	12.5%
East & NE	46,562	51,541	10.7%
North	45,638	50,434	10.5%
South	49,289	54,692	11.0%
West	45,403	50,565	11.4%
India	46,746	51,825	10.9%

Source: Credit bureau data

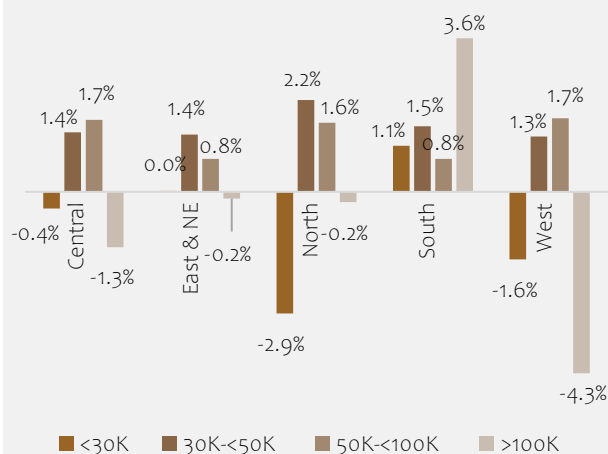
Share of different loan size buckets is shown in **Figure 4.4** below. The figure clearly shows that the trend of shifting of ticket size to higher bucket

continues. Share of <30K ticket size has fallen further from 9% of total loans disbursed to 6% during FY 2024-25. It is important to mention that in FY 2024-25, the absolute amount of disbursement in 50K-<100K bucket has crossed the disbursement in 30K-<50K bucket for the first time. Thus 50K-<100K bucket now holds the largest share of disbursement.



Source: Credit bureau data

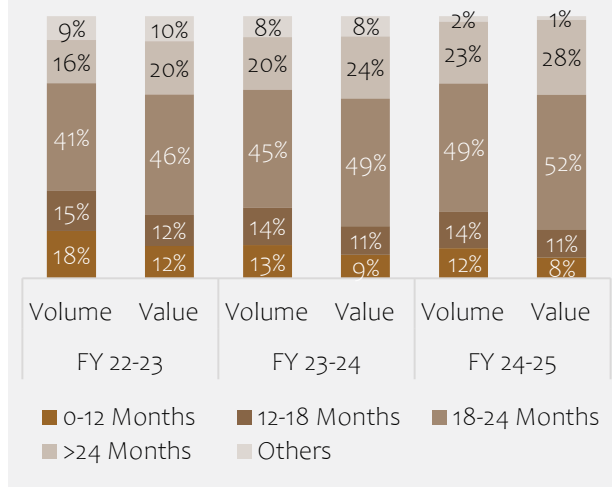
The change of average ticket size in different disbursement bucket was largely consistent across regions. As shown in **Figure 4.5**, the 30K-<50K and 50K-<100K buckets saw an increase in all regions. Other buckets saw a decline in average ticket size except the southern states which saw an increase in average ticket size across all buckets which could be due to selective disbursement to existing and trustworthy clients. However, as mentioned earlier, in E&NE region, the change was moderate as compared to other regions.

Figure 4.5: YoY growth in different ticket size buckets (%)

Source: Credit bureau data

4.2.2 Loan tenure - 28% of loans now have tenure >2 years

The trend of disbursement of new loans in higher tenure brackets has continued as shown in **Figure 4.6**. The share of new loans disbursed in <12 months tenure bucket decreased by another 1%. Share of 12-18 months remained constant as compared to disbursement in last FY. Share of 18-24 months and >24 months tenure loans increased by 3% and 4% respectively as compared to FY 2023-24. The loans with unspecified tenure have come down sharply from 8% in FY 2023-24 to 1% in FY 2024-25, which indicates improvements in quality of data reporting to the bureau. It is possible that most of such loans were falling in 18-24 months or >24 months bucket leading to an increase in share of these buckets in FY 2024-25.

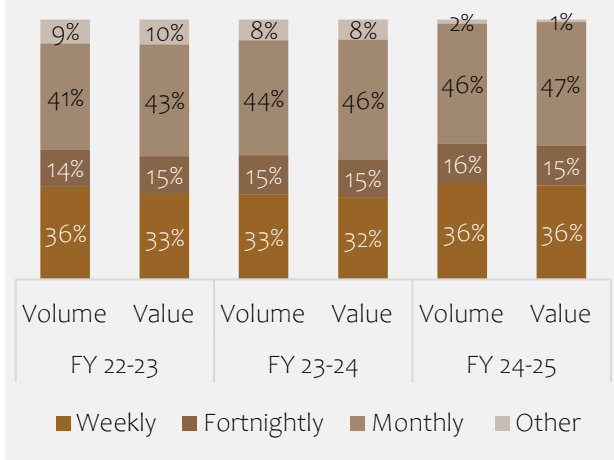
Figure 4.6: Loan tenure

Source: Credit bureau data

The trend of reduction in share of <12 months tenure bucket in fresh disbursement is consistent across all regions (around 6%). However, it is noteworthy that E&NE region, despite the fall of 5.6%, continues to have more than 12% of disbursement in current FY in <12 months bucket. All other regions have the share of such loans between 5% to 6.5%.

4.2.3 Repayment frequency - weekly and monthly grow, fortnightly stagnates

Figure 4.7 shows the trend of movement of share of loans disbursed in different repayment frequencies. As can be seen, the share of loans disbursed under weekly repayment has gone up from 32% in value terms in FY 2023-24 to 36% in FY 2024-25. As mentioned in the previous section, the share of 'others' bucket has come down significantly which could be a reason for increase in the share of weekly repayment frequency loans. Share of monthly repayment frequency loans went up by 1% showing increasing popularity of this bucket as seen in previous years also. In states like Bihar and West Bengal, weekly is the predominant repayment frequency and hence share of weekly product is highest (42%) in E&NE.

Figure 4.7: Repayment Frequency

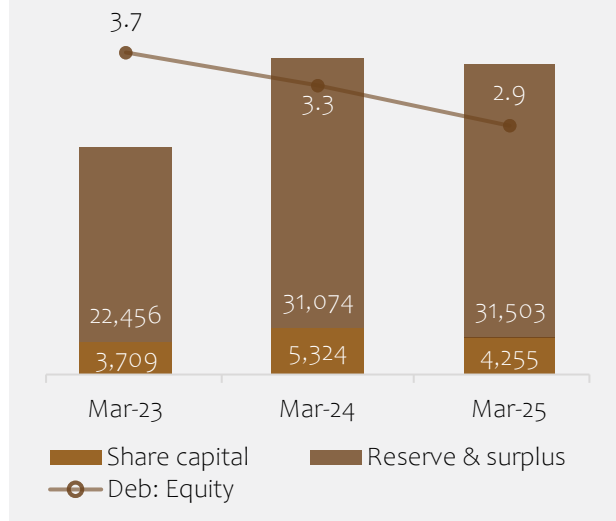
Source: Credit bureau data

4.3 Financial strength (NBFC-MFIs)

This was a difficult year for the NBFC-MFI in terms of liquidity. Institutions witnessed liquidity constraint and had to infuse equity to keep the operations running. Details provided by MFIN member institutions on a quarterly basis are analysed in this section.

4.3.1 Borrowings and Equity - As losses increase and debt declines, Equity comes to fore

Figure 4.8 shows progression of total equity, debt to equity ratio and break up of equity into share capital and reserve and surplus. Total equity decreased by 2% due to higher delinquencies and subsequent losses. The trend of decreasing D:E ratio post 31st Mar'23, is evident. While till last year the reduction was caused by higher capital infusion coupled with lesser increase in borrowings, this year the decline can be clearly attributed to the decline in funding received.

Figure 4.8: Equity position (Rs Cr) and leverage

Source: MFIN Micrometer

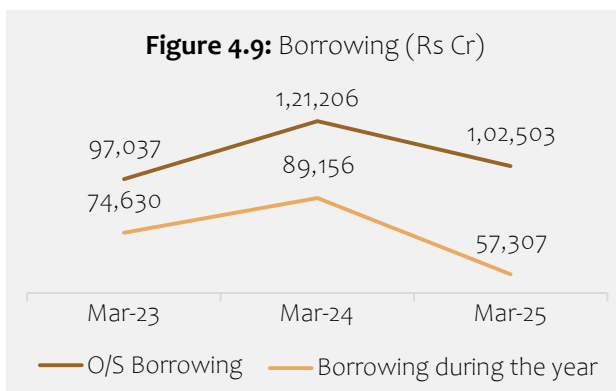
The drop seen in share capital is on account of the acquisition of Chaitanya by Svatantra in which shareholder equity of Svatantra has been reclassified in reserve and surplus. Same reason is attributable to reserve and surplus remaining almost constant despite operational losses in this FY. As a result of decreasing D:E ratio, the ratio of total equity to on balance sheet portfolio has gone up significantly from around 27% as of Mar'24 to 30% as of Mar'25. The impact of decreasing funding to the sector was most pronounced on small MFIs where the share of on balance sheet portfolio funded by equity went up from 39% to 53%, for medium sized NBFC-MFIs the share went up from 31% to 35% and for large institutions the share increased from 27% to 29%. This increase shows the continued confidence of the investors and promoters in the microfinance business model – some of the major equity deals during the year are highlighted in **Box 4.1**.

Box 4.1: Equity deals during FY 2024-25

- During FY 2024-25, 15 MFIN member MFIs reported addition of fresh equity to the tune of Rs 267.7 Cr. Almost 97.5% of this fresh equity came in the form of equity share and the remaining 2.5% being convertible preference share. In terms of share of contributors to the fresh equity promoters constituted the largest part with 58.4% followed by institutional investors (32.9%), holding company 4.4%, individual investors 2.6% and other investors contributing remaining 1.8% of new equity investments.
- Major institutions which invested in the microfinance sector in the last FY are - Ambit Operations & Management Services Private Limited, Svatantra Microfin Private Limited, M/s. Saggraha Management Services Private Limited, SAS infotech Private Limited, GTFS Multi Services Limited and SIDBI.

Source: Data reported by Members to MFIN as part of Micrometer

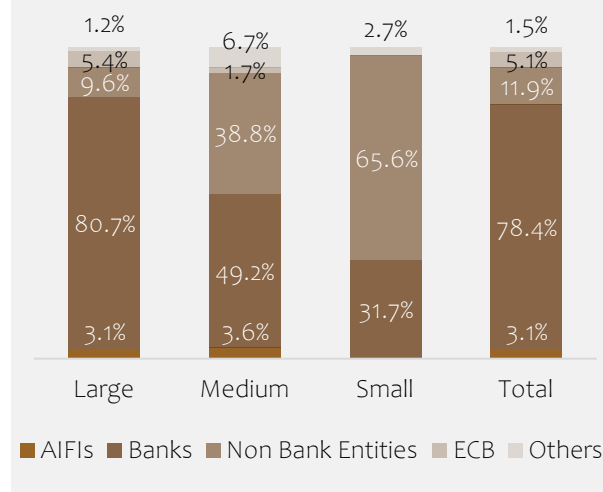
Outstanding borrowing decreased sharply on account of significantly lesser funding received during the year in FY 2024-25, as depicted in **Figure 4.9**. On a YoY basis the outstanding borrowing came down by 15% and borrowing received decreased by 36%. The pressure on availability of liquidity was almost equal for NBFC-MFIs of all sizes. This liquidity crunch is one of the reasons for significant impact on the portfolio quality which is discussed in Section 4.4 in detail.



Source: MFIN Micrometer

Share of debt funding received from different sources is depicted in **Figure 4.10**. It is evident that AIFIs have reduced their exposure to microfinance sector significantly. Of the liquidity received, banks continue to be the largest lenders contributing 78.4% share followed by non-bank entities which contributed 11.9% of the total lending to these entities. Remaining 9.7% was shared between ECB, AIFIs and other sources. None of the reporting small entities received any debt from AIFIs, which shows that AIFIs lending pattern is more commercial than banks. As mentioned in earlier editions of the report, non-bank entities continue to remain the major source of borrowing for small entities.

Figure 4.10: Break-up of borrowing received during 2024-25



Source: MFIN Micrometer

4.3.2 Financial ratios - losses lead to 21% increase in cost per borrower

Key financial ratios which indicate the health of microfinance operations in the country are analysed in **Table 4.5**. Analysis presented is based on data reported by 45 members. In terms of share, small entities contributed 1.9%, medium 7.4% and large entities 90.7% of the total portfolio. Based on financial ratios, it can be said that FY 2024-25 was a difficult year for microfinance sector. The year saw

significant increase in delinquencies leading to higher write-off, higher NPAs and consequently significant pressure on profitability.

Table 4.5: Key financial ratios

Parameter	FY 22-23	FY 23-24	FY 24-25
Profitability			
RoA	2.9%	3.9%	-2.7%
RoE	14.7%	17.7%	-11.5%
OSS	124.9%	137.2%	95.6%
Income			
Yield	21.2%	21.7%	22.0%
Other income	1.8%	2.3%	1.4%
Portfolio quality			
Gross NPA	2.7%	2.1%	4.5%
Net NPA	0.9%	0.5%	1.2%
Liquidity			
LCR	227.8%	304.2%	280.9%
Cost efficiency			
PER	4.5%	4.4%	5.2%
OER	6.5%	6.5%	7.5%
FCR	9.3%	10.3%	9.7%
Cost/Borr., Rs	1,992	2,147	2,590
Write-off ratio	3.2%	1.9%	8.1%

Source: MFIN Micrometer

Note: All parameters are depicted by weighted average ratios

Definitions

Cost per borrower:	Operating Expense/ Number of Active Borrowers
Financial Cost Ratio (FCR):	Total funding expenses/ Average On-balance sheet portfolio

Gross NPA (GNPA):	Gross Non-Performing Assets/ On Balance Sheet Portfolio
Liquidity Coverage Ratio (LCR):	Stock of high-quality liquid asset / Total net cash flows over the next 30 calendar days
Net NPA (NNPA):	(Gross NPA - Loan Loss Reserve) / (On Balance Sheet Portfolio – Loan Loss Reserve)
Operating Expense Ratio (OER):	Total Operating Expenses / Average On-balance sheet portfolio
Operational Self-Sufficiency (OSS):	Financial Revenue less grants / (Financial Expense + Impairment Losses on Loans + Operating Expense + Tax Expense)
Other income to total income ratio:	Total other income / Total income
Personnel Expense Ratio (PER):	Personnel expenses / Average Total GLP
Return on Assets (RoA):	Profit After Tax / Average Total Assets
Return on Equity (RoE):	Profit After Tax / Average Total Equity
Yield on portfolio (Yield):	Interest income on loan portfolio / Average On-balance sheet portfolio
Write-off ratio:	Write-off / Average Total GLP

Profitability ratios saw a sharp dip. RoA and RoE dropped from 3.9% and 17.7% to -2.7 and -11.5% respectively. Sharp increase in delinquencies as seen in higher Gross NPA and Net NPA, led to drop in interest income which impacted revenues. Increased expense on provisioning and write-off led to an overall increase in the expenses, resulting in reduced profitability. Write off ratio has increased more than four-fold to 8.1% during FY 2024-25 as compared to



1.9% in the previous FY. OSS is now below 100 which shows that the operational incomes are unable to compensate for the costs due to lower receipts post delinquency. Similar pressure was observed on efficiency indicators as well. Both PER and OER saw an increase from their previous year levels. Cost per borrower jumped by 21% to Rs 2,590 per borrower. These increments can be attributed to higher focus on recovery leading to greater operational expenses as well as increased rejection of loan applications caused by guardrails leading to requirement of more groundwork & costs for each loan disbursed. Despite all challenges, institutions have continued to hold liquidity coverage ratio well beyond the regulatory requirements, though it decreased from 304% as of Mar'24 to 280% as of Mar'25.

4.4 Portfolio quality (Universe)

During FY 2024-25 the industry saw a substantial drop in portfolio quality. The marked increase in PAR was caused by multiple factors as discussed below:

- a) **Decline in borrowing received during the year:** As described in Section 4.3.1, NBFC-MFIs received 36% less debt funds this year as compared to last financial year. This led to lower availability of funds for disbursement which in turn impacted the credit flow to the borrowers. For a borrower, a break in the funding line leads to livelihood continuity issues and therefore a higher propensity to default.
- b) **Heat wave:** The FY 2024-25 witnessed a prolonged period of intense heat wave in North India which impacted the livelihoods/incomes of the microfinance borrowers and therefore their ability to repay. This coincided with the two-month long general elections in the country, and though not a cause in itself, it temporarily squeezed the operations and amplified the stress factors.

- c) **Implementation of MFIN guardrails:** MFIN guardrails added more layers in the underwriting of new loans. This meant that the clients for loans were even lower. However, the net impact of tighter underwriting was seen with the improvement of portfolio quality for loans disbursed after the implementation of guardrails, discussed below as part of the MoB (month of business) analysis.
- d) **State government intervention:** State government of Karnataka came up with state specific law for small loans titled “The Karnataka Micro Loan and Small Loan (Prevention of Coercive Actions) Act, 2025”. The Karnataka Act mandated all entities to register with the government on an annual basis and submit quarterly/annual statement of compliance.

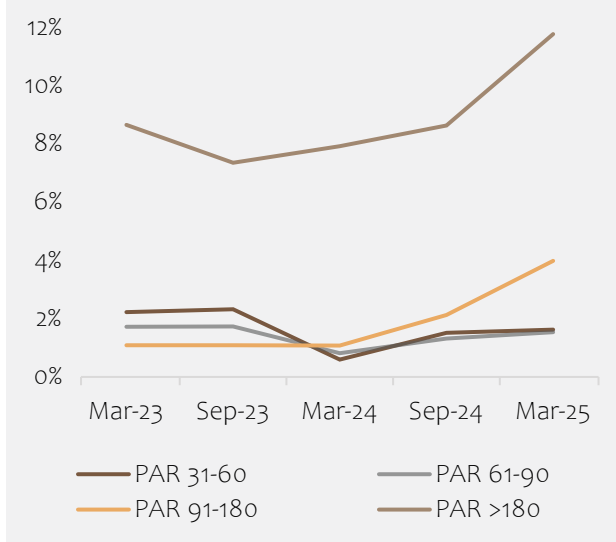
Though the Act is not applicable to REs registered with the RBI, the introduction of these Acts caused considerable issues on ground. Owing to the confusions regarding applicability from the introduction of ordinance till the Act was passed, portfolio quality of microfinance portfolio in both these states got impacted. Below (Table 4.6) is an analysis of portfolio performance in Karnataka over the period:

Table 4.6: PAR 31-180 trend - Karnataka

Apr-24	Jun-24	Sep-24	Dec-24	Mar-25
0.8%	1.1%	2.1%	4.5%	10.2%

During FY 2024-25, the portfolio quality kept deteriorating in Karnataka. Karnataka holds **12.5%** of the total microfinance portfolio of India and hence an increase in delinquency there impacts the overall portfolio health of the country as well.

- e) **Overhang of KMA:** Northern states, particularly Punjab and parts of Haryana and Uttar Pradesh are still dealing with disruptions caused by KMA. This has led to higher delinquencies in these states.

Figure 4.11: PAR trend (microfinance universe)

Source: Credit bureau data

Figure 4.11 shows the trend of portfolio quality, measured for different buckets. After Mar'24 there is a clear sign of increase in delinquencies in all the buckets. The rise was steeper in PAR 91-180 days and PAR >180 days buckets, as there were hardly any rollbacks in lower bucket for the loans that became delinquent. However, the new loans have been performing better as indicated from the plateauing of the PAR 31-60 days and PAR 61-90 days buckets after Sep'24. It would have appeared even better, if the industry portfolio had increased

– the denominator effect came into play (portfolio decreased and delinquencies increased) amplifying the PAR ratios.

An analysis of PAR >30 is presented in **Table 4.7** below. The analysis shows that on a rolling Month of Business basis, portfolio created in the first two quarters of FY 2024-25 was most impacted. Portfolio originated in the later quarters has performed better than previous few quarters. Portfolio generated after the Q4 FY 2024-25 till the report compilation also reports improvement, which is a heartening sign.

PAR >30 for top 10 states is provided in **Table 4.8** below. On a regional analysis of portfolio quality, E&NE has seen the least increase in delinquencies. West Bengal and Assam have actually seen an improvement in PAR level. For Assam this can be explained by lower portfolio and write-off of all past NPAs. Operations in West Bengal have improved. West and central have performed on a similar line. However, South and North have seen higher fall in portfolio quality. This can be explained by the issues highlighted. As reported in the previous report, states like Punjab, Haryana and Rajasthan are still coming to terms with disruptions caused by KMA. Hence, the delinquencies for these states are still higher than the other states.

Table 4.7: PAR>30 after MOB buckets

Sourcing QTR	3-MOB	6-MOB	9-MOB	12-MOB	15-MOB	18-MOB	21-MOB
Q4 24-25	0.9%						
Q3 24-25	1.6%	4.0%					
Q2 24-25	0.9%	4.6%	7.4%				
Q1 24-25	0.5%	3.2%	7.5%	10.1%			
Q4 23-24	0.4%	1.7%	4.9%	9.5%	12.1%		
Q3 23-24	0.3%	1.6%	3.2%	6.4%	11.0%	13.9%	
Q2 23-24	0.2%	1.3%	3.2%	4.8%	7.7%	12.4%	17.0%

Note: 3-MOB means, 3 months after origination of portfolio and so on. Source: Credit bureau data

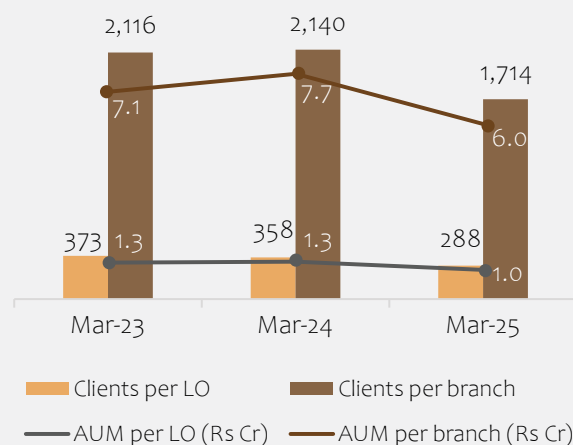
Table 4.8: PAR>30 days of Top 10 states

States	31-Mar-23	31-Mar-24	31-Mar-25
Bihar	4.8%	4.6%	15.2%
Tamil Nadu	7.8%	8.7%	16.4%
Uttar Pradesh	5.5%	5.9%	16.6%
West Bengal	20.6%	15.2%	12.8%
Karnataka	7.3%	5.1%	16.8%
Maharashtra	13.4%	12.1%	16.6%
Madhya Pradesh	13.0%	13.3%	20.3%
Odisha	11.0%	11.7%	25.4%
Rajasthan	10.4%	12.1%	21.2%
Kerala	10.0%	15.5%	23.7%

Source: Credit bureau data

4.5 Operational efficiency (NBFC-MFIs)

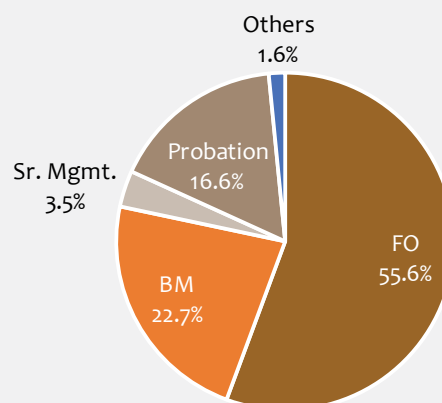
It has been explained in previous sections that the microfinance operations were impacted adversely in FY 2024-25, effect of which can be seen on operational efficiency parameters. **Figure 4.12** shows the trends of these parameters over last three years. All operational efficiency parameters have decreased by 20% to 22% on a YoY basis. This is commensurate with the other findings discussed in **Section 4.1** where reduction in portfolio, no. of accounts and unique borrowers were reported as well as **Section 4.3.2** on financial ratio, where almost 18% increase was seen in PER signalling stress in the operations.

Figure 4.12: Staff productivity ratios

Source: MFIN Micrometer

4.6 Human resource trends (NBFC-MFIs)

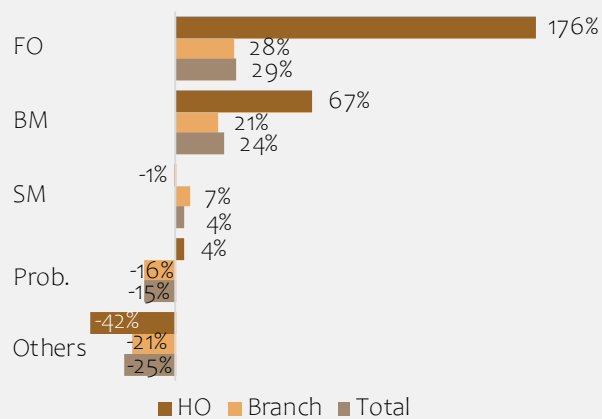
Figure 4.13 shows the composition of work force of MFIN member NBFC-MFIs as on 31st Mar'25. A total of 2,30,547 employees were employed in these institutions. The number has gone up by 15.8% on YoY basis which is almost equal to the last year growth. The field staff comprising of field officer, branch manager and probationers constitute 95% of the total employee.

Figure 4.13: Staff distribution (Mar'25)

Source: MFIN Micrometer

Analysis of growth in employees is presented in **Figure 4.14**. The trends have remained consistent. The field officer category at the head office has shown a growth of 176% but on a small base. Field officers in branch location have grown by 28% which is a significant increase. Similar increment is seen in the branch manager category as well. One significant difference between trends of last few years and the FY 2024-25 is a decrease in the number of probationers.

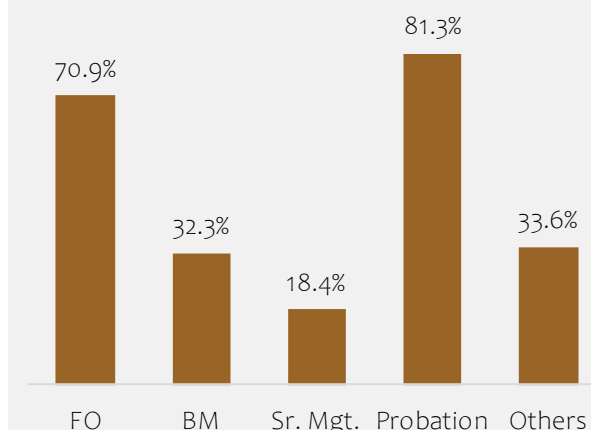
Figure 4.14: Staff growth by position (FY 2024-25)



Source: MFIN Micrometer

Attrition level of the microfinance institutions reporting data to MFIN has remained almost constant at 61.7% during FY 2024-25 as compared to 60.9% in the previous FY (**Figure 4.15**). The highest attrition level was observed at probationer level followed by field officer. The pattern is again similar to the previous years and highlights significant issues faced by microfinance entities about retention of ground staff. All other categories of staff showed similar patterns of attrition like the last year.

Figure 4.15: Attrition rate by position



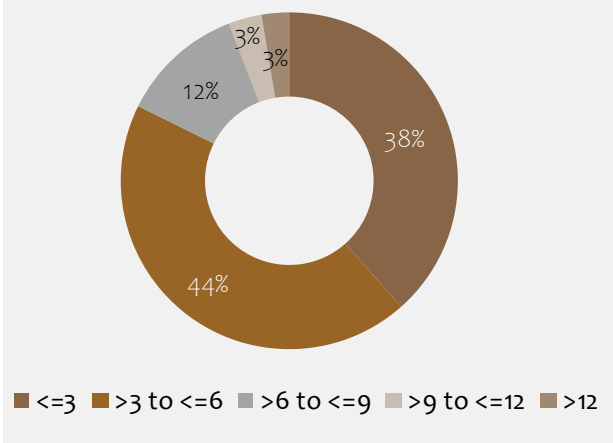
Source: MFIN Micrometer

4.7 Risks

This section analyses two major concentration risk factors which the industry faces – risk due to multiple lenders servicing the same client base and depth of outreach.

4.7.1 Density of financial institutions

Density of financial institutions depicts average no of potential HH (in '000) served by one financial institution. Lower penetration of FIs essentially means that more institutions can look to enter the given district. The **Figure 4.16** shows that, at national level, the breakup of districts in different buckets has remained at almost the same levels on a YoY comparison. This is a break in the otherwise trend of increasing overcrowding which was being observed every passing year and clearly shows that most FIs have taken a cautious approach to their geographical expansion plans till the operating environment improves.

Figure 4.16: Density of FIs (As on 31st Mar'25)

Source: MFIN analysis, Credit bureau data

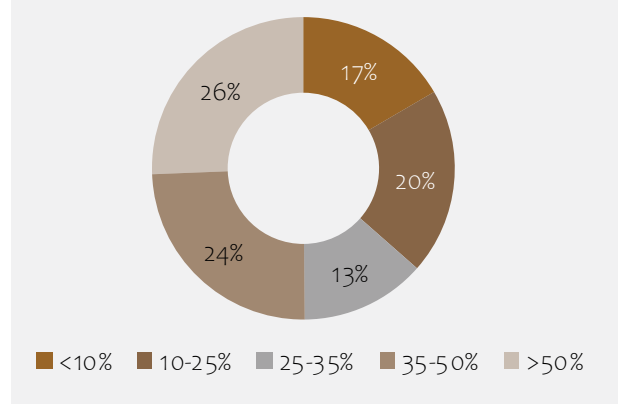
At the country level, 82% districts are still in less than 6,000 HH per FI now as compared to 81% as on 31st Mar'24. Deeper analysis shows that across top 10 states, except Madhya Pradesh, Rajasthan, Odisha and West Bengal, the slight redistribution of district toward the lower buckets has happened. It is important to note that no major exits have been noticed, signalling panic, but it is clear that the institutions have been very selective in choosing which geographies to operate in based on their respective experience in those geographies and risk perception.

4.7.2 Depth of outreach

Depth of outreach (ratio of unique borrowers to potential HHs) has decreased slightly from 38.8% as on 31st Mar'24 to 38% as on 31st Mar'25. In terms of distribution of districts across buckets of depth of outreach (**Figure 4.17**), the levels have remained largely consistent across the last financial year. Exactly 50% districts now fall in >35% depth of outreach categories. The share of such districts last years was 51%. It is evident that the levels have fallen by a tiny fraction across all districts so as not to

change the distribution but impact the overall levels slightly. Over the past years, a constant increasing trend in depth of outreach was seen which isn't the case in present FY. This can be attributed to lower disbursements and implementation of MFIN guardrails. It is noteworthy that the industry has managed to retain most of the clients (decline of 1.2%, which is the deciding factor in depth of outreach) hence despite significant fall in portfolio and number of accounts, depth of outreach hasn't fallen by much.

Just like the two risk parameters discussed, there is no substantial change in geographical concentration of operations as on 31st Mar'25 as compared to end of last FY. Microfinance operations continue to be concentrated in Top 300 districts, the levels of depth of outreach in such district was 55.5% at the end of last FY which has come down marginally to 54.1% in this financial year (**Table 4.9**). As mentioned in the previous publication, unequal distribution of operations continues to be a challenge. Efforts should be made to improve access to finance in districts other than the Top 300 as well as Aspirational districts.

Figure 4.17: Depth of outreach

Source: MFIN analysis, Credit bureau data

Table 4.9: District level concentration of microfinance operations (As on 31st Mar'25)

No. of districts	GLP (Rs Cr)	GLP (% of Univ.)	No. of AC (Cr)	Accounts (% of Univ.)	Depth of outreach
Top 100	1,77,282	47.3%	6.1	45.9%	54.1%
Top 200	2,62,849	70.1%	9.2	69.1%	50.9%
Top 300	3,14,560	83.9%	11.0	83.3%	46.3%
Remaining 418	60,469	16.1%	2.2	16.7%	21.8%
Aspirational 112	55,500	14.8%	2.0	15.2%	44.9%
Top 10 states	3,13,954	83.7%	11.0	83.3%	48.6%
Universe	3,75,030		13.3		38.0%

Source: Credit bureau data

In conclusion,

FY 2024-25 was a difficult year for the microfinance industry. The industry saw challenges of tightening of liquidity by the lenders causing lower disbursements. This in turn impacted the liquidity cycle of the clients and resulted in negative impact on the portfolio quality. For improving outreach and ensuring financial inclusion, it is imperative that the liquidity must improve. Experience from fresh disbursement clearly shows that implementation of guardrails has led to significant improvement in underwriting. Portfolio quality of freshly created portfolio points to the fact that with liquidity improving, the sector will rebound.

The government and regulator will play an important role in ensuring that microfinance sector thrives, so that enterprising households and microentrepreneurs receive much needed support. The regulator has made a significant change in regulation for NBFC-MFIs by reducing the qualifying asset criteria, thereby supporting sustainable growth of NBFC-MFIs. There is a proposal to restart the credit guarantee scheme under discussion with Ministry of Finance which will be a major boost in ensuring liquidity flow to the sector. The growing importance of microfinance in policy circles has been seen as microfinance has been mentioned in various recent [speeches](#)⁸⁴ which highlights the important role played in furthering the inclusive growth agenda of the nation. All these steps and signs augur well for the microfinance sector.

⁸⁴ PMO, PIB 4th Mar'25. "PM address on MSME"



MFIN as SRO & other key works during the year



As an SRO, MFIN undertakes a wide range of activities to promote responsible lending, regulatory compliance and customer protection in the microfinance sector. Its core functions include

- Governance and Standard setting through Directives, Industry Code of Conduct (CoC) etc.,
- Surveillance and Monitoring (via evaluations, the SRO Enforcement Framework, adherence reports etc.),
- Capacity building (through programs such as ASCEND and LeadEdge), and
- Operating the CGRM.

SRO's work continuously focusses on policies and initiatives to strengthen practices in the interest of borrowers. In view of rising concerns around over-leveraging and borrower indebtedness, MFIN took a major step during the year by introducing the Guardrails, aimed at reinforcing responsible lending norms and ensuring the long-term sustainability of the sector.



5.1 Governance & standard setting

5.1.1 Guardrails

During various interactions with member REs and discussions at engagements such as Manthan 2024 (MFIN's CEO conclave) in Apr'24, it was clear that there were significant divergences in how REs were operating particularly in areas like processing fees, assessment of indebtedness and treatment of third-party products. Main issue being talked about was overleveraging and consequent credit defaults. To address these gaps and bring uniformity across the sector, it was felt that the SRO should analyse the data, identify issues and recommend a set of guidelines in consultation with members that are self-imposed by the lenders. These were essential to help mitigate risks, promote responsible lending, and thereby ensure the long-term sustainability of the microfinance sector.

To this end, MFIN SRO undertook a structured and consultative process. It began with identification of key risk areas and emerging concerns in the sector highlighted as below (Data as on 31st Aug'24):

- 14.6% (1.27 Cr) of Microfinance borrowers had retail overlap, having 21.5% (Rs 91,023 Cr) of Portfolio Outstanding (POS)
- Retail POS with Microfinance borrowers was at Rs 1,55,124 Cr. On adding MF loans, total POS with the MF borrowers increased to Rs 5,77,893 Cr.
- Similarly, while PAR 1-180 for only microfinance loan clients was at 6.9%, it was at 11.4% for microfinance loan clients with retail overlap.
- Av. loan O/s of MF industry was Rs 48,875; On adding retail it became Rs 66,808 – inflated by 37%.

- A correlation of POS with PAR was also observed and it was evident that PAR increases with increase in loan sizes and number of lenders.
- The inflection point of average indebtedness was around 1.2 Lk while for number of lenders, it was between 2 to 3 lenders after which the delinquency rate exceeded the overall average.

This showcased that while the problem was not very alarming, but still to ensure that it does not escalate further, it was decided to take some steps around it. Hence, this was followed by focused discussions with member institutions to gather diverse perspectives and practical insights. A poll was also conducted to obtain collective feedback from members on priority issues that required immediate attention. Based on these inputs, MFIN SRO developed the Guardrails—a set of principles and operational guidelines designed to be straightforward, easy to implement, and practical to monitor. These guardrails were crafted not only to strengthen individual lender practices but also to promote sector-wide stability and resilience.

The draft set of Guardrails was formally presented to members during MFIN's Annual General Meeting (AGM) on 28th Jun'24. The discussions underscored the importance of industry-wide adoption, and after careful deliberation, members unanimously endorsed the proposed framework in its entirety. With this consensus, the Guardrails were officially released and adopted by the industry.

It is important to note that these Guardrails were not issued as a substitute for regulatory requirements. Rather, they serve as a complementary layer, reinforcing the RBI's regulatory framework and the CoC. By establishing higher standards of prudence and accountability, the Guardrails aim to position the sector as a self-disciplined and forward-looking industry, committed to responsible growth and customer protection.



Guardrails 1.0

These guardrails came into effect from 15th Jul'24 and were made binding to all member REs. Key provisions included:

- A cap on the number of microfinance lenders per borrower, limited to a maximum of four.
- A cap of Rs 2 Lk on total microfinance loan exposure per client.
- A reiteration of the prohibition on lending to borrowers with existing non-performing assets (NPAs) above Rs 3,000, as specified in the Code of Conduct (CoC).
- A requirement for institutions to adopt a board-approved, risk-based interest rate policy.
- A cap on processing fees at 1.5% of the loan amount (excluding GST).
- Mandatory inclusion of all existing liabilities - including bullet loans and proposed EMIs - in assessing a borrower's loan repayment capacity.

Guardrails 2.0

In Nov'24, MFIN undertook a comprehensive Mid-Year Review of key policy and operational issues impacting the microfinance sector. The review combined microfinance data analysis, field-level feedback from members, and an assessment of the evolving sectoral landscape, including emerging regulatory concerns. As part of this exercise, members were also presented with evidence-based insights on the implementation progress of Guardrails 1.0.

The review highlighted that while members were actively adopting and implementing the Guardrails 1.0, the prevailing situation underscored the need for further action. Strengthening operational discipline,

preventing over-lending, and ensuring continued improvements in credit quality emerged as priority areas requiring industry-wide focus.

Recognizing these imperatives, MFIN released Guardrails 2.0 on 25th Nov'24. The revised framework was designed to build upon the foundation of the earlier version and introduce sharper, more robust measures to reinforce responsible lending practices. Importantly, Guardrails 2.0 superseded several key provisions of the Jul'24 norms, signalling a shift towards a stronger, more accountable, and forward-looking approach to risk management in the microfinance sector.

These measures aimed to promote credit discipline, enhance borrower protection, and ensure the long-term sustainability of the microfinance ecosystem.

To enhance accountability and ensure consistent compliance with the prescribed standards, MFIN has received formal declarations from its member institutions affirming their adherence to the Guardrails. This initiative reaffirms members' commitment to responsible practices while providing assurance that the Guardrails are being uniformly implemented across the sector.

It is important to note that as of Feb'25, around 13.8% (1.14 Cr) of microfinance borrowers had an overlapping exposure with retail loans, accounting for 18.3% (Rs 69,942 Cr) of the overall portfolio. Such retail exposure significantly increases borrowers' monthly repayment obligations, thereby constraining their eligibility for further microfinance credit.

Under the Guardrails 2.0 framework (**Table 5.1**), microfinance institutions are expressly prohibited from extending loans to customers whose total unsecured indebtedness exceeds Rs 2 Lk – a safeguard intended to prevent over-leveraging and protect vulnerable borrowers. However, retail and digital lending companies are not bound by such



Table 5.1: Key updates under Guardrail 2.0

	Guardrails	Summary
1	Lender Cap	The maximum number of MF lenders to be capped at 3 (instead of 4 earlier). Date of implementation: 1 st Apr'25
2	Indebtedness Cap	To include MF loans and unsecured retail loans. Cap to remain at the earlier level of Rs 2 Lk. Date of implementation: 1 st Jan'25
3	No lending to a delinquent client	Any MF lender not to disburse a loan to a borrower who has a DPD>60 days and an O/S of > Rs 3,000. Date of implementation: 1 st Jan'25
4	Interest rate and Annual Percentage Rate (APR)	a) Board approved risk-based pricing policy b) Cap of 1.5% on processing fees (PF) c) No other charges except PF & credit linked life insurance during loan disbursement d) No Bundling of Third-Party Product (TPP)
5	Loan Repayment Obligation	Calculation of Loan repayment obligation to include bullet loan and missing EMI tradeline.
6	KYC	a) Mandatory e-validation of Voter ID. Date of implementation: 1 st Jan'25 b) PAN seeding for clients to be taken up in a Mission mode.
7	Reporting to Credit Bureaus	Daily submission of data to the CICs to be done by all REs (earlier it was applicable only for NBFC-MFIs). Date of implementation: 1 st Jan'25

restrictions, allowing them to lend freely to the same borrower segment without adhering to these prudential norms. This regulatory asymmetry has led to instances where low-income borrowers, unable to access additional microfinance credit due to exposure caps, turns to retail and digital lenders who often charge higher interest rates and multiple ancillary fees. Consequently, while regulated microfinance entities operate within clearly defined risk parameters, the absence of similar guardrails for retail lenders exposes borrowers to potential over-indebtedness and financial exploitation.

5.1.2 Monitoring compliance

Annexure C of the existing 4th edition of the Industry Code of Conduct released in Oct'22 details the suggested format for generation of Quarterly

Adherence Reports (QARs) from the bureau for all the members REs. The objective was to provide a snapshot of compliance with essential regulatory requirements - timely submission of data to the credit bureaus, loans disbursed beyond the microfinance threshold of Rs 3 Lk and loans disbursed exceeding the loan repayment obligation of 50%. This is done as part of the MFIN's mandate of governance and enforcement. Discrepancies between accounts reported to bureaus and those reported to MFIN are also highlighted in the report.

5.1.3 Reports on adherence

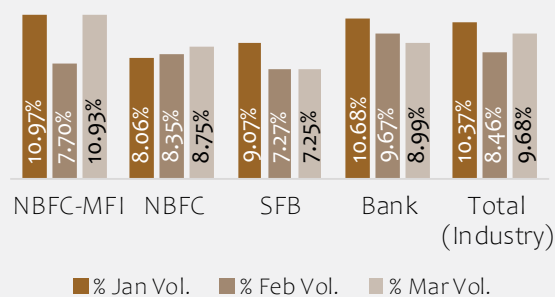
Post the data extraction for Q2, FY 2024-25, various issues were highlighted in the assumptions and logics used for extraction of the QAR. Hence,



Following were the findings from the GAR extracted for Q4 FY 24-25:

Industry Average for breach of Guardrails was 9.68% (Figure 5.3)

Figure 5.3: No. of A/Cs breaching the Guardrails

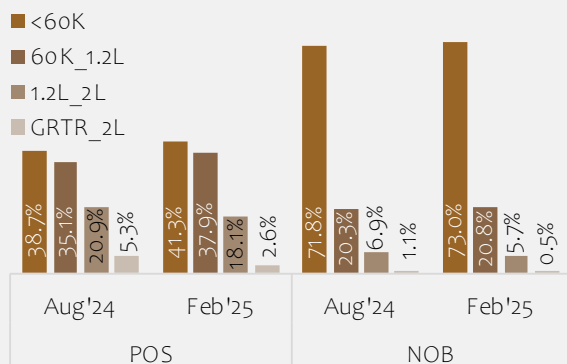


Source: CRIF Highmark

Individual dashboards containing comprehensive information from the loans disbursed in the quarter was shared with the members. Additionally, members were advised to obtain sample number of Credit Information Reports of individual customers from the CICs to identify and rectify gaps, if any, in their internal processes.

The impact (Figure 5.4) of Guardrails can be inferred from the fact that exposure in lower loan size buckets considerably increased from Aug'24 to Feb'25.

Figure 5.4: POS/NOB distribution by loan size buckets



Source: CRIF Customized data for MFIN

Box 5.1: Major reasons for GAR breach

The responses on breach in adherence to Guardrails indicated that, in many cases, at the time of disbursement, the CIRs extracted by the REs did not reflect any breach of regulatory repayment obligations or Guardrails norms. It is also pertinent to note that not every instance of deviation stemmed from deliberate non-compliance; some were inadvertent, or process driven. In certain cases, borrowers availed loans from other REs during the validity period of the CIR, leading to subsequent overlaps. In a few instances, as the bureau data had not yet been updated, REs relied on paid receipts submitted by borrowers to validate repayment obligations. Also, the KYCs used for extracting CIRs add to the inconsistencies in the CIRs generated during the time of disbursement. Issues related to KYCs are detailed in Chapter 3 of this edition. Variances across different bureaus also sometimes results in incomplete or inaccurate borrower credit histories. Overall, it can be inferred that not all observed violations were intentional, and REs undertook reasonable measures to ensure compliance with regulatory standards.

5.2 Directives and SRO enforcement framework

MFIN Directives

To facilitate the effective implementation of RBI regulations on the 'Limit on Loan Repayment Obligations of a Household', particularly in estimating monthly loan repayment obligations for tradelines with missing EMI data or bullet loans and with observed instances observed of non-compliances during recovery activities, the following two Directives were issued:

- **Directive on the treatment of bullet repayment loans and missing EMI tradelines:**

Released on 7th Oct'24, this Directive mandates that all member organizations establish a Board-approved policy defining the methodology for calculating monthly loan repayment obligations for tradelines with missing or unavailable monthly/periodic instalment values in the CCIR. Compliance with this Directive will support adherence to the RBI guidelines and enhance the underwriting quality of microfinance loans.

It was suggested that the repayment obligations estimated based on the Directive are the minimum repayment obligations which the lender must take into account. All the common types of loans which generally overlap with microfinance loans were taken into account – like Gold loans, KCC, Personal loan, Auto Loan, Two-wheeler loan, Mudra Loans, Business loans etc.

- **Directive on recovery related practices:**

Issued on 27th Jan'25, this Directive requires member Regulated Entities (REs) to strictly follow all relevant regulatory guidelines, ensure comprehensive staff training to promote appropriate customer conduct, and adhere to responsible lending norms based on verified household income and repayment capacity.

Adherence to this Directive by lenders ensure conformance to the RBI guidelines and Industry CoC and improves field related practices and conduct towards the microfinance borrowers.

SRO Enforcement Framework

As part of its surveillance and monitoring responsibilities, MFIN actively tracks the adherence of all its member REs to microfinance regulations and standards. This is to ensure that all member REs comply with RBI's microfinance regulations, the Industry Code of Conduct (CoC), and MFIN Directives.

Given the harmonized RBI directions issued in 2022 and MFIN guardrails, it was felt pertinent to update and refine the existing MFIN-SRO Enforcement Framework. The revision aimed to establish a structured, consistent, and transparent approach to compliance oversight, reinforcing responsible lending practices and safeguarding customer interests.

The new SRO Enforcement Framework was released on 7th Mar'25, and members were informed that going forward, any deviations from industry regulations and standards will be addressed as per the updated MFIN-SRO Enforcement Framework as in **Table 5.3**.

Table 5.3: SRO enforcement framework

	Action steps	Time to Respond
Step 1	After the breach is established, Head (SRO) will issue a letter to the CEO/ MD of the NBFC-MFI or Microfinance Head of other REs. The Lender is expected to respond with the steps taken for corrective action.	10 working days
Step 2	If not closed within the timeline - Head (SRO) will escalate the matter to SROC. Chair (SROC) will take it up with the CEO/MD of the NBFC-MFI or Microfinance Head of other member REs.	10 working days



	Action steps	Time to Respond
Step 3	NBFC-MFIs: If not closed within timeline - escalation to the MFI Board Chairman by Chair (SROC). Other Member REs: If not closed within timeline - escalation to the REs Chief Compliance Officer by Chair (SROC).	10 working days
Step 4	If there is no response, the matter will be reported to the RBI.	

5.3 Third Party Evaluations

As part of ‘Surveillance and Monitoring’ activity of the SRO, it is pertinent to assess the policies and practices related to responsible lending and customer protection adopted by the member REs. This is carried out through Third-Party Evaluations (TPEs) conducted by the independent agencies empanelled by MFIN. These evaluations serve to assess the policies and operational frameworks of member institutions, ensuring their alignment with the Reserve Bank of India’s regulatory guidelines, the Industry CoC, MFIN Directives (including Guardrails) and other relevant sectoral norms.

TPEs are also designed to identify institutional strengths, and areas requiring improvement. Evaluation methodology, scoring model, sampling approach and report format designed by the SRO includes visits to head offices, branches and customers of the REs getting evaluated. In the last financial year, six TPEs were conducted and the evaluation scores ranged from 62% to 86%.

Few REs raised concerns about the criteria used for selecting members for the evaluation exercise. Although MFIN had followed an internal mechanism based on the size of the RE and other compliance parameters, there was no clear articulation of the selection process. The matter was therefore taken up for discussion, and a selection framework was subsequently adopted. This led to a temporary pause in evaluations.

It was further decided that the TPE framework should be refined to focus on specific aspects, while excluding areas already covered under other surveillance mechanisms of the SRO. This was to expedite the TPE process so that a greater number of evaluations could be covered in a FY.

Accordingly, the TPE framework and methodology were updated in accordance with the RBI’s Microfinance Regulations (2022, updated Oct’24), the Industry CoC, Guardrails 2.0, and MFIN directives. Key focus areas include Household Income Assessment, Repayment Obligation Calculation, Pricing, KYC, KFS, CGRM, and conduct towards microfinance borrowers. The process involves document and system reviews, management interactions, and visits to branches selected based on defined parameters - all conducted within a structured timeline.

5.4 Building trust through effective grievance redressal

The CGRM constitutes a critical pillar of the broader customer protection framework, ensuring that clients have access to a fair, transparent, and structured process for addressing their complaints within defined timelines. While the internal grievance redressal systems of individual lenders generally serve as the first point of contact for customers, the availability of an independent and neutral platform is indispensable, particularly when issues remain unresolved at the institutional level.



The RBI has consistently underscored the importance of CGRM as a fundamental requirement for safeguarding customer interests and enhancing satisfaction, mandating SROs to establish robust grievance and dispute resolution mechanisms for clients of their member institutions.

In alignment with this mandate, MFIN has institutionalized a comprehensive CGRM framework. To strengthen accessibility, all member NBFC-MFIs are required to prominently display the MFIN toll-free helpline on loan cards and at branch premises. The system is underpinned by a customized CRM software, facilitating seamless tracking, monitoring, and resolution of complaints within prescribed timelines.

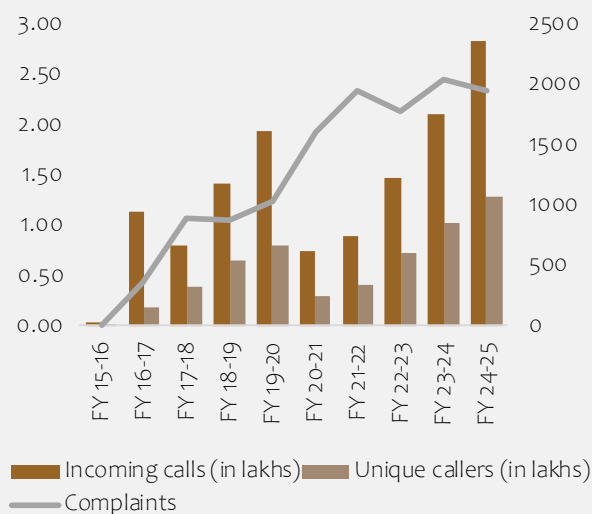
Over time, MFIN's CGRM has evolved into one of the largest and most trusted grievance redressal platforms operated by an industry association. By embedding the principles of transparency, accountability, and customer-centricity, it plays a pivotal role in building trust and reinforcing confidence in the microfinance ecosystem, particularly among low-income and vulnerable households.



The registration process under MFIN's CGRM has been designed to be easy, straightforward, and customer-friendly, avoiding unnecessary complications or excessive data collection. Importantly, there are no restrictions on the time frame within which a complaint can be lodged, thereby allowing customers to raise grievances even if the issue occurred in the past.

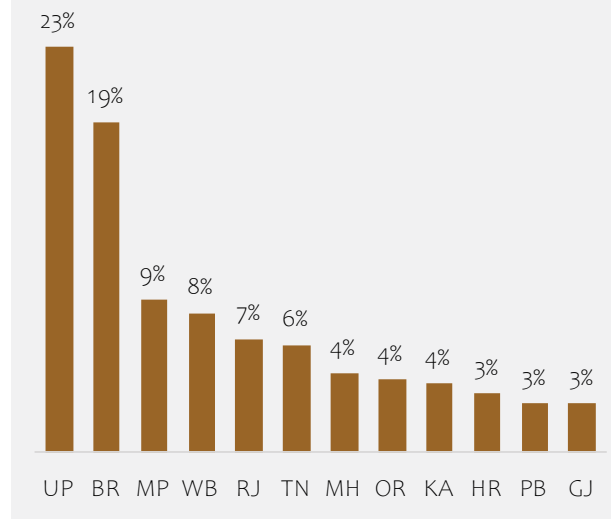
Over the past decade, the mechanism has been extensively utilized by customers, and details of the calls received, number of unique callers, and complaints registered are presented in **Figure 5.5**.

Figure 5.5: MFIN YoY Call Details



The distribution of state wise calls is presented in **Figure 5.6**. This trend highlights both the accessibility of the mechanism and the confidence it has generated among customers.

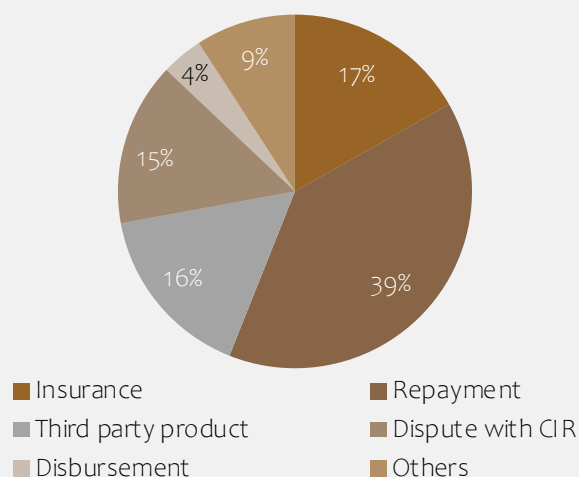
Figure 5.6: State wise calls (FY 2024-25)



To ensure effective and efficient handling of calls, the system begins with an initial assessment, classifying each call as either a query or a complaint. Within complaints, categorization plays a critical role since the nature of grievances can vary significantly. The major complaint categories include issues related

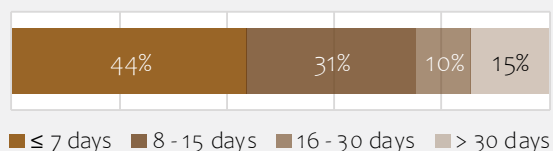
to repayment, insurance, disputes with the CIR, and third-party products. The types of complaints received in the last FY is illustrated in **Figure 5.7**. Each complaint is then assigned to the relevant Regulated Entity, with turnaround times (TATs) determined based on the severity of the complaint. Additionally, provisions exist to expedite urgent cases to ensure faster resolution.

Figure 5.7: Complaint Categories (FY 2024-25)



Once assigned, complaints are subject to continuous monitoring to verify adherence to the prescribed TATs. Any delay or lack of progress results in escalation of the case to higher levels, thereby ensuring accountability and timely redressal. The status of complaint closure TAT is depicted in **Figure 5.8**. Once a complaint is reported as resolved by an RE, MFIN conducts a verification call with the customer to obtain feedback and assess their level of satisfaction with the resolution provided. If the customer expresses dissatisfaction, the issue may be revisited for further review and corrective action.

Figure 5.8: Turn Around Time of complaint resolution in FY 2024-25



In cases where the customer remains unsatisfied despite all necessary actions having been undertaken by the RE, the mechanism provides for escalation of the complaint to the RBI Ombudsman. This ensures that customers continue to have access to an independent avenue for grievance redressal, thereby strengthening fairness, accountability, and confidence in the system.

This structured process not only guarantees prompt resolution but also strengthens customer protection and trust in the formal financial system.

Currently, MFIN CGRM has 8 Customer Care Executives equipped to handling calls in 12 languages: English, Hindi, Odia, Bengali, Marathi, Punjabi, Assamese, Gujarati, Malayalam, Kannada, Telugu, and Tamil. With a steady growth over the years, 2.84 Lk calls were received in the last financial year and 75% complaints received in MFIN CGRM were resolved within 15 days.

Quarterly CGRM Report

SRO prepares a comprehensive quarterly CGRM, consolidating data received from both MFIN and its member NBFC-MFIs. The report covers key aspects such as the total number of calls received, classification of complaints by category, state-wise analysis, benchmarking against the customer base, and performance indicators including TATs. This consolidated report is shared with member institutions and the RBI every quarter, thereby ensuring continuous monitoring, transparency, and periodic evaluation of the grievance redressal framework across the sector.

Leveraging CGRM

The CGRM serves not only as a structured platform for addressing and resolving individual customer complaints but also as a valuable resource for the microfinance sector. By systematically capturing

and analysing grievance data, CGRM provides meaningful insights into emerging issues, operational challenges, and customer concerns at the field level. These insights help identify patterns and systemic lapses, thereby enabling institutions to strengthen their products, processes, and service delivery frameworks, while also ensuring that customer protection remains central to sectoral growth.

Over time, CGRM has been leveraged to:

- 1) Use data of customer complaints to understand systemic lapses and issues around products, processes and geographies and take steps to address them. The data collected through customer complaints acts as an important diagnostic tool for the sector. By analysing the volume, frequency, and nature of grievances, institutions can identify systemic lapses and recurring weaknesses across products, operational processes, and geographical regions and take targeted corrective measures, improve processes, and design better safeguards to prevent recurrence.
- 2) Create awareness amongst customers about customer-protection issues in micro-credit by supporting them in resolving their queries. Beyond resolving grievances, CGRM plays a significant role in educating and empowering customers. By actively supporting them in resolving their queries, the mechanism builds greater awareness around customer protection issues in micro-credit, such as fair lending practices, repayment obligations, insurance benefits, and the role of grievance channels. This enhances financial literacy, especially among low-income and vulnerable groups.
- 3) Undertake surveys to gather topical insights about issues/challenges/concerns of the customers. These surveys provide a nuanced understanding of the realities faced by borrowers, ranging from repayment stress due to local economic conditions, to gaps in product

suitability, or challenges in accessing grievance redressal at the field level. Such feedback serves as an early warning system, helping institutions and regulators to adapt policies, refine product offerings, and strengthen consumer protection frameworks in a timely and informed manner.

Calls received during non-working hours

In a significant enhancement to its CGRM, MFIN has incorporated a system to receive and record grievances during the non-working hours of MFIN-CGRM. The customers are guided through the IVR system to record their grievances.

This initiative aims to improve accessibility and responsiveness of the CGRM by ensuring that customers can reach out for support beyond the standard working time frame. Currently, this extended service is being implemented in Hindi-speaking regions, with a view to expanding it further based on effectiveness.

Employee complaints

With the widespread dissemination of toll-free numbers, it has been observed that employees of member lending institutions have also begun to use this channel to raise their own grievances. Over the past few years, there has been a steady increase in the number of such calls. In such cases, SRO engages directly with the concerned member institutions to obtain appropriate responses and facilitate resolution. This approach ensures that while the primary focus of the CGRM remains customer protection, critical concerns raised by employees are also taken up in a structured manner.

5.5 Capacity building

MFIN undertakes regular capacity building initiatives through training programs, workshops, and knowledge-sharing platforms to strengthen the capabilities of member institutions. Some of the initiatives taken during the last FY are detailed below:



5.5.1 ASCEND

The Education and Advancement Program in Microfinance was formally launched on 3rd May'25 during Manthan, MFIN's annual CEO conclave and went live from 27th May'25. This pioneering initiative is designed to strengthen the capabilities of field officers by equipping them with the skills and knowledge necessary for responsible lending and client protection. Developed fully in-house, ASCEND is a comprehensive, self-paced, AI-proctored online certification program that provides industry-recognized training. The curriculum touches upon financial inclusion, regulatory frameworks, SRO functions, microfinance products and operations, customer service, technology etc. To streamline the enrolment process, MFIN has also upgraded the ASCEND portal by introducing a Bulk Payment Feature, enabling institutions to conveniently sponsor multiple candidates at once. Additionally, to reach a wider pool of professionals across the country, the courseware has been launched in Hindi.

To enrich the learning experience, MFIN has collaborated with the Bankers Institute of Rural Development (BIRD). Recorded video sessions of the curriculum are hosted on BIRD's LMS to which candidates have an access. The faculty at BIRD along with experts at MFIN are also conducting periodic live doubt-clearing sessions, providing participants with real-time support and guidance. The examination portal curated specially for this programme has been delivered in partnership with NSEIT DEX, a subsidiary of NSE renowned for its expertise in digital examinations. Candidates who successfully complete the assessment will receive a joint certification from MFIN and BIRD, marking a significant milestone in their professional journey and reinforcing the sector's commitment to quality and accountability.

While institutions have traditionally supported their field teams through internal training, ASCEND

goes a step further, offering a holistic, industry-recognized, and self-paced certification. ASCEND is more than just an exam—it is a significant step toward professionalizing the microfinance sector and empowering its personnel.

5.5.2 LeadEdge – Management and Leadership Training programme

While a range of capacity building initiatives are designed for different levels of professionals, LeadEdge, a three-day residential leadership development program hosted at XIM University, Bhubaneswar, is MFIN's flagship program for middle management level officials. It focuses on strengthening leadership and managerial capabilities, helping participants transition from managing processes to effectively leading people and teams.

The curriculum incorporates experiential learning methods such as simulation games, situational analysis, and role plays to enhance decision-making and people management capabilities. Since its launch in Dec'22, ten batches of LeadEdge have been successfully conducted, with over 350 participants from more than 30 organisations taking part in the training. These participants represented various entities including NBFC-MFIs, Banks, SFBs, NBFCs as well as BCs.

5.5.3 Videos on digital frauds

With the exponential rise in digital payments, India has also seen a surge in digital frauds, putting the financially vulnerable population at greater risk. As per the RBI Annual Report FY24, in terms of value, frauds related to digital payments increased to Rs 1,457 Cr in FY24 as compared to Rs 280 Cr in FY23 i.e. a fivefold increase.⁸⁵ In response, MFIN released a series of awareness videos highlighting common types of digital fraud such as AePS fraud, phishing, extortion, dos and don'ts during digital transactions and what should lenders do in case a fraud happens.

⁸⁵ [Bloomberg article](#), 30th May'24. "Online Payment Frauds Jump Over 400% in India, RBI Data Shows"



These videos have been created to educate the microfinance customers and the frontline staff. Launched as a part of our ongoing financial literacy efforts, these videos aim to equip viewers with the knowledge to recognize, prevent, and respond to such frauds, thereby promoting safer digital practices and protecting both lenders and borrowers in the evolving financial landscape.

Digital frauds are usually conducted through electronic devices or the internet, often aiming to gain unauthorised access to personal or financial information, manipulate online transactions, or deceive individuals or organisations. Digital payment frauds can be carried out in many ways and hence following were the awareness videos created by MFIN:

- **AePS Fraud:** These frauds are generally carried out by tricking the customers into providing Aadhar details/biometric information multiple times. The biometric details are obtained from non-secure databases like welfare scheme databases, land records etc. In some cases, fingerprints are cloned by fooling the customer. The fraudster then gains access to the biometric information of the customer and uses it to withdraw/transfer money using Aadhaar Enabled Payment System (AePS).

Several ways in which these kinds of frauds are carried out can be seen in the video: <https://youtu.be/IR8yyQfYIgl>

- **Phishing scam:** These scams are carried out in multiple ways like fraudulent callers manipulating the customer to share OTP; convincing him/her to make UPI payments to unauthorised UPI accounts / QR codes etc. Phishing scams are also perpetrated by using fake websites built with name, logo and web address mimicking an existing lender but not belonging to any authentic lender/institution.

Several ways in which these kinds of frauds are carried out can be seen in the video: https://youtu.be/Dnv_2VPi8CA

- **Extortion:** Extortion of money is generally carried out when a lender extracts personal information (contacts, photos etc.) stored on the customer's phone by swapping sim cards or asking the customer to fill in details on a compromised device. The fraudulent lender employee then uses this information to harass them. Customers are cheated into making multiple payments, paying after completion of loan repayment, paying interest charges etc.

Several ways in which these kinds of frauds are carried out can be seen in the video: <https://youtu.be/GMEzUxXoIG4>

- Consequently, while carrying out digital transactions, customers should always use secure networks, verify website/app authenticity, enable two-factor authentication, regularly update passwords, and monitor transaction alerts. They must strictly avoid sharing OTPs, PINs, or passwords with anyone, refrain from clicking suspicious links, using public Wi-Fi for payments, or storing sensitive details on shared devices.

Several ways in which they could prevent falling prey to digital transaction frauds can be seen in the video: <https://youtu.be/pWlRQGNKNu4>

- At the same time, lenders must also adopt preventive and remedial measures against digital frauds. These include strengthening digital security systems, deploying advanced fraud detection tools, and ensuring regular staff training to identify red flags. Equally important is customer awareness, with lenders actively educating borrowers on safe digital practices.

Several ways in which lenders can both prevent and take remedial action in case of digital frauds can be seen in the video: <https://youtu.be/gNjBvZax1JQ>

In alignment with these awareness efforts, the RBI has also stepped up its measures to curb the rise in digital frauds. It has introduced exclusive internet



domains ‘bank.in’ for Indian banks and ‘fin.in’ for NBFCs. This initiative is designed to strengthen cyber security, curb phishing and other malicious online activities, and provide a trusted digital space for financial services. By streamlining secure access to banking and payment platforms, the move seeks to reinforce public confidence in India’s digital financial ecosystem. The Institute for Development and Research in Banking Technology (IDRBT) has been designated as the exclusive registrar, and the registration process for banks has already commenced.⁸⁶

5.6 MFIN’s structured field outreach programmes

As an Industry body, MFIN holds a critical mandate to safeguard the operational environment of its member institutions. This responsibility entails ensuring seamless field operations by fostering a conducive ecosystem and minimizing disruptions arising from unregulated entities, non-state actors, localized incitement, and other external factors.

To fulfil this mandate, MFIN has institutionalized a structured framework that actively engages with borrowers, state and district administrations, and the operations teams of member institutions, as shown in **Box 5.2**. The framework is designed to deliver real-time field intelligence, enable timely support from authorities when required, sustain borrower connect, and build the capacity of member operations staff. It also provides collaborative platforms where members can collectively address emerging challenges in a coordinated manner.

The structured outreach relies on a set of instruments—Microfinance Awareness Programmes (MFAPs), State Chapters, District Forums, and State Coordination Committees—each serving as a mechanism for dialogue, early warning, and resolution. These activities are systematically planned through an Annual Action Plan,

Box 5.2: Structure of field outreach

Field Inputs (Signals)

- Borrower feedback & grievances
- Local media/social media monitoring
- District Forum Meetings
- State Chapter Meetings

Interventions / Actions

- Real-time validation & risk assessment through Special/Emergent meeting
- Engagement with District & State officials
- Escalation to RBI/DFS
- Media/PR outreach to correct narratives
- Borrower awareness drives
- Capacity building of member field teams
- Augmentation of communication materials to field staff – pamphlets, posters, AVs

Outcomes / Impact

- Quick resolution of disruptions
- Stronger borrower trust & repayment discipline
- Improved alignment with state/district authorities
- Early warning & mitigation of localized risks
- Seamless field operations with reduced external disruptions

disseminated to member operations teams, and tracked via the state initiatives dashboard to ensure accountability and effectiveness (depicted in **Figure 5.9**)

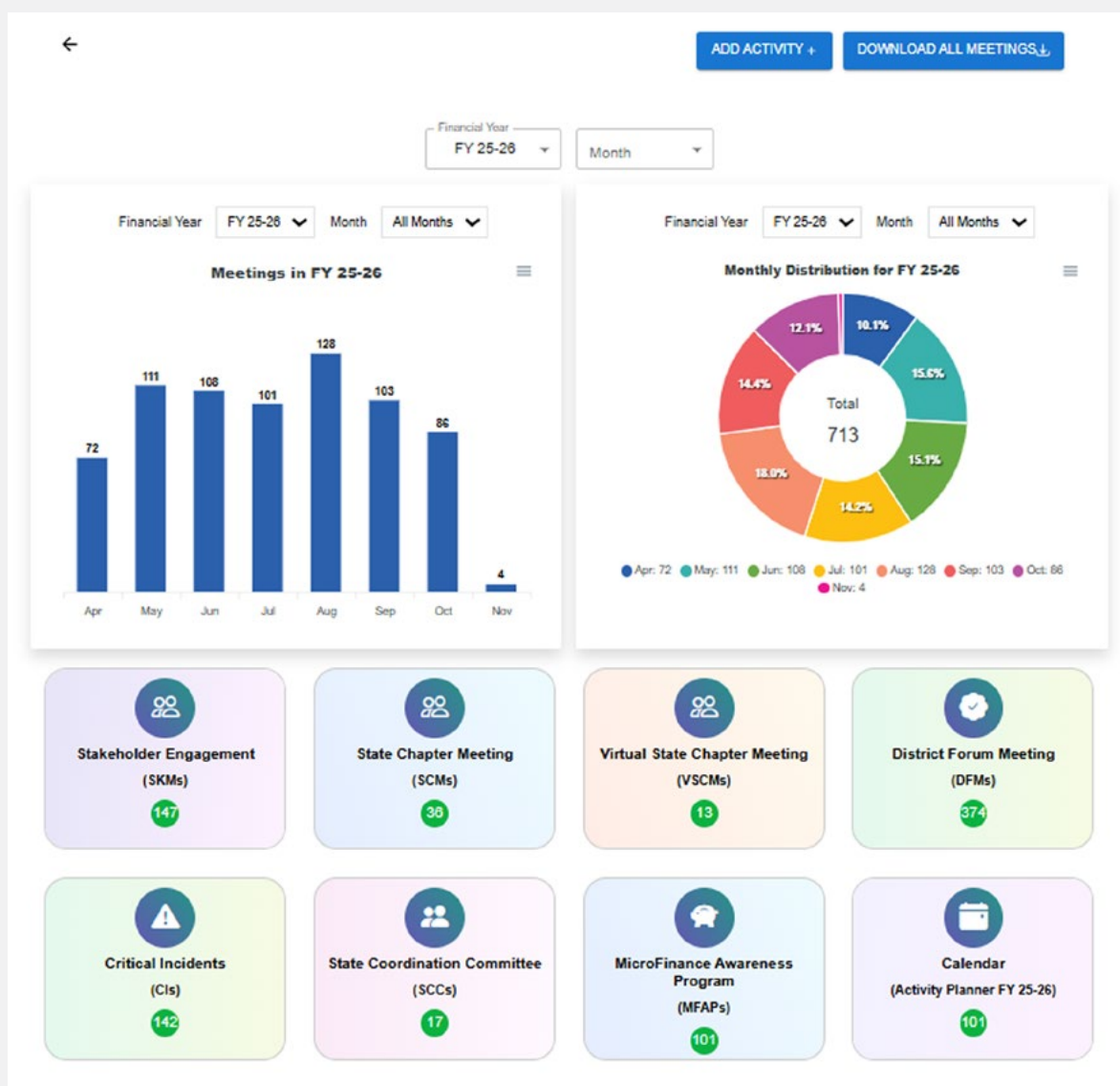
In addition, MFIN equips its members with a risk-assessment tool—RADAR—that enables granular evaluation of field-level vulnerabilities at the PIN Code level across four critical parameters: Negative Areas, Risky Areas, Ringleaders, and External Inciters.

All these activities done PAN India are integrated into a dashboard serving as critical MIS for management.

⁸⁶ RBI Annual Report 2024-25



Figure 5.9: State initiatives vertical activities dashboard



5.6.1 State and district level engagement platforms

MFIN has established a structured pan-India engagement network through its State Chapters, District Forums, and State Coordination Committees. At present, this framework comprises 13 State Chapters and 429 District Forums (291 individual and 138 composite), covering 630 districts across the country.

State Chapters serve as platforms where State/ Zonal Business Heads of member Regulated Entities (REs) collaborate to exchange best practices, review sector performance, address challenges, and plan interventions. Subject-matter experts and senior government officials are also invited to these meetings on specific themes. District Forums, by contrast, provide a field-level platform for branch and cluster officers to discuss operational issues, flag emerging risks, and update inputs on MFIN's risk information system (RADAR).

During the year, MFIN convened 50 State Chapter Meetings, 57 State Coordination Committee Meetings, 109 Special/Emergent Meetings (all in

Karnataka), and 1,560 District Forum Meetings, along with multiple stakeholder interactions conducted as required as shown in **Tables 5.4 & 5.5**.

Table 5.4: District forums constituted

Region	States	Individual District Forums in the state*	Composite District Forums in the state**	Districts Covered in the State***
East and Northeast	Assam and Northeast	14	12	43
	Bihar	34	2	38
	Jharkhand	-	14	24
	Odisha	26	2	30
	West Bengal	23	-	23
Central	Chhattisgarh	25	8	33
	Madhya Pradesh	44	11	55
West	Goa	-	1	2
	Gujarat	8	6	33
	Maharashtra	6	21	36
	Rajasthan	15	8	33
North	Haryana & Delhi	17	1	19
	Himachal Pradesh and Jammu & Kashmir	1	-	32
	Punjab	16	4	22
	Uttar Pradesh	18	6	48
	Uttarakhand	6	7	13
South	Andhra Pradesh and Telangana	-	21	59
	Karnataka	-	8	31
	Kerala	-	5	14
	Tamil Nadu and Puducherry	38	1	42
	Total	291	138	630

*Number of individual district forums constituted for the respective state

**Number of composites i.e., where more than 1 district clubbed together forums in the state

***Total number of operational districts for which district forum meetings held either individually or compositely in the state

Table 5.5: Collective Platform Meetings held at State & District Level

Region	State Chapters	State Chapter Meeting Conducted	State Coordination Committee Meetings	District Forum Meetings Conducted	Special Meetings Conducted	Radar Workshops held
East & Northeast	Assam and Northeast	3	3	104	3	104
	Bihar	3	6	144	11	144
	Jharkhand	3	3	56	5	
	Odisha	3	3	112	5	112
	West Bengal	2	2	92	6	92
Central	Chhattisgarh	3	3	99	5	99
	Madhya Pradesh	2	2	165	-	165
West	Gujarat and UTs	3	2	56	6	28
	Maharashtra & Goa	3	4	108	15	54
	Rajasthan	3	3	92	2	51
North	Haryana and Delhi	2	1	54	1	36
	Punjab, Himachal Pradesh and Jammu Kashmir	3	3	82	-	74
	Uttar Pradesh	2	8	104	11	104
	Uttarakhand	3	3	39	-	39
	Andhra Pradesh & Telangana	3	3	63	5	59
South	Karnataka	3	3	24	26	3
	Kerala	2	2	10	2	2
	Tamil Nadu & Puducherry	4	3	156	6	42
	Total	50	57	1,560	109	1,208

5.6.2 Microfinance Awareness Programmes

MFIN introduced the Microfinance Awareness Programmes (MFAPs) to serve multiple objectives. A key purpose is to engage with district-level functionaries and sensitize them to the regulatory and supervisory framework under which REs operate, including MFIN's oversight of compliance with the Fair Practices Code (FPC), the Industry

CoC, and the Guardrails. At the same time, district administrations are informed of upcoming MFAPs in their jurisdictions and encouraged to participate, ensuring their involvement in borrower interactions.

Equally important, MFAPs provide a platform for direct borrower engagement, where end-borrowers are educated on various aspects of responsible lending and customer protection viz., institutional credit, responsible borrowing, and grievance redressal mechanisms.



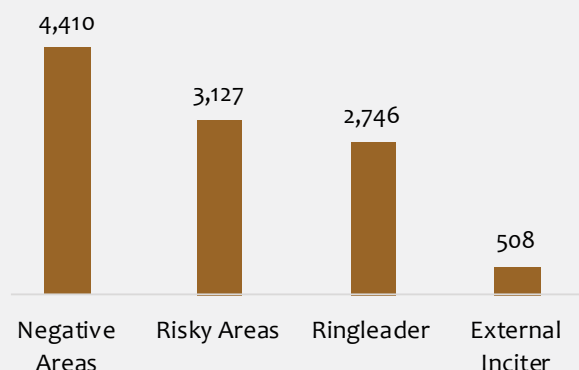
Box 5.5: Key Messages for Borrowers in MFAPs

- RBI's caution against unauthorized loan waiver campaigns
- Importance of institutional credit and repayment discipline
- Maintaining a good credit score and its long-term benefits
- Avoiding loan sharing and borrowing only within repayment capacity
- Protecting personal information and safeguarding KYC documents
- Using the 3-tier grievance redressal system, including MFIN's toll-free CGRM in regional languages
- Safety measures during cash withdrawals at CSC centres
- Awareness on preventing digital frauds and online scams

In FY25, MFIN, in collaboration with member REs and with the active involvement of District Collectors, Tehsildars, Police (Economic Offences Wing & Cyber Security), Lead Bank, NABARD, and RBI, organized 48 MFAPs across 19 priority districts in 8 states: Uttar Pradesh, Karnataka, Maharashtra, Tamil Nadu, Bihar, Jharkhand, West Bengal, and Chhattisgarh, as shown in **Table 5.6**. In FY26, up to Sep'25, 88 MFAPs were organised across states, with a higher concentration in Bihar.

5.6.3 RADAR application

The "RADAR" application is designed to provide detailed, field-level intelligence to enhance Member REs understanding of negative areas, risky areas, ring leaders, and external inciters. By systematizing this data (as shown in **Figure 5.10**), RADAR provides traceable and integrated insights to support stronger decision-making by the MFIs. With its unique ability to pinpoint data at the 'pin code' level and provide precise geotagging, RADAR is a valuable tool for effective on-ground operations.

Figure 5.10: RADAR data

5.6.4 Health Camps

During the year, MFIN organized health camps in the states of West Bengal and Tripura. In the state of West Bengal, 162 health camps were facilitated, covering all districts of the state. These were coordinated by M-Swasth Solutions Pvt Ltd in collaboration with member Regulated Entities (REs), namely: Arohan Financial Services Ltd., ASA-International India Microfinance Ltd., Bandhan Bank Ltd., ITI Credit Ltd., Janakalyan Financial Services Pvt. Ltd., Muthoot Microfin Ltd., Svatantra Microfin Pvt. Ltd., Ujjivan Small Finance Bank Ltd., Satin Credit Care Network Ltd., and L&T Finance Ltd.

A total of 18,551 microfinance clients availed the facility in West Bengal. In the state of Tripura, MFIN facilitated 8 health camps across the districts of Gomati, Khowai, North Tripura, Sepahijala, South Tripura, Unakoti, and West Tripura. ASA-International India Microfinance Ltd, Bandhan Bank Ltd, collaborated with M-Swasth Solutions Pvt Ltd to implement the camps. A total of 861 microfinance clients availed the services in Tripura.

Health camps provided free basic medications and health screenings to microfinance clients. Customers from identified areas who had previously been reluctant to engage responded positively to these camps. The initiative enabled member institutions strengthening field-level connections with their customers.

Table 5.6: MFAPs Organised by MFIN

Region	State	District Name (# MFAPs organized)	District Name (# MFAPs organized)
		FY25 (from Oct'24)	FY26 – till Sep'25
East and Northeast	Jharkhand	Palamu & Giridih (3)	Ranchi
	West Bengal	Murshidabad	Birbhum, Murshidabad, Malda, Nadia, Bardhaman, Hooghly, Howrah, North & South 24 Parganas
	Bihar	Samastipur & Sitamarhi	Saharsa, Purnia, Darbhanga, Begusarai, Khagaria, Vaishali, Muzaffarpur, Nawada, Gaya, Araria, Madhepura, Sitamarhi, Purbi & Paschim Champaran, Madhubani (2) & Supaul
	Odisha	Cuttack & Ganjam	Ganjam, Khordha & Puri
Central	Chhattisgarh	Korba (3)	
	Madhya Pradesh	Jabalpur (2) & Mandla	Balaghat, Dhar, Ratlam, Jhabua, Indore, Ujjain, Dewas & Jabalpur (2)
West	Gujarat		Anand, Vadodara, Mahesana, Kheda, Panch Mahals & Dahod
	Maharashtra	Chhatrapati Sambhajinagar (2)	Nanded, Yavatmal, Sangli, Kolhapur & Sindhudurg
North	Haryana		Karnal & Jind
	Punjab		Amritsar
	Rajasthan		Sikar
	Uttar Pradesh	Maharajganj (8) & Kushinagar (8)	Gorakhpur & Kushinagar
South	Andhra Pradesh		East Godavari
	Karnataka	Belagavi (5), Chamarajanagar (3), Haveri (3), Ramanagara & Tumkur (2)	Haveri, Gadag, Davangere, Chitradurga, Shimoga, Mandya, Hassan, Mysuru, Chamarajanagar, Kolar, Tumkur, Ramanagara & Chikballapur
	Kerala		Thiruvananthapuram & Palakkad
	Tamil Nadu	Tuticorin	Tiruchirappalli, Pudukkottai, Salem, Tiruppur, Erode, Coimbatore, Tiruvarur, Nagapattinam, Cuddalore, Sivaganga, Madurai & Ramanathapuram
	Telangana		Mancherla, Warangal, Adilabad, Bhadrachalam & Kothagudem
Total		48	88



5.7 MFIN projects

MFIN takes up specific implementation projects and research studies, that can address issues faced by the stakeholders and make a broader sector wide impact. The following are the assignments on which MFIN has worked during the year.

5.7.1 Digital microfinance payments

The project on digitizing microfinance repayments concluded in FY 2024-25. This project, supported by Hongkong and Shanghai Banking Corporation (HSBC), was envisaged to pilot and scale up digital payment solutions which are cost effective, easy to use and suit microfinance sector. Building on the work done in first two years, the project successfully developed and deployed new technologies on ground. A summary of the key project activities is provided below.

Need analysis: To understand the landscape and barriers to adoption, a detailed scoping study was done at the beginning of the project. The study provided key insights to digital payment behaviour of microfinance clients. Major barriers to digital repayment of microfinance loans identified by the study were as follows:

- Limited access to smartphones
- Low digital literacy among borrowers
- Lack of trust in digital channels
- Gaps in the digital readiness and skills of MFI staff

Apart from the needs identified as above; in order to keep the solutions relevant for future, the project also included some attributes in the design conceptualisation. These were:

- Scalability and reach
- Reliability
- Reconciliation capability
- Integration complexity with MFI MIS

Project partners: To put the plans into action, the project partnered with two fintech companies, Tapits Technologies Private Limited and Ultracash Technologies Pvt Ltd for technology development and TMI e2E Academy Private Limited for capacity building services. The fintech firms customised digital repayment solutions for each MFI, focusing on user experiences and reliable backend systems. TMIE developed all training collaterals and supported on-ground training as well.

Technological solutions: According to the need analysis, three options for digital repayment were developed as part of the project:

- **UPI 123PAY:** Designed for borrowers with feature phones, this solution used voice instructions and phone keypads, making it possible to collect digital payments from those without smartphones or internet connection.
- **UPI AutoPay:** This option allowed recurring and automatic repayment deductions, making it convenient for borrowers to pay on time and easy for MFIs to manage regular collections.
- **Custom-built mobile applications:** For borrowers with smartphones and higher digital comfort, dedicated apps let them make repayments, check balances, and track loan information directly from their phones.

Each solution was chosen after careful study of the specific needs, infrastructure, and preferences of the MFIs and their clients on all above factors. Each solution thus developed was unique to each partner MFI and they selected the fintech and technology solution as well as capacity building strategy for the staff and clients.

Capacity building: The training provider developed different customised modules for MFI staff and borrowers with content available in presentations, pamphlets, audio, and video included new age content such as short audio-visual content and



digital flyers. Topics of the training collaterals included how to make digital payments, fraud prevention, and what to do when facing transaction problems. Each partner MFI received physical and digital content customised to their existing processes on training the field staff and clients in different vernacular languages. TMle team trained the master trainers of all partner MFIs first and then the branch staff, who in turn educated borrowers at group meetings. This tiered approach made it easier to build skills at every level, while addressing each group's specific needs and concerns.

MFIN also organized special training for MFI IT staff in partnership with the Institute for Development and Research in Banking Technology (IDRBT), exposing participants to new technologies such as artificial intelligence, blockchain, and cybersecurity. This program aimed at preparing organizations for further digital transformation. Another key outcome of this special training was to enable IT professionals of partner MFIs to handle technology upgrades effectively.

Implementation challenges: Rolling out digital solutions was not without challenges. Key challenges encountered during the project are outlined below:

- Issues in the MFI operating environment
- Legacy IT systems of some partner MFIs causing issues in integration
- Lack of IT expertise at some partner MFIs
- High dependence on outsourced vendors for IT related work
- Resistance in adoption of new methods of digital payments at client level

To overcome these challenges, the project coordinated with the vendors of the partner MFIs to expedite delivery of necessary tasks, organized training of IT staff at IDRBT (mentioned above), simplified the training collateral to a great extent and included real world examples as well as repeated engagement to encourage adoption.

Project outcomes and Knowledge dissemination: The project concluded with significant success despite various challenges faced by the microfinance sector. Overall, 75 master trainers of 9 partner MFIs were trained. Along with these master trainers, CSP trained almost 900 field staff based in branches. A total of 3.38 Cr clients were also made aware of the digital payment services. Out of these 3.38 Cr clients, 1.5 Cr clients availed the services offered and made digital transactions worth Rs 33 Cr. In terms of adoption, the clients of selected project branches showed an improvement of more than 11% from baseline level.

The project concluded with a workshop, where partner MFIs and industry experts shared their experiences. Discussions highlighted that ongoing training, clear communication, and continued trust-building are critical for lasting behaviour change among borrowers. The project has laid a strong foundation for digital collections in microfinance, but sustained impact will need ongoing support, practical solutions, and wider fintech innovation. The project has set a strong example for digitising repayments in India's microfinance sector, contributing to financial inclusion and resilience for millions of underserved families.

5.7.2 Natural catastrophe insurance

Climate change has become a cause of concern over the years with the rise in frequency and intensity of climate change induced catastrophe events. These events affect the livelihoods of microfinance clients causing direct impact on their repayment capacity and the portfolio health of the lenders. MFIN started working on a risk management solution to mitigate the effects of climate change in 2017-18 which culminated in development of a Natural Catastrophe (Natcat) insurance product for the borrowers. A limited period trial was conducted in Odisha from Nov'21 to May'23.

Subsequent to the pilot, project team worked extensively to enhance the product based on



insights from microfinance operations and the limited period trial. The revised product now includes enhanced coverage for more perils than the earlier product, pricing has been rationalised and processes have been improved to suit microfinance client requirements. Asian Development Bank (ADB) recognised the significant work which has gone into the program and came forward to support a large-scale pilot of the initiative through a Technical Assistance (TA) project titled “Microinsurance for climate change and disaster resilience: capacity building and implementation support” starting from Jul’23 and ending in Jun’26. Under the mandate, the pilot aims to cover at least four states to create awareness about parametric insurance products among 10 Lk microfinance borrowers across 176 branches through the member/Partner Financial Institutions (PFIs) and training of around 1,000 staff of the PFIs to enable them to create awareness and enrol around 4.5 Lk borrowers.

Current status of the project

The project is now at the launch stage, and the product will be rolled out after sign-up by a few PFIs. As part of the project, following activities have been successfully concluded:

- **Product development:** product now covers 5 perils namely excess rainfall, deficit rainfall, cyclone, earthquake and heat wave.
- **Designing and finalisation of processes:** processes have been finalised in consultation with the underwriters including Echo Re (re-insurer), SBI General and Future Generali (primary insurers) and PFIs.
- **System readiness for monitoring of triggers:** WRMS - the technical agency has put in place, the systems for monitoring the catastrophe event triggers which will be used for generation of claims.

- **Onboarding of Technical support agencies:** ADB has onboarded capacity-building firm (MicroSave), and M&E firm (IFMR Lead) to support the project implementors. Training collateral development has been completed by MicroSave.
- **Prelaunch workshop:** A pre-launch workshop was organized with PFIs to introduce the product and gather their feedback. The workshop was attended by 12 PFIs (from an initial pool of 21 PFIs) and MFIN team has been closely engaging with them to secure their final commitment as project implementation partners.

Next steps: Once the PFI onboarding is completed, training of field staff on the NatCat product will commence. As mentioned above, MicroSave will be leading the training efforts. This is a critical step since parametric Natcat insurance is a slightly complex product. After this critical step, these field staff will pitch the product to microfinance clients and enrolment will begin.

5.7.3 DEA workshops

As discussed in the previous report, the Depositor Education and Awareness Fund (DEA Fund) was set up by RBI to utilise the unclaimed deposits for more than 10 years, for promotion of depositors’ interest and awareness. MFIN was appointed by the RBI as the facilitating agency, for conducting 2,131 workshops on spreading financial awareness across 224 districts in 25 states with 25 partner MFIs, to be organised in five bi-months. The focus of the workshops is on financial literacy as envisaged by DEA and includes depositors’ awareness on aspects like opening of bank accounts, KYC, AML etc. as per the guidelines of RBI. The workshops are also intended to promote good credit behaviour, utilisation and timely repayment culture among borrowers and make them aware of the benefit of maintaining good credit history, risk of taking multiple loans and cash flow assessment while applying for loans etc.



Material for workshop delivery was created by MFIN in accordance with topics specified in the standardized material kit provided by the DEA Cell, RBI. This was provided to partner MFIs in a presentation format, complete with awareness generating videos and interactive case studies, to be used during delivery of workshop content. The material was also distributed among workshop participants as handbooks for them to take back with them for revisiting the topics. MFIN has added pre-workshop and post-workshop assessment forms to the participant handbooks having a set of basic pictorial questions that the participants have to submit answers to. The idea is to gauge the participants awareness level before attending the workshop and any improvement in the same after being delivered the informational content. An evaluation form is also required to be filled out by the participants at the end of the workshop to know about their satisfaction regarding the programme, its content and the trainer.

For the first bi-month, MFIN organized two Training of Trainers (ToT) in Aug'24, one in New Delhi and Bengaluru each where 32 trainers from 9 partner MFIs were trained. In the ToTs, MFIN delivered sessions on topics that would better equip trainers to conduct the DEA workshops such as adult education, experiential learning cycle, communication, approach & checklist of documentation work the programme, and mock delivery of DEA workshop modules. To facilitate further internal training of MFI staff by the attendees, a trainers' booklet with the script for delivering DEA workshops was provided to the participants at each ToT. All the training and handbook material was made available by MFIN to partner MFIs in 12 languages including Hindi and English.

The first bi-month was successfully completed between 1st Dec'24 and 31st Jan'25. A total of 269 workshops were conducted by 9 partner MFIs across 13 states and 82 districts. At the end of the bi-month, MFIN collected documents (both digital

and physical) of all workshops from partner REs for review and financial audit. Additionally, a report for the first bi-month was prepared, highlighting the outreach and immediate impact in terms of change in awareness levels of the participants on basic concepts related to deposits and submitted to the DEA Cell along with an audited utilisation certificate. Some highlights of the first bi-month outreach are shown below.

- Overall, 14,797 participants were trained in the first bi-month. The average number of participants per workshop was 55, which was within the range of 50-60 participants per workshop as prescribed by RBI.
- About 89% of the workshop participants were women and the remaining 11% men. Majority of these participants were in the age group of 18 to 50 years & senior citizen were about 1%.
- Around 34% of the workshops were held in Eastern & North Eastern states, followed by 23% in the North, close to 20% in the West, 17% in Central states, and 6% in the South.
- In terms of location coverage, 35% of the workshops were conducted for rural participants, 37% for semi-urban, and 28% for urban.

Following the same process as for the first bi-month, the plan for second bi-month was submitted to RBI in Mar'25. A ToT workshop was organised in Delhi and was attended by 22 trainers from 10 partner MFIs. The second bi-month was completed successfully with 455 workshops conducted between 1st Jun'25 and 31st Jul'25. These workshops were delivered across 18 states and 130 districts.

5.7.4 NCAER study

In early 2024, MFIN Board commissioned the study titled "Assessing the effectiveness of small borrowings in India" to the National Council of



Applied Economic Research (NCAER). The theme of this study is consistent with that of a similar study conducted by NCAER-MFIN in 2011. However, the scope of the current study is more expansive as it delves into the state of small borrowings in the wake of changed RBI regulations of Mar'22. The current study has the following objectives.

- Capture the profile and awareness level of the borrowers on various aspects related to credit services offered to them,
- Measure and compare the cost and usage of microfinance loans across various channels,
- Obtain feedback from the borrowers on their experience of services provided by lenders and issues faced, and
- Assess digital adoption by the borrowers.

The study covered 10,342 microfinance borrowers from 10 states (Assam, Bihar, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu, Telangana, Uttar Pradesh, West Bengal), 50 districts & 300 pin codes in India who were surveyed through direct interviews and Focus Group Discussions (FGDs). For the study, 19 partner REs were engaged including 9 NBFC-MFIs, 4 Banks, 3 SFBs and 3 NBFCs whose existing borrowers formed part of the sample. NCAER employed a multi-stage, stratified sampling method for creating the sample set of borrowers to be surveyed. The sample was selected to include a mix of states from various regions, poor performing states in terms of growth and portfolio quality, and new entrants like Telangana to get an all-round perspective. The sample borrowers were also distributed among these partners in a way that there is a good representation of various types of entities at least at the state level.

The survey questionnaire was developed by NCAER with major contributions to content and structuring from MFIN. A central ToT was held at NCAER with participation from MFIN to equip regional survey coordinators with knowledge of the questionnaire's

content, flow and digital administration. Thereafter, regional sessions were conducted by these coordinators along with NCAER staff to provide hands-on training to field investigators across states.

A pilot survey based on this questionnaire was conducted in Jul'24 in Faridabad (Haryana), Tumkur (Karnataka) and North-24 Parganas (West Bengal). Feedback from this exercise was used to revise and further improve the questionnaire. The final questionnaire was translated into 6 regional languages including Hindi and programmed into Kobo toolbox, a mobile-based data collection platform. In addition to this, a question format for Focus Group Discussions (FGD) was developed by NCAER to use as a qualitative tool for assessing microfinance clients.

After discussions and planning with partner RE SPOCs, the field work for data collection began in Oct'24 and was completed in Dec'24. Further, a data validation exercise was conducted on a small subset of the sample by MFIN team in Patna (Bihar), Gwalior (Madhya Pradesh), Warangal (Telangana) and South-24 Parganas (West Bengal) in Feb'25 and Mar'25.

NCAER team is working on a second draft of the report. The study is structured into chapters covering topics of demographic profile of the sample borrowers and their households, access to microfinance loans along with its cost and usage, awareness of the borrower regarding the loans as well as their preferences in borrowing, savings behaviour of the client, and digital awareness and adoption of clients. NCAER has also used the data to construct relevant regression models and check several hypothesis including determinants of borrowers' financial literacy index, association between loan usage and repayment behaviour, importance of interest rate for choosing a lender, factors affecting borrowers' likelihood of digital adoption etc. The final study report is expected to be launched in Q4 of the 2025-26.



5.7.5 Online datahub

As reported in previous edition of the report, MFIN has operationalised the Online Datahub. This online portal is expected to be the one stop solution for all data needs of MFIN members as well as the secretariat. Datahub converges data coming to MFIN from all sources e.g. credit bureaus, employee bureau, guardrail compliance reports, primary data reporting for Micrometer, field inputs from Radar and MFIN CGRM to give a comprehensive picture of the sector.

In FY 2024-25, the user interface (UI) and user experience (UX) were enhanced by making several changes to the existing platform. In addition to these enhancements, several new features have been added to the Online Datahub to make it more user friendly and informative. Following section provides details of the enhancement, new additions and possible future enhancements for the Datahub in FY 2025-26 and beyond.

Enhancement

- **Two step authentication** – Earlier version of Datahub had two step authentication using mobile SMS only. Now email OTP has been added as another method for authentication to provide ease of access to users.
- **Benchmark module enhancement** – Benchmark module was housed in MFIN Member module earlier. Looking at greater interest shown by users, this module has been taken out from MFIN Members module and made an independent module. The earlier Benchmark module provided functionality for NBFC-MFIs to compare themselves with their peer group only, new module contains data from Other REs (REs other than NBFC-MFIs), enabling a wider comparison matrix for all institutions.
- **SRO module** – Enhancement in SRO module includes addition of guardrail compliance to the QAR page of the module. New enhanced SRO module will be launched towards the end of FY 2025-26. The module will include dashboards on Credit Bureau, Employee Bureau, QAR, CGRM, RBI reported data and Interest rate disclosed by member entities.

New development

- **DRI maps** – Earlier version of DRI maps were based on Tableau platform. This posed a challenge because the user could not access historical data of DRI for comparing performance of a district over a period of time. Another major issue was related to possible leakage of data from Tableau servers. Looking at these challenges and based on feedback from users, secretariat decided to completely overhaul this module. The new module is based on shape files backed by a new database. This enables users to access historical performance of each district of India. It has also made the maps sharper and more responsive.
- **Data reporting module** – Moving ahead, MFIN would enable member institutions to optionally report data directly on the MFIN Datahub. To enable online reporting of data, a data reporting module has been created on the Online Datahub. This module is a replica of the existing Micrometer DCT with all validations to prevent accidental misreporting of data. With online reporting, the user will be able to view data reported in the previous cycles so that they can verify present reporting against historical data as well.
- **Publication module** – All MFIN publications were housed on the MFIN website. The Datahub did not provide access to various reports published by the secretariat. In order to make Datahub comprehensive, all publications have now been



moved to a new module called Publications in the Online Datahub. This module contains the reports Micrometer, Micromirror, Micromatters and other publications.

- **Mobile responsive** – The earlier version of Online Datahub was a web-based tool only. Looking at user preference and to enhance usability, the Online Datahub has been made mobile responsive as well. This means the users can now access all functionalities of web-based modules on their mobile devices since the content adjusts automatically to any screen size.
- **User feedback on each page** – The Online Datahub now contains facility for users to provide their feedback on each page. This functionality will help the secretariat to locate issues faced by users with higher accuracy. Additionally, the new feedback system provides greater clarity to the developer team to view all feedback received in a single window.

MFIN will continue to receive feedback from users and accordingly make changes to enhance UI and UX. As per need new information will be added and new analysis will be posted on the Datahub.

In summary, during the FY 2024-25, MFIN has taken strong strides towards validating its role as an SRO and strengthening its image of a go-to-body in the microfinance space. The issuance of Guardrails was pre-emptive and came at a time when the sector faced the initial pangs of delinquency and its impact was clearly evident later in controlling the portfolio quality issues. Now, adherence to Guardrails is widely recognised as being a mark of a responsible lender. Similarly, the work on CGRM and capacity building & certification of the field staff are some of the key requirements being undertaken by MFIN. The field outreach of MFIN through state and district level forums is widely acknowledged by its Members as a key activity for exchanging best practices, sharing of field issues, review performance and plan interventions, like the MFAPs and health camps. Finally, in the times to come, the projects that MFIN is undertaking will create impact at the sectoral level, whether is the pilot on digitalising microfinance repayments, awareness generation of borrowers through the DEA workshops or the parametric insurance product to mitigate the impact of climate risk for both the lenders as well as the borrowers.



Annex A

Chronology of relevant policy and regulatory developments

April 01, 2024: **Master Circular on SHG-Bank Linkage Programme**

The RBI has, from time to time, issued many guidelines/instructions to banks on the SHG-Bank Linkage Programme. To enable banks to have instructions in one place, the Master Circular incorporating the existing guidelines/ instructions on the subject has been updated. This Master Circular consolidates the circulars issued by the Reserve Bank on the subject up to 31st Mar'24.

April 15, 2024: **Key Facts Statement (KFS) for Loans & Advances**

To enhance transparency, reduce information asymmetry, and empower borrowers to make informed financial decisions, the RBI introduced regulations on the Key Facts Statement (KFS). This document suggests the key details of a loan agreement in a simple and standardized format, making it easier for borrowers to understand the terms. The instructions apply to all retail and MSME term loan products offered by regulated entities (REs).

April 16, 2024: **Master Circular on Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)**

The Master Circular consolidates guidelines for banks and financial institutions on providing financial

support to rural households under the DAY-NRLM scheme. It outlines procedures for extending credit, managing repayment schedules, and promoting SHGs.

July 15, 2024: **Master Directions on Fraud Risk Management in Non-Banking Financial Companies (NBFCs)**

These Directions are issued to provide a framework to applicable NBFCs for prevention, early detection and timely reporting of incidents of fraud to Law Enforcement Agencies (LEAs), Reserve Bank of India (RBI) and National Housing Bank (NHB) and matters connected therewith or incidental thereto.

July 15, 2024: **Master Directions on Fraud Risk Management in Banks**

These Directions are issued to provide a framework to banks for prevention, early detection and timely reporting of incidents of fraud to Law Enforcement Agencies (LEAs), Reserve Bank of India (RBI), and NABARD and dissemination of information by RBI and matters connected therewith or incidental thereto.

July 30, 2024: **Master Direction on Treatment of Wilful Defaulters and Large Defaulters**

These directions serve as a comprehensive guideline delineating the regulatory framework and



procedures for the classification of borrowers as wilful defaulters. This directive plays a crucial role in maintaining the integrity of the financial system by outlining the measures and consequences for those borrowers who deliberately default on their financial obligations.

August 08, 2024: **Frequency of reporting of credit information by Credit Institutions to Credit Information Companies**

The RBI has directed credit institutions (CIs) and credit information companies (CICs) to update credit information on a fortnightly basis, ensuring submission within seven days of each reporting period. CICs must process this data within five days of receipt. Non-compliance will result in penal action under the CICRA, 2005.

August 19, 2024: **Framework for Recognition of Self-Regulatory Organisations in Financial Markets regulated by the Reserve Bank of India**

The RBI aims to develop safe, broad-based financial markets, improving price discovery, risk management, and participation. The RBI regulates the financial markets under several legislative frameworks, and SROs are integral to fostering self-regulation within the growing financial ecosystem.

Updated as on September 09, 2024: **Non-Banking Financial Company – Peer-to-Peer Lending Platform (Reserve Bank) Directions**

The update on the master directions for P2P lending platforms clarifies the regulatory structure for NBFC-P2P under the scale-based regulations. It further specifies that NBFC-P2P entities must comply with RBI guidelines on CIC submissions, including the requirement to update data to CICs on a fortnightly basis.

January 06, 2025: **Master Direction – Reserve Bank of India (Credit Information Reporting) Directions, 2025**

With the revised Master Directions for Credit Information Reporting, RBI mandated a fortnightly frequency of data reporting to CICs which has been proposed to be brought down to weekly submission vide a draft amendment which came out on 29th Sep'25. Another key change brought in through this Master Direction was a mandatory alert to the client through the CICs on change in status of their account. CICs are now mandated to disclose complaint stats in public, which wasn't the case earlier.

February 25, 2025: **Exposures of Scheduled Commercial Banks (SCBs) to Non-Banking Financial Companies (NBFCs) – Review of Risk Weights**

Vide this circular the risk weight on the exposures of SCBs to NBFCs which was increased by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs was below 100 per cent in FY 2023-24 has been restored and going forward the same shall be as per the external rating, as specified in Paragraph 5.8.1 of the 'Master Circular – Basel III Capital Regulations' dated 1st Apr'24, as amended from time to time.

March 24, 2025: **Master Directions - Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2025**

RBI issued the revised PSL circular according to limits of assets such as education loan, housing loan, social infrastructure, renewable energy etc for being considered under PSL have been revised.

April 01, 2025: **Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs)**

This circular is a consolidation of all earlier circulars/guidelines on Bank Finance to NBFCs.



April 01, 2025: **Master Circular on SHG-Bank Linkage Programme**

This circular is a consolidation of all earlier circulars/guidelines on SHG-Bank Linkage Programmes issued by RBI.

June 06, 2025: **Review of Qualifying Assets Criteria**

A major change in regulation brought by RBI was change of qualifying asset criteria for NBFC-MFIs. As per this amendment to the Master Direction, qualifying assets of NBFC-MFIs shall constitute a minimum of 60 percent of the total assets (netted off by intangible assets), on an ongoing basis. If an NBFC-MFI fails to maintain the qualifying assets as aforesaid for four consecutive quarters, it shall approach the Reserve Bank with a remediation plan for taking a view in the matter.

June 20, 2025: **Review of Priority Sector Lending norms - Small Finance Banks**

RBI issued the revised PSL circular according to which the SFBs now have relaxed PSL targets from 75% of ANBC/CEOBE (Adjusted Net Bank Credit/Credit Equivalent of Off-Balance Sheet Exposures).

August 06, 2025: **Reserve Bank of India (Co-Lending Arrangements) Directions, 2025**

This direction will come in force from 1st Jan'26. The direction provides detailed regulatory and operative guidelines on how the co-lending arrangement shall be formed and operationalized between REs including minimum retention, interest rate and fee disclosure, operational arrangements, reporting to CICs, default loss guarantee and several other key issues.

August 14, 2025: **Reserve Bank of India (Know Your Customer (KYC)) (2nd Amendment) Directions, 2025**

Important changes made in this amendment were inclusion of Aadhaar Face Authentication by bank officials, business correspondents or business facilitators in the list of valid KYCs.



Annex B

Microfinance in news

CEO Speaks

<https://www.youtube.com/watch?v=QTvDHPEpelU>

Dr Alok Misra, CEO & Director, MFIN in an exclusive interaction with Ms Latha Venkatesh from CNBC-TV18, spoke about the sectoral interest rates, credit quality, deposit rates, and budget demands, among others topical issues.



<https://www.youtube.com/watch?v=purq47jpMho&t=3s>

In an exclusive interview with CNBC-TV18, CEO talked about issues like loan utilisation check by lenders and about measures to ensure adherence to MFIN Guardrails, amidst tightening of lending norms for micro loans.

<https://www.youtube.com/watch?v=KTRjjmt8tSA>

The CEO & Director, MFIN spoke to NDTV Profit about the sectoral wish list from the Government in the Union Budget, highlighting the need for a dedicated refinance facility to ensure consistent and stable funding for microfinance institutions. He added that overall, the microfinance sector remains stable and resilient, with proactive measures ensuring both institutional sustainability and borrower protection.

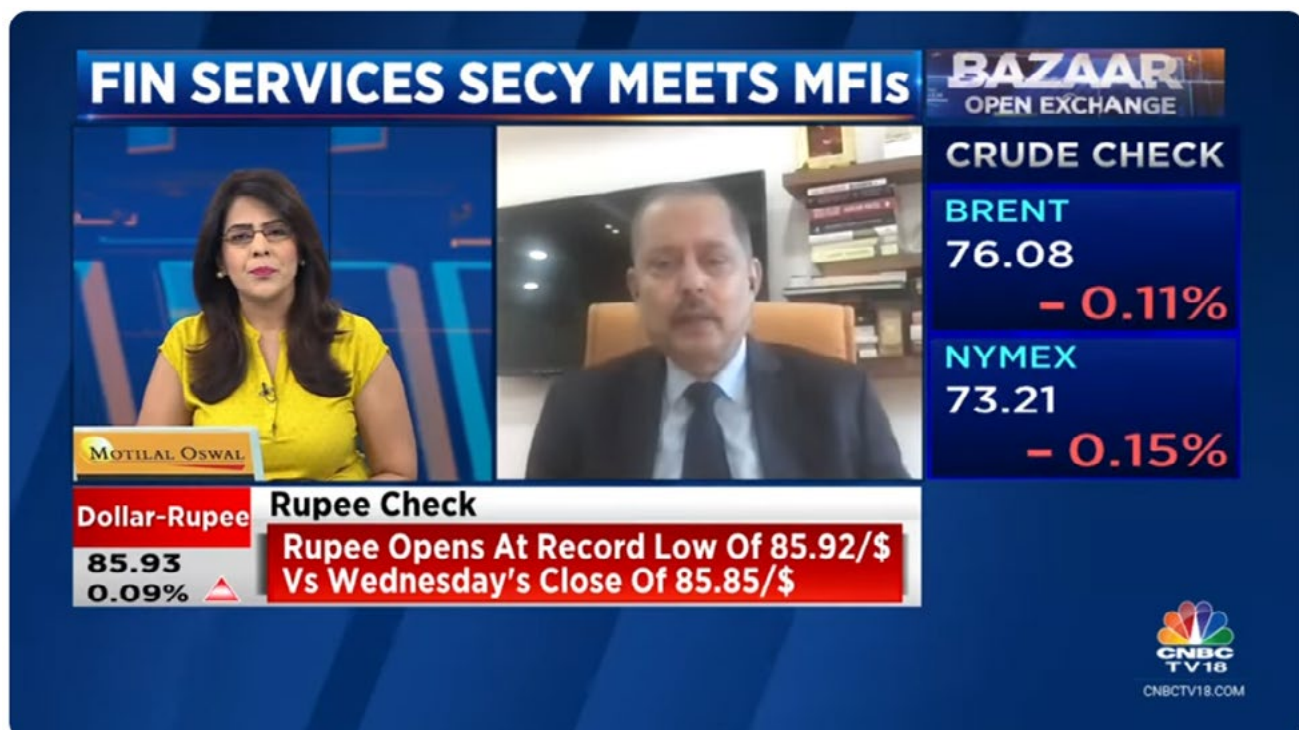


<https://www.cnbtv18.com/business/mfin-lender-cap-implementation-delay-will-not-impact-asset-quality-19534601.htm>

Speaking to CNBC-TV18, Alok Misra, CEO & Director of MFIN, emphasized that the brief postponement of the lender cap will allow smoother system readiness and seamless implementation. He also highlighted the sector's strong fundamentals, responsible lending practices, and sound underwriting standards will continue to ensure portfolio stability and sustainable growth across the microfinance industry.

<https://www.youtube.com/watch?v=D6nnnPjUXyo&t=68s>

In an interview with CNBC TV18, Dr Alok Misra, CEO, MFIN highlighted the sector's resilience and constructive engagement with the government to strengthen the microfinance ecosystem. He added that the key recommendations include a dedicated refinance facility, a tailored credit guarantee scheme, and KYC data improvements to enhance underwriting, expressing optimism that continued collaboration with the government and RBI will ensure sustained growth and financial inclusion.



MFIN CEO Alok Misra highlights that India's microfinance sector offers vast opportunities for UAE investors. With a loan portfolio of nearly ₹50 billion and outreach to over 7.5 crore low-income women, the sector is projected to grow to \$80 billion by 2027. He encouraged UAE investors to explore participation through equity, debt, impact investing, and greenfield ventures, emphasizing strong growth potential, social impact, and a robust regulatory framework.

<https://www.gulftoday.ae/business/2024/05/17/indias-micro-finance-sector-offers-vast-opportunities-to-uae-investors-mfin-ceo>

Gulf Today

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BUSINESS

India's micro-finance sector offers vast opportunities to UAE investors: MFIN CEO

Last updated: May 17, 2024 | 07:00



Sajjad Ahmad, Deputy Business Editor

Dubai, UAE: MFIN, the quasi-regulatory body (Self Regulatory Organisation) in the Indian micro-finance sector, has underscored the significant potential for investment in India's micro-finance industry from the UAE market. With total micro-finance loan portfolio amounting to \$50 billion and an outreach extending to 7.5 crore low-income women— a community often disempowered in society— India's micro-finance sector has emerged as a pivotal force in fostering financial inclusion and empowering women in the country.

Highlighting the sector's robust growth trajectory, Dr Alok Misra, CEO, MFIN pointed out that the average loan amount stands at Rs 40,000, with around 75 per cent of India's current population representing a viable customer segment for micro-finance. Moreover, with micro-finance directly contributing to nine Sustainable Development Goals out of the twelve, its significance as a vehicle for positive social change cannot be overstated.

The regulatory framework governing microfinance in India is primarily overseen by the Reserve Bank of India (RBI). The RBI released the harmonized guidelines for microfinance loans on 14th March 2022. The new guidelines ushered in a new era for the microfinance sector where a common regulatory framework was applicable to all REs of RBI. The regulations created a level playing field for all regulated entities in the microfinance space and that has also led to MFIN emerging as the unified body for microfinance in India. As of March 2024, MFIN has 51 NBFC-MFIs, 7 banks, 6 SFBs and 9 NBFCs as its members- entire spectrum active in microfinance.

Financial Inclusion

Microfinance has been a powerful driver of financial inclusion, extending affordable credit and essential financial services to low-income households and small entrepreneurs. It has not only empowered countless women and encouraged them towards the path of self-employment, but it has also reduced their reliance on informal lenders. By bringing underserved communities into the formal financial system, microfinance has fostered inclusive growth, sustainable livelihoods, and ensured that even the poorest share in the nation's progress.



<https://www.thehindubusinessline.com/opinion/robust-microfinance-key-to-financial-inclusion/article69019961.ece>

The microfinance sector has witnessed rapid digitization in recent years, transforming both loan disbursement and repayment processes. All disbursements are now carried out digitally, ensuring greater transparency and efficiency. Around 25% of repayments are already being made through secure digital channels, significantly reducing operational risks, minimizing cash handling, and enhancing overall transparency. To further enable this transition, customized solutions such as Bharat Connect (BBPS), UPI 123Pay, and UPI AutoPay developed by NPCI have been operationalized for microfinance repayments.

<https://www.youtube.com/watch?v=Utlq2cCQW7o&t=276s>

The CEO & Director, MFIN spoke to ZEE Business about the advancement of digitalization in the microfinance sector, the role of micro and nano enterprises in inclusive economic growth, and the potential of micro women entrepreneurs to scale from local to global.



Back from the brink: How NBFC-MFIs fought the battle against NPAs post Covid

<https://www.financialexpress.com/business/sme/back-from-the-brink-how-nbfc-mfis-fought-the-battle-against-npas-post-covid/3484767/>

The article highlights how NBFC-MFIs are successfully navigating post-Covid challenges through coordinated lender actions, regulatory flexibility, and government support. Measures like moratoriums, restructuring, and targeted refinancing help preserve asset quality and borrower trust. With improved repayment discipline and digital adoption, the sector's NPAs have declined to around 1%, reflecting a strong, resilient recovery.

<https://bfsi.economictimes.indiatimes.com/news/nbfc/rural-borrowers-share-in-microfinance-space-scales-to-10-year-high/111934498>

The Economic Survey FY24 reported that rural borrowers' share in India's microfinance sector reached a 10-year high of 74% in FY23, with disbursements up 55% to ₹1.8 lakh crore. Urban borrowers now form 26%. Dr. Alok Misra, CEO & Director, MFIN noted, "Microfinance institutions primarily focus on unserved and underserved populations, mostly women and rural clients. Further, another notable feature is that the sector added more than 1 cr new clients in last one year. RBI regulated entities are playing a key role in building an Inclusive India,"

Rural borrowers share in microfinance space scales to 10-year-high

During FY23, the microfinance sector rebounded strongly, achieving an aggregate disbursement of Rs 1.8 lakh crore, 55% higher than the previous year, the survey said. However, the share of urban borrowers fell to 26% in FY23, as against 33% in FY12, it showed.

Vikas Kumar • ETBFSI
Published On Jul 23, 2024 at 08:00 AM IST • Read by 1083 Professionals

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Speaking on the development, Dr. Alok Misra, CEO & Director of Microfinance Industry Network (MFIN), said, "Microfinance institutions primarily focus on unserved and underserved population segment and as such the client outreach in primarily women and rural. As per MFIN data of members who account for 90% Microfinance market share, 83% clients are from rural areas.

Journey of Growth

<https://www.fortuneindia.com/long-reads/the-brief-the-rise-of-micro-credit-nbfcs/116326>

The Brief: The Rise of Micro Credit NBFCs

Non-bank microcredit NBFCs are emerging as dominant players, commanding around 39% of India's microfinance market. Their portfolios are expanding as average loan sizes nearly double to Rs 45,700, stressed assets decline, and interest-rate liberalization improves margins. Profitability now exceeds 3%, driving steady growth across underpenetrated regions and strengthening financial inclusion.

<https://timesofindia.indiatimes.com/business/india-business/indian-micro-finance-sector-soared-2100-in-past-12-years/articleshow/117086598.cms>

Indian Micro Finance sector soared 2,100% in past 12 yrs

In a meeting held by DFS and chaired by Secretary M. Nagaraju, it was shared that India's microfinance sector has grown over 2,100% in 12 years, expanding from Rs 17,264 crore in 2012 to Rs 3.93 lakh crore by Nov'24. It was shared that the sector serves 8 crore borrowers across 723 districts, contributing to financial inclusion, job creation, and rural development while addressing challenges in fundraising, portfolio quality, and governance.

<https://www.financialexpress.com/business/banking-finance-microlenders-shares-surge-after-mfin-defers-cap-on-lenders-3706031/>

Microlenders' shares surge after MFIN defers cap on lenders

Shares of leading microlenders rose after MFIN postponed by three months the rule limiting lenders per borrower to three, allowing institutions time to align IT systems and processes. The move eased implementation concerns, boosting investor confidence even as the sector faced asset quality pressures, operational challenges, and tighter responsible-lending norms.



https://www.youtube.com/watch?v=v4NnNI5j_7M&t=98s

Dr Alok Misra, CEO & Director, MFIN spoke to Ms Latha Venkatesh from CNBC TV18, where he shared insights on the state of the microfinance sector, covering key issues such as credit quality, overlending concerns, the role of MFIN's guardrails, and the sector's future outlook.

<https://theprint.in/economy/mfin-for-limiting-indebtedness-up-to-rs-2-lakh-per-borrower/2166614/>

MFIN for limiting indebtedness up to Rs 2 lakh per borrower

MFIN recommended capping micro-credit indebtedness at Rs 2 lakh per borrower and limiting lenders to four, to ensure responsible lending and manageable repayment. It emphasized assessing household income and improving credit data quality.

<https://timesofindia.indiatimes.com/business/india-business/microfin-pitch-for-responsible-lending/articleshow/111587538.cms>

Microfin pitch for 'responsible lending'

The self-regulatory organisation for microfinance sector, MFIN, is pitching for 'responsible lending'. Key measures include assessing borrower income and repayment obligations and capping loan repayment obligations at 50% of income.

MFIN CEO Alok Misra told Financial Express that the decision to defer the implementation of the three-lender cap to 1st Apr'25, is purely operational, allowing MFIs time to upgrade IT systems and processes. The move reassured investors, leading to a sharp rise in microfinance firms' stock prices.

<https://www.financialexpress.com/business/banking-finance-microlenders-shares-surge-after-mfin-defers-cap-on-lenders-3706031/>

Q1-2024-25

According to the Micrometer released by MFIN, NBFC-MFIs recorded a 16.4% rise in the number of clients, reaching 4 crore as of 30th Jun'24, compared to the previous year. The Asset Under Management (AUM) stood at Rs 1,44,797 crore, marking a 22.8% annual increase and a marginal 0.8% decline from March 2024, which included an owned portfolio of Rs 1,16,478 crore and a managed (off-balance sheet) portfolio of Rs 28,319 crore. During Q1 FY25, loans worth Rs 26,223 crore were disbursed through 56.8 lakh accounts, covering both owned and managed portfolios. Notably, this is 1.5% higher than the amount disbursed in Q1 FY 2023-24. The report highlighted that the East and North-East continue to

Microfinance firms' shares surge as MFIN defers capping lenders

SACHIN KUMAR
Mumbai, January 2

SHARES OF MICROLENDERS, including CreditAccess Grameen, Spandana Sphoorty and Equitas Small Finance Bank, rallied on Thursday after the Microfinance Institutions Network (MFIN) decided to defer by three months the implementation of limiting the number of lenders to three per borrower.

MFIN, the self-regulatory organisation for the microfinance sector, had in November proposed a new cap of three lenders per borrower and a few other guidelines related to underwriting, KYC, and reporting data to credit bureaus. While the other norms came into effect on January 1, the rule on limiting the number of lenders to three per borrower will now be implemented from April 1.

"The feedback we got from the institutions was that the changes to the IT systems, the business rule engines, and all that takes time. To do it right now from January 1, when they have already done one major change in August and September would be a little troublesome and can create some problems in implementation in the field," said Alok Misra, CEO, MFIN, adding: "That is

ON A HIGH

Intra-day on BSE (₹), Jan 2



why we have given some time...from April 1, it will be on."

Shares of CreditAccess Grameen jumped nearly 10% in intra-day trade on the NSE before closing at ₹947, a 6.5% gain. Shares of Spandana Sphoorty closed at ₹339, up 3%, while the Equitas SFB stock rose nearly 2% to close at ₹65.

FINANCIAL EXPRESS
HEAD TO LEAD

Fri, 03 January 2025
<https://epaper.financialexpress.com>



have the largest share of portfolio. Although these regions were on a declining trend but stable in the last three quarters, closely followed by South.

https://bfsi.economictimes.indiatimes.com/news/nbfc/mfis-record-22-8-spike-in-aum-east-north-east-dominate-geographically/112920180?utm_source=copy&utm_medium=pshare

Q2-2024-25

Microfinance loan book shrinks by 3.7% sequentially to Rs 4.08 trn in Sep

According to MFIN, the gross loan portfolio (GLP) of microfinance institutions (MFIs) shrunk by 3.86 per cent sequentially to Rs 4.08 trillion in September from Rs 4.24 trillion in June as lenders slammed brakes on disbursements to contain stress and resorted to tight underwriting. However, the GLP grew by 8.5 per cent on a year-on-year (Y-o-Y) basis over Rs 3.76 trillion in September 2023, according to Micro Finance Industry Network (MFIN) data, which covers a range of lenders, including banks, NBFC-MFIs and small finance banks etc. Dr Alok Misra, CEO & Director, MFIN said, “Considering the ongoing challenges, the industry decided to moderate the disbursement growth, focus on strengthening underwriting as per MFIN guardrails and repayment collections.”

https://www.business-standard.com/finance/news/microfinance-loan-book-shrinks-by-3-7-sequentially-to-rs-4-08-trn-in-sep-124120900914_1.html

Q3-2024-25

Loan disbursements by microfinance institutions shrank to a over two-year low in the December quarter to Rs 220.9 crore, down 36% compared with the year-ago period. The number of new loans disbursed registered a de-growth of 29%, according to the 52nd edition of Micrometer, a publication of the Microfinance Industry Network (MFIN). The average loan amount disbursed per account during

the December quarter was Rs 51,691, higher by over 15% YoY.

<https://www.financialexpress.com/business/banking-finance-mfis-q3-loan-disbursements-fall-to-two-year-low-report-3760416/>

Q4-2024-25

The gross loan portfolio of players in the microfinance space de-grew 13.5 per cent year-on-year (yoy) to Rs 3,75,030 crore as at March-end 2025, against Rs 4,33,697 crore as at March-end 2024, according to industry body the Micro Finance Industry Network (MFIN). The de-growth came

Dec numbers signal improving microfin situation: MFIN CEO

Says will wait for 3 months to see if trend is sustainable

MANOJIT SAHA
Mumbai, 12 January

The Indian microfinance sector, which is reeling from the pressure of mounting bad loans forcing lenders to slow down growth, could come out of the woods soon if the positive trends of December are sustained.

In an interaction with *Business Standard*, Alok Misra, chief executive officer of Microfinance Institutions Network (MFIN), a self-regulatory body (SRO), said: “December field report gives us positive signals of a turnaround.”

“However, I would like to wait for three months to see if the trend is sustainable,” Misra said.

The Reserve Bank of India (RBI), in the Financial Stability Report released last month, said the microfinance sector is showing signs of stress with increased delinquencies. In addition, there is a notable increase in the number of borrowers who availed of loans from multiple lenders.

The report said the share of stressed assets in the microfinance sector increased in the April-September period of 2024-25, with 31-60 days past due rising to 4.3 per cent in September 2024 from 2.15 per cent in March 2024. The regulator has come down hard on some microfinance institutions (MFIs) that

were found charging usurious rates to customers, who are predominantly in the bottom-of-the-pyramid segment.

In October last year, RBI imposed business restrictions on four non-banking financial companies (NBFCs), of which two—Arohan Financial Services and Asirvad Micro Finance—are NBFC-MFIs. RBI revoked the ban on Arohan and Asirvad this month after they initiated remedial action and submitted their various compliances to the regulator. The restrictions were also lifted from the other two NBFCs.

“It is positive news as both Arohan and Asirvad together serve nearly 6.5 million low-income clients,” Misra said. Both these MFIs are members of MFIN.

“As an SRO, we would like our members to be compliant with all RBI regulations and SRO guidelines and grow the business sustainably and transparently,” Misra said.

He said that the sector is committed to ensuring that interest rates are set in a manner that makes microfinance operations viable and that efficiency gains are passed on to clients.

“Microfinance is not a mere business. It is critical for ensuring that economic growth touches every segment of society,” Misra said.

He noted that funding con-

straints are currently being faced by the sector and that it is always a challenge, especially for smaller players. “That is why we have requested the government for a dedicated refinance facility for the MFIs,” Misra said, adding that the SRO is trying to allay apprehensions among banks and NBFCs—the lenders to MFIs—with positive December field reports.

“We had a review meeting with the Department of Financial Services in the Ministry of Finance on Wednesday last week. The Government of India values the contribution of the microfinance sector to jobs, outreach to 81 million low-income clients, and contribution to inclusive growth,” Misra said.

In November, MFIN prescribed a set of strict norms, including reducing the number of micro-lenders per client from the existing four to three. These guardrail norms were scheduled to kick in in January.



“MICROFINANCE IS NOT A MERE BUSINESS; IT IS CRITICAL FOR ENSURING THAT ECONOMIC GROWTH TOUCHES EVERY SEGMENT OF SOCIETY”

ALOK MISRA
CEO, Microfinance Institutions Network

in the backdrop of issues such as borrower over-leveraging, asset quality and liquidity issues, and a State (Karnataka) bringing in a stringent law to curb coercive loan recovery practices. However, with the adoption of guardrails issued by MFIN, credit quality is improving with PAR (portfolio at risk) 1-90 days of the industry at 4.22% as on 31st Mar'25. PAR 31-180 (days) for all entities except NBFCs has improved or stabilised in comparison to the previous quarter. However, for NBFCs it has weakened to 4.0% from 3.7% (in Dec'24).

<https://www.thehindubusinessline.com/money-and-banking/gross-loan-portfolio-of-microfinance-lenders-de-grew-135-to-375-lakh-cr-industry-body/article69682372.ece>

MFIN CEO Alok Misra told Business Standard that December data shows an improving trend in the microfinance sector, with portfolio quality stabilizing. He noted that sustained improvement over the next three months could confirm recovery. Misra emphasized microfinance's vital role in inclusive growth and urged continued policy and refinancing support for the sector.

Business Standard (31st Jan'25)

https://www.business-standard.com/finance/news/dec-field-reports-a-positive-signal-for-turnaround-says-mfin-ceo-125011200313_1.html



About MFIN

MFIN was established in 2009 as an association for NBFC-MFIs and was recognized by the RBI as India's first SRO for the NBFC-MFIs in 2014. Currently, MFIN members & associates are RBI-regulated entities, comprising NBFC-MFIs, Banks, SFBs, and NBFCs along with BCs & CICs, Fintech companies among others, which collectively account for more than 90% of the industry's GLP.

Keeping the larger objective of financial inclusion in mind, MFIN focuses on creating an enabling policy and business environment for its members to pursue responsible finance, with the highest standards of customer protection and corporate governance. In pursuit of this goal, MFIN works closely with microfinance providers, regulators, government bodies, and key stakeholders across 36 states and union territories, spanning 721 districts including 112 aspirational districts, to ensure that credit reaches low-income households.

MFIN operates through three verticals – SRO, Advocacy & Development, and State Initiatives, playing an invaluable role in the robust development of the microfinance sector.

The impact of microfinance can be seen in its extensive outreach, over 75 million women borrowers are currently being served through small, easily serviceable, collateral-free loans with doorstep delivery, designed especially for women excluded from formal banking. These efforts have positively impacted nearly 300 million families, enabling a vast unbanked and underserved population in India to access formal credit, even in the remotest regions of the country.

For more information about MFIN and its work, please refer to
www.mfinindia.org



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