

# **MPower Micro Finance Private Limited**

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## *Code of Conduct Assessment Report Final Report*

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31<sup>st</sup> December, 2014



***ICRA Management Consulting Services Limited***

# *MPower: Assessment on Compliance to Code of Conduct Framework*

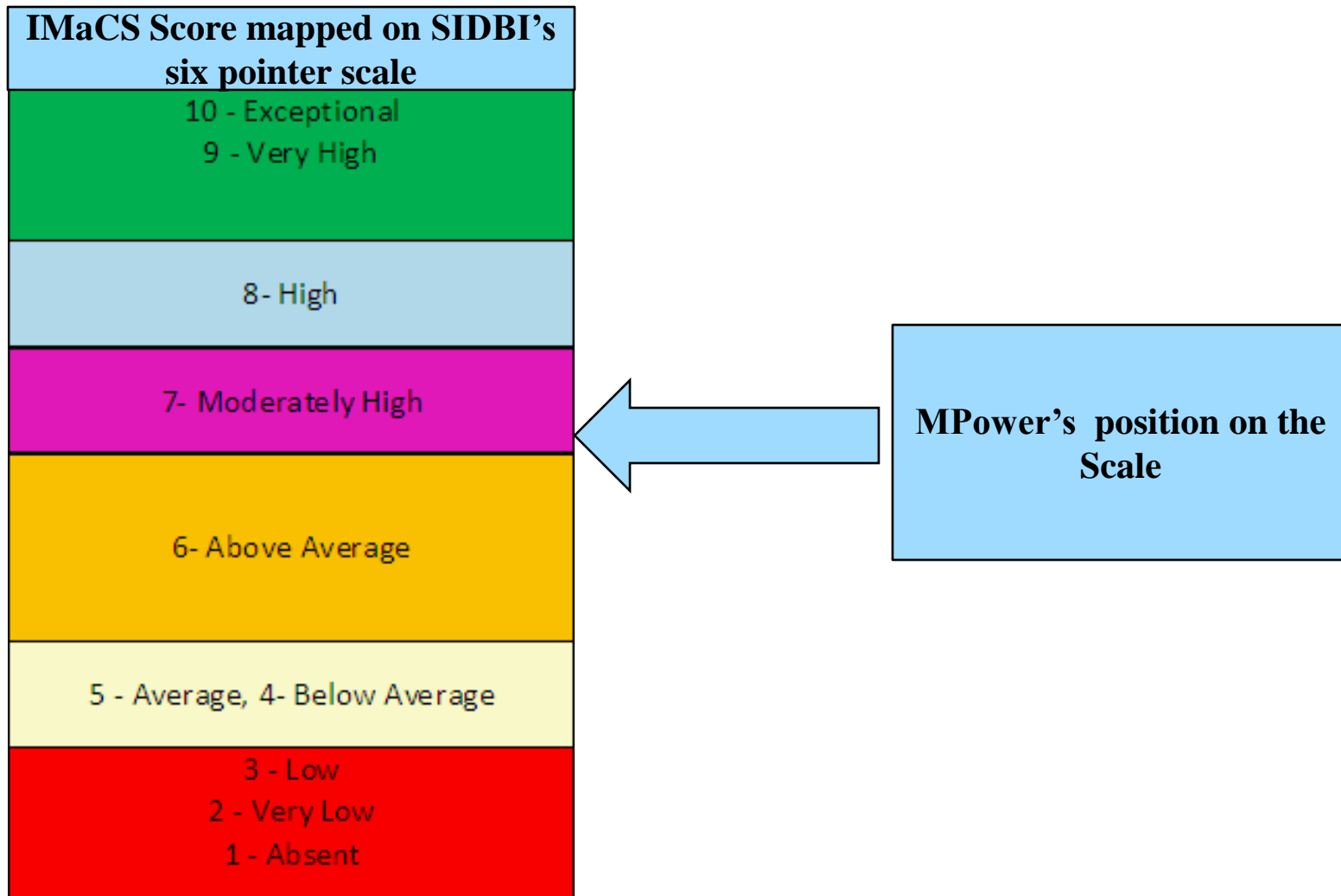
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**OVERALL SCORE: 7.0**

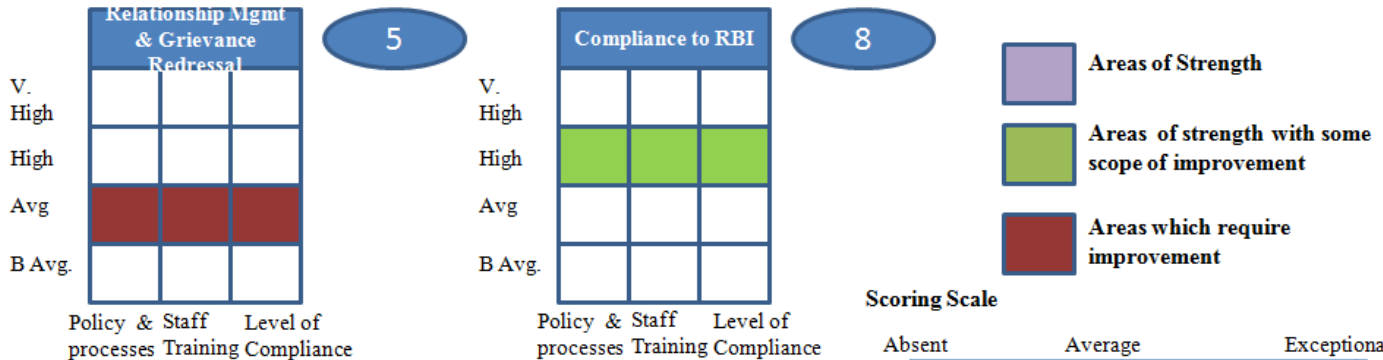
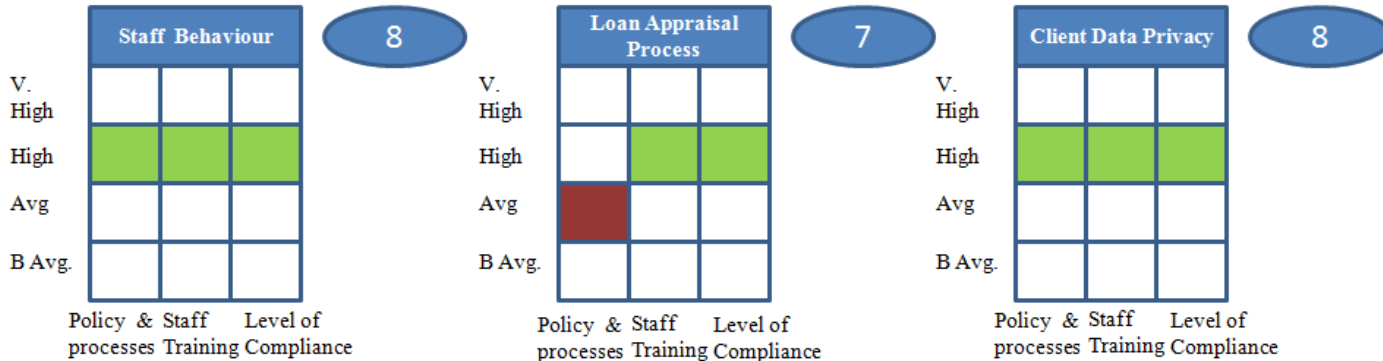
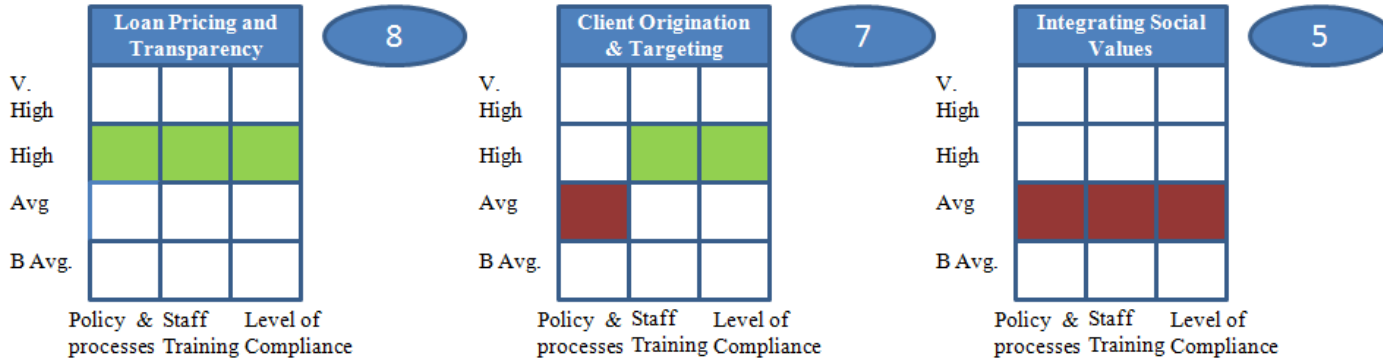
**DEFINITION: MODERATELY HIGH LEVEL OF ADHERENCE**

MPower has put in place an operational manual that adequately covers all key aspects of its lending processes and policies. The MFI has also been successful in disseminating company's processes, and policies at the field level and has set up a fairly strong internal audit system. However, there remains a scope of further strengthening the processes and policies across various areas of lending operations including client origination & targeting, loan appraisal and grievance redressal mechanism along with improving the coverage and structure of its operating manual

# *MPower Micro Finance: Mapping the IMaCS Score on Code of Conduct Assessment to SIDBI's Standardised Scale*



# Mpower: Parameters Wise Code of Conduct Score



## *Areas of Strengths at MPower.....1*

- ❑ Despite being a relatively small, but fast growing operations, MPower has been able detail its key processes and policies to a reasonable extent and have captured them in various manuals and policy circulars.
- ❑ MPower has a well defined area selection process to begin its operations. Even as there is not explicit policy of targeting under banked areas, MPower ensures that it lends to poor households which have not borrowed from two or more than two MFIs based on self declaration and checks on the credit history of each client file with two credit bureaus.
- ❑ The MFI conducts a 3 day Compulsory Group Training (CGT) followed by a GRT for new borrowers and 1-3 days CGT for repeat borrowers depending on the number of new borrowers in the centre. The CGT process has been documented well in the operating manual and covers all key aspects of lending including concept, responsibilities and duties of member in JLG, key loan terms and charges, product schemes and insurance details. All borrowers reiterated that they have received multi-point communication from the MFI on key loans terms.
- ❑ The MFI has put in place a strong internal audit process with monthly checks on key process parameters such as CGT, LUC, attendance, house verification, passbook updation etc, key centre registers and ledgers. Each branch is evaluated and given a score on internal audit which is then given a weightage in the calculation of incentive payouts of area managers, branch managers and field officers.

## *Areas of Strengths at MPower.....2*

- ❑ We observed that the MFI declares and communicates a single effective interest rate to its borrowers in its written and oral communication including its operating manuals, CGTs and passbooks of the borrowers. We did not find any evidence of the MFI declaring a flat rate to its borrowers in any of its communication.
- ❑ The company has initiated and documented the process of putting in place a basic multi-point grievance redressal mechanism in the form of the centralised complaint phone number of the borrowers, complaint boxes at the branches, conducting open forums and a compulsory visit of the borrowers to the branches at the time of disbursements.
- ❑ MPower has laid down a clear process of recovery from the clients in which it specifies calling of joint liability mechanism, counseling of borrowers, specific timings to visit clients residence and a clear instruction of not using harsh and coercive mechanism of recovery from its borrowers.
- ❑ At all the centres visited, we observed that the field staff and branch managers were adequately well-versed with the company's policies and processes. At these centres, majority of the clients also confirmed the compliance of the field staff to key processes related to group formation, credit appraisal, conducting centre meetings and loan utilisation checks etc.

## *Areas of Weaknesses at M Power.....1*

- ❑ Even as the MFI has initiated all round measures to strengthen its internal processes, there remain few areas which have a scope of further improvement and strengthening. Along with strengthening its policies and processes, the MFI need to further improve the structure, flow and dissemination of its operating manual.
- ❑ The House Verification form and GRT form has sufficient coverage of multiple parameters to determine the economic status of the borrower household. However, the MFI is yet to put in place a score based quantitative poverty assessment framework that can enable the MFI to choose households that meet their income threshold of poor based on occupation, living conditions, cattle ownership etc.
- ❑ MPower follows a policy of declaring a single effective rate of interest in all its oral and written communication. Yet at a few centres visited, the borrowers were unaware of the current interest rates . We also observed that during the centre meetings, even as the field officers reiterated JLG terms , there was little emphasis on reinforcing the key loan terms such as effective interest rates, insurance etc. Incorporating frequent coaching to clients in regular centre meetings can be effective in improving the financial awareness of the clients. Further, the MFI may consider moving towards declaring an all-inclusive rate of interest to its borrowers as best practice lending.
- ❑ MPower collects information related to borrower household income and expenses and has a policy of limiting the loan amounts to monthly repayment capacity of the client estimated at around 25% of it monthly cash surplus. However, in practice credit decision are not based on the cash flow of the customers. It will be advisable for M Power to move towards linking credit decisions to Income to Installment Ratio or a Credit Score.

## *Areas of Weaknesses/Further improvement at M Power.....2*

- ❑ Grievance Redressal mechanism at MPower needs further strengthening which includes setting up a separate grievance redressal committee, defining the roles and responsibilities of various levels of officials, penalties in case of delay in addressing consumer complaints, providing a toll free help line number to the poor borrowers and practice the policy of open forums as been detailed out in the operations manual. Further, the clients were found to be unaware of the HO number for complaint resolution and hence, the clients need to be informed and coached to report any complaints/grievances they experience at the level of field officers and branch managers.
- ❑ MPower's mission and vision implicitly reflects the underlying social mission of any MFI which includes nurturing the dreams of the people at the bottom of the pyramid in a transparent and quality manner. The MFI runs a few social programmes, but the outreach and frequency of these programmes are fairly limited in scale. The MFI had in the past been constrained due to restricted funding and low profitability. However, as it grows and becomes profitable, the MFI should put in place a structured CSR and social performance monitoring plan.
- ❑ MPower doesn't have an explicit loan restructuring policy even at the level of Head Office for genuine customers who are unable to repay loans in distressing situation such as a large scale natural disaster or a calamity.



# *MPower Micro Finance: Company's Background and Lending Model*

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- MPower Micro Finance Pvt. Ltd (M Power) is a non deposit taking NBFC, incorporated on 19 Nov 2009 with its registered office in Mumbai, Maharashtra and Corporate Office in Vadodara, Gujarat. M Power started its operations in 2011.
- MPower has been promoted and founded by a group of four ex-bankers and colleagues at HDFC Bank. The promoters of M Power were Mr. K.M Vishwanathan, Mr.K.V.Balaji, Mr.Sudhir Kolte and Mr.Ramakrishnan Venkateswaran. In 2010, Mr.Venkateswaran and Mr.Kolte exited the MFI , post which AU Financiers acquired a stake of 38.53 per cent in the company.
- MPower operates on a JLG (Joint Liability Group) model and lends to only women borrowers for productive purposes such as Kirana store, purchase of buffalo/cow etc, setting up pan shops, fast food stall etc.
- A minimum of 10-15 members are required to form a centre and each centre is divided into 3 groups with 5 members each. Each Group is represented by a Group Leader and each centre has a Centre Leader.
- The MFI currently offers two monthly products called Samruddhi for business purpose and Hariyali for buying cattle.

## *Key Financial Parameters: March 2012 to September 2014*

<b>Key Financial Parameters</b>	<b>As on Mar'14</b>	<b>As on Sep'14</b>	<b>As on Mar'13</b>	<b>As on Mar'12</b>
No: of Registered members	32,000	44,647	23,766	11,890
No. of Groups	6,620	7,570	2,260	1,271
Total Number of Branches	11	14	6	6
No. of Active Clients	20,745	30,279	13,680	6,354
Cumulative Loan Disbursements (Rs in cr.)	59.20	84.48	25.21	9.22
Loan disbursement (Rs.in cr)	33.99	25.28	15.99	9.22
Outstanding Loans (Rs in cr.)	25.03	35.32	11.99	7.00

# Product Offerings of MPower

S.No	Purpose of the loan	Loan Amount	Effective Interest Rate (EIR)	EMI	Processing Fee
1	Income generation	15,000	27.6%	1450*11+1377*1	1%
2	Income generation	20,000	27.6%	1100*23+900*1	1%
3	Income generation	25,000	27.6%	1400*23+361*1	1%
4	Income generation- Cattle Loan	15,000	27.6%	1450*11+1377*1	1%
5	Income generation- Cattle Loan	20,000	27.6%	1100*23+900*1	1%
6	Income generation- Cattle Loan	25,000	27.6%	1400*23+361*1	1%



# 1. Client Origination and Targeting: Policy Articulation and Documentation.....1

Policies	Best Practices	M Power's Policies and Observations	
Area Selection	Detailed process documented in the manual	Med	Reasonable coverage in manual. MFI prepares a fairly detailed Group Lending Market Survey Report or the ALI to finalise the location.
	Presence in under-banked areas	Med	As a policy, M Power operates in areas that are served by banks and is marked by the presence of one more MFI.
	Explicit Policy of avoiding over-indebtedness in clients.	High	Even as M Power only lends in areas where there is another MFI present, it has an explicit policy of not lending to clients that have a borrowing of more than Rs 50000/- and have taken loans from two or more MFIs. M Power is a member of Highmark & Equifax Credit Bureau and each file is checked with the bureaus. An undertaking to this effect is taken from their clients.
Borrower Selection	Guidelines of members to form groups well articulated and groups to be formed by borrowers themselves	High	The groups are formed by the Centre manager and the borrower themselves. MPower has a policy that ensures that no family members are a part of one group
	CGT process well documented with a strong focus on educating clients on the concept of JLG	Med	CGT guidelines are fairly documented covering various aspects of microfinance. The Area Manager conducts frequent checks/surprise visits to the centers and ensure implementation of the process.
	Poverty Assessment Framework defined	Low	The MFI collects info on the household income during group formation and the customers are required to fill a form with self declaration of their income and expenses and lending is done to customers that fall within the income guideline specified by RBI. There is no structured quantitative framework to evaluate and assess the income levels and expenses of a household.

# 1. Client Origination and Targeting: Policy Articulation and Documentation.....2

Policies	Best Practices	M Power's Policies and Observations	
Policy on outsourced agents	Explicit Policy of not using outsourced agents	High	No evidence of outsourced agents being used for collection/disbursement. Manual includes a guideline to train their customers that they should not pay any additional money to form or be a part of a group.
	Strong Internal Audits and Checks	High	M Power has a separate department for internal audit with the Head of Internal Audit reporting directly to the CFO. Each branch is audited on a monthly basis and coverage of the audit includes key aspects of operations such as LUC, passbook updation, meeting processes etc. Surprise visits are conducted and observations noted in the Internal Audit report. Branches are graded based on audit performance and incentives of centre managers and branch managers carry a strong weightage for audit results
	Annual Rotation of Centre Leaders	Low	There is no explicit policy of annual rotation of centre leaders in the MFIs operating manual
Policy on incentive structure	Incentive Structure not linked to disbursements and recovery.	High	Incentive structure of centre managers is linked to number of new members formed, but is not linked to recovery. There are other parameters related to audit performance included in the incentive structure
	Incentive structure to be linked to borrower retention and process compliance	Med	Incentive structure of centre manager and branch manager includes a 40 per cent weightage to audit and LUC and that of area manager includes a 50 per cent weightage to audit.

# 1. Client Origination and Targeting: Level of Dissemination and Observed Compliance

## Level of Dissemination

- Adequate training to the staff at the time of joining the organisation
- Each branch has a hard copy of the Operating Manual in English, but cannot be accessed by all staff members. The CM's have been provided with a 2 page vernacular note on the list of activities and process to perform the same.
- CMs were found to be reasonably articulate with the MFI's policies related to origination, targeting, group formation, conducting CGTs and GRTs. The staff has been provided training and instructions to follow the policies prescribed in the manuals.
- The company has 10 branches at the moment where each CM handles about 350 customers on an average. M Power intends to increase this to 600-700 per CM which would still correspond well with the industry average of 500-700 borrowers per CM.

## Level of Observed Compliance

- Members confirmed that a 3 days CGT was conducted at the time of group formation and that they were apprised of product features, rates and fees, repayment schedule and SHG concept. Further, they confirmed that there was no discrepancy in the information provided in the CGT vis-a-vis the actual transactions
- Collection is done at the centre meetings whereas the disbursement is mandatorily done at the branch which provides a direct source of connecting with the company's branch managers.
- The MFI has launched a new product of Rs.25,000 loan for third cycle customers.

## 2. Loan Pricing and Transparency : Policy Articulation and Documentation.....1

Policies	Best Practices	M Power's Policies and Observations	
Board's policy and involvement in pricing	Loan pricing policy specified and fixed by board	High	Board takes decision on pricing and conveys the same to operational staff on a quarterly basis. This is based on RBI directives on margins specified for MFIs.
	ROE and margin caps specified	High	There are no explicit ROE and margin caps specified by the Board. However, the MFI meets RBI prescribed limits on yields and margin caps.
	Documentation of CGT process with CGT Manuals printed in vernacular	Med	Adequate documentation of the CGT process. The manuals are in English. However, there is a 2 pager vernacular in Gujarati and Hindi note on the processes provided to the CM's in Gujarat and Mumbai respectively.
Client Coaching and Communication	Structured training program with coverage on JLG, effective interest rates and other terms	Med	The process of conducting CGT and GRT is fairly well documented and covers sessions on the terms of JLGs, effective interest rates and other terms to the group members followed by a Group Recognition Test. However the coverage and flow of the operating manual can further be improved.
	Refresher training programs and regular coaching of clients	Med	The company prescribes a 1-3 days CGT for second loan cycle which provides a refresher training for borrowers. The pledge/prayer at each collection meeting also ensures revision of JLG concept of lending. However, key loan terms such as interest rates, processing fees and prepayment penalties can be refreshed on a regular basis in the centre meetings
	Multi-point communication of effective interest rates, processing fees, pre-payment terms common to the clients	High	Loan terms and concept of group guarantee is conveyed to the clients at the time of group formation, during CGT and Group Recognition Test. The key loan terms are also noted in the passbooks of the borrowers

## 2. Loan Pricing and Transparency : Policy Articulation and Documentation.....2

Policies	Best Practices	M Power's Policies and Observations	
Transparency in disclosure of loan terms	All terms and conditions mentioned in the pass books and pass-books updated on a regular basis	High	All terms and conditions were found to be updated in the pass-books on a regular basis.
	Clear Communication of Effective interest rates with no concept of quoting flat rates	High	The company conveys a single effective interest rates to its borrowers in all its written and oral communication and we did not find any instance of flat rates quoted in the company's manuals and policies documents.
	Pass books contains information in vernacular language	High	Loan pass-books are in vernacular
	No collateral or margin money accepted	High	No collateral security or margin money on the loan
	No hidden costs related to distribution of third party financial products distribution	High	No hidden charges related to third party financial products
	No prepayment penalty	High	No pre-payment penalty prescribed in line with RBI guidelines.



## 2. Loan Pricing and Disclosure: Level of Dissemination and Observed Compliance

Level of Dissemination	Level of Observed Compliance
<ul style="list-style-type: none"><li>• Most of the staff adequately trained and understands the importance of transparent communication with respect to interest rates and other fees.</li><li>• Customers acknowledge the multi-point disclosure of loan terms by the MFI staff at the time of group formation, CGT and Group Recognition Test.</li><li>• We observed that the staff reiterates the concept of group collateral and responsibility through a pledge in each cluster meeting. However, there was limited focus on reiterating key loan terms such as effective interest rates, installments, penalties etc which could be included in the centre meetings on regular basis (if not for each meeting).</li></ul>	<ul style="list-style-type: none"><li>• CCs at all visited branches followed the rules of centre meetings as prescribed in the manuals</li><li>• All loan cards/pass-books were found to contain information in local language and were updated.</li><li>• Effective rate of interest, + processing fee, insurance coverage fee are mentioned in the loan pass book / loan card. We did not find the use of flat rate in any of the oral and written communication of the MFI to its borrowers .Clients are aware of the fees and charges.</li><li>• At majority of the centres visited, majority of customers could recall the monthly EMI and also the effective interest rates. However, at a few centres, some clients were not able to recall the effective interest rates and quoted wrong interest rates on the loans thus reiterating the need for a continuous coaching of clients on key loan terms.</li><li>• Members were aware of the concept of SHG and processing fees of 1%, insurance premium per member. There is a term insurance of the amount equivalent to the loan amount from Kotak Old . The scheme covers the member and her husband/guarantor.</li></ul>

### 3. Loan Appraisal Process: Policy Articulation and Documentation.....1

Policies	Best Practices	M Power's Policies and Observations	
Loan Appraisal Process	Elaborate lending process in manuals	Med	Reasonable coverage of the lending process in the operations manual
	KYC Policy	High	Adequate focus on adhering to KYC policy and mandatory guideline of borrowers identity card before a lending decision.
	Formal Credit Appraisal framework with credit scoring or Income to Installment Ratio	Med	The MFI prescribes a policy of calculating the cash inflow and outflow of the household to estimate the cash surplus for making a loan decision and limits the loan eligibility of the borrower up to an amount which translate into repayment liabilities of up to 25% of the available cash surplus. However, the framework has not been well defined and credit decision is not linked explicitly to results of the cash flow analysis.
Checks on over-indebtedness of clients	Declaration on total borrowings of the member's household in the application form	High	Sufficient coverage on members borrowings and economic status in house verification form.
	Credit Bureau Checks	High	M Power has enrolled as a member of credit bureau –Highmark and Equifax. All the customers are de-duped through these bureaus before any lending
	Mandatory House visits and reference checks of borrowers	High	Branch Managers and CCs are compulsorily required to visit the members houses at the time of conducting GRT/loan appraisal and conduct two reference checks. MFI has also set up a call center team that speaks to the customers and brief them about the loan and their loan application. The call centre also confirm that the spouse/husband knows about the loan transaction in cases where he is unavailable in person at the time of loan sanctions or disbursals

### 3. Loan Appraisal Process: Policy Articulation and Documentation.....2

Policies	Best Practices	M Power's Policies and Observations	
Credit Risk Management	Process to ensure adequate attendance in client meetings	High	M Power has a policy that prescribes mandatory attendance checking and tracking of the borrowers. Further the audit reports also check for any deviations from less than 70% of the attendance at centre meetings and account for low attendance in the branch audit reports
	Strong MIS to track a customers credit history with the company, IIRs attendance, Loan purpose etc. Factors considered for future loan eligibility	High	M Power has robust way of tracking the repayment of the loan by the borrowers. They update their software on a regular basis and keep a check on groups attendance and repayments. For any loan approval and disbursal- both for new and repeat customers, the attendance of the group members should be at a minimum of 70%
	Centralised credit centres for conducting credit checks in addition to field checks	Low	All loans are proposed and approved by the branch managers. A central team conducts the de-dupe with the credit bureaus. However, there is no independent checks or a credit committee to take a joint decision on a loan sanction.
Loan Utilisation Checks	Loan Utilisation Declaration in the application form	High	Sufficient coverage in loan form.
	Policy on 100% LUC Checks and implications of non compliance specified	High	LUC is conducted on all the borrowers by the branch head and the CM either on the 15 <sup>th</sup> or 21 <sup>st</sup> day from disbursement. At least 25% of the total new borrowers are also checked by the Area Manager.
	Strong Audits on LUCs	High	The audit team along with the CM and the BM does LUC on a sample of customers.

### *3. Loan Appraisal Process: Level of Dissemination and Observed Compliance*

#### **Level of Dissemination**

- The CMs understand the loan appraisal process of the company thoroughly. Any change in the process is regularly updated in manuals/circulars and disseminated through refresher training.
- The training programme for new recruits starts with a structured class room training and on the job training
- The company conducts regular audits through senior sales and audit teams members which does a complete check on the loan appraisal process, centre meetings, attendance and LUCs and adherence of the staff to the operations manual.
- The inputs from audit reports is used to Risk label or risk score the branches where the senior team has to attend to specific issues or areas of concern and impart necessary training.

#### **Level of Observed Compliance**

- Documentation related to filling of Application Form, KYC, CGTs and GRTs were largely complied with.
- The MFI has a regular process to check attendance at centre meetings, which is then uploaded in the MIS
- The clients we interacted with at the clusters visited, confirmed that the BMs and CMs visited the members houses at the time of conducting GRT and later for a LUC. It was also confirmed that an auditor also visited them for LUCs and other processes.
- We observed that there were uniformity in loan processes at the centres visited

## 4. Staff Behaviour: Policy Articulation and Documentation.....1

Policies	Best Practices	M Power's Policies and Observations	
Focus on client as reflected in company's values and policies	Mission and Vision reflects the company's social mission	Med	<p><b>Mission:</b> Strive to Nurture the many dreams of the Bottom of Pyramid segment and try and address the challenges to transform the lives of the poor at large.</p> <p><b>Vision:</b> Strive to become the country's best managed Micro finance companies in terms of scale, quality and transparency.</p> <p>The mission of the company adequately addresses the basic social objectives of a MFI lender. The vision doesn't mention any social objectives, yet it refers to quality and transparency which are crucial reflectors of responsible lending.</p>
Staff communication to clients	Standard Code of Behavior towards the clients captured in the manuals	High	Operational manual stresses on a polite and courteous behavior to the clients at various points of the process and the HR manual details a Code of Conduct for Staff.
	Clear penalties prescribed for breach of behavior specified in the manuals	Med	The OM and the HR manual prescribes the breach of behavior penalties. The same is part of the initial induction training.
	Keeping staff attrition rate under check to ensure better and continuous compliance to guidelines	High	The attrition rate in the company is reported at 4-5 % which though slightly high, compares favorably with industry benchmarks.

## 4. Staff Behaviour: Policy Articulation and Documentation.....2

Policies	Best Practices	M Power's Policies and Observations	
Policies for partial collection centres	Recovery policy for partial collection centres is client friendly	High	MFI follows a JLG approach, at the level of the centre, where if one member defaults or is unable to pay, the rest of the members of the centres are required to contribute on his behalf. The OM prescribes a clear process to follow in case one of the members default and suggest counseling of the group and members to pay. MFI also has an approach to consider joint liability at the level of a centre.
	Rules and timings for visit to clients house for recovery specified and captured in manuals	High	CMs are advised to interact with clients during centre meetings and restrict visiting a member's house or place of work only in certain exceptional cases. The manuals specify timings of the visits and restrict visits after dark.
	Restructuring Policy for genuinely distressed borrowers	Low	There is no explicit restructuring policy which prescribes relief for genuine borrowers in distressing situation, even at the HO level.

## 4. Staff Behaviour Policy: Level of Dissemination and Observed Compliance

### Level of Dissemination

- CMs understand the code of behaviour towards the customers and the training programme places appropriate focus on coaching the staff to conduct themselves with the borrowers
- CMs were observed to be courteous and polite during all centre meetings, greeted the client members and explained all required details to the customers.
- Findings of the audit report have been included in the incentive structure of CMs, BMs and AMs. However, parameters pertaining to client/ borrower retention are not included in the incentive structure.

### Level of Observed Compliance

- All customers at the clusters visited acknowledged that M Power's CM are courteous and polite in all interaction and they are comfortable approaching them for loans, queries and/or difficulties.
- Further, at the centres visited, there was no feedback from the borrowers on any kind of pressure tactics applied for recovery or any odd time visits to client residence.

# 5. Privacy of Client Data: Policy Articulation, Documentation, Dissemination and Observed Compliance

Best Practices	M Power's Policies and Observations	
Policy on maintaining client data privacy included	High	Operating Manual includes a policy on maintaining client data privacy. Client specific data is not accessible at the branches and is maintained at the HO.
Policy prescribing conditions of sharing client data	Med	Manual carries clear policy of not sharing client data with external sources. Further the application informs the borrowers that there data shall be shared only with select financial institutions. However, the situations under which data shall be shared are not specified, nor do the clients sign an undertaking under which they agree to sharing their data.
Penalties for breach of client data privacy specified	Med	HR manual that sharing of client data is a punishable offence.
Adequate storage of client documents with limited access	High	Majority of the Branches have cupboards with locking facility to store the documents. The original documents along with the credit proposal is dispatched at the HO where the hard copies are maintained at a separate warehouse.
MIS rights limited and access rights defined	High	MIS access rights are login based, limited and defined based on the role/position of employees

Level of Dissemination
<ul style="list-style-type: none"> <li>The staff was found to be aware of the policy that the client data should not be share with anyone outside, without prior approval from the Head Office. Further, client documents are maintained at the HO, thus restricting access of field staff to confidential client data</li> </ul>

Level of Observed Compliance
<ul style="list-style-type: none"> <li>No instance of breach of confidential data of the clients found in our branch visits.</li> <li>All the branches have separate lockers for each CM and BM. The files are regularly dispatched to the HO for processing so no dated client document were seen at the branches.</li> </ul>





## 6. Integrating Social Values into Operations: Policy Articulation, Documentation, Dissemination and Observed Compliance

Best Practices	M Power's Policies and Observations	
Social Vision, Mission and Core Values	Med	<ul style="list-style-type: none"> <li>The company's mission and vision implicitly reflects the social objectives of the companies in terms of building quality, transparent and financial sustainable micro finance operations</li> <li>The company has described its social objectives for its borrowers as a HEAL program</li> </ul>
Corporate Social Responsibility Program	Low	<ul style="list-style-type: none"> <li>M Power does not have a separate wing or department for CSR responsibilities. The activities focussed towards CSR have been erratic and limited.</li> </ul>
Social performance targets monitoring and reporting	Low	<ul style="list-style-type: none"> <li>The MFI has not put in place a structured social performance target and assessment programme with appropriate reporting and monitoring</li> </ul>

Level of Dissemination
<ul style="list-style-type: none"> <li>The staff is found to understand the company's vision and mission and the understanding reflects well in their field behaviour and conduct with the client members</li> <li>However, at the centres visits, we found during our staff interactions that there is little communication the social mission and objectives to the staff. The staff has been oriented towards meeting numbers along with adhering with standard policies and processes of the MFI.</li> </ul>

Level of Observed Compliance
<ul style="list-style-type: none"> <li>Mpower has initiated a few ground level social programmes such as tying up with Aquaguard for supply of clean water in Baroda region and organising a medical camp. However, such programmes are few in number and limited to a few geographies.</li> <li>As the MFI regains its profitability and grow it should put in place structure CSR and structured social performance programmes.</li> </ul>

## 7. Grievance Redressal Mechanism and Client Relationship Management : Policy Articulation and Documentation

Best Practices	M Power's Policies and Observations	
Grievance Redressal Policy and Process – Involvement of board and top management	Med	OM lays down a brief process of grievance redressal mechanism and has a grievance redressal manager to overview the process of complaints resolution. However the company doesn't have a senior level committee to oversee the grievance redressal mechanism
Multi-point Grievance Redressal Mechanism Toll free 24 hour phone number for registering grievances Phone numbers of branch manager and centre managers noted on centre registers Complaint boxes at branches Clients visit branches during the loan tenure	Med	<ul style="list-style-type: none"> <li>• The company maintains a complaint box at each branch , which is checked regularly by the audit team.</li> <li>• The phone numbers of the CCs/Area/Unit Managers and the HO contact no are mentioned in the loan cards/files and clients are informed of contacting on these numbers in case of queries/suggestions/complaints.</li> <li>• However, there is no toll free 24 hr help-line number provided to the clients and dedicated to complaints/ grievance redressal of clients.</li> <li>• The clients visit the branch office for disbursements. The company manuals contains an provision of conducting open forums with the clients</li> </ul>
Specific timeframe for complaints resolution and responsibilities prescribed and documented	Med	The manuals prescribes a period of 5 days to resolve the complaints filed with HO. However, the manual doesn't specify responsibilities and process, tracking of complaint resolution in terms of timeline and resolution, especially when complaints are received at the unit level.
Penalty action specified for certain breaches and customer complaints	Med	The HR manual prescribes certain penalties for breach of code of conduct.

## *7. Grievance Redressal Mechanism and Client Relationship Management : Level of Dissemination and Observed Compliance*

### **Level of Dissemination**

- The staff at the centres visited were aware of the grievance redressal mechanism.
- The contact numbers of the HO and a complaint box has been set up in all the branches.
- None of the clusters visited possessed a copy of the HR manual or have been trained on the grievance redressal mechanism.

### **Level of Observed Compliance**

- Members at the centres visited and the CM's usually interact for loan transaction and we did not observe any other level of interaction, query resolution or connect between the CMs and the borrower.
- A significant majority of the borrowers were not found to be aware of the phone numbers which can be accessed to voice their grievances/queries/suggestions. Though most of them were aware of the numbers of the BM and the CM's of M Power.

## 8. Compliance to RBI Guidelines for MFIs.....1

Conditions	RBI Policy Announcement	M Power Policy	Compliance
Income limits for eligible borrowers from MFIs	Rural: Rs 60,000 Non Rural: Rs 1,20,000	Rural: Rs 60,000 Non Rural: Rs 1,20,000	Income & expenditure is captured in LAF & in system and it is well within the limit prescribed
Loan Size (Maximum)	First Cycle: Rs 35,000 Later: Rs 50,000	Currently the maximum first cycle loan size is Rs.15,000 and maximum loan size is Rs.25,000	Satisfactory. All client groups and individuals were found to be lent within the slabs. Clients at a few centres have expressed a need for higher loans.
Indebtedness of the borrower	Limited to Rs 50,000	M Power conducts the indebtedness of the borrower on the credit bureau HIGHMARKS and also collects a declaration from the borrowers on their present loan .	The company has a policy of not being third lender to any borrower having loan from other formal institutions.

## 8. Compliance to RBI Guidelines for MFIs.....2

Conditions	RBI Policy Announcement	M Power Policy	Compliance
Tenure	24 months for amounts in excess of Rs 15,000	For loan products of more than Rs 15000, the minimum specified loan tenure is 24 months	Compliant
Loan Used criterion	Minimum 75% of MFI portfolio for income generation	As a policy, loans are given only for income generation purpose.	The company takes a declaration on the end use of the loan and conducts a three point LUC for its validation
Repayment Frequency	Weekly, fortnightly or monthly at the choice of the borrower	Monthly repayment	The company offers only monthly repayment loans to its clients. However, the same is communicated to the clients at the time of group formation.
Pricing Cap	Interest rate, 26% Margin Cap, 10% for large MFIs (Assets of more than Rs 100 crore) and 12% for small MFIs. Processing fee, 1% (not included in interest cap or margin cap)	Lending rate as on October 2014 at 27.61%. Processing 1% of the loan amount.	The company meets the margin cap required specified by RBI.

## 8. Compliance to RBI Guidelines for MFIs.....3

Conditions	RBI Policy Announcement	M Power Policy	Compliance
Collateral & group mechanisms	No collateral, individuals as well as SHGs and JLGs	The company doesn't accept any collateral and operates on a Self Help Group model.	Satisfactory. No collateral or deposits have been demanded or accepted from the clients
Various penalties related to delayed payment and penalties	No delayed payment and prepayment penalties and no security deposits	No prepayment penalty charged	Satisfactory: Clients are aware of the same
Registration as NBFC MFI.	Fresh applications to be submitted by 31 October 2012	Is registered as a NBFC-MFI with RBI.	Compliant.
Minimum Capital	Rs 3.0 crore by March 2013 and Rs 5.0 crore by March 2014	Had a net worth of 10.42 crore as on September 2014	Compliant.

- Satisfactory compliance on all key provisions of RBI guidelines in terms of meeting the pricing caps, interest rate caps, pre-payment penalties and collaterals. The company meets the guidelines on income eligibility and loan usage criteria.
- In terms of areas of gaps, the company's policies offers only the **monthly** products for the borrowers and doesn't offer a choice to the borrower in terms loan repayment frequency.

## *Annexure II: Code of Conduct Assessment Framework*

**Objective: To assess the extent of adherence to common Code of Conduct by MFIs conducted on eight primary parameters that reflect the common Code of Conduct Assessment practices-**

- ❑ Client Origination and Targeting,
- ❑ Loan Pricing and Transparency,
- ❑ Loan Appraisal Process,
- ❑ Staff Behaviour,
- ❑ Privacy of Client Information,
- ❑ Integrating Social Values into Operations,
- ❑ Relationship Management and Grievance Redressal Mechanism
- ❑ Compliance Status of MFI vis-a-vis RBI guidelines

## *Annexure II : Code of Conduct Assessment Framework*

### ❑ **Evaluation of the 8 parameters done on three levels:**

1. Adequacy/robustness of company's documented policies, processes and systems addressing the key parameters
2. Training and orientation of MFIs staff to the organisational policies and processes and efforts to disseminate relevant information to the customers
3. Level of compliance to the prescribed policies and processes as prescribed for the key parameters

### ❑ **Assessment exercise process involved:**

- ❖ Evaluation of key documents of the MFI (annual reports, board meeting agenda, sample loan repayment cards etc, HR Policies, operating manual, training manuals, internal audit reports, portfolio audit reports)
- ❖ Discussion with senior management
- ❖ Discussion with branch managers and field officers
- ❖ Discussion with other market participants ( lenders, associations)

### ❑ **Key Limitation:** Absence of interaction with a defaulting member



## *Annexure II : Details of Branches visited for exercise and number of clients interviewed*

S No.	Branch Name	State Name	Number of client groups interacted with	Number of clients interviewed
1	Mankhurd	Maharashtra	2	16
2	Bhandup	Maharashtra	2	16
3	Thane	Maharashtra	3	23
4	Borsad	Gujarat	2	23
5	Nadial	Gujarat	2	35
6	Channi	Gujarat	2	16
7	Halol	Gujarat	4	32
8	Padra	Gujarat	2	16
			19	177

## *Annexure III:Description of Code of Conduct Parameters*

1. **Client Origination and Targeting:** Client Origination and Targeting is the beginning point of effective micro-finance operations as it ensures that finance is extended to the deserving and genuine clients for making improvements to their livelihood. We conducted an assessment of the board's policy and implementation on selection of geography, poverty assessment of target clientele, formation of client members group, excluding risk of over-leveraging and ensuring that appropriate products reach the target clientele.
2. **Loan Pricing and Transparency:** Exorbitant interest rates and lack of transparency in disclosing the effective cost of loans to the clients can lead to a threat of excessive debt burden for the client. We evaluated the policy decision taken by the board to limit excessive margins and ensure complete transparency in disclosure and communication to make clients understand the all-inclusive cost of the loans with respect to declining interest rates, processing fees, insurance charges, collateral deposits and pre-payment penalties.
3. **Loan Appraisal Process:** A robust loan appraisal process is essential to ensure that the client borrow within their repayment capacity, do not get over-leveraged and potentially cause stress to themselves and their group members. The company's policies on conducting verification on client's household income and repayment capacity, field verification to collaborate the information provided in the forms, checks to ascertain the existing leverage of the clients with credit bureaus and other sources and a mechanism to deploy loan utilisation checks are the key parameters to be assessed and evaluated.

## *Annexure III: Description of Code of Conduct Parameters*

4. **Staff Behaviour:** Another critical parameter is staff's conduct towards clients. It is extremely critical that the field officers and other staff of the MFI treat the customers with respect and humility so as to create an environment where the clients are at ease with sharing their concerns and suggestions. Further, in the past, coercive recovery mechanism of MFI staff have been an issue of concern. The assessment will focus on MFIs prescribed policies on granting grace period for repayment, norms for staff behaviour towards clients, execution of Joint Liability Group program, visit to client's houses and use of physical pressure/threats for recovery.
5. **Privacy of Client Information:** The Company should have a board level policy to ensure the privacy of individual client's data related to demographics, income, sex, race, age, education, home ownership etc and also define explicit access rights to the client information with restrictions on usage of the information by unauthorised parties that can cause potential stress to the clients.
6. **Integrating social values into operations:** MFIs even though profit making, are built on a social premise of serving the deprived sections of the society which do not have access to other formal means of finance. The focus of MFIs to build their operations on this social premise as reflected in its vision, mission and endeavours to making contributions to improving the availability of livelihood opportunities and skills/capabilities of clients to leverage on these opportunities has to be evaluated and given due weightage.

## *Annexure III:Description of Code of Conduct Parameters*

7. **Relationship management and grievance redressal mechanism:** MFIs approach towards clients should be to focus on developing long term relationship with the clients and provide them a positive environment which fosters open communication of clients concerns, suggestions and grievances to the MFI staff. There should be a formal grievance redressal system which ensures that an effective feedback channel is made available to clients, with clear roles, responsibilities and timelines prescribed for effective and quick resolution of the complaints.
8. **Compliance status of MFI vis-a-vis RBI guidelines:** RBI has issued guidelines to provide boundaries to MFIs operations in terms of defining the qualifying assets of MFIs to be treated as priority sector lending from banks, interest rate caps, margin caps, repayment options offered to clients, collateral and purpose of the taking the loans. All MFIs have to necessarily adhere to RBI guidelines to be able to qualify under priority sector lending from banks and are critical in ensuring compliance to a model code of conduct.