

Code of Conduct Assessment

Supported by SIDBI



Fino Finance Private Limited

Comprehensive Grade Assigned: M2C2

Date assigned: June 8, 2018

Scale	C1	C2	C3	C4	C5
M1					
M2		M2C2			
M3					
M4					
M5					

The MFI obtains comprehensive MFI grade of **M2C2**.

Grading Rationale

Microfinance Capacity Assessment Grade	Fino Finance Private Limited has obtained M2 grading
Code of Conduct Assessment Grade	Fino Finance Private Limited obtains "C2" as its Code of Conduct Assessment Grade which signifies good performance on COCA dimensions.

*Comprehensive MFI Grading provides opinion of the Rating Agency on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Capacity Assessment Grading has been done on the dimensions of **Capital Adequacy, Governance, Management Quality and Risk Management Systems**. 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

The Rating Agency has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of the Rating agency have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading.

Disclaimer

ICRA does not undertake unsolicited rating/gradings. The MFI grading exercise for this entity was not carried by ICRA limited and ICRA has relied on the grading report /letter provided by the MFI for the same. Therefore, the grading mentioned above does not reflect ICRA's opinion on the relative capability of the MFI concerned to manage its microfinance activities in a sustainable manner.

Disclaimer

The objective of the Code of Conduct assessment exercise is to assess the extent of adherence to 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.

Historical Rating Grades

Rating Agency	Comprehensive rating grade
ICRA	M2

Code of Conduct Assessment scale and definitions

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

Company Profile

KEY DATA (March 2018)	
Gross loan portfolio	Rs. 568.61 crore
Average loan outstanding per customer	Rs. 17743
Products (% of portfolio)	Income generating loans (100%)
Number of active borrowers	329129
Number of staff	1788
Customers per loan officer	376
Number of branches	224
Country of operation	India
Areas of operation	States- Madhya Pradesh, Maharashtra, Bihar, Uttar Pradesh
Urban/Rural	Urban: Rural – 1,319,532,057: 4,592,435,183
Legal status	NBFC – MFI
Regulator	Reserve Bank of India

Fino Finance Private Limited (FFPL), fully owned by FINO Paytech Limited, is a microfinance institution and a non-deposit accepting NBFC registered with the Reserve Bank of India. FFPL was acquired by Fino PayTech Limited (FINO) in 2010. The company provides microfinance loans to women, based on the Grameen Bank Joint Liability Group model. FFPL is currently operating through a network of 220 branches spread over 77 districts across the four states of Maharashtra, Madhya Pradesh, Uttar Pradesh and Bihar and had a managed portfolio of Rs. 568.61 crore as on March 31, 2018.

Various Products offered by FINO
Credit Products:

Product Name	Ticket Size (Rs.)	Purpose	Interest Rate Charged	Average Tenure	Processing Fees	Group Guarantee/ Individual Loan
JLG	10,000-60,000	Income generation	23%	42 months	1% + GST	Group guarantee
MSME	1,00,000 - 10,00,000	Growth of Existing Business	22% - 30%	2 – 7 years	2.5% + GST	Individual Loan

Non-credit Products:

Product	Product Nature	Organisation	Price	Number of items sold till March 2018
ICICI Lombard Hospicash	Hospitalization Insurance	ICICI	Rs. 360	-
ICICI Lombard Family Floater	Hospitalization Insurance	ICICI	Rs. 2,950- Rs. 3,540 Rs. 4,130- Rs. 4,720	-
Solar Lamp	Solar Light	D-Light	Rs. 2,195 and Rs. 2,495	63,029
Mobile Phone	Mobile Phone	Usha Shriram Mobile and Samsung Mobile	Rs. 1,999 and, Rs. 7,390	9,550 and 90

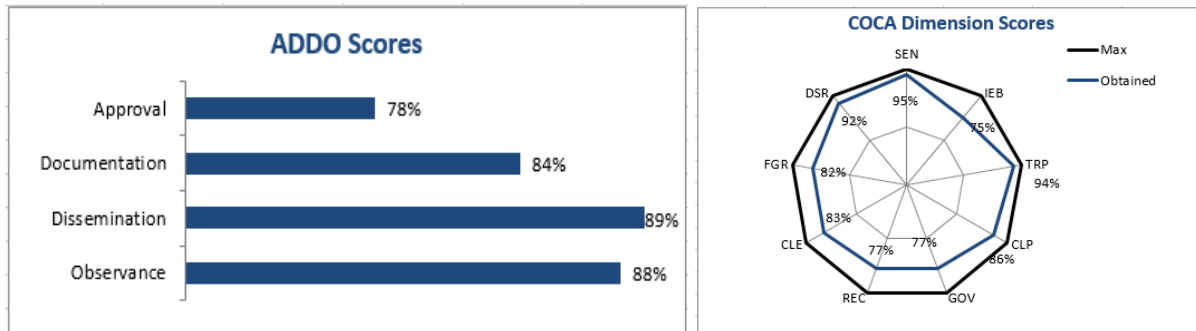
Operational Profile:

Key Financial Parameters	March 31, 2016	March 31, 2017	March 31, 2018
No. of Registered members (active)	207,082	205,083	321,448
No. of Groups	50,276	55,453	88,983
Total Number of Branches (active)	117	124	224
No of States	5	5	5
No. of Active Clients	207,082	205,083	321,448
No of Active Clients per Branch	1,770	1,654	1,435
Gross Loan Portfolio (Rs. Crore)-Own	240.06	289.31	461.48
Gross Loan Portfolio (Rs. Crore)-Managed	34.68	36.97	107.13
Gross Loan Portfolio (Rs. Crore)-Total	274.74	326.29	568.61
Growth in Total Portfolio size	120.78%	18.76%	74.27%
Portfolio per Active Client	13,267	15,910	17,689
Increase in Portfolio per Active client	34%	19%	11%
Portfolio per Branch	2.35	2.63	2.54

Compliance with RBI Guidelines for MFIs

Sr No	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	More than 85% of total assets (other than cash, balances with banks and financial institutions, government securities and money market instruments), comprise 'Qualifying Assets', as on September 30, 2017
2	Net worth to be in excess of Rs 5 Crore	Complied.
3	Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas	The company assesses client income, conducts physical checks of the residences before disbursement. Moreover, the company also collects income declarations from the clients. However, ~70% of the borrowers interacted were found to be within the limit.
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles	Complied. For joint liability group the maximum ticket size is Rs. 60,000.
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.
8	Transparency in interest rates to be maintained	Interest rate on loan is communicated to the customer during CGT and GRT. Moreover, the interest rate is also printed on the loan passbook.
9	Not more than two MFIs lend to the same client	Complied. As per company's credit any loan applicant having loan from more than one active MFI is rejected.

Section 1: Code of Conduct Assessment



SEN: Sensitive Indicators; IEB: Integrity and Ethical Behaviour; 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

FINO's performance on the code of conduct takes into account MFI's good performance on transparency, client protection, client education, data sharing and feedback and grievance redressal mechanism. The overall score is further enhanced by FINO's high score on sensitive parameters. There is scope of improvement across, governance, recruitment and integrity and ethical parameters.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths

- FINO has a well-defined borrower selection process and guidelines for borrower group formation.
- FINO communicates with borrowers in a transparent and professional manner in vernacular language. All terms & conditions along with product features communicated. All borrowers that we met reiterated that they have received multi-point communication from the MFI on key loans terms during CGT and through loan card as well.
- ICRA analysts observed that the MFI communicates a single, effective declining interest rate to its borrowers across all its written and oral communications, including its operations manuals, CGTs and borrower passbooks. The processing fees charged is 1%, which is in line with the prescribed guidelines.
- The operational staff was found to be punctual and courteous towards the borrowers.
- FINO has captured its key processes and policies to a reasonable extent in its operations manual.
- The MFI conducts a three-day Compulsory Group Training (CGT) followed by a Group Recognition Test (GRT) for new groups. The CGT process is documented well in the manual and covers all key aspects of lending including the joint liability concept, responsibilities and duties of group member, key loan terms and charges, product schemes and insurance details.
- The company has a structured induction training programme for new joiners and conducts periodic trainings for existing employees to keep them updated about policy changes. We observed a reasonably fair degree of understanding and compliance with the prescribed policies, procedures and values of the company by the staff at the ground level.
- The MFI has put in place a strong internal audit process with quarterly checks on key process parameters such as CGT, loan utilization checks (on sample basis), attendance, house verification, passbook updation, key centre registers and ledgers.
- FINO is a member of all four credit bureaus and shares data with all 4 bureaus on a weekly and monthly basis. The CB check is done real time for all the clients from Highmark as a first level check. Management ensures that disbursement happens within 15 days of credit bureau check. However, the same is not controlled through the system as of now. The company is in the process of disabling the disbursement beyond 15 days automated through MIS.
- The company has put in place a structured grievance redressal mechanism with a toll-free number (operating during office hours only), along with the process, turnaround time and escalation matrix to address a grievance.
- No instances of collateral or security deposit being taken from the borrowers were observed. The same has been documented in the loan card as well.
- FINO 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. Branch staff interviewed was found to be aware of the policy regarding the same. During our visits we did not come across any such instances where a borrower had been made to pay for a service or product as a precondition for loan.
- FINO undertakes review of its margin regularly and tracks the prevailing base rates of five largest banks. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis.
- The company gives utmost importance to maintaining privacy of client data and has a specific policy for that. Circumstances under which client data can be shared are also clearly mentioned.

Weaknesses

- Branch managers' awareness with respect to RBI directions regarding loan tenures could be improved through refresher trainings as ~54% of the interviewed branch managers were aware of the same.
- In FY2018 FINO's board has not looked into the following:
 - Credit appraisal guidelines with respect to credit risk of the company
 - Micro credit saturation profile in the areas of operations
 - Process of conducting client meetings
 - Status on grievance received, resolved and pending

The board also has not looked into FINO performance against KYC norm and turnaround time for loan section and disbursement, but compliance with these norms is ensured via system and any deviation will lead to cancellation of disbursement. However, there is a process approval committee comprising five members (COO, Product head, Audit Head, Compliance head and HR manager) to approve all the processes in place.
- In the operational manuals the following guidelines were not found–
 - Assessment Repayment capability of the client (linking the loan sizes and duration along with cash flow analysis)
 - Loan restructuring policy towards borrowers facing repayment stress.

However, the operational staff revealed that they had been trained on how to assess repayment capacity of borrowers which includes housing surveys and income and expenditure of borrowers.
- In the human resource manual, the following guidelines were not found-
 - Responding to reference check requests
 - When staff is recruited from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year. One such instance was also found during our visit
- There is a scope of improvement in client awareness level as-
 - ~37% of clients interviewed were aware of the annualised interest rate.
 - ~21% of the borrowers knew that their data can only be shared for authorized purposes only
 - Even though training on grievance redressal mechanism is a part of CGT and GRT~84% of the clients were aware of the grievance redressal mechanism and only ~69% of the borrowers knew about the grievance redressal officer
 - While almost all clients aware of MFI name but 90% were aware of the branch location and.
 - ~15% of clients were aware of existence of Grievance redressal mechanism of MFIN
- The field officers get incentive on the disbursement amount (0.25% of disbursement amount for field officers) and on number of clients handled (Rs. 2.5 per customer) where in there is no upper limit. This may lead to aggressive lending. However, the client load per field office is actively monitored by the area manager and the state head.
- Moreover, any incremental overdue amount is deducted from total incentive.
- Internal audit checklist does not include the following
 - Staff satisfaction related to compensation and incentive
 - Assessment of clients' awareness and understanding on aspects like interest rates and other charges, products, choices and responsibilities

Nonetheless, the company conducts a staff satisfaction survey by an external agency.
- FINO does not have a structured compliance report to access breach of code of conduct parameters which is presented to the board on a regular basis. Nonetheless, FINO takes steps to ensure compliance with the code of conduct in its areas of operations.

Significant observations - Higher Order Indicators

1. Integrity and Ethical Behavior

Strengths

- The audit committee of the board has reviews the staff strength and scope of internal audit at the beginning of each year
- FINO has a policy for recovering delinquent loans with escalation matrix and TAT-
 - The field officer along with the branch manager investigates the reason for delay and follows up with client separately
 - After 45 days of overdue the issue gets escalated to the Assistant Cluster Head/ Cluster Head
 - After 60 days of overdue Regional manager visits the delinquent borrower and warns of taking legal action

All the staffs interviewed were aware of this process.
- Internal Audit keeps a track on the behaviour of the field officers towards the client and takes feedback from sample number of clients while conducting the field visit
- FINO's Board has reviewed its recruitment policies in last one year.
- The MFI provides NOC or relieving letter to all employees who have given adequate notice before quitting.
- All the staff members confirmed that they were trained by senior branch staff on the various processes to be followed including CGT and GRT and the disclosures to be made to the borrowers.
- The operational staff confirmed that they have received training on the following:
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans
 - Grievance redressal mechanism.

Weaknesses

- FINO provides notice period depending on the grade of the employee whose employment is being terminated-

Grades	Notice Period	
	Probation	Confirmation
Officer & Assistant Manager	15 days	1 Month
Manager & Senior Manager	1 Month	2 Months
AVP & above	1 Month	3 Months

However, notice period for officers and assistant managers under probation is less than one month.
- There is no structured template for compliance report on code of conduct parameters for presenting in front of the Board. We did not find any report highlighting steps taken in areas with weak compliance with Code of Conduct.
- Summary of Grievance redressal report was not presented to the board till FY2018, However, going forward for the company is expected to present a summary of grievance redressal report to the board.
- The overdue amounts are adjusted against incentive pay out of the field officers. Thus, the total compensation (including variable pay) of the field officers gets affected in case of <100% collection efficiency.
- FINO provides an incentive to the field offices based on total number of client managed at Rs. 2.5 per client. Having no upper limits on total number of clients managed may lead to aggressive lending. However, the client load on each field officer is closely monitored by the area manager and the state head.
- Internal audit does not cover staff satisfaction related to compensation and incentives

3 Sensitive Indicators

Strengths

- Around 93% of borrowers were found to be aware of the amount and number of instalments they were required to pay.
- No instances of the following were found:
 - A borrower being made to pay for a service or product as a precondition for loan.
 - Fine or penalty being levied or collected from the borrowers.
 - Collateral or security deposit being taken from the borrowers.
 - Borrowers being charged processing fee in excess of 1%.
 - Loan size or tenure being in non-compliance with RBI directions.
 - FINO charging clients additionally for insurance, apart from premium payable.
 - Identity proof has not been obtained
 - Clients had to make payment to informal agents or bribes.
 - Unauthorised sharing of client data by FINO
- FINO allows the borrowers to prepay loans and it does not lead to a change in the effective rate of interest.
- FINO undertakes review of its margin regularly and gets the prevailing base rates of five largest banks from RBI. The company also complies with RBI pricing guidelines and gets a certification by an independent CA agency on a quarterly basis.
- 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.
- For all the borrowers having fortnightly frequency repayment started 15 days after disbursement as per borrower feedback. Review of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases.
- FINO has a clear 2 KYC policy regarding documents to be collected-
 - Primary – Aadhaar card
 - Secondary- Voter Id

Both documents are mandatory for the client whereas only Aadhaar is mandatory for the nominee. The field office captures images of original Aadhaar and voterid and uploads it through the tab for quality check at the head office. Same has been confirmed by the borrowers.
- Interviews with borrowers revealed that the staff did not indulge in the following:
 - Abusive language or threats
 - Visiting borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders
- FINO is a member of all four credit bureaus and reports data to each of the bureau on a weekly and monthly basis.
- Moreover, the company is not in a position

Weaknesses

- Among the total number of clients interviewed-
 - The economic status of ~30% clients were not found to be in line with RBI's directions
 - Total indebtedness of ~15% clients were more than Rs. 1,00,000.

Significant observations – Building Blocks

1. Transparency

Strengths

- FINO's board takes into consideration the guidelines and directions issued by Reserve Bank of India (RBI) and same is disseminated the state heads which is passed on further. During our branch visits we found emails with the most recent directions.
- The branch staff had received training from a senior staff regarding the documents to be provided to clients. All the clients interviewed confirmed that all the terms and conditions have been communicated to them.
- All the communications made to the borrower are in vernacular language. Only single and effective interest rate is communicated to the borrower and the same is mentioned on the loan card. The loan card is board approved loan card contains the all terms and conditions for the clients. ~97% of the field staffs interviewed were aware of the terms and conditions that need to be communicated in a transparent manner with the borrowers.
- Loan terms and the concept of group guarantee are conveyed to the clients at the time of group formation, during CGT and are also printed on the loan cards. The borrowers also 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.
- Although FINO does not provide copy of loan agreement or sanction letters to the borrowers but they provide the loan card wherein all the terms and conditions are mentioned. Various forms and documents used by FINO are in the vernacular language which is covered in the Fair Practice Code and has been reviewed by the board in the past one year. The branches maintained the formats of important documents in vernacular language.
- Although the loan card (for own portfolio) does not have a printed borrower wise repayment schedule (including number of instalments with interest and principal separately mentioned) but a group wise printed repayment schedule is kept with the group register at the centre. Collections were found to be properly updated in the pass-books.
- FINO displays the effective rate of interest on its products in all its offices including branches.
- Borrowers were found to be aware of the amount and number of instalments they were required to pay. All the clients interacted with revealed that charges and price for all services (which should be voluntary) have been communicated in written.
- FINO charges processing fee of 1%. Hence the difference between nominal interest rates and the APR is 1%. Discussion with borrowers does not reveal any incidence where they been charged a processing fee of more than 1%.
- In case of prepayment of loans FINO does not charge any penalty.
- As per borrower's feedback no fine or penalty were collected from the borrowers under any circumstances.
- FINO has a 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. Not a single instance of collateral or security deposit being taken from the borrowers came to ICRA's notice during the field visit. The same is mentioned on loan card also.
- FINO undertakes review of its margin regularly. FINO has maintained interest cap on loans as per RBI guidelines (maximum of 2.75x times the average base rate of top five public sector banks cost of funds plus margin cap whichever is lower). The company also gets compliance with RBI pricing guidelines certified by an independent CA agency. FINO's Board also reviews its Interest Rate in its quarterly meetings. Review of latest loan files revealed that the loans had been disbursed at the latest rate of interest.
- The internal audit report tracks whether all clients receive the necessary loans documents and the same was reviewed by the board in the past year.
- The MFI documents why a loan has not been sanctioned against an accepted loan application. The system captures all the reasons such as loan limit exceeds Rs.80,000 amount, the client has active loan from more than one MFI, delays in other MFIs.

Weaknesses

- The code of conduct assessment report of the MFI is not available in the public domain.
- Only 56% of the borrowers interviewed were literate enough to read and understand the documents (such as loan cards, loan agreements etc.).

2. Client Protection

Strengths

- The complete business reviews the following in the quarterly board meeting-
 - Compliance with RBI qualifying assets criteria
 - loan sizes of qualifying loan assets
 - loan tenure of qualifying loans
 - loan purpose of qualifying loans
 - income of borrowers

This is also confirmed through CA certificate.
- FINO has a process of area survey for operational areas where, among other factors, level of indebtedness and MFI saturation is assessed. If saturation in any area is high, FINO does not start operations in such areas.
- For lender selection FINO defined few selection criteria which is documented in the operations manual-
 - Borrower's age should be between 18-58 years as on the date of application
 - Applicant should be involved in income generating activity with at least one year of experience
 - Applicant should be permanent resident of the area
 - Borrowers cannot have loans from 2 MFIs including FINO. However, loan is offered if the borrower has two loans- one from MFI and other from Bank.
 - Total indebtedness of the borrowers is capped at Rs. 80,000
 - Borrowers should not have any overdue account in FINO or any other MFI
 - Annual household income should not exceed Rs. 1,00,000 for rural areas and Rs. 1,60,000 for urban areas.
- Internal audit report keeps track of the following parameters and their compliance with RBI directions:
 - Income of borrowers
 - KYC status of clients

However internal audit checklist does not cover loan size or tenure and purpose of qualifying loan assets. Nonetheless, these aspects are covered as per product design.
- No instances of the following were observed during client visits:
 - Clients being deliberately made to pre-pay.
 - Offering any un-approved product/service.
 - A party other than the MFI staff or client (and her family member), was involved in filling up her loan application.
 - A borrower made to pay for a service or product as a precondition for loan.
 - FINO charging clients additionally for insurance, apart from premium payable.
 - Clients had to make payment to informal agents or bribes.
 - Unauthorised sharing of client data by FINO
- loan utilisation was found to be in line with RBI's directions. The clients we have interacted with said they have availed the loans for income generation purpose.
- FINO has a two KYC policy regarding documents to be collected wherein both Aadhaar and Voter ID are mandatory for the client whereas only Aadhaar is mandatory for the nominee. ICRA did not come across a single instance where a loan classified as qualifying microfinance loan, identity proof (verified with original declaration) had not been obtained. However, ~81% of the branch manager interviewed were aware of the RBI directions regarding KYC norms.
- All the borrowers interviewed revealed that they had been disbursed loans within specified time limits. Loan files reviewed also indicated that credit bureau checks have been made not more than 15 days prior to disbursement in all cases.
- All the borrowers had to make the first repayment after 15 days of disbursement on a fortnightly repayment product as per the feedback received from them.
- There was consistency in repayment observed and repayment as per the loan contract among the client sample. ~76% of the clients interacted were satisfied with loan repayment frequency.

Strengths

- FINO has a policy that any non-credit product offered will be voluntary for the client and would not be a precondition for loans. Branch staff interviewed was found to be aware of the policy regarding the same. During our field visit the clients also confirmed that
- FINO provides insurance to its clients through IRDA approved agency (ICICI Lombard, Excide Life and ICICI Prudential). Review of insurance claims settled by the MFI revealed that more than 80% of the sample claims had been settled within a period of 90 days.
- FINO's branch visits have records that state the most recent loan appraisal criteria of the MFI. In the sample of clients interviewed the income, expense and indebtedness levels broadly matched with the stated levels in the loan form in 83%, 91% and 95% of the cases respectively.
- FINO has documented guidelines regarding credit bureau checks to be performed on loan applications to check indebtedness of the client. The validity of credit bureau report is 15 days. If the loan disbursement is not done within 15 days of enquiry repeat credit inquiry needs to be done, else the system will not allow disbursement of the loan. Interviewed Branch Staff are aware of process to be followed in case credit bureau reports are found to be inaccurate.
- Interviewed Branch Staff have been given training or orientation on RBI's guidelines regarding maximum indebtedness of clients. ~95% of field officers were aware of the maximum client indebtedness. Although in the internal audit check list no parameter was found to track the indebtedness of borrowers, but loan is not sanctioned if the total indebtedness of the applicant is more than Rs. 80,000 as the time of loan application. Hence the indebtedness of the capped though the system itself.
- The maximum loan given by FINO under JLG loans does not exceed Rs 60,000 as the maximum loan size for JLG loan is Rs. 60,000. ICRA did not come across any instance where the total loan given to a borrower by FINO exceeded Rs 60,000.
- Following point are presented to the board in the past year as a part of business presentation:
 - Informing the clients regarding the product and services of the MFI, particularly the interest rates and other costs
 - Collecting repayments
 - Recovering overdue loans
- The operational manual specifies guidelines for the following:
 - Informing the clients regarding the product and services of the MFI, particularly the interest rates and other costs
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans
 - In the Code of conduct in is instructed not to visit borrowers at odd hours
 - The operational staff confirmed that they have received training on the following:
- Borrowers reported that MFI staff arrives on time for client meetings and staff conduct is professional.
- Clients were satisfied with the process of making repayments inconvenient or risky.
- Internal audit checklist does not have a specific pointer regarding non-occurrence of abusive language or threats. However, the audit team while conducting the field visit look into these issues and in case of any deviation it gets highlighted to the board.
- The code of conduct manual clearly present guidelines to prevent the following:
 - Offensive Behaviour
 - Foul Language
 - Delay for meetings
 - Personal Interactions with clients
- Interaction with borrowers indicated that the staff had not indulged in in the following:
 - Abusive language or threats
 - Visiting borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders
- All clients revealed that they receive accurate receipts for all transaction.
- FINO has a board approved policy of recovering delinquent loans with escalation matrix and TAT. The operations manual presents guidelines on dealing with delinquent clients, for different stages of default. Interviews with staff members revealed they were aware of the process to be followed with delinquent clients.

Strengths

- MFI has a policy on maintaining the privacy and security of client's data. However only ~21% of the clients interviewed were aware that their data can be shared for authorised purposes. FINO takes the digital data backup on a weekly basis. The staff members were aware of the importance of keeping client data confidential
- ~97%, ~72% and ~77% of branch managers were aware of the RBI's directions regarding loan size, loan purpose and income level of borrowers respectively. ~80% of the staffs were aware of the turnaround time for disbursement.

Weaknesses

- The board has not reviewed MFI performance against KYC norm and turnaround time for loan section and disbursement. However, these are system driven ensure 100% compliance.
- In FY2018 FINO's Board has not assessed its credit appraisal guidelines with respect to credit risk of the company.
- Assessment Repayment capability of the client (linking the loan sizes and duration along with cash flow analysis) is not there in the operational manual. The operational staff revealed that they had been trained on how to assess repayment capacity of borrowers which includes housing surveys and income and expenditure of borrowers'.
- The company's policy incentivises the staff members on the disbursement amount (0.25% of disbursement amount for field officers) and on number of clients handled (Rs. 2.5 per customer). FINO does not have an incentive policy stating an upper limit for incentives related to number of clients managed. Further, the incentive structure is also dependent upon audit scores. Moreover, any incremental overdue amount is deducted from total incentive.
- FINO's board has not reviewed the process of conducting client meetings in FY2018
- ~54% of branch managers were aware of the RBI's directions regarding loan tenures

3. Governance

Strengths

- FINO's board composition is done in compliance with the applicable provisions of the Company's Act, 2013. FINO has three independent directors out of eight members. All the members of the existing board of the MFI have good and sound reputation and are qualified to provide direction to the MFI. The board meets at least once every quarter and the minutes of the meetings are maintained by the MFI. The policies and procedure of the MFI and any subsequent changes to the same are approved by the board. A business presentation is presented to the board containing all the key operational and financial information of the MFI.
- In every board meeting an independent director is designated as the chairperson of the board
- FINO has constituted an audit committee of the board with an independent director as chairperson. The internal audit head directly reports to the Board committee. There is a dedicated six-member internal audit team. The internal audit process is strong with quarterly checks on key process parameters such as CGT, loan utilization checks (on sample basis), attendance, house verification, passbook updation, key centre registers and ledgers. Action taken report based on the last audit report is present at all the branches visited.
- The CEO has recently been appointed to the company. Earlier company had only a wholetime director whose compensation was disclosed in the audited financials.
- The audit committee of the Board has reviewed the staff strength and scope of Internal Audit in last on year.
- The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year.

Weaknesses

- FINO does not have a board approved policy for restructuring loans of borrowers facing repayment stress. During our visits we did not come across any borrower requiring loan restructuring
- Staff satisfaction related to compensation and incentive is not covered by internal audit. However, the HR team of FINO conducts internal assessments of staff satisfaction separately.
- FINO does not have a structured compliance report to access breach of code of conduct parameters which is presented to the board on a regular basis. However, FINO takes steps to ensure compliance with the code of conduct in its areas of operations.

4. Recruitment

Strengths

- FINO has a detailed HR manual with well documented guidelines regarding recruitment, notice period, incentives etc.
- The board has reviewed the recruitment policies during the last one year.
- The MFI has a documented guideline for reference checks on all its new employees. Job offers are given subject to a satisfactory feedback.
- Submission of relieving letter from the previous employer is mandatory for new joiners.
- There is documentary evidence to suggest that MFI has honoured the notice period for all employees who have left it.
- There is documentary evidence that the MFI has provided relieving letter to all employees who have given adequate notice before quitting.

Weaknesses

- The MFI has a policy of providing notice to employees whose employment is being terminated. The notice period is for 15-30 days during probation period and 30-90 days after confirmation from the date of resignation depending upon the designation of the employee. However, notice period for officers and assistant managers under probation is less than one month as against minimum requirement of one month.
- FINO does not have a specific policy guideline for responding to reference check requests from other MFIs. However, as per management the company responds to such requests.
- A specific policy saying that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year was not found. However, no such instance was found during our visit.

5. Client Education

Strengths

- The process of conducting CGT and GRT is fairly well documented. During CGT, borrowers are informed about the product, joint liability, meeting process, organisation policy, interest rates, fees and charges etc. Before each centre meeting also staff members communicate about the products and related information as per policy.
- The staff members were trained by senior branch staff on the various processes to be followed including CGT and the disclosures to be made to the borrowers. The operations manual encourages the staff members to hold discussions with borrowers on key product features and regulations.
- ~98% borrowers confirmed receiving detailed trainings (compulsory group training) on the product and organisation policy. The borrowers further confirmed that no payment has been made for these trainings.
- Overall client awareness on terms and conditions seemed good-
- Loan tenure- 95%
- Processing fees – 87%
- Insurance claim settlement process – 71%
- Other product or service - 85%
- Insurance charges – 88%

Weaknesses

- Internal audit checklist does not include assessment of clients' awareness and understanding on aspects like interest rates and other charges, products, choices and responsibilities and so on. However, the auditor while checking if any unaccounted money has been taken by the field officer or not, asks the clients what amount of upfront fee she has paid.
- ~37% of clients interviewed were aware of the annualised interest rate.

6. Feedback & Grievance Redressal

Strengths

- FINO's GRM policy has details of the grievance redress and includes time frames for grievance resolution as well as issue wise escalation mechanism. There are three levels of escalation with predefined TAT. The level of escalation and respective TATs depend on the severity of the issue. If the issue does not get resolved internally the fourth level of escalation is to report the issue to the MFIN. If no response is received from MFIN in 15 days contact General Manager (Department of Non-banking supervision), Reserve Bank of India
- Grievance redressal system set up by the MFI is displayed in all of its branches visited.
- The members of staff confirmed receiving training from seniors on the grievance redressal mechanism.
- Mechanism of grievance redressal is part of the CGT training of the clients. The borrowers confirmed that it was explained to them during the loan disbursement however ~84% of the borrowers interviewed were aware of the process to be followed in case of any grievance except reaching out to the field officer.
- FINO has designated a grievance redressal officer but 69% of the clients interacted were aware of it. The company has provided number for the client grievance redressal/feedback official on loan cards.
- MFI has displayed a statement under fair practice code that under all circumstances the clients will be treated fairly by the field officers. A declaration that FINO is responsible for the behaviour of its staff is there in the loan agreement.
- FINO has a system for recording complaints diligently. For every complaint received details of resolution is recorded and all such record are kept centrally for future reference. MFI has documentary proof that it has provided acknowledgement to clients in form of ticket number and acted upon grievances in a time bound manner and as mandated in its policies.
- In all the branches visited, the contact number and address of SRO nodal official had been displayed in a manner that made it clear that a client could approach the official in case she is dissatisfied with the way her grievance has been handled.

Weaknesses

- Nature and status of resolution of complaints forms a part of the internal audit report. No report on the status on grievance received, resolved and pending is presented to the board.
- Although clients are informed about the Microfinance Institutions Network (MFIN) during the training and only 15% of the clients interacted were aware of the same.
- During borrower's visits, we noticed that most of the clients were aware of MFI name but 90% were aware of the branch location and ~84% of the clients were aware of the grievance redressal mechanism of FINO. Only 15% of the clients interacted were aware of existence of Grievance redress mechanism of the Industry Associations. However, the number of MFIN was displayed in every branch visited.

7. Data Sharing

Strengths

- FINO shares data with all the four RBI approved credit bureaus on a weekly and monthly basis.
- CB checks are done from Equifax and CRIF Highmark on real time basis. It is ensured that loan is disbursed within 15 days post Credit Bureau check. In case the disbursement is not done within the stipulated time credit bureau check has to be done again.
- Operational numbers for FY2018 and financial numbers for H1 FY2018 are available on company's website.
- FINO has provided data when called for by RBI or MFIN.

Annexure: Methodologies

Microfinance Grading Methodology

<http://www.icra.in/Files/Articles/mfi%20grading%20methology%20note%20for%20upload.pdf>

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.

Highest Order	
Sensitive Indicators	
Higher Order	
Integrity & Ethical Behavior	
Building Blocks	
Governance Transparency Client Education	Client Protection, Recruitment Feedback/Grievance Redressal 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
Total	251

Methodology

This is regarding the Code of Conduct Assessment (COCA) exercise to be conducted by us. The COCA exercise is spread over 15-30 days. The first day is spent at the head office. The assessment team visits the branches over the next three to fifteen days, after which we take

around five days to share our draft report. Depending upon the size and the operational area of the MFI, up-to fifteen branches and 300 clients are sampled for primary survey.

Sampling guidelines

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

MFI Size	No. of branches to be visited	No. of borrowers to be visited
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)	60-120 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).

The selection of branches can be done using a criteria based approach.

Step 1- High stress branches: Violations of the code of conduct are most likely to occur in areas where an MFI's loan portfolio is experiencing stress. Hence, it is suggested that branches which have shown portfolio quality problem should be included in the sample. The maximum number of branches selected using this criteria should be 40% of the total branches that need to be sampled.

Step 2: After identifying branches based on step 1, a list of districts along with the number of branches, distance of the branches from their District Office, and the number of clients, may be prepared. We can then select districts to identify the remaining branches that need to be sampled. The districts may be selected following a methodology that gives a higher probability of selection to those districts that have higher proportion of MFI clients. In other words, the probability of selection of a district should be close to the proportion of clients that the MFI has in that district. The sampling of the district should be done without replacement. In this approach it is possible that a particular district may appear more than once in the sample. Finally, branches should be selected from the districts chosen. We may choose as many branches from a district as the number of times it appears in the sample.

Thus, we may choose one or more branch per district. This selection may be based on the following rules:

1. The branch should have been in operation for atleast six months
2. Adequate representation (around 30% of total branches sampled) should be given to branches that are at least 30 km (or farthest) away from the nearest district office.

Selection of Clients in the Sample

In the sampled branches, two cluster of clients should be selected. These clusters could be JLG-centers or large client groups or village etc. In each of these clusters, around 10 clients should be interviewed. This will give us a sample of around 20 clients in each branch. Further, in each branch four interviews with clients (2 in each cluster) should be made at a location of the clients preference.

Code of Conduct Assessment exercise requires:

1. 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.
2. 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 after the review of documents.
3. Sampling of branches. The assessment team samples branches for review. The branches are chosen across different states in case the MFI operates in more than one state.
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 sampling is performed on the MFI's clients by the assessment team to draw respondents.
6. Interview with the clients. Information from the clients is collected primarily during the group meetings. Some clients are also met at a location of their preference. Additionally telephonic interviews are held with some clients.
7. Review of loan files. 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 twelve branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Rautahat	Bihar	38
2	Bahadurganj	Bihar	40
3	Kisanganj	Bihar	55
4	Shivpur	Uttar Pradesh	24
5	Nandganj	Uttar Pradesh	13
6	Ghazipur	Uttar Pradesh	7
7	Berasia	Madhya Pradesh	16
8	Hoshangabad	Madhya Pradesh	18
9	Itarsi	Madhya Pradesh	12
10	Murtazapur	Maharashtra	7
11	Chandur	Maharashtra	5
12	Akola	Maharashtra	6
Total			241