

## Code of Conduct Assessment

Supported by SIDBI



### *Svasti Microfinance Private Limited*

**Code of Conduct Assessment Grade Assigned: C2**

**Date assigned: November 08, 2019**

Scale	C1	C2	C3	C4	C5
M1					
M2+					
M2					
M3+		<b>C2</b>			
M3					
M4+					
M4					
M5					

The MFI obtains Code of Conduct Assessment Grade of **C2**. This indicates that the MFI's performance on code of conduct dimensions is good.

#### **Rationale**

<b>Code of Conduct Assessment (COCA) Grade</b>	Svasti Microfinance Private Limited (SMPL) obtains "C2" as its Code of Conduct Assessment Grade which signifies good performance on COCA dimensions.
--	--

*MFI COCA Grading provides opinion of the Rating Agency on MFI's adherence to Industry code of conduct. Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour** and **Sensitive Indicators**.*



**Conflict of Interest Declaration**

ICRA has not been involved in any assignment of an advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the board members of ICRA have been a member of the board of directors of the MFI for a period of 12 months preceding the date of the comprehensive grading.

**Disclaimer**

The objective of the Code of Conduct assessment exercise is to assess the extent of adherence to a common Code of Conduct by MFIs during the period of assessment. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the graded entity. ICRA, however, has not conducted any audit of the graded entity or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than grading to the entity graded. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**MFI Grading History**

Date	Rating Agency	Grade
29 December 2017	ACUITE*	M2
29 January 2019	ACUITE*	M2

\*earlier known as SMERA

**MFI Rating History**

Date	Instrument	Rating Agency	Rating
11 April 2016	Bank lines	CARE	[CARE]BB+(Stable)
05 April 2018	Bank lines	CARE	[CARE]BBB-(Stable)
13 December 2018	NCD	CARE	[CARE]BBB-(Stable)
20 March 2019	NCD	CARE	[CARE]BBB-(Stable)

**Code of Conduct Assessment scale and definitions**

<b>C1</b>	MFIs with this grade have <b>excellent</b> performance on Code of Conduct dimensions
<b>C2</b>	MFIs with this grade have <b>good</b> performance on Code of Conduct dimensions
<b>C3</b>	MFIs with this grade have <b>average</b> performance on Code of Conduct dimensions
<b>C4</b>	MFIs with this grade have <b>weak</b> performance on Code of Conduct dimensions
<b>C5</b>	MFIs with this grade have <b>weakest</b> performance on Code of Conduct dimensions

<b>MFI's profile (September 30, 2019)</b>	
Name of the MFI	Svasti Microfinance Private Limited (SMPL)
Legal form	NBFC-MFI
Institution Head	Mr. Arun Kumar Padmanabhan
Starting microfinance operations	October 2010
Branches	52
Active borrowers	1,76,685
Total staff	692
Operational area	Maharashtra, Madya Pradesh, Gujarat and Uttar Pradesh
Visit of the Assessment team	Maharashtra, Madhya Pradesh
Correspondence address (Head Office)	Office No. 307, 3rd Floor, Flying Colours, Pandit Dindayal Upadhyay Marg, L.B.S. Cross Road, Near BEST Depot, Mulund (West), Mumbai 400 080
Registered Office	Old 107, New 187, Peters Road, Chennai 600 086, Tamil Nadu

Source: Company data

<b>Details of Loan Products (September 30, 2019)</b>				
<b>Product</b>	<b>Type</b>	<b>Loan size</b>	<b>Tenor*</b>	<b>APR (Interest Rate and Processing fees)</b>
<b>Within Mumbai</b>				
Pragati loan (Weekly repayments)	Joint Liability Group (JLG)	Rs. 20,000- Rs. 60,000	52, 78, 104 weeks	25.16% + 1% of loan amount + GST @18%
Unnati loan (Monthly repayments)	Joint Liability Group (JLG)	Rs. 20,000- Rs. 60,000	12, 18, 24 months	25.16% + 1% of loan amount + GST @18%
Business loan	Individual loan (IL)	Rs. 50,000- Rs. 1,00,000	24, 36 months	25.16% + 2% of loan amount + GST @18%
<b>Outside Mumbai</b>				
Group loans	Joint Liability Group (JLG)	Rs. 20,000- Rs. 50,000	18, 24 months	25.16% + 1% of loan amount + GST @18%

\*depending on the loan amount and existing obligations

Source: Company data



Shareholding pattern

Shareholder	March 31, 2018	March 31, 2019
Bamboo Financial Inclusion Mauritius (formerly known as Blue Orchard Mauritius)	20.86%	19.50%
Michael and Susan Dell Foundation	15.68%	14.66%
Andaman Group (Andaman Finance and Investment Private Limited)	12.47%	14.92%
Rising Sun Holdings Private Limited	12.47%	14.92%
Svasti ESOP Trust	8.58%	8.02%
Mr. P. Arun Kumar	7.25%	6.78%
Mr. B. Narayanan	7.25%	6.78%
Others	15.44%	14.42%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Company data

<b>Board of Directors</b>			
<b>S. No.</b>	<b>Name</b>	<b>Position</b>	<b>Brief profile</b>
1	Mr. Arun Kumar Padmanabhan	Whole-time Director and C.E.O.	Mr. Padmanabhan is the CEO and is responsible for rollout of the branches, products and services and to scale up the business volumes in line with Svasti's business plans. Arun also handles the Human Resources function. Arun is a lawyer and was with ICICI Bank until June 2007, before leaving to start Svasti. In his six years at ICICI Bank he has acted as the legal advisor to the corporate banking, project finance, structured finance, private banking and treasury operations of the bank. He was part of the core strategic team that planned and executed the bank's foray into international markets and comes with extensive experience in successfully launching new businesses and new products in various geographies.
2	Mr. Bhagavathi Subramaniam Narayanan	Whole-time Director, CFO and Chief Information Officer	Mr. Narayanan is responsible for operations process design and supporting it with technology initiatives. He also handles the Finance, Accounts, Operations Audit and Training Design. Narayanan is a Chartered Accountant and a Certified Information Systems Auditor. As an auditor, he has been involved in conducting central audits of Oriental Bank of Commerce and Andhra Bank. As a banking technology consultant he has been involved in projects for providing technology solutions to banking operations of ICICI Bank, ING Vysya Bank and Lord Krishna Bank. He also was a key member of the startup team of myTiger.com, a business intelligence venture, where his contribution lay primarily in heading the technology team.
3	Mr. Manathattai Narayanan Venkatesan	Independent Director	Mr. Venkatesan is a Chartered Accountant and Senior Partner, MR Narain & Co., Chartered Accountants, Chennai. He has been in charge of RBI appointed central statutory audits of Andhra Bank, Oriental Bank of Commerce, State Bank of Mysore, Corporation Bank and The Lord Krishna Bank Limited. Presently, he is the central statutory auditor of Allahabad Bank. He was elected by shareholders of Indian Overseas Bank as a Director and held office from December 2002 until December 2008
4	Mr. Arun Asok	Nominee Director	Mr. Asok is a MBA from IIM Ahmedabad. He has a 7 years of Experience in NBFC Business.
5	Ms. Smriti Chandra	Nominee Director	Ms. Chandra is an Investment Professional with a history of working in the investment banking industry. Skilled in Financial Modelling and Structuring, Pitch documents, Valuation, Corporate Finance, Strategy and Corporate Advisory, Investment Banking, Due diligence and Deal Negotiation. Strong entrepreneurship professional with a CA from The Institute of Chartered Accountants of India

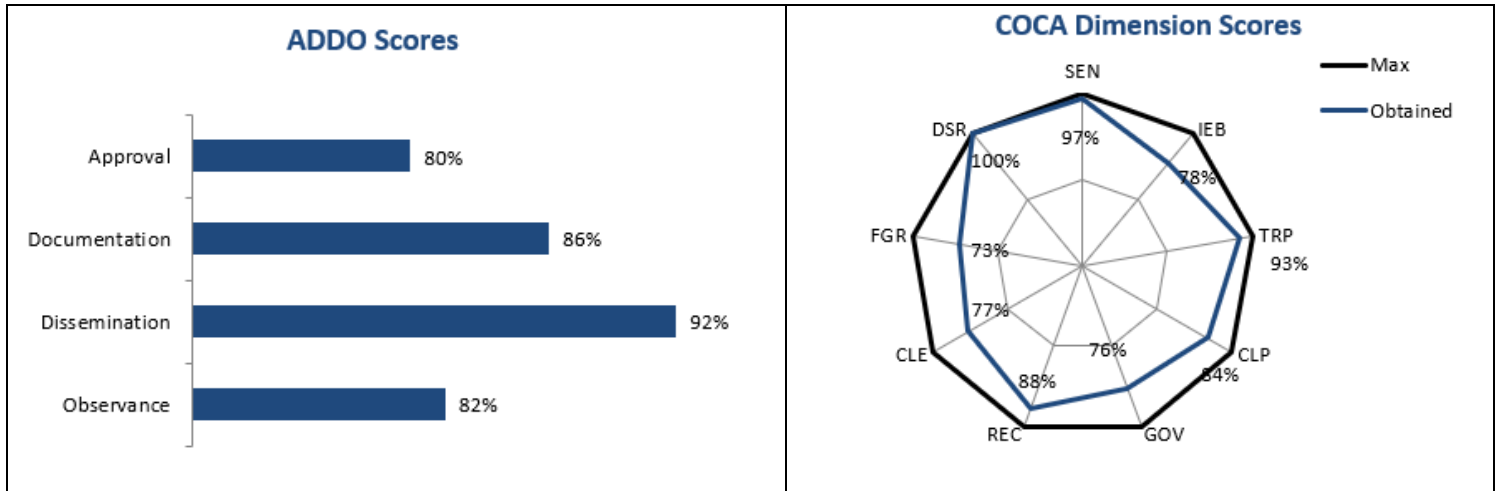
Source: Company data

**Compliance with RBI's Directions for MFIs**

<b>S. No.</b>	<b>RBI's Direction</b>	<b>Status</b>
1	85% of total assets to be in the nature of qualifying assets	Complied
2	Net worth to be in excess of Rs. 5 Crore	Complied
3	Income of borrower not to exceed Rs. 1,00,000 in the rural areas and Rs. 1,60,000 in the urban and semi-urban areas*	Complied. Income declarations received from clients met the RBI criteria for most clients
4	Loans size not to exceed Rs. 60,000 in first cycle and Rs100,000 in subsequent cycles*	Complied
5	Total indebtedness of the borrower not to exceed Rs. 100,000 (excl medical and education loans)*	Complied
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs. 30,000, with prepayment without penalty*	Complied
7	Pricing guidelines are to be followed	Complied. Interest Rate charged is 25.15% p.a. (on reducing balance)
8	Transparency in interest rates to be maintained	Complied
9	Not more than two MFIs lend to the same client	Complied. As per internal policies, SMPL does not lend as a third lender.

*\* For the assets classified as qualifying assets*

## Section 1: Code of Conduct Assessment



SEN: Sensitive Indicators; IEB: Integrity and Ethical Behavior; TRP=Transparency; CLP=Client Protection; GOV=Governance; REC=Recruitment; CLE=Client Education; FGR=Feedback and Grievance Redressal; DSR=Data Security

### Code of Conduct Assessment Summary

SMPL's performance on the code of conduct takes into account MFI's strong performance on Data Security, Transparency, Recruitment and Client Protection. The overall score is further enhanced by SMPL's high score on sensitive parameters. There is scope of improvement across Feedback & Grievance Redressal, Governance, Client Education and Integrity and Ethical Behaviour parameters.



### **MFI Strengths and weaknesses pertaining to Code of Conduct**

#### **Strengths**

- Of the ADDO (Approval, Documentation, Dissemination and Observance) parameters, the company scores well on dissemination of information to the clients and at branches.
- The company displays the interest rate charged on its loans and charges a single, effective annual rate to its borrowers of 25.16% on JLG loans. The processing fees charged is 1.00%, which is in line with the prescribed guidelines.
- All borrowers need to undergo trainings where they are informed about the products offered by the company, terms and conditions, responsibilities and so on.
- No instances of collateral or security deposit being taken from the borrowers were observed. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines. In addition, the internal audit department conducts audit of its branches at regular intervals.
- SMPL has a dedicated internal audit team responsible for branch audits. The head of the audit committee is an independent director and reports to the Board.
- All branch staff are given trainings with respect to Reserve Bank of India (RBI) directions regarding loan sizes, loan tenures, loan purpose, income level of borrowers and KYC norms and the branch staff were aware of the same as observed during field visits.
- SMPL undertakes review of its margin regularly and abides by the RBI pricing guidelines certified by an independent CA agency on a quarterly basis.
- The MFI as a policy collects two identity proofs (one being the Aadhar card) from the borrowers and at least one identity proof from the co-borrowers for all loan cycles. All fresh disbursements are being made in the Aadhar-linked bank accounts of the customers.
- SMPL is a member of four credit bureaus but shares data to only three on a monthly basis or as and when required. Review of a sample of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases. The company does not have documented guidelines regarding the same.
- During the assessment, no case was found wherein a commission was paid to an agent/field officer to get a loan.

#### **Weaknesses**

- Of the ADDO (Approval, Documentation, Dissemination and Observance) parameters, the company scores lowest on approval indicating that the company needs to improve on what is reported to the board. While the feedback and grievance redressal framework has been disseminated well, the awareness of the borrowers was found to be low.
- The board is chaired by an executive director, who is the CEO of the company. The board has 5 directors with only one independent director.
- Copies of the loan agreement (other than the loan card) in vernacular is not provided to the client. On the contrary, the company currently provided receipts (at group levels) of repayments done by the borrowers at branches.
- The awareness of the staff and borrowers was found to be low on the feedback and grievance redressal mechanism of the Self-Regulatory Organisation (SRO) and RBI.
- Most of the borrowers stated their income levels and economic status to be higher than the RBI criteria.

## Significant observations - Higher Order Indicators

### 1. Integrity and Ethical Behavior

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• SMPL has a structured format of the code of conduct compliance report and the same is presented to the Board. However, the scope of the same and frequency of presentation in the board is moderate.</li> <li>• SMPL has a board approved policy of recovering delinquent loans.</li> <li>• To safeguard its employees, the company does not recover any shortfall in collections from its employees unless in proven case of fraud, as mentioned in the HR policy. The employees also confirmed that they have never made up for any shortfall in collections.</li> <li>• The internal audit parameters covering conduct of the field staff related to use of abusive language or threat, visiting borrowers at odd hours and forcibly entry into dwelling and seizure of property without legal orders have been documented in the internal audit manual and checklist that has been reviewed by the board in past one year.</li> <li>• Staff members confirmed that they had received training from the senior management on communication provided to new clients and regarding RBI guidelines. In addition, training on educating clients on the avenues related to feedback and grievance redressal is given. However, the awareness of the client on the feedback and grievance redressal mechanism of the SRO was low.</li> <li>• The MFI has provided training to its field staff with regard to conducting client meetings, collecting repayments and recovering overdue loans.</li> <li>• The board of SMPL has reviewed the recruitment policy over the past one year.</li> <li>• Information on the feedback and grievance redressal mechanism forms a part of training of the clients. The company has a dedicated officer for maintaining the track of complaints and the officer presents the update on the complaints to the senior management.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• No instances were observed wherein the audit committee has reviewed the adequacy of the internal audit team over the past year.</li> <li>• The company does not have a stated policy of providing notice period to employees whose service is terminated. In other cases, there is documentary evidence with regard to MFI honoring notice period for all employees who have left the organization.</li> <li>• While the company carries out the code of conduct compliance assessment, action taken reports where the same was weak were not documented and reported to board.</li> <li>• The company provided NOC and relieving letters to the only applicants which requested the same and not a regular practice for all exiting employees.</li> <li>• Nearly half of the staff members were not aware of the guidelines regarding process to be followed with borrowers who are delinquent.</li> <li>• The MFI policy specifies incentive related to monthly enrolment targets and number of clients managed, however, the addition of new clients is capped at up to 13 groups per month.</li> <li>• Staff satisfaction related to compensation and incentive was not covered by the internal audit.</li> <li>• Awareness of the clients was low on the grievance redressal mechanism of the company and the SRO. The company needs to focus on increasing the training of field staff and borrowers on the toll-free helpline of the SRO.</li> </ul>

## 2. Sensitive Indicators

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• Most of the borrowers were aware of the amount and number of instalments they were required to pay</li> <li>• No instances were observed where a borrower had been made to pay for a service or product as a precondition for loan.</li> <li>• No instances of fine or penalty being levied or collected from the borrowers were observed. The borrowers also confirmed that no fine has been paid by them.</li> <li>• No instances of collateral or security deposit being taken from the borrowers came to notice during the field visit.</li> <li>• During the field visits, ICRA did not come across incidence of borrowers being charged processing fee in excess of 1%.</li> <li>• The company has two loan products: Joint Group Loans (JLG) and Individual Loans (IL). Within JLG loans, there is no variation in the interest rates for any ticket size loans; interest rate charged on JLG loans is 25.16% p.a. (on reducing balance), with a 1.00% processing fee and 18% GST. On IL, it charges nearly 25.16% with a 2% processing fee and 18% GST.</li> <li>• SMPL undertakes review of its margin quarterly or as directed by the RBI. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis.</li> <li>• SMPL communicates the terms and conditions through its loan forms and loan cards in vernacular. It has a formal loan agreement in place that is filled by the company representatives in presence of the client and her husband/co-borrower.</li> <li>• During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose in addition to loans taken for education of children and home improvement that were largely classified under non-qualifying assets.</li> <li>• The loan forms have the cashflow analysis and loan amount eligibility to access the economic status and repayment ability of the client.</li> <li>• SMPL has a clear policy regarding documents to be collected for identity and address proof. The company mandatorily collects two identity proofs (one being Aadhar card) of the borrower and at least one identity proof of the co-borrower in case of JLG loans. The copy of KYC collected from clients will need to be verified with original documents by the Branch Manager. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained.</li> <li>• No instances were observed where clients were charged additionally for insurance, apart from premium payable.</li> <li>• Review of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases. The same forms a part of the necessary checks to be done before disbursement.</li> <li>• Not a single case was seen where indebtedness of borrower was outside the limits stipulated by RBI at the time of disbursements.</li> <li>• Interviews with borrowers revealed no instances of the following: <ul style="list-style-type: none"> <li>○ Abusive language or threats</li> <li>○ Visiting borrowers at odd hours</li> <li>○ Forcible entry into dwelling and forced seizure of property without the legal orders.</li> <li>○ All clients revealed that they receive receipts for all repayments done at branches.</li> </ul> </li> <li>• The loan agreement and loan form take consent from clients that her data can be shared with credit bureaus, banks and insurance companies.</li> <li>• There were no adverse observations in the Auditor's report for the year 2018-2019 regarding accounting standards followed by the MFI.</li> </ul>
<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• While the company is a member of all four credit bureaus, but it shares data with only three of them.</li> <li>• In at least 24% of the cases, the economic status of the borrower was found to higher than income criteria set by RBI.</li> </ul>

## Significant observations – Building Blocks

### 1. Transparency

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• SMPL has adopted the guidelines and directions issued by RBI with respect to vernacular language being used in communication, use of only single and effective interest rate, issue of receipt for any payments and disclosure of terms and conditions to the client. The same have been documented in manuals.</li> <li>• Circulars with most recent RBI directions were available in the branches visited.</li> <li>• The branch managers and staff members were aware of the need to communicate in a transparent manner with the borrowers and were given training on the same.</li> <li>• The borrowers confirmed that they had been communicated all terms and conditions such as interest rates, loan tenure, processing fee etc during the group training prior to disbursement.</li> <li>• The field staff interviewed was aware of the terms and conditions that need to be communicated to the borrowers.</li> <li>• SMPL undertakes review of its margin quarterly or as prescribed by regulatory agencies. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis.</li> <li>• As the company follows RBI guidelines, the prevailing base rate of the five largest banks is factored in the calculations.</li> <li>• The loan documents, forms and receipts used by SMPL are in vernacular and the comprehension by the borrower has been reviewed by the board in the past year.</li> <li>• The loan card issued to clients provides the complete repayment schedule with interest, principal, insurance and processing charges mentioned separately.</li> <li>• Discussions with clients revealed that they or someone in their families were able to read and understand the text in documents, such as loan cards, loan agreements etc, shared by the company</li> <li>• The interest rate and charges applicable are communicated to the client in writing on the loan card. Almost all borrowers were aware of the amount and number of instalments they were required to pay.</li> <li>• The company has different interest rates for the JLG loans and individual loans. The differential in interest rates was less than 2%. The processing fee charged is 1.00% for JLG loans and 2.00% for individual loans; GST of 18% was also levied in line with the prescribed guidelines. The same was reflected in the loan cards of the borrowers.</li> <li>• No instances of fine or penalty being levied or collected from the borrowers were observed. The borrowers also confirmed that no fine has been paid by them.</li> <li>• SMPL has a board approved policy stating that no security deposit will be collected, or collateral will be obtained for loans meant to qualify under priority sector classification and company's position on the same has been reviewed by the board in the past year. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines.</li> <li>• No instances of collateral or security deposit being taken from the borrowers came to notice during the field visit.</li> <li>• Any changes in its interest rate are documented through formal circulars and branches have access to the same. In most of the branches, the same was maintained on email.</li> <li>• Review of latest loan files revealed that the loans had been disbursed at the most recent rate of interest at the time of document collection and disbursement.</li> <li>• ICRA did not come across incidence of borrowers being charged processing fee in excess of 1%.</li> <li>• The internal audit report by an external CA agency tracks whether all clients receive the necessary loans documents and timely resolution of death claim cases.</li> <li>• The staff had received training regarding the documents to be provided to clients.</li> <li>• Recent financial and operational data was available in public domain on the company's website</li> </ul>
<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Copies of loan agreements have been maintained at the head office and the client is only given a loan card with details of repayments (date and amount- spread in principal and interest).</li> <li>• A detailed code of conduct report for the company is not available in public domain. However, the same is presented to the board as per an internal format.</li> </ul>

## 2. Client Protection

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• SMPL's board reviews the proportion of qualifying loan assets to total assets quarterly and the same are being verified by an independent CA certificate.</li> <li>• The norms regarding loan size, loan purpose, income level of borrowers and turnaround times have been documented in operating manuals/circulars.</li> <li>• Internal audit report keeps track of the following parameters and their compliance with RBI directions: <ul style="list-style-type: none"> <li>○ loan sizes of qualifying loan assets</li> <li>○ loan purpose of qualifying loans</li> </ul> </li> <li>• No instances of the following were observed: <ul style="list-style-type: none"> <li>○ Loan size or tenure being in non-compliance with RBI directions.</li> <li>○ Clients being deliberately made to pre-pay.</li> <li>○ The MFI offering any un-approved product/service.</li> <li>○ A party other than the MFI staff or client (and her family member), was involved in filling up her loan application.</li> <li>○ MFI charging clients additionally for insurance, apart from premium payable.</li> <li>○ Unauthorised sharing of client data by the MFI</li> </ul> </li> <li>• During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose with some exceptions of loans taken for education or marriage of children and for home improvement, largely classified in the non-qualifying assets.</li> <li>• There was consistency in repayment observed and repayment as per the loan contract among the client sample.</li> <li>• The borrowers were satisfied with the monthly loan repayment frequency as offered to them by the company.</li> <li>• The company collects two identity proofs of the borrower (one of them being Aadhar card) and at least one ID proof of the co-borrower. The copies of KYC documents collected from clients are verified by the branch manager after seeing the original. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained. In addition, the branch staff is aware of the KYC documents to be collected at the time of loan origination.</li> <li>• The company has presented the progress on credit bureau and KYC to the board once in the past year.</li> <li>• SMPL has a policy stating that any non-credit product offered will be voluntary for the client and would not be a precondition for loans and the same has been documented in its operational manuals.</li> <li>• SMPL provides insurance to its clients through IRDA approved agency. Review of insurance claims settled by the MFI revealed that around 75% of the claims had been settled within a period of 45 days.</li> <li>• SMPL's loan application form enables it to record borrower's household income, expenses and indebtedness.</li> <li>• The operational staff revealed that they had been trained on how to assess repayment capacity of borrowers which includes survey of the house, neighbourhood check, total household income and total expenses including the repayments in the cash flow analysis done on the loan form.</li> <li>• The MFI has documented guidelines regarding credit bureau checks to be performed on loan applications to check indebtedness of the client. As per the risk management policy, it does not lend as a third NBFC-MFI.</li> <li>• The maximum loan given by SMPL under JLG loans does not exceed Rs 60,000 and sum total of all outstanding loans was less than Rs. 80,000 for most cases. All the borrowers had loans from two or fewer lenders, including loans taken from the BC channel.</li> <li>• The operational manual clearly specifies guidelines on conducting client meetings. The operational staff confirmed that they have received training on the following: <ul style="list-style-type: none"> <li>○ Conducting client meetings</li> <li>○ Collecting repayments</li> <li>○ recovering overdue loans</li> </ul> </li> <li>• SMPL has a formal policy on recovering overdue loans and the board has not reviewed the same over the past one year. The efficacy could be further enhanced if the company accesses progress made on recovering such loans.</li> <li>• Borrowers reported that MFI staff conduct is professional when they visit branches to deposit the repayments of the loans. Borrowers do not find the process of making repayments inconvenient or risky.</li> <li>• The MFI staff confirmed that they had received training regarding the policy of not visiting borrowers at</li> </ul>



### **Strengths**

- odd hours and how to behave with the clients.
- The sampled MFI branches had a fair practices code (FPC) in branches that clearly present guidelines to prevent unacceptable behaviour.
- There is a board approved policy on overriding credit bureau report in case it is found inaccurate. However, the policy has been rarely used.
- Interviews with borrowers revealed that the staff did not indulge in the following:
  - Abusive language or threats
  - Visiting borrowers at odd hours
- Internal audit report by an external CA agency tracks if borrowers get proper documents and the same has been reviewed by the MFI's Board.
- The clients revealed that they received a receipt of successful payment made at branches.
- SMPL has a board approved policy of recovering delinquent loans. In addition, it has step-by-step guidelines for dealing with delinquent clients for different stages of default.
- The MFI takes back-up of digital data on a weekly basis. MIS and IT departments require checking whether client data has been stored with adequate security. Client consent is taken on the loan documents for data could be shared with credit bureaus and regulators when asked.
- The manuals specifically state that collection shortfall will not be recovered from employees (except in proven cases of fraud) and none of the field staff interacted had to pay for shortfall in collections.

### **Weaknesses**

- Guidelines regarding the loan tenure have not been clearly mentioned in process manuals.
- As required as a part of the Code of Conduct Assessment, in the past one year, the board has not reviewed the company's performance with respect to loan tenure of the qualifying assets, income level and indebtedness of the borrowers and saturation profile of areas in which SMPL operates.
- The operations manual does not link the loan sizes and duration with the assessment of repayment capacity of the borrowers.
- Awareness of the branch staff on appropriate vouching was moderate but the internal audit or internal compliance report does not cover the same.
- The coverage of the action taken against delinquent client was not seen in the board agenda/minutes.
- While permission had been obtained for the sharing client information for authorised purposes from borrowers, client awareness of the fact that their data can only be shared for authorized purposes was low.
- While the loan cards had income and expense analysis basis the RBI guidelines, in some of the cases the income levels and economic status was higher than the said RBI guidelines.
- The company does not have a policy of carrying out credit bureau checks on a sample of clients after loan disbursement and the same have not been put before the board.

**3. Governance**

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• All the board members have a sound reputation and are involved in the decision making of the company. All members are qualified to provide directions to the company. The company has a formal and board approved Director Appointment policy.</li> <li>• The board meets at least once every quarter and the minutes of the meetings are maintained by the MFI.</li> <li>• Summary of key changes in the operational manual is provided to the Board of Directors.</li> <li>• The MFI transparently discloses CEO's compensation in its audited report.</li> <li>• The company has documented guidelines and a board approved policy on loan restructuring for clients facing repayment stress. However, the awareness of the same at field level could be improved.</li> <li>• The policies and procedure of the MFI and any subsequent changes to the same are approved by the board. The meeting agenda contains the key operational and financial information of the MFI presented to the board in a detailed format.</li> <li>• The MFI has an audit committee that directly reports to the board and the committee is headed by an independent director. The audit committee has met twice over the past year. Minutes of the audit committee have been maintained.</li> <li>• The company has a dedicated internal audit team and the same shares its findings to the audit committee, which in turn has a presence in the board. Audit of branches are carried out as per a predefined checklist at regular intervals to understand the gaps between stated and followed policies. Finding from such audits are recorded in branches and maintained at the HO. Action taken report of the internal audit was available for most of the sampled branches.</li> <li>• There were no adverse observations in the Auditor's report for the year 2018-19 (latest available) regarding accounting standards followed by the MFI.</li> <li>• The company has a code of conduct compliance format that is updated to the board. However, action taken report on the weak areas could further enhance the process efficacy. Moreover, increase in scope of the parameters covered would enable a better coverage of aspects.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• The Chairperson of the board isn't independent as required as per MFIN Sadhan Code of conduct</li> <li>• Out of the 5 directors (two executive directors, two nominee directors and one independent director), only one is independent director.</li> <li>• The staff was not aware of the board approved loan re-schedulement policy.</li> <li>• The frequency and scope was found to be limited of the structured code of conduct compliance report, covering all aspects and the representation of the same to the board with action taken in areas where the same was found to be weak.</li> <li>• Staff satisfaction survey covering various aspects including compensation paid to the field staff forms did not form a part of the internal audit checklist and findings.</li> </ul>

**4. Recruitment**

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• SMPL has documented guideline for recruitment and the same has been reviewed by the board in past one year.</li> <li>• SMPL has a documented policy of seeking reference check from previous employer and the same was seen in the sample files seen for the new joiners over the past one year.</li> <li>• SMPL has a policy of providing notice period of at least one month, except for the cases in which there is some unavoidable personal reasons with a staff member.</li> <li>• In the sample files seen for the new joiners, the company had obtained no objection certificate or relieving letter.</li> <li>• There are documented guidelines in the operations and HR manuals prohibiting the new joiners to be posted in the same area (at least for a period of one year), where he/she was conducting meetings for some other MFI. No case was seen wherein the employee hired was placed at the same location where he/she was with the previous MFI.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• While the company's policy mandates a notice period of one month for all employees, nothing explicitly is mentioned on the notice period, if any, given to employees whose services are being terminated.</li> <li>• In the sample files checked, NOC or relieving letter is issued by SMFL only if required by the exiting employee.</li> </ul>

**5. Client Education**

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• SMPL has documented process of raising client awareness on the choices and responsibilities regarding financial products and services given by the company. Most of the clients confirmed about such information given in the trainings at the time of enrolment.</li> <li>• The borrower's confirmed that no payment has been made for these trainings and that the trainings were conducted by the branch staff.</li> <li>• As per company policy, the company mandatorily gives trainings to all borrowers which include informing the borrower about the product, joint liability, meeting process, organisation policy, interest rates, fees and charges etc. The same was confirmed by the sample of borrowers interacted.</li> <li>• The staff members have received training on communication with new clients and the information to be shared with clients.</li> <li>• The staff members were trained by senior branch staff on the various processes and the disclosures to be made to the borrowers before filling their loan forms.</li> <li>• Internal audit checklist includes assessment of clients' awareness and understanding on aspects like interest rates and other charges, products, choices and responsibilities.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Although clients are informed about the charges/fee payable for availing the loan but as per our branch visits, the proportion of sample clients aware about the following were:             <ul style="list-style-type: none"> <li>○ Annualized Interest rate - ~30%</li> <li>○ Processing fees - ~30%</li> <li>○ Insurance claim settlement process - ~60%</li> <li>○ Any other product/service - ~50%</li> <li>○ Insurance charges - ~50%</li> </ul> </li> </ul>



## 6. Feedback & Grievance Redressal

### Strengths

- SMPL has a formal grievance redressal as well as escalation mechanism displayed in branches and loan cards of borrowers. Contact details of the concerned at the Self-Regulatory Organisation (SRO) are also displayed at branch notice boards for the reference of the borrowers visiting the branches.
- The company has a dedicated staff posted at HO, who maintains proper record of complaints received. The company has a provision of recording complaints at branches in the complaint boxes at the branches. However, it needs to document the complaints and share a regular update with the HO.
- Feedback and grievance redressal mechanism data collated from branches is presented to the board once in the last one year. Improvement in the feedback mechanism from branches would enable SMPL's management to have a better oversight of the ground level issues.
- The members of staff confirmed receiving training from seniors on the grievance redressal mechanism.
- The borrowers were aware of the name of the MFI and the branch location.
- Grievance redressal system set up by the MFI is displayed prominently in all of the sample branches visited. As stated on the loan documents, the company takes responsibility of the actions of its field staff.
- There was a response when a surprise call was made on the feedback and grievance toll free number provided.

### Weaknesses

- Awareness of the borrowers and field staff and borrowers on the feedback and grievance redressal mechanism. Only the escalation matrix for complaints is given but timelines at each stage are not given.
- The company does not provide any acknowledgement of complaint, along with nature of complaint and expected time of resolution of such complaint, to the complainant.
- No formal system (except for a complaint box) for recording complaints at branches and getting it highlighted to the HO.
- While SMPL has designated a grievance redressal official posted at HO, whose number is provided to all clients in their loan cards, very few borrowers interacted with were aware of the same and about the grievance redressal process.
- While the borrowers stated that training was given, but nearly 60% of the sample interacted were not aware of the feedback and grievance redressal mechanism of the company.
- None of the clients interacted with were aware of the grievance redressal mechanism of MFIN.
- The trainings given to the field officer do not have any trainings around the internal and external (MFIN and RBI) complaint recording mechanism provided to them.

## 7. Data Sharing

### Strengths

- SMPL is a member of all four credit bureaus. However, it shares data mainly with three credit bureaus as per their respective formats and as and when required by these agencies.
- Consent from clients is taken in loan agreement regarding sharing of their data with regulators and credit bureaus as per their loan forms, which are in vernacular
- MFI disseminates latest operational and financial data on its website
- SMPL has provided data when called for by RBI or MFIN.

## COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non-Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

<b>Highest Order</b>	
Sensitive Indicators	
<b>Higher Order</b>	
Integrity & Ethical Behavior	
<b>Building Blocks</b>	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
<b>Total</b>	<b>251</b>

### Methodology

The Code of Conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, eight to fifteen

branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

Sampling guidelines

The following is taken as the guideline to determine the sample size for a COCA exercise.

<b>MFI Size</b>	<b>No. of branches to be visited</b>	<b>No. of borrowers to be visited</b>
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small/mid-size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFIs (Loan portfolio outstanding of Rs500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office. particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited eight branches of the MFI. The details of the branches visited are provided below.

S. No.	Branch	State	No of clients interviewed
1	Ghatkoper	Maharashtra	26
2	Bhandup	Maharashtra	8
3	Ujjain	Madhya Pradesh	27
4	Indore	Madhya Pradesh	20
5	Indore-Annapurna	Madhya Pradesh	25
6	Ulhas Nagar	Maharashtra	15
7	Kalyan	Maharashtra	29
8	Chembur	Maharashtra	12
9	Mankhurd	Maharashtra	29
<b>Total</b>			<b>191</b>