

Swaminathan J: Micro matters, macro momentum - microfinance for Viksit Bharat

Speech by Mr Swaminathan J, Deputy Governor of the Reserve Bank of India, at the Microfinance Industry Network (MFIN) event, Mumbai, 14 November 2025.

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Shri Harsh Bhanwala and other distinguished members on the Board of MFIN; CEO, MFIN, Dr. Alok Misra; Director, Bankers Institute of Rural Development, Dr. Nirupam Mehrotra; esteemed industry leaders, distinguished guests, awardees of the ASCEND programme, ladies, and gentlemen. Good evening.

It is a pleasure to join you today at the launch of Micro Matters: Macro View - India Microfinance Review FY 2024 - 25 and the special session on "Microfinance for Viksit Bharat." My compliments to Dr. Alok Misra and the MFIN team for producing a timely mirror of the sector and a compass for the road ahead.

The theme of this year's review captures a powerful idea: when microfinance is delivered responsibly, it does not remain "micro." It becomes macro progress. It turns access into livelihoods, borrowers into business owners, and informal activity into measurable economic output. As we work toward Viksit Bharat 2047, the question is how microfinance can contribute most - how we scale its impact soundly, transparently and with accountability.

Why Microfinance matters now?

Over the last decade, India has laid strong rails for inclusion. Jan Dhan has given households a basic account, Aadhaar has simplified verification, UPI has made small payments instant, and the Account Aggregator framework has the potential to unlock consented cash-flow data. On these public rails, microfinance can travel far beyond traditional branch footprints.

This progress shows up in the numbers. The Financial Inclusion Index has moved from 43.4 on March 31, 2017, to 67.0 on March 31, 2025. That is a meaningful shift in access and availability. However, the task now is depth and quality of use. In that context, let me share four reasons as to why microfinance matters.

First, it bridges asymmetry. Many low-income households have irregular incomes, thin documentation, and no collateral. Microfinance enables them to obtain small loans, where instalments are aligned to real cash cycles rather than to a salaried calendar.

Second, it creates productive capacity. Credit is deployed into inventory, livestock, tools, and working capital. Small assets start generating cash that can service the next, slightly larger loan which can eventually transform a person into a micro-entrepreneur.

Third, it serves as a platform for innovation. Assisted digital journeys, Aadhaar-based KYC, alternative credit scoring, etc. were first proven at the frontiers of microfinance. The sector often pilots what the rest of the system later scales.

Lastly and most importantly, it brings the benefits of formal finance to those otherwise excluded and help them create a transaction record. That record opens doors to larger formal credit over time and connects households to savings, insurance, and pensions.

In sum, microfinance can turn access into use, and use into progress on rails the country has already built. The agenda now should be to convert reach into inclusive growth through better underwriting, reasonable pricing and consistent customer protection. With that in view, let me outline five key ideas that can shape the next phase.

Five ideas to shape the next phase

Serve the household, not just the applicant: Credit decisions work best when they read the full cash life cycle of the family. It is better to promote a savings habit, a basic insurance cover, and a short emergency line, as all these together can make credit quality predictable.

Tech-enabled underwriting with human judgment: Technology can help overcome thin files, but human expert judgment must stay. AI models must be explainable, so review exceptions by a human, and back-test results regularly. The aim is less friction, not less prudence.

From mono-product to micro-enterprise finance: Product design needs to match how small businesses actually grow. A single working-capital loan is often the first step; but it should progressively graduate into inventory finance, capital asset financing, and basic payments support.

Build climate resilience at the base of the pyramid: Climate is now a credit variable. Districts face heat spikes, floods, or erratic rainfall that strain household income and collections. Lenders have to respond with products that can keep customers and portfolios steady through weather shocks.

Responsible use of data: the rails and the data must work for the borrower. Customer data and its privacy is a responsibility. Consent should be clear and in local language, data used for the purpose stated, and storage kept secure. Used well, these rails prevent over-indebtedness and enable responsible personalisation rather than indiscriminate up-selling.

Taken together, the aim is to convert first access into regular use, regular use into stable income, and stable income into a clear route to formal credit. This is the quality of growth the sector should now aim for.

Regulatory initiatives and supervisory expectations

In 2022, the Reserve Bank undertook a careful reset of the microfinance framework. After extensive stakeholder feedback, a revised framework was issued with the overarching intent to expand inclusion, place borrower welfare at the centre, and align rules across all regulated lenders offering microfinance. Along with clarifying what qualifies as microfinance, the framework also removed pricing caps, a long-standing demand of the industry.

Greater flexibility brings a higher bar for conduct. The Reserve Bank expects lenders to use the room provided by the 2022 framework in a way that strengthens borrower welfare and long-term portfolio quality. Let me therefore enumerate some of our expectations.

Pricing and transparency. Pricing should be reasonable, reflecting cost, risk, and efficiency improvements, and not taking undue advantage of the borrower's situation. Customers deserve a clear view, which means plain-language loan agreements /contracts that set out instalments, fees, and total cost; and staff who can explain these in local language. Where technology or funding reduces cost-to-serve, borrowers should also reap the benefit. Boards of entities are expected to review spreads against cost of funds and operating efficiency, and to question outliers.

Lending should not result in over-indebtedness. A proper assessment should consider all sources of income, recognise seasonal variability, and verify all current obligations to ensure that additional lending does not lead to unsustainable indebtedness.

Collections conduct and grievance redress. Outsourcing collections does not dilute accountability. Lenders remain responsible for how customers are treated, including by BCs and recovery agents. Grievances must be easy to file, acknowledged promptly, and resolved within published timeframes. Further, the quality of resolution matters as much as speed.

Model risk, analytics, and fairness. Digital adoption is welcome when it improves suitability and reduces friction. Analytics and models require strong governance. Inputs should be documented, and outcomes should be tested for accuracy and unwanted bias.

Accurate reporting. Bureau reporting needs to be timely and complete so good repayment behaviour travels with the borrower and lenders can see total obligations of a borrower. Inaccurate or late reporting hurts both households and institutions.

Operational resilience and partner hygiene. Resilience must reach the last mile. Cyber hygiene at branch, partner, and device level protects both customers and institutions. Partner due diligence for Business Correspondents and Direct Selling Agents should follow a common baseline that covers training, data handling, and conduct standards, with periodic spot checks.

Concentration risk and early warning. Concentration, whether geographic or segmental can magnify shocks. Early warning frameworks that track skip patterns, roll-rates, repeat top-ups, etc. allow timely course correction.

Governance, incentives, and culture. Incentives should reward responsible growth, accurate underwriting, and good conduct, not just volumes. Complaint analysis, collections exceptions, and pricing outliers deserve board time.

Eventually if industry standards remain high, regulatory or supervisory intervention can stay light. Flexibility and accountability travel together; the sector's longevity and health depends on that balance.

Let me end with a line¹ from Smt. Ela R. Bhatt, who founded SEWA and pioneered the concept of microfinance through women led SHGs in the 1970s.

"When we put the human being at the centre, we begin to get a more holistic and integrated view of development. We begin to co-relate our activities with its impact on our own self, on the society we live in, and on the universe we live in. And in this way we restore balance and harmony in the world."

If we stay true to these basics, more first time loan customers will graduate to larger formal credit, and the quality of growth will rise across states and segments. That is how micro becomes macro progress, and how we advance the larger journey to Viksit Bharat 2047. My compliments and thanks to MFIN for this opportunity, to lenders and partners across the ecosystem, and to the field teams who carry this work to the last mile. Jai Hind.

¹ Women's World Banking, Speech by Smt. Ela R. Bhatt at the Gandhi Lecture on Non-violence at McMaster University on October 18, 2013. <https://www.womensworldbanking.org/insights/women-poverty-ela-bhatt-ghandi-lecture-nonviolence-mcmaster-university>.