EMERGING TRENDS IN INDIAN MICROFINANCE INDUSTRY; ROLE OF FINANCIAL TECHNOLOGY AND INCLUSIVE POLICIES

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Abstract: The Indian microfinance industry has been a strong enabler of financial inclusion of underserved and unbanked people in India. After the mission of Pradhan Mantri Jah-Dhan Yojana (PMJDY) in 2014, financial inclusion is vigorously promoted to ensure delivery of banking services at an affordable cost to the vast sections of the unbanked group. Subsequently, The Government of India and Central Bank (RBI) reaffirmed the role of Microfinance Institutions (MFIs) in financial inclusion by introducing NBFC-MFIs guidelines, Priority Sector Lending (PSL), promoting MFIs as Business Correspondents (BC) of banks and launching of MUDRA bank due to its easy viability and wide range beneficiaries across the country. Nowadays banks also concentrate on Microfinance sector with different schemes and corporate sector considered Microfinance as a mode to fulfill the corporate social responsibility (CSR). Even though the recent movement of the Indian government towards demonetization (8th Nov-2016) and Andra Pradesh Microfinance crisis happened in 2011, this sector is dropping large collections and experienced loan defaults due to the cash crunch. Hence, this study explores emerging trends in Indian Microfinance due to impact of policy reforms, financial technology (Fintech) and banking initiations.

JEL Classification: G00, G21, I38

Keywords: Microfinance, Financial Inclusion, Financial Technology (FinTech), Priority Sector Lending (PSL)

I. INTRODUCTION

Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services other than the provision of credit which include savings, insurance, money transfers, counseling, etc. as a form of the social business system. The mainstream delivery channels of Micro Finance Institutions (MFIs) are Rotating Savings and Credit Associations (ROSCAs), Chit Fund, Grameen Bank Model, Village Bank Model, Credit Union (CU), Self-Help Groups (SHGs), Non Banking financial company (NBFC), Association of Persons, Nidhis and Non Governmental Organizations (NGOs).

In the current scenario, microfinance sector is highly dynamic and self motivated. Recently, many modifications and regulations have been implemented by Governing authorities like RBI, Ministry of Finance, central and state governments to ensure Financial Inclusion (FI) through Banks like Priority Sector Lending, PMJDY, Business Correspondent etc. Later on, Bank also entered into Microfinance sector with many products and schemes such as Micro Credit, Micro Insurance, Micro Savings, opening of specialized Microfinance branches (SBI, PNB initiatives), Micro-mutual funds (Micro SIP of Axis Bank) Rural and Agricultural Banking, SHG Credit Cards and SHG Gold Cards (SBT initiatives), Apna Saving Accounts (ICICI initiatives), YES SAMPANN and Microfinance Institutions Group (MIG) for Financial Growth (YES Bank Initiatives), Village Knowledge Centers and Famer's club (by Kerala Gramin Bank), which have been launched by Banks in the field of Microfinance.

After the demonetization policy in India in November 2016, this sector was adversely affected in subsequent months, and even its hurdles were relaxed in some extends, still Microfinance institutions and customers are triggered by the cash crisis. But the deriving trends towards digitalizing the financial services enabled this sector with constructive changes. Hence, this study was ultimately done to explore new paradigm shifts happened in post crisis periods occurred in Andra Pradesh Microfinance sector in 2011 and to examine the influence digitalization on this sector.

II. MOTIVATION OF THE STUDY

Many studies discussed different aspects of financial inclusion and Microfinance especially on Self Help Groups, NBFC, BC models etc with respect to Indian scenario. This study is mainly done to investigate holistic approaches in Microfinance ecosystem due to the impact of financial technology. Furthermore, none of the studies did cover recent trends and dynamism taken place in Microfinance sector especially based on banking initiatives in this sector after the PSL provision. Thus, the objectivity of the study was formulated to throw light on such kind of unexplored areas.

III. OBJECTIVES OF THE STUDY

- To explore the new paradigm shift in Microfinance sector as the part of financial inclusion in India.

- To assess the performance of Microfinance and to analyze the impact of financial technology (Fin Tech) on this sector.

IV. RESEARCH METHODOLOGY

The study is a qualitative assessment and quantitative analytical study based on new trend and patterns occurred in operational methods of Microfinance. The study is exploratory research in nature, therefore data have been collected through secondary sources mainly from PMJDY website, Bharat Microfinance report etc. To analyze the data, linear regression was employed with the help of SPSS.

V. MICROFINANCE INDUSTRY IN INDIA

Indian Microfinance Sector has witnessed a tremendous growth over the past 17 years. As of March, the quantum of 60,000 crore credit made available to the poor and financially excluded clients and the number of clients benefitted is close to 40 million (Sa-Dhan, 2016). The outreach this industry grew by 8% and loan outstanding grew by 31% over the last year. The southern region still continues to have the highest share of both outreach and loans outstanding followed by East. However, growth rates are higher in the Northeastern and Central regions (Sa-Dhan, 2016).

The MFIN Report, as on 30th September 2016 reveals that the total number of MFI branches is 9,853 and employees are 99,010 with 3.30 core client outreach. The total number of 71 NBFC-MFI registered with RBI. As per the NABARD Report, there are 79.03 lakhs SHGs savings are linked with banks which accounts for 13691.39 crores. During 2015-16, a number of 5.72 lakh Joint Liability Groups were promoted (NABARAD, 2016). The overall outreach and profitability of Microfinance sectors and institutions in last four years have been given below.

Table-1: Outreach and Profitability Performance Microfinance Institutions

Performance of MFIs	2016	2015	2014	2013	2012
Client Outreach (in Lakh)	399	371	330	275	268
Rural Clients (%)	38	33	56	67	52
Number of Branches	11644	12221	11687	10697	12000
ROA (%)	2.2	1.73	1.94	1	2.61
ROE (%)	11.6	8.19	9.25	4.8	7.64
No of SHGs Linked (In Lakh)	79.03	77.12	74.29	73.17	-
Operating Expense Ratio (%)	10.2	11.45	12.08	12.00	10.90

Source: Sa-Dhan. Consolidated data from the Bharat Microfinance reports 2016-12

The table (Table-1) shows that the client outreach in 2016 is 399 lakh, whereas it was 371 lakh in 2015, out of it 38% belongs to rural clients. Operating Expense ratio (OER) during 2015-16 showed gradual fall in 2016, which is only 10.2% and lowest over the last five years.

VI. PARADIGM SHIFT IN MICROFINANCE

Earlier, this sector was considered only as a mode to remittance of small credits in restricted rural areas. Over the time, microfinance sector emerged as crucial part of the financial infrastructure catering to the vulnerable sections of society in India especially to the rural people they cannot meet big financial institutions to fulfill their daily financial needs. Today the sector has evolved as a vibrant industry exhibiting a variety of business models. Some Microfinance Institution moved to formal banking sector like Bandhan Bank Ltd, which received banking license by Reserve Bank of India in 2014. Equitas Microfinance has become the first microfinance company to have draft red herring prospectus with SEBI to do an IPO in 2015. Moreover, ESAF Microfinance and SKS Microfinance also were listed in IPOs and showing tremendous financial performance. But due to Microfinance crisis in Andra Pradesh, SKS Microfinance suffered huge losses which led to its share price dropping from a peak of Rs 1300 to low of Rs 57.

Presently corporate sector considered Microfinance as a mode to fulfill the corporate social responsibility (CSR). In this regard, Ratan Tata, Nandan Nilekani and Vijay Kelkar decided on August 2016 to team up for establishing ‘Avanti Finance' to provide loans and advances to poor which will be focused on delivering affordable and timely credit to under-served and un-served segments. In relation to financial inclusion plan, State Bank of India set up a specialized microfinance branch in Asia's largest slum area, Dharavi in 2010. This is the second such branch opened by the bank in the country the first at Bhopal, which it established in 2008.

VII. FINANCIAL TECHNOLOGY (FINTECH) THROUGH MICROFINANCE SECTOR

Presently many MFIs are utilizing advantages of Technology especially during post demonetization period due to derived trends towards the digital economy and cashless transactions. Business correspondents are the key players in Microfinance sector with technology-based transactions they are provided Point of Sale (POS) devices and doing E-KYC through the finger print technology. They use Micro-ATM (POS) handheld device to perform basic financial transactions like Deposit, Withdrawal, Funds Transfer, Balance Enquiry, Mini Statement and other remittance. The below table depicts the POS-based transactions during last five years.

Table-2:- Usage Point of Sale (POS) and MFI clients

Descriptive Table of Data					
POS & MFI Clients	**2015-16**	**2014-15**	**2013-14**	**2012-13**	**2011-12**
POS Usage -Credit Cards (In Million)	785.67	615.12	509.08	396.61	319.96
POS Usage -Debit Cards (In Million)	1,173.61	808.09	619.08	469.05	327.52
MFI-Client Outreach (in Million)	39.9	37.1	33.0	27.5	26.8
Total Number of POS Transactions (In actual)	1385668	1126735	1065984	854290	660920
MFI-Client Outreach (in Million)	39.9	37.1	33.0	27.5	26.8

Source: RBI Bulletin-April, 2017-12

From the table (Table-2) it can be drawn that, usage of POS for debit cards and credit cards has increased in the month of November as an effect of demonetization. Total number of POS increased to 20,15,847 in January 2017, which were only 14,80,309 in September 2016. To know the effect of FinTech on Microfinance sector with respect to Usage of POS for payment transactions and penetration of MFIs client outreach, Linear Regression Model was applied. In this regard, the hypothesis was framed as below.

H0: There is no significant difference between penetration of MFIs Client Outreach and Usage of POS for digital transactions.

The SPSS output table (Table-3) on above data analysis by using Linear Regression shows that R value (Simple Correlation between the observed and predicted values of dependent variable) indicates high degree of correlation, i.e., 0.967 and R Square Value (which means how variation in the dependent variable can be explained by independent variable) is 0.936. Both Values show strong relation and high co-efficiency.

Table-3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.967[a]	.936	.914	150.11745
a. Predictors: (Constant), Client Outreach				

Source: SPSS output Table

The ANOVA output table (Table-4) on Linear Regression Model shows how the test is significantly well. In the table Degrees of Freedom is 4 (due to five years data) and F-value is 43.524.

Table-4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	980832.452	1	980832.452	43.524	**.007[b]**
	Residual	67605.750	3	22535.250		
	Total	1048438.201	4			
a. Dependent Variable: POS						
b. Predictors: (Constant), Client Outreach						

Source: SPSS output Table

Table-5: Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1616.999	432.951		-3.735	.033
	ClientOutreach	85.872	13.016	.967	6.597	**.007**
a. Dependent Variable: POS						

Source: SPSS output Table

From the above two tables (Table-4&5), it can be drawn the conclusion that the significant value (.007) is less than Alpha Value (0.05). Being P-Value is less than 0.05, the above regression model is statistically significant. Thus, it can be interpreted that the increase of MFI's client outreach is significantly effected on POS usages i.e., clients largely depend on such technological advancements for their financial transactions.

CONCLUDING OBSERVATIONS

The tremendous changes in Microfinance sector will strengthen the financial performance of microfinance entities by which it can enormously contribute to empowering the rural economy through the thrift and credit facilities. The opening of outlets by banks and corporate is a prospective approach, especially during the post crisis period. Thus, low-income and unbaked people can avail more strong and reliable financial needs and services, so as which lead them to reach into the mainstream financial sector. Contrastingly, it will affect the existing small scale Microfinance institutions. They may be ruled out due to incompetency with corporate and mainstream banks. Hence, authorities should ensure the viability and healthy competition in this sector. Otherwise, current outreach may be curtailed, and rural or unbanked people may be financially inaccessible from the already availed easy tiny or MFIs channels. Therefore, the government should take precautionary measure to ensure the industry would not get affected awfully. The expansion financial technology (FinTech) leveraged the easy accessibility of financial service. Despite the statistical result in this regards shows extensive use of such devices by MFIs clients, to overcome the asymmetries due to demonization and the digital economy, MFI institutions and customers have to acquire adequate digital financial literacy, still it remains as great challenge while moving ahead with the dream of cashless economy.

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