

CODE OF CONDUCT

I Integrity and Ethical Behaviour

1

MFIs must design appropriate Board approved policies and operating guidelines to treat clients and employees with fairness and dignity.

2

MFIs must incorporate transparent and professional governance system to ensure that staff and persons acting on their behalf are oriented and trained to put this Code into practice.

3

The incentive structure for the staff should aim at promoting good business and service practices towards customers.

4

MFIs must educate clients on the Code of Conduct and its implementation

II Transparency

1. MFIs must disclose all terms and conditions to the client, in a form and manner that is understandable, for all services offered. Disclosure must be made prior to disbursement in accordance with the Reserve Bank of India's (RBI) Fair Practices Code through the following documents.
 - a. Individual sanction letter
 - b. Loan card
 - c. Loan schedule
 - d. Passbook

Further, disclosure should be made through Group/Centre meetings for securing clients' informed consent. (Details can be printed on a paper and all borrowers can sign on the same as acknowledgement of their acceptance).

2. MFIs must communicate all the terms and conditions for all products/services offered to

clients in the official regional language or a language understood by them.

3. At the minimum, the MFI must disclose the following terms:
 - a. Rate of interest on a reducing balance method
 - b. Processing fee
 - c. Any other charges or fees howsoever described
 - d. Total charges recovered for insurance coverage and risks covered
4. MFIs must communicate in writing, charges levied for all financial services rendered. Fee on non-credit products/services will be collected only after prior declaration to the client.
5. MFIs must declare all interest and fees payable as an all-inclusive Annual Percentage Rate (APR) and equivalent monthly rate.
6. MFIs must follow RBI's guidelines with respect to interest charges and security deposit.



7. Formal records of all transactions must be maintained in accordance with all regulatory and statutory norms, and borrowers' acknowledgment/acceptance of terms/ conditions must form a part of these records.
8. Where a loan is not sanctioned against an accepted application, MFIs must disclose the reasons for rejection.
9. Place in public domain the assessment reports on code of conduct compliance.
10. All MFI should put their annual reports and annual financial statements in public domain (preferably on their websites) immediately after approval of their Board/AGM

III Client Protection

A. Fair Practices

1. MFIs must ensure that the provision of micro finance services to eligible clients is as per RBI guidelines.
2. MFIs should offer only financial products and services that have been approved by the concerned regulatory authority to their customers (even when acting as agents of other financial institutions).
3. MFIs must obtain copies of relevant documents from clients, as per standard KYC norms. Additional documents sought must be reasonable and necessary for completing the transaction.
4. The decision on loans must be taken within a reasonable of time. MFIs should indicate the time limit within which customers can expect a decision on their application and if sanctioned, the time taken for disbursement of loan.
5. Products should not be bundled. (Bundling in this context means making purchase of a product or service conditional for provision of another product or service). The only

exceptions to bundling may be made with respect to credit life, life insurance & livestock insurance products, which are typically offered bundled with loans. The terms of insurance should be transparently conveyed to the client and must comply with RBI & Insurance Regulatory and Development Authority (IRDA) norms. Consent of the client must be taken in all cases.

B Avoiding Over-indebtedness

1. MFIs must conduct proper due diligence as per their internal credit policy to assess the need and repayment capacity of client before making a loan and must only make loans commensurate with the client's ability to repay.
2. If a client has loans from 2 separate MFIs, then irrespective of the source of the loans, a MFI shall not be the third lender to that client. This should be validated by the Credit Bureau Report prior to extension of the loan.
3. MFIs must not, under any circumstance, breach the total debt limit for any client, as prescribed by RBI. This should be validated by the Credit Bureau Report prior to disbursement of the loan.
4. MFIs after due verification of credit bureau reports will ensure that loans given on the basis of joint liability of group of borrowers (JLG loan) is restricted to Rs 60,000¹ per borrower. Where the loan to a specific borrower exceeds Rs 60,000, or the loan takes the total debt of the borrower above Rs 60,000, such a loan should be given as an individual loan without involving the JLG. MFIs will take necessary steps to have appropriate systems and staff with required competencies to deal with individual loans.
5. MFIs should carry out test checks of efficacy of their processes relating to avoidance of over-indebtedness through additional credit bureau reports on select sample of clients

¹ The cap of Rs 60000 will be reviewed by SRO from time to time based on factors such as inflation rates and real value of loans.



after loan disbursement. The result of this verification should be reviewed by the Board periodically.

6. To reduce the errors in identification of borrowers in credit bureau reports, MFIs will move towards adoption of UIDAI number (Aadhaar number) based KYC within a two year period (from the day this COC comes into effect). As an initial measure, MFIs will ensure that while providing second and subsequent cycle loans the borrowers are identified with their Aadhaar number as part of KYC. The Aadhaar numbers will then be used by the Credit Bureaus for producing CIR.

C Appropriate interaction and collection practices

1. MFIs must have clearly defined guidelines for employee interactions with clients.
2. MFIs must ensure that all staff and persons acting on behalf of the MFI
 - a. Use courteous language, maintain decorum, and are respectful of cultural sensitivities during all interaction with clients.
 - b. DO NOT indulge in any behaviour that in any manner would suggest any kind of threat or violence.
 - c. DO NOT contact clients at odd hours, as per the RBI guidelines for loan recovery agents.
 - d. DO NOT visit clients at inappropriate occasions such as bereavement, etc., to collect dues even if two or more successive repayments are not received
3. MFIs must provide a valid receipt (in whatever form decided by the MFI) for each and every payment received from the borrower and record the payment in the loan passbook/loan card with the client.
4. MFIs must have a detailed Board approved

process for dealing with clients, at each stage of default.

5. MFIs must not collect shortfalls in collections from employees and their HR policies must categorically denounce this practice. However in proven cases of frauds by employees the MFIs can recover the money from employees.

D Privacy of client information

MFIs must keep personal client information strictly confidential. Client information may be disclosed to a third party subject to the following conditions:

- a. Client has been informed about such disclosure and prior permission has been obtained in writing.
- b. The party in question has been authorized by the client with intimation to the MFI to obtain client information from the MFI.
- c. It is legally required to do so.
- d. This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau) provided that the i) clients' prior consent has been obtained and ii) the receiver of such information is also bound by these conditions to keep the client information confidential.

IV Governance

MFIs must incorporate a formal governance system that is transparent and professional, and adopts the following best practices of corporate governance:

1. MFIs must observe high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body and seek to comply with the best standards stipulated in Companies Act, RBI regulations and the Stock Exchange regulations for listed companies (even though the MFIs may not be companies or listed in a stock exchange).



2. MFIs will endeavour to have independent directors to the extent of 1/3rd of the Governing Board.
3. MFIs must have a Board approved debt restructuring product/program for providing relief to borrowers facing repayment stress.
4. MFIs will appoint an audit committee of the Board with an independent director as chairperson
5. MFIs must ensure transparency in the maintenance of books of accounts and reporting/ presentation and disclosure of financial statements by qualified auditor/s.
6. MFIs must put in best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).
7. MFIs must place before the Board of Directors, a compliance report indicating the extent of compliance with this Code of Conduct and the functioning of the grievance redressal mechanism at various level of management, specifically indicating any deviations and reasons therefore, at regular intervals, as may be prescribed by Board.

V Recruitment

The code covers all MFI staff.



- 1 As a matter of free and fair recruitment practice, there will be no restriction on hiring of staff from other MFIs by legitimate means in the public domain like general recruitment advertisements in local newspapers, web advertisements, walk-in interviews, etc.
- 2 Whenever an MFI seeks to recruit an employee in another MFI, it will be mandatory to seek a reference check from the current employer. The reference check will be sought from current employer only after an offer is made and an offer letter is issued to the prospective employee.
- 3 MFIs should respond to the reference check request from another MFI within two weeks.
- 4 MFIs must honour notice period as contractually agreed between employer and employee subject to a minimum of one month for an outgoing employee
- 5 No MFI shall recruit an employee of another MFI, irrespective of the grade/level of the employee, without the relieving letter from the previous MFI employer. An exception can however be made in instances where the previous employer (MFI) fails to respond to the reference check request within 20 days. All MFIs must provide such relieving letter to the outgoing employee in case he/she has given proper notice, handed over the charge and settled all the dues towards the MFI, except in proven cases of fraud or gross misconduct by the employee.
- 6 Whenever an MFI recruits from another MFI, at a level up to the Branch Manager position, the said employee shall not be assigned to the same block where he/she was serving at the previous employer, for a period of 1 year.



VI Client Education

1. MFIs must have a dedicated process to raise clients' awareness of the options, choices and responsibilities vis-à-vis financial products and services available.
2. New clients must be informed about the organization's policies and procedures to help them understand their rights as borrowers.
3. MFIs must ensure regular checks on client awareness and understanding of the key terms and conditions of the products/ services offered / availed. Customer feedback should be gathered, as part of internal audit systems or through some other regular monitoring such as a system of calls to random sample of customers. The feedback from such monitoring should be reported to the board periodically.

VII Data Sharing

1. MFIs must share complete client data with all RBI approved Credit Bureaus, as per the frequency of data submission prescribed by the SRO².
2. All MFIs should provide the data and information called for by all supervisory and regulatory bodies including the SRO

VIII Feedback/ Grievance Redressal Mechanism

1. MFIs must establish dedicated feedback and grievance redressal mechanisms to correct any error and handle/receive complaints speedily and efficiently. The minimum standards required of the GRM are i) an easy procedure for recording a complaint over phone - with details of phone numbers printed on loan cards, ii) a staff assisted procedure

at the branch for recording complaints/ grievances, iii) acknowledgement for receipt of the complaint iv) a time limit for resolution of the complaint, v) a clear appeal procedure in case where customer is not satisfied with the solutions offered by the MFI, vi) nodal staff in the branch to guide customers to lodge grievance with RBI or SRO, vii) assurance to customers that they will be treated fairly despite the complaint/grievance being lodged.

2. MFIs must inform clients about the existence and purpose of these mechanisms and how to access them.
3. MFIs must designate at least one grievance redressal official to handle complaints and/ or note any suggestions from the clients and make his/ her contact numbers easily accessible to clients.
4. MFIs must display contact number and address of SRO (as applicable) nodal official and details of the grievance redressal system of the SRO.
5. Each MFI will have an appropriate mechanism for ensuring compliance with the Code of Conduct.
6. Where complainants are not satisfied with the outcome of the investigation conducted by the concerned MFI into their complaint, they shall be notified of their right to refer the matter to the grievance redressal mechanism established by the SRO, as applicable.
7. MFIs should prepare a monthly report on grievances received, resolved and pending for a senior management review and periodic reports to the board.

²SRO shall mean an industry body having been recognized as the Self-Regulatory Organization for NBFC-MFIs by the RBI

