

Malegam Committee, History, NBFC-MFI & UCBs Recommendations

November 26, 2025 • vajiramandravi.com



The Malegam Committee name refers to a set of high-impact expert panels (chaired by Shri Y. H. Malegam) that the Reserve Bank of India (RBI) and other regulators set up to investigate and recommend reforms for troubled but important parts of India's financial system, notably the microfinance sector (MFIs) and urban co-operative banks (UCBs).

The reports and recommendations of the Malegam Committee shaped formal regulation for NBFC-MFIs, influenced RBI policy on cooperative banks, and provided a template for governance, consumer protection and resolution measures.

Malegam Committee

The Malegam Committee, formally called the “**Committee on Microfinance Institutions**,” was established by the **Reserve Bank of India** (RBI) in 2010. Its primary objective was to examine and address various issues and challenges faced by microfinance institutions (MFIs) across India. The committee was headed by Mr. Y. H. Malegam, a renowned chartered accountant.

Malegam Committee Historical Background

The Malegam has evolved with time through the origin in 2010 till present day along with several achievements:

- The RBI constituted the Malegam Committee on microfinance on 15 October 2010, under Shri Y. H. Malegam.
- In October 2010, RBI also tasked the committee to review licensing norms for urban co-operative banks (UCBs).
- The Malegam microfinance report was publicly released by RBI on 19 January 2011, recommending NBFC-MFI classification and interest-rate limits.
- By May 2011, RBI accepted many recommendations in spirit, but relaxed some, such as income and interest-rate ceilings.
- The UCB expert group report under Malegam was submitted on 18 August 2011, and published on RBI's website on 7 September 2011 for public comment.
- In January 2013, RBI re-constituted a committee under Malegam to review entry-norms for new UCB licenses.

Malegam Committee Recommendations on Microfinance

The Malegam Committee, referred as “Committee on Microfinance Institutions” offered a package of recommendations intended to stabilise the MFI sector while protecting poor borrowers:

- A separate NBFC-MFI category: Define and regulate a distinct class of NBFCs that primarily lend to low-income borrowers with small, short-term unsecured loans; these would be supervised by RBI.
- Borrower and loan limits: A household-income threshold (e.g., annual family income limits) and loan size caps were recommended to keep MFIs focused on micro credit.
- Interest-rate and margin guidance: The report recommended an interest cap of 24% on individual MFI loans and an average margin cap (10% for larger MFIs and 12% for smaller ones), aiming to curb excessive rates while recognising operating costs.
- Transparency & limited charges: Restrict charges to a small set (processing fee, interest, insurance) and mandate clearer borrower disclosures.
- Multiple-lending & over-indebtedness controls: Rules on membership of only one SHG/JLG and limits on the number of MFIs that can lend to a borrower to prevent over-borrowing and coercive recoveries.

Malegam Committee Recommendations on Urban Co-operative Banks (UCBs)

When turned to UCBs, the Malegam Committee highlighted governance, capital, resolution and regulatory lacunae and suggested reforms to reduce systemic risk:

- Stronger governance: Introduce a professional Board of Management (BoM) in addition to the existing Board of Directors to separate ownership (members/society) from management and bring professional oversight to day-to-day banking operations.
- Deposit voting and control changes: Proposals to link voting rights more closely to depositors (for example, suggestions that a significant share of deposits be from voting members) to reduce “one-member, one-vote”

distortions.

- Regulatory parity and resolution: Empower RBI with clearer supervisory and resolution powers (instead of fragmented control across Registrar of Cooperative Societies and state authorities) to enable prompt corrective action and better handling of weak UCBs.
- Size-and-complexity caution: Recommend limits on the growth of UCBs unless they adopt stronger governance and capital frameworks, to avoid systemic spillovers.

Malegam Committee Impact

The Malegam Committee had measurable and enduring effects:

- Consumer protection in MFIs: The NBFC-MFI framework reduced abusive practices in several states by imposing disclosure norms, limiting charges and clarifying priority-sector treatment for MFI lending. That helped restore trust in formal microcredit after the Andhra Pradesh crisis.
- Governance focus for UCBs: The idea of a professional BoM and governance separation influenced subsequent RBI policy thinking and the 2015 High-Powered Committee on Urban **Cooperative Banks** (chaired by R. Gandhi) which reiterated many Malegam Committee themes.
- Policy template: Malegam's pragmatic mix of borrower safeguards, operational definitions and caps became a model for regulators balancing inclusion and stability.
- At the same time, the effects varied across states and institutions because legal and political contexts for cooperatives differ; harmonising these remains an unfinished task.

Malegam Committee UPSC

The Malegam Committee remains a milestone in India's regulatory evolution. By offering context-sensitive, operational recommendations for MFIs and UCBs, it helped transform regulatory treatment, promoted better governance and advanced borrower protection. Its work shows how careful, evidence-based committee reports can reshape supervision while revealing the political, legal and technical hurdles of implementing reform in a diverse federal system. As India continues to deepen financial inclusion, the Malegam Committee's prescriptions, and the lessons from their rollout, are still directly relevant to current reforms in NBFCs, cooperative banking and microcredit policy.

Source: <https://vajiramandravi.com/current-affairs/malegam-committee/>

© Vajiram & Ravi. For personal use only.