

Humana People to People India (HPPI)

Delhi, India

Legal form: Section 25 company

January 2013

Code of Conduct (CoC) Assessment

Achievement	Maximum	Score achieved
Integrity, Governance and HR Strategy	30%	21.5%
Compliance with guidelines pertaining to clients	60%	47.6%
Effectiveness of client education efforts, and awareness	10%	8.4%
Overall CoC	100%	77.6%

Visit dates: 3-4 December 2012 & 24 January 2013

M-CRIL

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Assessment tool and framework

Assessment Tool

- ▶ This assessment uses a scoring tool derived from the Unified Code of Conduct for member MFIs of Sa-Dhan and MFIN and the RBI guidelines and Fair Practices Code for NBFC MFIs.
- ▶ The tool not only covers the industry Code and the above-mentioned guidelines in letter but also delves deep into issues of adherence in spirit. The tool is arranged under three broad heads:
 - Integrity, Governance and HR Strategy
 - Compliance with guidelines pertaining to clients
 - Effectiveness of client education efforts and awareness

Methodology

- ▶ The assessment is based on a 3 day visit made by an M-CRIL team of 2 analysts to the MFI's head office in New Delhi, to the Area office in Alwar and 3 branches across Alwar district, Rajasthan. 2 groups were visited in each branch. (Refer slide No. 35 and 36 for details).

Perspective on the MFI

- ▶ HPPI has developed appropriate policies and mechanism to ensure compliance to Code of Conduct and RBI guidelines. However, it needs to induct at least one more Independent Director on its Board, make Audit Committee functional, improve transparency, strengthen its mechanism to handle grievance of clients and report its CoC compliance to the Board.
- ▶ Level of cooperation with assessment team:

HO	HIGH	Branches	HIGH	Follow-up	HIGH
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...Assessment tool and framework

- ▶ The various aspects the Unified Code of Conduct have been reclassified by M-CRIL under two broad heads (Integrity, governance & HR strategy, and Effectiveness of client education efforts and awareness) as per their logic and fit. Further, considering the importance of RBI guidelines and the Fair Practices Code, the same have been assessed under a separate head - Compliance with regulation pertaining to clients
- ▶ Compliance with guidelines, being one of the most important aspects, has been given the maximum weight of 60%. Integrity, Governance and HR Strategy follows with 30% weight, and efforts for client education, along with client awareness (as reflected through client interactions) is given a 10% overall weight.
- ▶ Level of internalisation of the codes of conduct by the MFI has been analysed for Approval, Documentation, Dissemination and Observance (ADDO) under each category, wherever applicable.
- ▶ Wherever relevant, more weight has been given to those policies adopted by the MFI and implemented in letter and spirit, compared to those which are well documented but not practiced.
- ▶ Field results have been included in each relevant section under the broad heads mentioned above. Field results have been given 40% weightage. Client Education section is assessed in terms of efforts as well as results i.e. levels of awareness about products, terms and conditions and policies of the MFI.

...Assessment tool and framework

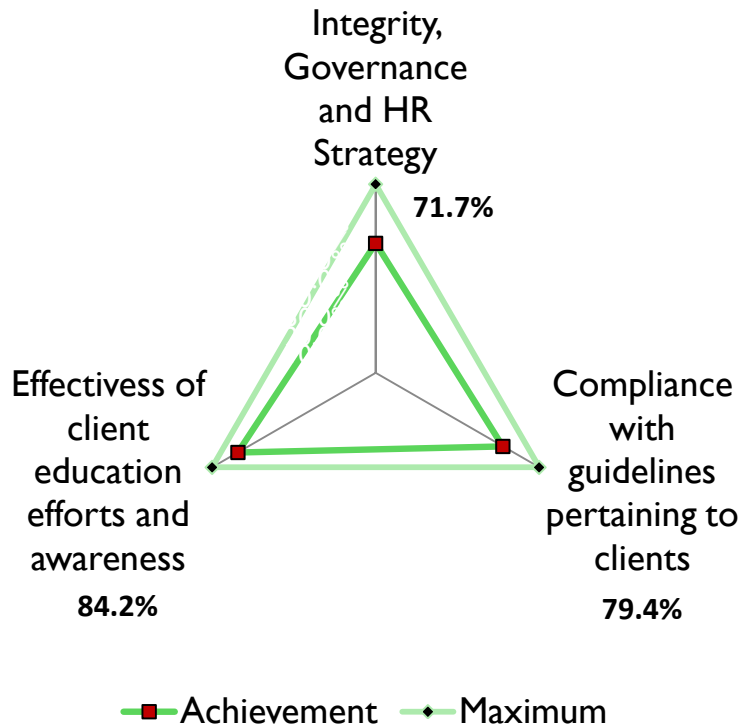
The CoC Assessment tool was required to cover 8 points as per SIDBI's instructions (shown on the right of the box below). This tool covers these by fitting them into broader parameters and capturing performance on them as well as other indicators in terms of Approval, Documentation, Dissemination and Observance.

Parameters and Indicators in M-CRIL tool		SIDBI requirements covered in this section
Integrity, Governance and HR Strategy	30%	
Integrity	10.0%	Integrating social values into operations
Governance	10.0%	
Human Resource Strategy	10.0%	
Compliance with regulations pertaining to clients	60%	Compliance status of MFI vis-à-vis latest RBI guidelines
Client Origination and targeting	9.0%	Client origination and targeting
Loan Appraisal Process	9.0%	Loan appraisal process
Loan product features and pricing	10.0%	Loan pricing and transparency
Transparency	10.0%	
Responsible lending	9.0%	Staff behaviour
Grievance mechanism	9.0%	Relationship management & grievance redressal mechanism
Privacy of client information	4.0%	Privacy of Client Information
Client Education Efforts and Field Results	10%	
Client Education (Efforts)	3%	
Client Awareness and other Results	7%	
Total	100%	

Code of Conduct performance

Rationale

- ✓ HPPI has a reasonable performance under Governance sub-section. The MFI has customer friendly processes and policies documented in a comprehensive operations manual. Its performance is limited due to absence of an Audit committee, fewer than required independent directors on the Board and absence of designated staff to report on compliance with CoC to the governing board.
- ✓ HPPI has achieved a reasonable score in the regulatory compliance aspect; however, the MFI is yet to offer clients the choice of repayment frequency. HPPI can also improve its performance on this parameter by formulating a debt restructuring policy and improving its grievance redressal mechanism and transparency.
- ✓ HPPI has achieved a high score in client education parameter. It takes adequate efforts to create awareness among its members. Financial literacy camps are conducted to raise clients' awareness levels. HPPI's performance can be improved further by informing clients on their rights and responsibilities specifically in the context of the CoC.



Strengths

- ✓ The Board of HPPI is actively involved in policy formulation. It has appropriately designed HPPI's policies, operating guidelines and loan products to comply with the CoC.
- ✓ HPPI is a member of High Mark and all loans are sanctioned after compulsory CB checks. It submits data regularly to High Mark.
- ✓ HPPI has conducted several financial literacy camps (mass and households) for its existing members as well as for the potential clients.
- ✓ All the clients who were interviewed were reasonably aware of HPPI's general guidelines and product features and were satisfied with the behaviour and conduct of the staff.
- ✓ HPPI conducts regular ToT for branch staff.
- ✓ Good monitoring and internal audit systems. Internal Auditor meets 6 centres (*sahelis*) every month to check on client awareness on different aspects. Supervisors also check the awareness level of the clients.

Issues

- ❑ HPPI has a single independent director on the board as against the CoC requirement of having one third independent directors. The audit committee is not formed.
- ❑ HPPI does not submit CoC compliance report to the Board, needs to designate an exclusive person to monitor CoC compliance and grievance redressal. Also, HPPI does not have a board approved debt restructuring policy.
- ❑ The MIS does not have the automated controls to reject loans which violate RBI guidelines. This resulted in incorrect recording of household income data for 34% of the sample clients
- ❑ HPPI needs to improve transparency by declaring insurance coverage details and all inclusive annual percentage rate (APR) in the loan documents.
- ❑ Written permission of clients is not obtained for sharing their personal data with the credit bureau.
- ❑ HPPI does not offer repayment frequency choice to the borrowers.
- ❑ HPPI should develop a strong mechanism for grievance redressal of clients, to collect clients' feedback and complaints.
- ❑ No dedicated training on CoC for the staff and clients.

Introduction and background

- ▶ Humana People to People India (HPPI) is a development organization registered in 1998 as a not for profit company under section 25 of the Companies Act, 1956. HPPI works on 44 development projects related to Community Development (CD), Education, Health, HIV/AIDS, Environment and Training and Development covering 11 states in India.
- ▶ Humana People to People India is a member of the 'Federation for Associations' connected to the International Humana People to People Movement which works in 43 countries.
- ▶ HPPI started microfinance operations in November, 2007 in Alwar district, Rajasthan. In 2010 it formed a new Section 25 company for its microfinance operations; however till now the loan portfolio has not been transferred to the new entity.
- ▶ HPPI follows joint liability group model for its lending. HPPI's target segment consists of rural and urban women from low income/underprivileged families.
- ▶ The microfinance program of HPPI had an outreach of 9,656 members(1,971 centres) through 6 branches on 30 September, 2012. The total microfinance portfolio on 30 September 2012 was Rs 6.64 crore.
- ▶ The Board of HPPI comprises four directors including one independent director who also heads the Board. Mr. Snorre Westgaard is the Chief Executive Officer(CEO) who is supported by Mr. Sudhanshu Shekhar, Head of Microfinance operations. The Microfinance Executive Committee is responsible for all the microfinance related activities at HPPI and comprises the CEO, Mr. Sanjeev Bhatt, who is an executive Board member, the Head of Operations and the Project Head of Microfinance.
- ▶ The branch comprises 4-6 Field Executives (FE), one Credit Officer (CO) and a Branch Manager (BM). The BM reports to the Area Manager (AM) who is accountable to the Head – Microfinance.

...Introduction and background

Vision

“To provide improved access and efficient provision of micro credit/finance to secure sustainable livelihood opportunity and a life of dignity for the rural poor, especially women in India”

Mission

Humana Microfinance stands for ensuring that the poor women are no longer exploited by the moneylenders or denied access to credit. To ensure this it pledges to organize them in groups, build their capacity and provide easy access to credit so that they smoothen their consumption, manage their risks better, build their assets gradually, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life.

Objective

To provide credit services to the rural poor especially women based on social collateral
 To train rural poor especially women in skills to handle the credit funds in a judicious manner and contribute to employment and income generation.
 To create opportunities for self-employment for the underprivileged.

Main Performance Indicators*

	Mar-11	Mar-12	Sep-12
Active borrowers	5,579	7,760	9,656
Portfolio Outstanding (Rs cr)	1.88	6.07	6.64
Number of states	1	1	1
Number of branches	4	4	6
Number of client centres	1,160	1,750	1,971
Staff strength	30	30	52
PAR 60	0.0%	0.0%	0.0%
Write off %	0.0%	0.0%	0.0%
Yield on Portfolio	25.8%	25.5%	24.6%
Operating Self-Sufficiency	121.2%	125.8%	117.0%
Return on average assets	3.6%	4.0%	3.5%
Capital adequacy ratio	56.1%	49.1%	48.3%

*Data as reported by the management

Microfinance policies

- ▶ HPPI follows the Grameen Model of Joint Liability Group (JLG) and lends to the underprivileged women in rural and urban areas.
- ▶ A group comprises of five members. Two to a maximum of eight groups form a centre (*Saheli*).
- ▶ The Branch Manager (BM) and a Field Executive (FE) conduct a survey of the area in the prescribed format prior to opening of a branch. This involves study of both primary and secondary data. Once the area is selected, FEs make several visits for information and projection meetings to the area to identify potential clients. Thereafter, interested women are organised into groups. In the existing operational areas, the groups are formed mostly through referrals from the existing clients.
- ▶ After group formation, Compulsory Group Test (CGT) is conducted for three days. KYC documents are collected during the CGT. FE is required to visit the houses and businesses of all the members. As per the policy, the husband/ guardian of the member is also required to sign on the loan application form. The training includes loan product details, process and procedures of HPPI.
- ▶ Group Recognition Test (GRT) is conducted on the fourth day by the BM. The BM also visits the members' houses and cross checks the information given in the loan application. HPPI follows a housing index format to assess the client eligibility. Once the conditions are met, the BM approves the loan application and the loan is disbursed by the FE in the subsequent centre meeting.
- ▶ Loan Utilization Check (LUC) is compulsory for all disbursements. A Field Executive conducts LUC of loans under another Field Executive. The BM randomly monitors the same. 100% LUC is compulsory as per policy. However any documentation of LUC was not found during the branch visits.
- ▶ Repayment is collected in cash at the weekly centre meeting where the FE signs and updates the loan passbook. The loan passbooks are available with the individual members in which the interest rate with the loan processing fees, insurance fees and other terms and conditions are mentioned. However the repayment schedule and effective interest rate is not mentioned in the document.

Loan products

- ▶ HPPI offers loans for income generation for activities such as agriculture, animal husbandry and small business (IGL). Middle Term Loan (MTL) is a top up loan given to the clients in the middle of IGL loan tenure (after 25 weeks of timely repayments of IGL). Terms and conditions of MTL are same as IGL.
- ▶ MFI is constrained by RMK's condition that the lending rate to the beneficiaries should not exceed 18% per annum on a declining basis. Thus 18% p.a. reducing interest is charged in Bansur branch which was the first branch of HPPI. The interest rate in other branches is 23.6% p.a. reducing.

Features	RMK loan (Bansur branch)	Other branches
Product design	Income generation loans under group liability	
Loan size	Maximum loan size: Rs 15,000 (<i>Rs10,000 for 1st cycle loan</i>)	
Term (Weeks)	50 weeks	
Repayment frequency	Weekly	
Grace period (months)	No grace period	
Processing fee	1% of the loan amount	
Interest rate % (pa)	18% reducing	23.6% reducing (12% flat)
APR	18.0%	23.6%
EIR	20.4%	25.7%
Guarantee/collateral	None	
Penalty on overdues	Nil	
Prepayment	Allowed	
Foreclosure	Allowed; no penalty is charged	

Other products

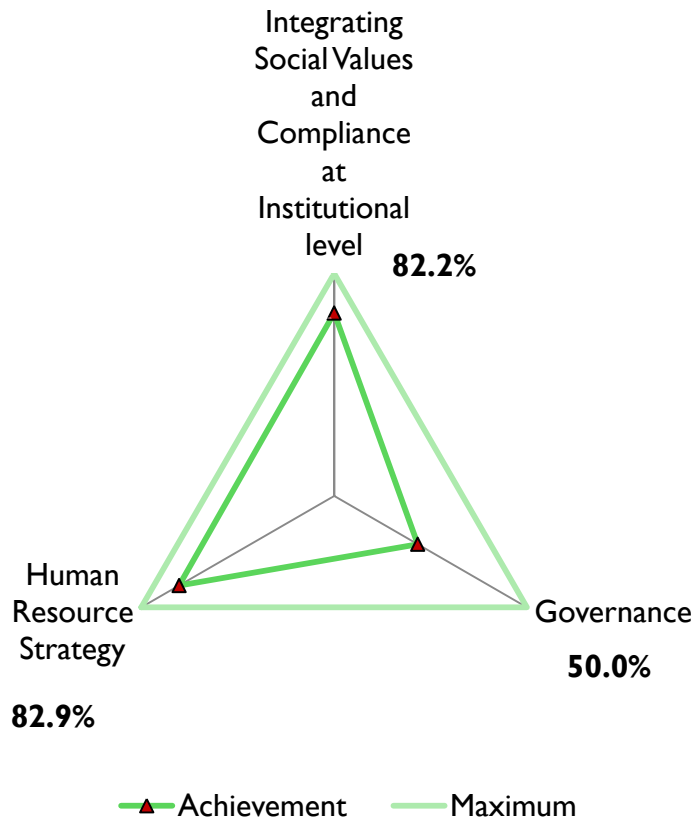
Insurance

- ▶ HPPI offers life insurance in association with IDBI Federal Life Insurance Company. Insurance is compulsory for all the clients. An insurance premium of 1% of the loan amount is collected and it covers the loan amount.
- ▶ In the event of death (*client or spouse*), HPPI pays the full insured amount to the client/spouse and the outstanding amount is settled by the insurance beneficiary.



Integrity, governance and HR strategy

Performance



Score

21.5% out of 30%

Levels of internalization

Product Name	Approval	Documentation	Dissemination	Observance
Integrating Social Values and Compliance at Institutional level	Good	Good	Moderate	Moderate
Governance	Moderate	Moderate	NA	Moderate
Strategy – Human Resources	Good	Good	Moderate	Moderate

...Integrity, governance and HR strategy

Integrating Social Values and Compliance at Institutional level	Compliance by HPPI
Not less than 85% of total assets of MFI (<i>other than cash, balances with banks and FIs, Govt. Securities instruments</i>) are in nature of qualifying assets .	✓ As per CA certificate issued on 29 th October 2012, as on 30 th September 2012, 97.02% of the company's asset (excluding cash, bank balance & investments) were under the category of qualifying assets.
Aggregate amount of loan extended for income generating activity is >70% of the total loans given	✓ As per CA certificate issued on 29 th October 2012, 100% of its loans are given for income generating activities.

Integrating Social Values and Compliance at Institutional level

- ✓ HPPI has developed its own Code of Conduct (CoC). This is incorporated in its HR manual and has formal approval of the Board.
- ✓ HPPI has modified its product terms and conditions to adhere to the new RBI guidelines and UCoC.
- ✓ There is adequate supervision by both operations and internal audit team. Internal audit and monitoring systems cover employee behaviour with client. Internal Auditor visits 6 *sahelis* every month to check on client awareness on different aspects. During supervisory visits, senior management team interacts with the clients to ensure that the tenets of the CoC are being adhered to. This is documented in the visit register. However, it is to be noted that the Internal audit and monitoring systems do not cover the awareness level of the staff on CoC.
- ✓ HPPI aims to educate its clients and create awareness in them regarding the product and services offered during CGT, GRT and several financial literacy camps (mass and households) for its existing members as well as for the potential clients.

...Integrity, governance and HR strategy

...Integrating Social Values and Compliance at Institutional level

- ✓ HPPI provides loans only for income generating activities. As per CA certificate dated 29th October 2012, 100% portfolio of HPPI falls into category of income generating loans.
- ✓ HPPI calculates and maintain the 12% margin cap (as on 30 September the portfolio size of HPPI was Rs6.64 crore). As per CA certificate dated 31 January 2013, HPPI had a margin of 10.17% for the period April 2012 to September 30, 2012. The interest cost was calculated on the average fortnightly balances of outstanding borrowings and the interest income was calculated on the average fortnightly balances of outstanding loan portfolio of qualifying assets.
- ❑ HPPI has not provided any dedicated training to the field staff on UCoC and new RBI guidelines. It was observed during meetings with staff that their understanding of the UCoC needs to be improved.
- ❑ HPPI has reviewed its back office operations and has made necessary investments in information technology and systems to achieve better control. However, the MIS does not have the automated controls to reject loans which violate policies.
- ❑ HPPI needs to enhance display of the Code of Conduct, product pricing and product terms and conditions in the Head Office, the branch offices and on its website .



...Integrity, governance and HR strategy

Governance

- ✓ HPPI has a four member Governing Board. The Board members are well qualified and experienced development professionals. However, their experience in microfinance is limited to their association with HPPI.
- ✓ The Board meets quarterly and is active in deciding organizational strategies and policies.
- ✓ Board has approved CoC, Fair Practice Code, New Product Policy and Staff Recruitment and Induction policies.
- ✓ HPPI accounts are audited annually by qualified auditors as per the standards of the Audit and Assurance standards issued by the Institute of Chartered Accountants of India (ICAI). The financial statements are published with full disclosures.
- ✓ HPPI has maintained transparency in its reporting to the industry information networks like Microfinance Information Exchange (MIXmarket.org). It also displays its audited financial statements on the website and in the annual report.
- ❑ HPPI has only one Independent Director in its Board, it needs to induct at least one more independent director in its Board to comply with the criteria of minimum one third independent members in the Governing Board.
- ❑ HPPI does not have any Audit Committee which needs to be formed for ensuring compliance with CoC .
- ❑ HPPI does not submit a separate CoC compliance report to the Board and there is no designated individual approved by the Board to ensure compliance.



...Integrity, governance and HR strategy

Human Resource Strategy

- ✓ HPPI mostly recruits from its own training schools (TCGD-training centre for global development) and also through lateral placements from other programs of HPPI. It has recruited some of the staff from other MFIs based on reference. Recruitment is usually done at the credit officer level, and other posts in operations team are filled through internal promotions. Lateral recruitments of managerial staff for other departments are also done.
- ✓ Field staff receive classroom training for 15 days at the Area Office and 1 month on-the-job training on how to impart awareness of the product/procedures/systems to clients. It has also provided ToT to 15 field level staff (>25% of total staff).
- ✓ HPPI follows fair recruitment and ethical process while hiring employees of any other MFI. HPPI does not assign new recruits the same operational area as their previous organization for at least one year.
- ✓ As per policy, HPPI does not hire employees without reference check and responds to the reference checks (if any).
- ✓ HPPI honours one month notice period from an outgoing employee. It provides relieving letter and settles all dues after completion of the notice period.
- ✓ The recovery of loans is done by HPPI employees only. Outsourced agents are not used for recovery from clients.
- ✓ In practice, HPPI does not collect any shortfall in collections from employees. However, no such written policy is there in the HR manual.
- ✓ There is no monthly incentive scheme in HPPI. The annual increment is based partially on the internal audit report which includes the quality of staff interaction with clients.

...Integrity, governance and HR strategy

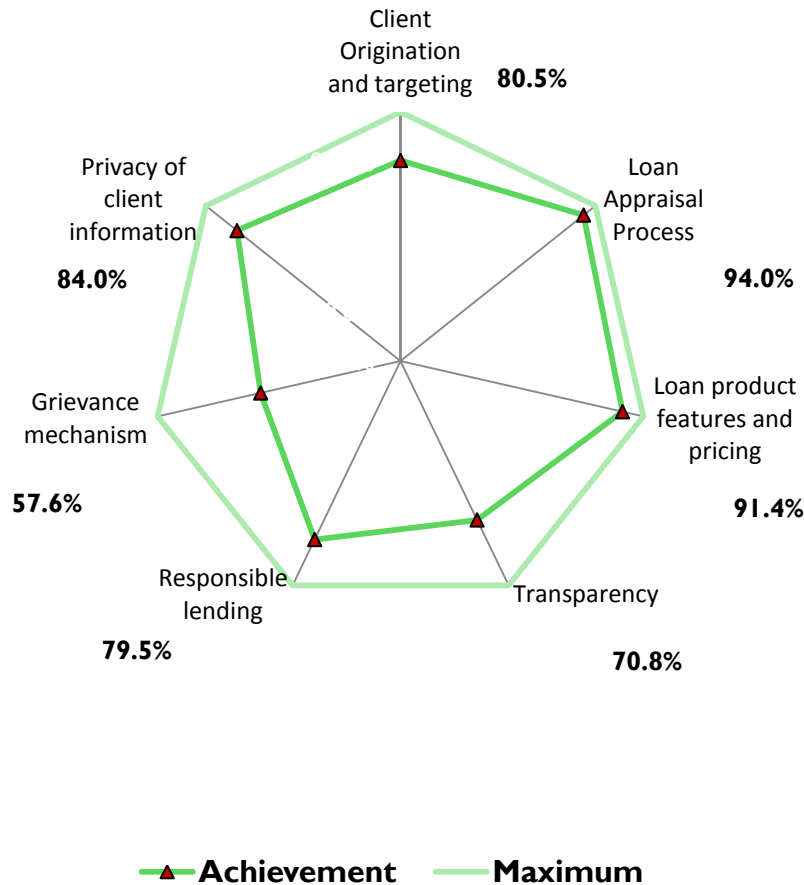
...Human Resource Strategy

- ✓ HPPI has clearly defined guidelines for employee interactions with clients. The operational manual mentions that suitable disciplinary action will be taken on inappropriate staff behaviour with clients as per severity of the problem.
- Staff has not received exclusive training on RBI guidelines and UCoC and were thus moderately aware of the guidelines. However, staff had good understanding of product features.
- There is a Board approved step by step guidelines for dealing with default/overdue cases. However, staff was not aware about any such guideline. Most of the field staff agree to enforce the joint liability clause and involvement of seniors in all cases of default.



Compliance with guidelines pertaining to clients

Performance



Score

47.6% out of 60%

Levels of internalization

Parameter	Approval	Document ation	Dissemina tion	Observance
Client Origination and targeting	Good	Moderate	Moderate	Moderate
Loan Appraisal Process	Good	Good	Good	Good
Loan product features & pricing	Good	Good	Good	Good
Transparency	Good	Weak	Moderate	Moderate
Responsible lending	Moderate	Moderate	Good	Good
Grievance mechanism	Moderate	Moderate	Moderate	Weak
Privacy of client information	Good	Moderate	Moderate	Good

...Compliance with guidelines pertaining to clients

Client Origination and Targeting	Compliance by HPPI
Borrowers household income (HHI) does not exceed Rs 60,000 in rural areas and Rs 120,000 in non- rural areas	✓ HPPI collects a self-declaration of household income for all borrowers.

Client origination and targeting

- ✓ The loan application form captures all socio-economic and demographic details of the customer as well as her financial status (income, repayment capacity) and loans from other MFI.
- ✓ HPPI ensures there is no multiple membership in SHGs/JLGs by providing members with a unique client ID.
- ✓ The KYC Guidelines of RBI have been complied with, and no borrower can pass the GRT unless her identity and address documentation is original and valid.
- ✓ HPPI does not discriminate between its clients based on their castes or in any manner. None of the clients surveyed reported any kind of discrimination.
- ❑ Nearly 38% customers declared a different income to the assessment team than in loan application form and MIS, indicating that self-declaration of income is not a fully reliable indicator to assess repayment capacity.



...Compliance with guidelines pertaining to clients

Loan Appraisal Process	Compliance by HPPI
<p>Total indebtedness of the borrower does not exceed Rs 50,000</p>	<p>✓ In addition to compulsory Credit Bureau check, HPPI relies on client's self declaration and cross checks with other <i>saheli</i> members to ensure compliance with the indebtedness guideline. All the sample clients were within the eligible limits of indebtedness.</p>
<p>The MFI ensures</p> <ul style="list-style-type: none"> ○ borrower does not have more than two NBFC-MFIs loans ○ borrower cannot be a member of more than one of its SHGs/JLGs ○ not lend to a single person as an individual & group borrower, simultaneously ○ Involvement of more than one staff in loan sanctioning & disbursement 	<p>✓ A compulsory credit bureau check ensures that HPPI does not become the third lender to any individual. Also, it shares its data with High Mark which ensures that the loan given by HPPI to its borrowers should be known to other MFIs and the borrowers should not have loans from more than two MFIs.</p> <p>✓ No cases were observed where loans had been disbursed to the members having loans from two or more than two MFIs.</p> <p>✓ HPPI ensures that there is no multiple membership in <i>sahelis</i>. each borrower is given a unique identification number. Also, it does not give individual loan.</p> <p>✓ The sanction of the loan is done at the branch office by the BM and the disbursement of loan is done in the <i>saheli</i> meetings by the FE. Disbursement of loan is done in presence of all <i>saheli</i> members. Sometimes, the respective BM is also present during disbursement.</p>

Compliance with guidelines pertaining to clients

Loan Appraisal Process	Compliance by HPPI
<p>Credit Bureau (CB)</p> <ul style="list-style-type: none">○ MFI is a member of at least one CB○ submits data regularly to the CB○ checks with CB before sanctioning of loan○ In addition to CB checks, takes self certification from the borrowers	<ul style="list-style-type: none">✓ HPPI has signed an agreement with High Mark Credit Information Services (High Mark). It submits client data regularly with High Mark.✓ Loans are approved only after compulsory Credit bureau check and disbursement made only to the approved clients.✓ The loan application form records the self declaration of the member on the indebtedness level and HHI which is duly signed by the borrower.

...Compliance with guidelines pertaining to clients

Product features	Compliance by HPPI
Loan size: does not exceed Rs 35,000 in 1 st cycle and Rs 50,000 in subsequent cycles .	✓ HPPI does not disburse loans for more than Rs 15,000 (1 st cycle Rs10,000 and subsequent cycles Rs15,000).
Tenure: not less than 24 months when loan amount >Rs 15,000	✓ HPPI is fully compliant as it offers loans only up to Rs 15,000 at present
Repayment frequency: weekly/ fortnightly/ monthly at the choice of the borrower	❑ Customers are not offered a choice of loan repayment frequency as HPPI has only the weekly repayment option.
Moratorium: is not less than the frequency of repayment (or min. one installment)	✓ HPPI gives one week moratorium. The loan is disbursed only on the weekly <i>saheli</i> meeting and collection of the instalments starts from subsequent weekly meetings.

...Compliance with guidelines pertaining to clients

Pricing	Compliance by HPPI
Interest rate/pricing cap: <ul style="list-style-type: none"> ○ Margin cap of 10% for large MFIs (with portfolio > Rs 100 crore), 12% for others ○ Max. variance between the min. & max. interest rate does not exceed 4% 	<ul style="list-style-type: none"> ✓ As per CA certificate issued on 26th October 2012, HPPI meets the margin cap and interest variance requirements. ❑ MFI is constrained by RMK's condition that the lending rate to the beneficiaries should not exceed above 18%, which causes the variance of 5.6% in the loan products offered by HPPI.
Pricing: only 3 components: (i) processing fee (ii) interest (iii) insurance premium	<ul style="list-style-type: none"> ✓ HPPI collects processing fee and insurance premium upfront. Interest on the outstanding principal is collected with weekly installments. It does not take any fees other than the three components specified in the RBI guidelines
Processing fee: max 1% of loan amt.	<ul style="list-style-type: none"> ✓ After new RBI guidelines, HPPI has changed its LPF from 2% to 1% of loan amount.
Insurance commission: as per IRDA norms	<ul style="list-style-type: none"> ✓ No commission is collected from the insurance company. The premium collected from the clients is transferred to the insurance company.
Bundling of Products	<ul style="list-style-type: none"> ✓ No bundling of products at HPPI
Other: <ul style="list-style-type: none"> ○ No penalty for prepayment & delayed payments ○ No collateral & security deposit 	<ul style="list-style-type: none"> ✓ HPPI does not take any collateral & security and does not charge penalty on prepayment and delayed payment. Prepayments are not allowed and foreclosure of loan is discouraged.

...Compliance with guidelines pertaining to clients

Transparency	Compliance by HPPI
Standard form of loan agreement: preferably in vernacular language	<input checked="" type="checkbox"/> HPPI does not issue loan agreement to the client. Sanction letter is a part of Loan Application Form, which states the loan amount and rate of interest. It is approved by the Board and is available in vernacular. Loan terms and conditions are also communicated to the clients in the local language through CGT and GRT.
Loan card: reflecting of (i) EIR (ii) terms & conditions (iii) record all transactions;(iv) all entries in vernacular	<input checked="" type="checkbox"/> HPPI issues loan passbook to the clients which states loan amount, interest rate, processing fee, instalment amount, loan tenure and insurance premium amount. All entries in the card are done by FE in local language. Loan card bears the unique identification number of the client, joint photograph with spouse, client name, <i>saheli</i> (centre) name, address etc. <input type="checkbox"/> However, loan card does not mention EIR, insurance coverage details and prepayment terms.
Display of the EIR in its offices & website	<input type="checkbox"/> HPPI does not display EIR in its documents, branch offices or in the website. However, declining rate of interest and loan processing fee is displayed in the branch offices.
Member education: professional inputs to members in the formation groups	<input checked="" type="checkbox"/> Clients are educated during CGT and GRT on product features (interest rate, repayment schedule and installment size) and group responsibilities. <input checked="" type="checkbox"/> Also, HPPI has conducted several financial literacy campaigns (mass and households) to provide financial education to its existing members and to the potential clients.

...Compliance with guidelines pertaining to clients

Transparency ...continued

- ✓ HPPI developed own CoC aligned with MFIN's unified CoC and it was approved by the Board. The CoC is in Hindi and is displayed in its Area office and in the branch offices.
- ✓ Post RBI guidelines, HPPI has started declaring declining interest rates in all its communications. The changes in the interest rate and loan processing fee were communicated to the clients.
- ✓ Clients are trained/oriented at various stages (CGT, GRT and weekly *saheli* meetings) which help the clients to understand the product terms and conditions and group responsibility. HPPI does not charge any fee for trainings and financial literacy camps.
- ❑ Most of the terms and conditions and costs are disclosed on the loan documentation (either loan application form or passbook) as per the RBI guidelines and UCoC. However, overdue recovery process, insurance coverage details and grievance redressal mechanism is not mentioned.
- ❑ HPPI does not issue any receipt to the clients for loan processing fee and insurance premium. Also, it does not provide any printed repayment schedule at the time of loan disbursement.



...Compliance with guidelines pertaining to clients

Responsible Lending	Compliance by HPPI
<p>Location for transactions and overdue recovery</p> <ul style="list-style-type: none">○ all transactions at a central location○ staff are allowed to make recovery at the place of residence or work if borrower fails to appear at central place on 2 or more successive occasions	<ul style="list-style-type: none">✓ Loan disbursements and recovery of instalments are made at the <i>saheli</i> meeting location, so that all group members witness each others' repayments.✓ Clients' loan passbook also specifies that all financial transactions can take place only in the meetings.✓ The CO is not permitted to visit clients' residence. The group leader/centre members have to visit the delinquent client(s).
<ul style="list-style-type: none">✓ In case of default, there is a Board approved step by step guideline. However, during the interaction with the staff at the visited branches it was observed that most of the staff could not recall a fixed action plan in a default scenario. They agreed to enforce joint liability of group and intervention of seniors in all cases of default.✓ HPPI has clearly stated guidelines in its HR manual and internally developed CoC for dealing with clients other than in default cases. Loan passbooks with the clients reiterates that inappropriate behaviour is not allowed.✓ No cases of any kind of misbehaviour or violation of ethics were reported by customers interviewed by the assessment team.❑ HPPI does not have Board approved debt restructuring policy.	

...Compliance with guidelines pertaining to clients

Grievance Mechanism

- ✓ HPPI has set up a call centre at the Area office and provides number of the call centre on the back of the loan card. Call log register at AO is updated regularly.
- ✓ A complaint and suggestion box is installed at all branches and in the Area Office. Till now no serious complaints have been received.
- ❑ HPPI has not declared in the loan agreement that it will be accountable for preventing inappropriate staff behavior and timely grievance redressal.
- ❑ Though the loan card mentions the number of the call centre, it does not mention the grievance redressal system.
- ❑ A large number of cases go unreported as customers come to the branch or call the BM directly to resolve their queries or to make a complaint. The queries and complaints are verbally resolved without being documented.
- ❑ HPPI has not designated any nodal officer for grievance redressal and to handle complaints from the clients. Any staff at the Area office can attend to grievance calls.
- ❑ There is no policy of escalation of unresolved grievances. Also, there is no maximum turnaround time for grievance redressal.
- ❑ HPPI does not communicate details of Industry Association (Sa-Dhan and MFIN) where clients could approach for grievance redressal in case they are dissatisfied with HPPI's resolution.

...Compliance with guidelines pertaining to clients

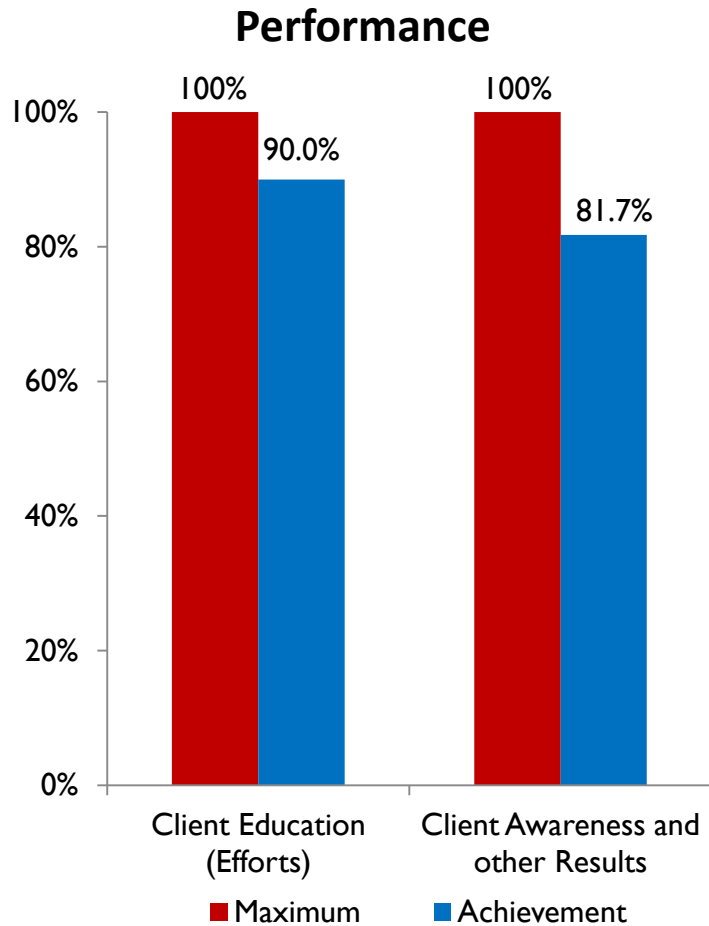
Privacy of client data

- ✓ HPPI maintains all client related documents in the branch offices. These documents are stored with care which prevents unauthorized access.
- ✓ All clients' details are entered in MIS which is available for branch staff. The access rights to the MIS are well defined and ensures adequate security for sensitive data. The assessment team did not observe any evidence of the clients' data being used for unauthorized purposes.
- ✓ HPPI did not share any information related to clients to any third party except High Mark. HPPI does not take written permission from the clients for sharing their personal information with credit bureaus. Also, it does not communicate in writing to the clients that their personal information would be kept confidential.
- ❑ The clients interviewed were not aware of the privacy policy and how the information collected by HPPI will be used.

Monitoring & audit of compliance on guidelines pertaining to clients

- ✓ HPPI has developed a good monitoring and internal audit systems. Its internal audit scope adequately covers client protection issues. Internal Auditor meets 6 *sahelis* every month to ensure adherence to various aspects of the guideline and CoC. Supervisors visit all the branches on a regular basis, and during client visit check if the branch staff treats clients respectfully. This is documented in the branch visit register.

Client education efforts & field results



Score
8.4% out of 10.0%

Parameter	Approval	Documentation	Dissemination	Observance
Client Education Efforts	Good	Good	Good	Moderate
Client Awareness	NA	NA	NA	Good

...Client education efforts & field results

Client Education

- ✓ HPPI has conducted several financial literacy campaigns (mass and households) to provide financial education to its existing members and to the potential clients.
- ✓ It educates clients about loan products and loan terms and conditions during 3 days compulsory CGT to ensure that the borrowers make an informed decision. The CGT covers institution vision and mission, products offered and their terms and conditions, KYC documents and group responsibility/joint liability etc.
- ✓ BM separately conducts a GRT during which each client's awareness level is tested and loans are approved and disbursed only after satisfactory awareness level of the group is established.
- ✓ Client awareness is also checked by the supervisors and internal audit. They inform the clients about any changes in policies of HPPI.
- ❑ Although some aspects of CoC relevant to the clients are covered during CGT and GRT. The clients have not been informed about their rights and responsibilities with respect to the CoC. Besides, there is no specialized training on CoC to the clients.

...Client education efforts & field results

Client awareness and other results

- ✓ Recall of training received on various topics was high, 100% for MFI details, joint liability and processing fees. However, there was slightly low recall of training on interest rate charged (79%), insurance charges (87%), avoiding indebtedness (54%) and Code of Conduct (41%).
- ✓ Around 98% of clients were aware about the loan product features related to loan amount and loan repayment tenure, 93% could state the loan instalment amount and other features of loan products. However, only 32% clients were aware of the rate of interest. The clients could better recall interest amount.
- ✓ All members were aware of the conditions of group formation and dynamics of joint liability mechanism. The members confirmed that the HPPI's staff visited their residence for verification of information in loan application forms.
- ✓ Clients' awareness on insurance claim process and prepayment policy was found to be low. Only 64% clients were aware about the insurance charges and merely 21% knew the process to claim insurance.
- ✓ Interviewed clients reported that HPPI does not collect any other charges except interest, processing fees and insurance premium, and does not ask them to deposit collateral/margin money.
- ✓ Clients also reported that there was no discrimination or any kind of unfair treatment or undesirable behaviour from the field staff or branch staff.
- ✓ All sampled clients were visited by Branch Managers, 61% clients could remember visits by other supervisory staff.
- ✓ Most clients indicated that they were satisfied with HPPI's services – 92% clients indicated high satisfaction and ranked HPPI as the most preferred lender among all sources of loans.



Annexes

Profile of the Board

S. No.	Board Member	Position on Board	Experience	Since
1	Dr. A. Padmavathi	(Chairperson, Non Executive Member)	She has more than 20 years of experience in development sector. She was Economic & Social Development Adviser to the Planning Commission during 1987-90. She is one of the founder member of Society for International Development, Italy. She is a Doctorate in International Economics (US). She holds 0.6% shares in HPPI	2000
2	Mr. Sanjeev Bhatt	(Director & Member of Microfinance Executive Committee)	He has more than a decade of experience in development sector in various projects. He is a Post Graduate in Botany. He has been working as a National Program Officer since 2005.	1999
3	Mr. Manoj Kumar Singh	Director	He has experience as a project leader in various projects including training, monitoring, community deposit mobilization, and in the Training Centre for Global Development(TCGD)	2006
4	Mr. Kailash Khandelwal	Director	He has more than a decade of experience in development projects including water and sanitation, reproductive and sexual health, community development and livelihoods	2000

Shareholding pattern as on 30 September 2012

S.No.	Name of the Shareholder	Number of shares	Amount(Rs)
1	Humana People to People Society	350	3,500
2	Dr. Akula Padmavathi	2	20

Methodology

- ▶ **Preliminary analysis of MFI's information, review of available reports and financial statements**
- ▶ **Visit to Head Office of MFI**
 - ❑ Discussions with the CEO & one Board Member– broad strategic issues and mission orientation, commitment towards CoC
 - ❑ Discussions with the senior management (Operations, Human resource, Accounting and Internal Audit) to understand MFI's objectives, market strategies, methodology, products and services, integration of CoC in policies and procedures
 - ❑ Review of manuals, various report formats, reports and Board minutes
- ▶ **Visit to branches – 3 branches**
 - ❑ Discussion with Branch Manager and all branch staff on different aspects of CoC, MFI's policies and procedures
 - ❑ Documentation review – client basic profile forms, loan application forms, internal audit reports, complaints register if any and CoC displays
- ▶ **Visited 6 *saheli* meetings (2 for each branch)**
 - ❑ Assess relationship between MFI staff and clients
 - ❑ Check for implementation of client protection principles
 - ❑ Spot check of passbooks, receipts, repayment cards, maintenance of documents
 - ❑ Feedback on products – suitability to client needs, application of terms & conditions
- ▶ **Data Analysis and Report writing**
- ▶ **Draft to MFI for comments**
- ▶ **Finalisation by M-CRIL**

Clients Interviewed

- ▶ As part of this assessment, we visited 3 out of 6 branches of HPPI in Rajasthan. The details of the branches visited are provided below.

S. No.	Centre name	Centre id	Type (Rural/Urban)	Branch Name	District	No. of clients interviewed
1.	Meeno ka Mohalla	110	Rural	Bansur	Alwar	9
2.	Maliyon ka Mohalla	46	Rural	Bansur	Alwar	4
3.	Shrimano ka Mohalla	43	Urban	Thanagazi	Alwar	15
4.	Sarda School	05	Urban	Thanagazi	Alwar	10
5.	Chhipari	02	Rural	Sodawas	Alwar	15
6.	Tatarpur	31	Rural	Sodawas	Alwar	8
Total						61

Assessment tool: weight and scores

Sections	No. of Indicators	Max Score	Weights	Performance
Integrity, Governance and HR Strategy	34	170	30%	21.5%
Integrating Social Values and Compliance at Institutional level	9	45	10.0%	8.2%
Governance	6	30	10.0%	5.0%
Human Resources Strategy	19	95	10.0%	8.3%
Compliance with regulations pertaining to clients	95	475	60%	47.6%
Client Origination and targeting	11	55	9.0%	7.2%
Loan Appraisal Process	7	35	9.0%	8.5%
Loan product features and pricing	23	115	10.0%	9.1%
Transparency	20	100	10.0%	7.1%
Responsible lending	20	100	9.0%	7.2%
Grievance mechanism	10	50	9.0%	5.2%
Privacy of client information	4	20	4.0%	3.4%
Client education and financial literacy	27	135	10%	8.4%
Client Education	4	20	3%	2.7%
Client Awareness	23	115	7%	5.7%
Overall	156	780	100%	77.6%

Abbreviations

AO	Area Office	LUC	Loan Utilization Check
APR	Annualized Percentage Rate	M-CRIL	Micro-Credit Ratings International Ltd
BM	Branch Manager	MFI	Micro Finance Institution
CGT	Compulsory Group Test	MFIN	Microfinance Institutions Network
CO	Credit Officer	RBI	Reserve Bank of India
CoC	Code of Conduct	SIDBI	Small Industries Development Bank of India
EIR	Effective Interest Rate	UCoC	Unified Code of Conduct
FLC	Financial Literacy Campaign		
FE	Field executive		
FPC	Fair Practices Code		
GRT	Group Recognition Test		
HHI	Household Income		
HPPI	Humana People to People India		
HO	Head Office		
HR	Human Resources		
JLG	Joint Liability Group		
KYC	Know Your Customer		