

SHARE Microfin Limited (SML)

Code of Conduct Assessment

Legal form: NBFC

Year of incorporation: 2001

December 2011

Head Office: Hyderabad

Visit: 31 October-4 November 2011

Achievement	%	Grade
Integrity, transparency and strategy	67.6%	β+
Compliance to regulations	70.0%	β+
Client Protection	66.8%	β+
Client Education & Awareness	65.0%	β+
Overall COC	67.3%	β+

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Vision

“To improve quality of life of the poor by providing access to financial and support services and be a viable financial institution developing sustainable communities”

Mission

“To mobilize resources to provide financial and support services to the poor, particularly women, for viable productive income generation enterprises enabling them to reduce their poverty”

Introduction

Assessment Tool

- ▶ This assessment uses a scoring tool derived from the MFIN and Sa-Dhan's Code of Conduct for member MFIs and the RBI guidelines for NBFC MFIs.
- ▶ Though now the different codes of conduct (Sa-Dhan, MFIN) have been harmonised to have a unified code, there were two separate codes at the writing stage of the report. The assessment tool, however, has been designed to cover both the Sa-Dhan and the MFIN codes, as well as the RBI guidelines.

Method

- ▶ The assessment is based on a 5 day visit by an M-CRIL team of 3 analysts to the MFI's head office in Hyderabad, and to 12 branches across Andhra Pradesh, Tamil Nadu and Madhya Pradesh. 2 groups were visited in each branch. (Slide 6 provides more details on methodology).

Perspective on the MFI

- ▶ Post crisis, Share has made various efforts to improve its performance especially on client protection parameters. Most of it have been incorporated in its policies and staff are being oriented. However the MFI is yet to achieve reasonable level of internalization by the staff in many of the aspects.
- ▶ Level of cooperation with assessment team:

HO	HIGH	Branches	HIGH	Follow-up	MEDIUM
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Assessment tool: Weight, Scores and Grades

Sections	Weights	Max Score
Integrity, Governance and Strategy	25.0%	250
Integrity	10.0%	100
Governance	7.5%	75
Strategy-Competition	7.5%	75
Compliance with regulatory guidelines	15.0%	150
Client protection principles	50.0%	500
Prevention of over-indebtedness	10.0%	100
Transparency	10.0%	100
Fair and Respectful Treatment of Client	10.0%	100
Privacy of client data	2.5%	25
Effective complaint resolution	7.5%	75
Monitoring and audit of client protection issues	10.0%	100
Client education and financial literacy	10.0%	100
Client Education	3.0%	30
Client Awareness	7.0%	70
Total	100.0%	1,000

Grades	Range of score
$\alpha+$	91%-100%
α	81%-90%
$\alpha-$	71%-80%
$\beta+$	61%-70%
β	51%-60%
$\beta-$	41%-50%
$\gamma+$	31%-40%
γ	0-30%

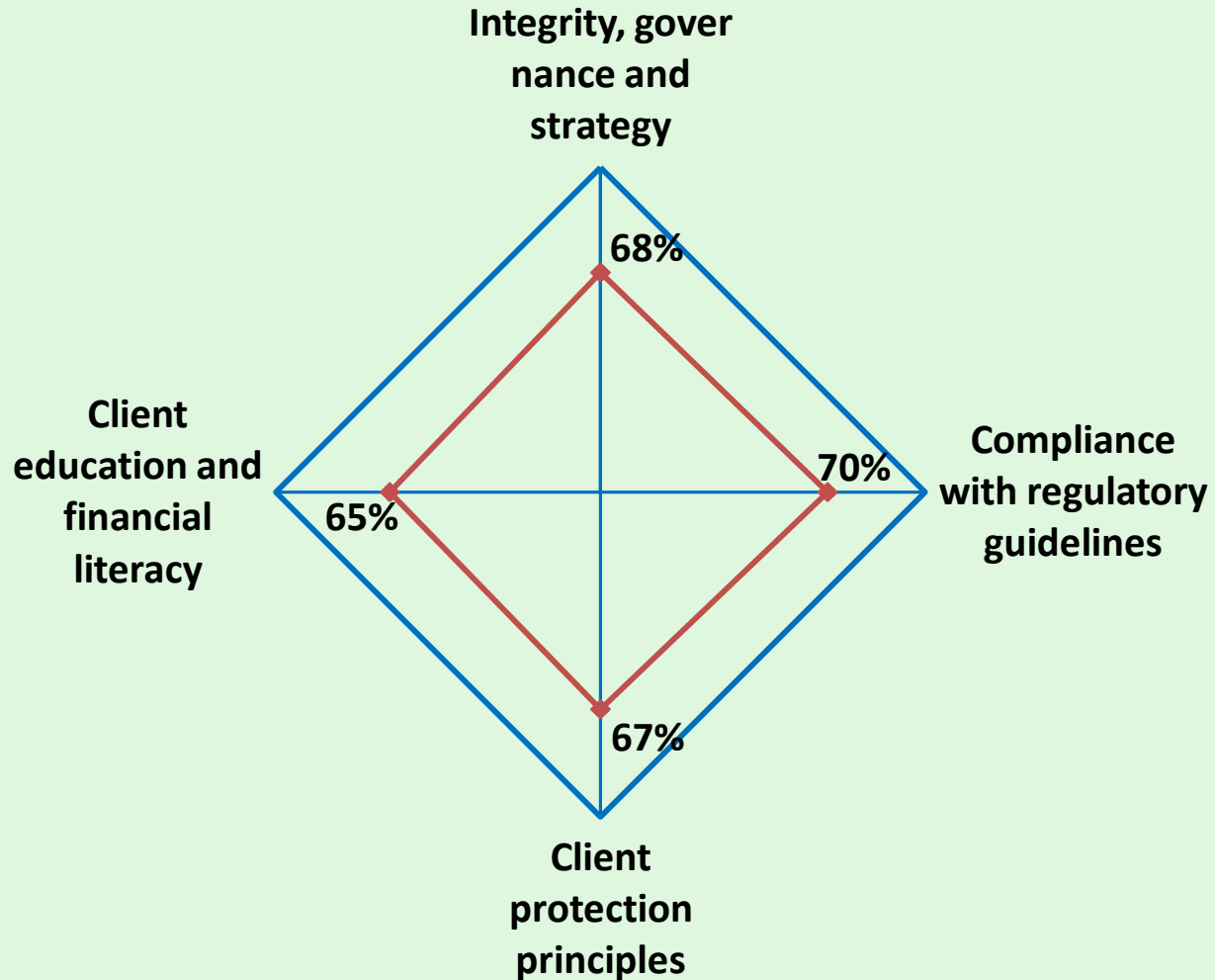
Assessment tool: Rationale

- ▶ The various aspects in MFIN and Sa-dhan codes of conduct have been reclassified by M-CRIL under three broad heads (Integrity, Governance & Strategy, Client Protection principles and Client education) as per their logic and fit.
- ▶ Further, considering the importance of RBI guidelines, the same have been assessed under a separate head - Compliance with regulatory guidelines.
- ▶ Client protection, being one of the most important aspects, has been given the maximum weight of 50%. Integrity and Governance follows with 25% weight, and compliance with RBI guidelines with 15% weight. 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, 40% weight has been given to policies adopted by the MFI and 60% for the practices.

Methodology

- ▶ **Preliminary analysis of MFI's information, review of available reports and financial statements**
 - ▶ **Visit to Head Office of MFI**
 - ❑ Discussions with the CEO – broad strategic issues and mission orientation, commitment towards CoC
 - ❑ Discussions with the senior management (Operations, Human Resource & Training, 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 – 12 branches across different operating regions of the MFI**
 - ❑ 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
 - ▶ **Visit to centre meetings – 2 group meetings for each branch, overall 24 group meetings**
 - ❑ 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**
 - ▶ **Internal Review at M-CRIL**
 - ▶ **Report draft sent to SIDBI**
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Code of Conduct Performance



Strengths

- ✓ Board has formally adopted Sa-dhan & MFIN CoC as well as RBI's Fair Practice Code. Risk Management Committee of the Board monitors compliance with COC and with RBI guidelines, reflecting Board's commitment towards CoC.
- ✓ MFI has shared 100% client data with the credit bureau; checks for indebtedness of clients expected to be in place by end of the current financial year.
- ✓ Share Microfin Ltd has dedicated team at HO for grievance handling. The MFI has developed a software to record and analyse grievance calls; reports to be shared with the senior management on a daily basis. Clients are reasonably aware of the grievance redressal mechanisms.
- ✓ Clients are reasonably aware of the loan terms and conditions; satisfied with the behaviour of SML staff.
- ✓ The MFI endeavours to be transparent by mentioning flat and reducing balance interest rate, processing fee, insurance premium on client's loan card; however in English.

Issues

- Yet to fully comply with the regulatory guidelines - clients are not given choice of repayment frequency (weekly, fortnightly, monthly), 2% of loan amount charged as processing fee in some states, and prepayment carries a penalty of up to Rs100.
- Governing Board has representation only from investors and lenders; need to be strengthened with independent oversight.
- Income levels of clients were highly understated to enable them to meet eligibility norms, until recently. Loan application does not allow assessment of repayment capacity as information on expenses is not captured.
- Data on indebtedness not captured in majority of the forms, inadequate attention given till before crisis even by internal audit.
- Inadequate focus on CoC parameters in the audit process.
- Staff in the visited branches showed moderate awareness on Codes of Conduct.

Institutional Profile

Main Performance Indicators	Mar-11	Sep-11
Active borrowers (Lakhs)	24.0	20.4
Portfolio Outstanding (Rs cr)	2,066.4	1,700.5
Number of states	19	19
Number of districts	229	228
Number of villages/slums	38,190	35,342
Number of branches/Clusters	1,076	1,002
Number of groups/centres	6,97,138	6,58,525
Total staff	5,640	5,053
Number of loans disbursed	N/A	4,48,846
Amount of loan disbursed (Rs cr)	N/A	524.3
PAR 60	28.1%	65.6%
Yield on Portfolio*	29.1%	10.3%
Operating Self-Sufficiency*	101.8%	40%

*Figures as provided by the MFI

Shareholding Pattern	Mar-11	Sep-11
Promoter	21.75%	21.28%
Individual investors	8.38%	7.95%
Jacynth Finvest Ltd	1.42%	1.35%
Legatum Ventures Ltd	62.60%	63.57%
Aavishkar Goodwell	5.85%	5.85%

Microfinance policies

- SML follows the Grameen model of group lending; lends only to women. (Small number of individual loans are available to both men and women)
- Area selection (criteria as per stated policy: high financial exclusion, reasonable infrastructure) followed by mobilization meetings to inform residents about program, objectives of the institution and terms and conditions of the loan products; interested persons are motivated to form groups
- Membership forms (asset and income profiling) are filled in for each potential client. Those with more than minimum cut off income per capita (Rs 550 per month) are screened out. Post issuance of new guideline by RBI, income criteria has been revised upwards.
- Members are mobilized into groups of 5 women and are given a 6-7 day (1hour/day) Compulsory Group Training (CGT) covering loan terms and conditions & joint liability
- Loan application forms are filled for those who complete the training; persons with 3 or more loans from other MFIs are screened out at this stage
- Branch Manager (BM) conducts Group Recognition Test (GRT) – groups which pass the test are eligible for disbursement. Usually 2-4 groups are formed into 1 centre.
- Loans are disbursed at the branch offices within a week of receiving the application. Loan cards with repayment schedules are given to group members individually.
- Field Assistants collect the loan repayments at the weekly centre meetings.

Financial products

Loan type	General Loans	Special Loans	Individual Loans
Lending method	Group	Group (disbursement stopped currently)	Individual
Loan size (Rs)	2,000-15,000	Top up based on General Loan size	10,000-3,00,000
Guarantor	Group	Group	Collateral - house, stock
Processing fee	1-2% of the loan, varies with state	1-2% of the loan, varies with state	1% of the loan
Interest rate (dec. per annum)	Max 26%	Max 26%	24.9%
Loan Term	50 weeks	50 weeks	12-24 months
Repayment	Weekly	Weekly	Monthly
Security deposit	Nil	Nil	Depending on the agreement
Insurance charge	1% of loan amount	1% of loan amount	~1% of loan amount

In case of prepayments in general loans, the MFI charges the outstanding interest or Rs100, whichever is less, from the clients.

▶ Insurance (credit life)

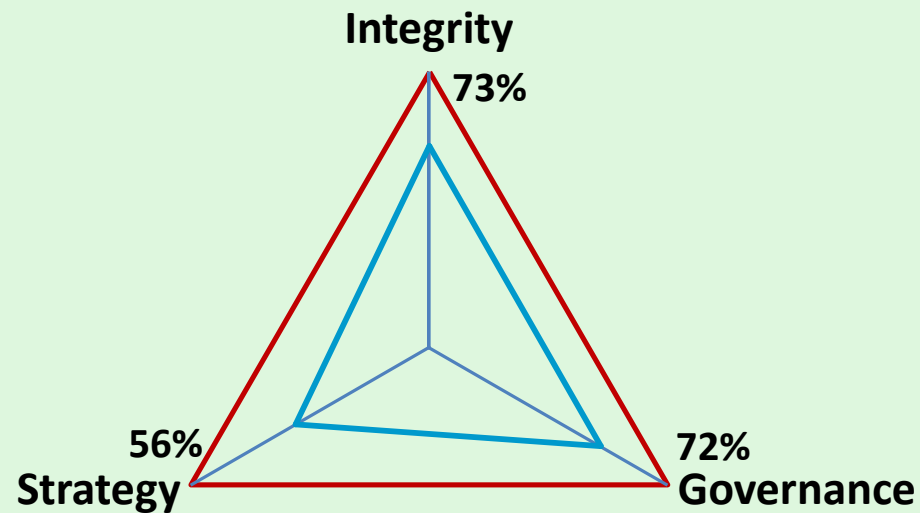
- Tie up with Future Generali and Metlife
- Compulsory with loan: 1% fee covering death of client or spouse . Insurer covers the entire loan amount, payout made to SML. Amount paid till date of death is refunded to family members/ clients and the remaining loan obligation is waived.

▶ **Savings** - Not legally eligible to mobilize savings

▶ **Money transfer facility** - offered in 144 branches

Integrity, Governance & Strategy

Performance	67.6%
Grade	$\beta+$



Integrity

Indicator	Perfor	Score	Max	Scoring Rationale
i MFI has formally incorporated the Codes of Conduct and regulations in its policies and documents	60.0%	9	15	Few changes made - income criteria modified, policy on multiple loans for client targeting drafted, and started sharing client data with credit bureau. However, codes are yet to be detailed for operational processes in the manuals and other documents.
ii MFI's Code of Conduct has been translated in vernacular language and is displayed prominently in all offices	100.0%	15	15	Copy of Sa-dhan's and MFIN's codes of conduct and RBI Fair Practice Code are displayed in local language in all of the visited branches.
iii Training and orientation to staff on MFI's social mission and CoC pertaining to them	80.0%	12	15	Staff trained on QSEC (Quality & Ethical Customer Service) module which has aspects of COC. Subsequent to adoption of various COCs, staff are being oriented by AM, DM, ZM or other HO staff during monitoring visits.
iv Awareness level of staff on the spirit and tenets of the code of conduct	60.0%	9	15	Moderate awareness level amongst staff across the visited branches. Staff are yet to internalise various COC parameters.
v MFI has appropriate staff incentive structure to avoid irresponsible lending	46.7%	7	15	Since AP crisis, staff are given fixed allowance in AP. In other states, it includes fixed and performance linked components. No measures taken to discourage irresponsible lending like linking it to portfolio quality.
vi MFI's policy documents and manuals specify against caste and religion based discrimination	80.0%	8	10	No preference or discrimination on the basis of caste, religion or community. Not documented specifically in manuals.
vii MFI makes available its financial statements and other key data on a regular basis (at least annually) in public domain (organization's notice board website)	86.7%	13	15	The financial statements are submitted to Sa-dhan & MIX. As an NBFC, it also reports annually to the Registrar of Companies and the RBI, and also to MFIN. Financial statements are not displayed on the company's website.
Total	73.0%	73	100	

Governance

Indicator	Performance	Score	Max	Scoring Rationale
i Board has formally adopted COC and ensures integration into policies and decision making	70.0%	7	10	Adopted Sa-dhan's COC in Feb'11. Have also adopted MFIN COC and RBI's Fair Practice Code. The MFI has internally developed a 6 point COC. Board minutes were not available for scrutiny into the members' involvement in monitoring implementation.
ii Presence of independent directors in the Board	70.0%	7	10	The Board members represent investors and lenders (including SIDBI) to the MFI. No independent members.
iii Board's involvement in checking compliance with the regulations	80.0%	12	15	Risk Management Committee of the Board monitors performance on compliance with regulations including COC. Some of the aspects are yet to be incorporated by the MFI.
iv Board's involvement in checking adherence to code of conduct	46.7%	7	15	Risk Management Committee of the Board monitors performance on COC parameters. More attention given to compliance rather than adoption in spirit.
.v Relevant experience of Board members	86.7%	13	15	Share has professional, experienced members in its Board.
vi Board committees and their independence	80.0%	8	10	Audit, Finance and Compensation committee of the Board regularly meet and are active.
Total	72.0%	54	75	

Strategy - competition

Indicator	Perform	Score	Max	Scoring Rationale
i Expansion strategy - the MFI chooses to go to underserved areas	40.0%	6	15	Though Share is the first lender in many areas in AP, focus was not to expand to underserved areas. However, currently looking at untapped areas such as Assam for expansion. But in TN, it is expanding in areas where Grama Vidiyal, MMFL and Mahasemam are already operating.
ii The MFI regularly interacts with other MFIs working in the area to avoid excessive duplication and over-indebtedness of clients.	53.3%	8	15	Interactions with other MFIs happens at the district level at various forums of Sa-dhan or MFIN, but not necessarily on a regular basis.
iii HR manual of the MFI specify how to proceed while recruiting staff from other MFIs.	93.3%	14	15	The HR Manual states that staff of other MFIs cannot be recruited.
iv Whenever the MFI comes across Incidents of High Default, it informs other MFIs of the same.	80.0%	8	10	It was observed that MFI informed MFIN regarding high default in Gummidipoondi branch.
v In case of any Incidents of High Default is faced by any other MFI, the MFI has an agreement to participate in a joint recovery drive and restrain lending in that area till things are streamlined.	0.0%	0	10	Share did not participate in joint recovery drive, even post crisis in A.P.
vi There is resolution to terminate employees who have lied about their background of working with other MFIs.	60.0%	6	10	No formal resolution on termination. However MFI does not prefer staff from other MFIs at the branch level.
Total	56.0%	42	75	

Levels of internalization

Levels of internalization			
<u>Integrity</u> Approval Documentation Dissemination Observance			
		Good	
			Moderate
		Good	
		Moderate	
<u>Governance</u> Approval Documentation Dissemination Observance			
			Moderate
			Moderate
		Moderate	
<u>Strategy - competition</u> Approval Documentation Dissemination Observance			
			Moderate
			Moderate
			Moderate
		Moderate	

Rationale

- ▶ **Involvement and independence of the Board**
 - ▶ Professional, active and experienced Board members; however Board does not have independent members.
 - ▶ Monitors performance of the MFI on CoC aspect through Risk Management Committee of the Board, though more attention to compliance in letter rather than to assimilation of spirit of the codes.
- ▶ **Adoption and dissemination of CoC**
 - ▶ Board and senior management are committed to compliance of various CoC parameters.
 - ▶ Board has formally adopted the CoC developed by Sa-dhan and MFIN, and the RBI's Fair Practice Code. MFI has internally developed 6 point Code of Conduct covering all aspects of CoC. However the various aspects are yet to be detailed and incorporated in the process manuals.
 - ▶ Codes of Conduct are displayed at all branch offices in vernacular.
 - ▶ Moderate awareness level amongst staff on various aspects of CoC.
- ▶ **Networking and expansion**
 - ▶ Share is a founding member of MFIN; does not hire staff from other MFIs.
 - ▶ No specific strategy to expand to underserved areas, although it has been the first lender in many areas in AP.

Compliance with regulations

Performance	70.0%
Grade	$\beta+$

Compliance with Regulations

Indicator	Performance	Score	Max	Scoring Rationale
i Not less than 85% of total assets of MFI (other than cash, balances with banks and FIs, Govt. Securities and money market instruments) are in nature of qualifying assets.	60.0%	6	10	MF loans constituted 93% of total assets (excl. cash, bank, investments) on 30 Sep 2011. However it cannot be ascertained if all criteria of 'qualifying asset' are met for the loans.
ii Aggregate amount of loan extended for income generating activity is >75% of the total loans given	70.0%	7	10	MFI claims that entire loan portfolio is extended for income generation purposes; however, data is not collected and consequently, analysis is done on loan end usage.
iii Borrowers house hold income not to exceed Rs 60,000 in rural areas and Rs 120,000 in non-rural areas	30.0%	3	10	New income criteria was adopted in May'11 and the loan application form has been accordingly revised. The earlier income cut off level of MFI was also well within the limit, but was unrealistic. The client data captured by the MFI <u>has serious quality issues</u> , to ascertain compliance.
iv Loan amount not to exceed Rs35,000 in first cycle and Rs 50,000 in subsequent cycles	100.0%	10	10	The maximum loan amount for group loan is Rs15,000.
v Total indebtedness of the borrower does not exceed Rs 50,000	60.0%	6	10	Information regarding other loans are not effectively captured. Most of the application forms verified at the branches did not have the information filled. However, after introduction of checks with the credit bureau, the MFI will be able to comply with this guideline.
vi Tenure of loan is not less than 24 months when loan amount exceeds Rs 15,000 with right to borrower of prepayment without penalty	60.0%	6	10	Maximum group loan size is Rs15,000 with tenure of 50 weeks. Prepayment charges include outstanding interest or Rs100 whichever is less.
vii The loan is without collateral	100.0%	10	10	Peer pressure is the only collateral in group loans.

Compliance with Regulations...continued

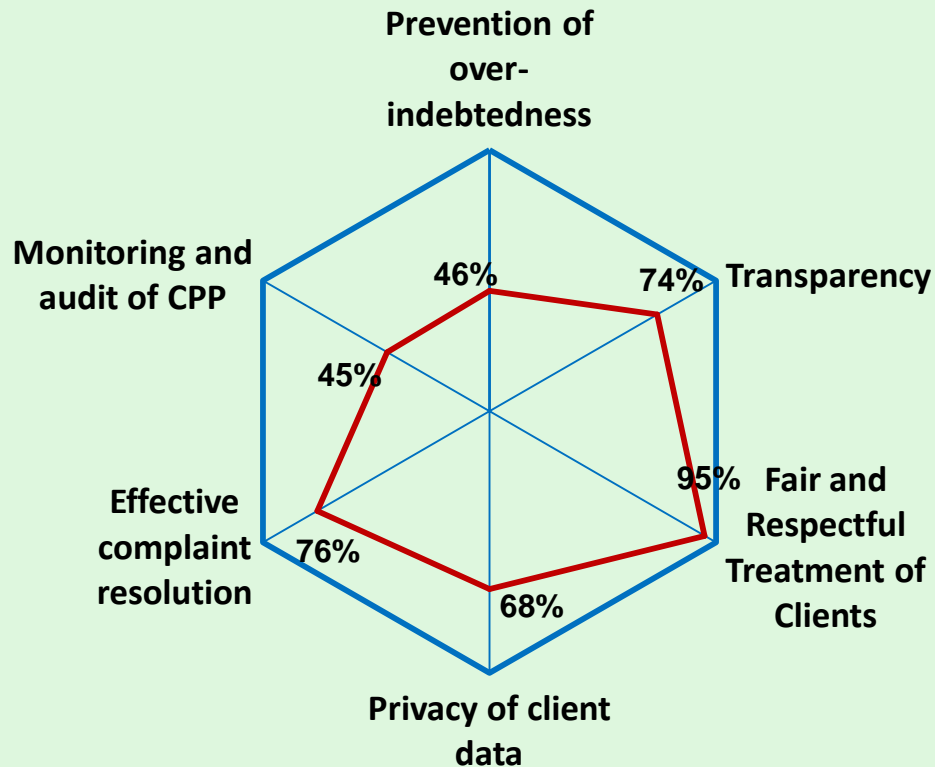
Indicator	Perform Score	Max	Scoring Rationale	
viii Loan is repayable by weekly, fortnightly or monthly instalments, at the choice of the borrower	0.0%	0	10	Presently, clients do not have choice. It is compulsorily weekly for general and special loans.
ix Margin cap of 12% (the interest cost is to be calculated on avg. Fortnightly balances of outstanding borrowings and interest income is to be calculated on avg. Fortnightly balances of outstanding loan portfolio of qualifying assets)	100.0%	10	10	MFI reports that its margin is less than 12% over the cost of funds.
x Interest cap on individual loans of 26% per annum, to be calculated on a reducing balance basis	100.0%	10	10	The MFI's interest rate on declining balance method is maximum 26% across all states.
xi Pricing of loan can only have 3 components: (i) processing fee (ii) interest; (iii) insurance premium	100.0%	10	10	Share does not collect any other charge from the clients except interest, processing fee and insurance premium.
xii Processing fee does not exceed 1% of gross loan amount	0.0%	0	10	In some of the visited states like TN and MP (accounts for 9% of portfolio on Sep 2011), the processing fee is 2% of the loan amount.
xiii No penalty for delayed payment	100.0%	10	10	Share does not impose penalty in case of overdue.
xiv No security deposit / margin are to be taken	100.0%	10	10	Security deposit is not collected for group loans.
xv Insurance commission is received as per IRDA guidelines (10% of the premium for life and 15% for general)	70.0%	7	10	Details were not revealed by the MFI except that 1% of loan amount is collected as insurance charge from the clients. MFI declares that no difference is retained.
Total	70.0%	105	150	

Rationale

- ▶ Income criteria revised for client targeting; incorporated in new loan application form. Clients will have to provide an undertaking on household income, and if possible an income certificate. Additionally, Branch Managers have to verify the income level for all the clients.
Before these changes, income cut-off level to be eligible for loan from Share was significantly low (Rs550 per month per capita). In addition to being unrealistic, process of capturing data was mechanical.
- ▶ 100% client data shared with High Mark. Indebtedness check for the clients through the credit bureau is expected to be functional by the end of current financial year. Presently, the process is limited to self declaration by the client and the information collected by field staff through discussion.
- ▶ Over the years, the MFI has reduced its interest rate; currently, maximum interest rate charged to its clients is 23.6%.
- ▶ MFI does not collect any charges other than the processing fee and the insurance premium; however, processing fee in some of the states (like TN and MP) is 2% of the loan amount.
- ▶ The MFI continue to charge penalty up to Rs100 for prepayment, which is against the guidelines.
- ▶ No robust loan utilisation checks to verify the end usage of loans.
- ▶ Clients do not have the option to chose the loan repayment frequency – weekly, fortnightly or monthly.
- ▶ Details were not revealed regarding the premium paid to insurance provider vs the premium collected from clients for the insurance. MFI declares that no difference is retained.

Client protection

Performance	66.8%
Grade	$\beta+$



Client Protection – Prevention of over-indebtedness

Indicator	Perform	Score	Max	Scoring Rationale
i The operating manual presents how the loan officers will assess the repayment capacity of the clients	40.0%	4	10	MFI's operational guidelines mention about assessment of clients' repayment capacity, staff are also trained on it, but it is not very effective.
ii The format of loan application form enables cash flow analysis and analysis of indebtedness	26.7%	4	15	Both old and new loan application forms capture income and indebtedness details but not expenses. Other loan details were mentioned in very few forms. Clients' income appeared similar and unrealistic in majority of the forms.
iii The MFI has provided training to its operational staff on how to assess the repayment capacity of the clients	33.3%	5	15	Staff are trained to assess clients' income. But in practice, income is adjusted to fit within the acceptable criteria. Household expenses are not considered, making the repayment capacity assessment weak.
iv The MFI has adopted the lending limits (Not more than 3rd lender and total loan outstanding not to exceed Rs50,000 for any client). Has it been communicated to the branches?	80.0%	12	15	COCs are displayed at the branches and staff are being trained on these aspects, including the new lending limits.
v The staff are aware of the lending limits of the MFI	46.7%	7	15	Many of the staff in the visited branches were not aware of the criteria, while in some cases they lacked clarity on which loans to be considered while calculating total indebtedness of the client.
vi The sampled MFI branches have records that show assessment of client's repayment capacity	26.7%	4	15	Only information on income is captured, which is highly understated to comply with the income criteria of the MFI. Expenses are not captured.
vii The MFI contributes data to Credit Bureau	66.7%	10	15	MFI has shared 100% client data with High Mark; however, use of information on client's indebtedness levels for lending decisions is yet to commence.
Total	46.0%	46	100	

Client Protection – Transparency

Indicator	Perform	Score	Max	Scoring Rationale
i All terms and conditions including interest rate (EIR), processing fees etc related to services provided by the MFI are laid out in written form (in vernacular) in agreement/application form/passbook and provided to the clients.	55.0%	11	20	Interest rate under reducing balance method is communicated to the clients. Processing fee, insurance premium, and flat and reducing balance interest rates are printed on the loan cards in English. Management is planning to introduce loan application form in vernacular.
ii The loan card/sanction letter/passbook contain insurance charges and coverage in vernacular language.	40.0%	8	20	Insurance charge is mentioned in the loan card; however, in English. Details of coverage is not mentioned in any of the documents given to the clients.
iii The MFI provide receipts/ acknowledgements of the amounts collected from the clients.	100.0%	20	20	Both instalment amount and the initial charges (processing fee & insurance premium) are mentioned in the loan card. In AP, since crisis, receipts for instalments collected are also issued to the clients. Copy of receipts seen with the clients during field visits.
iv The MFI provide repayment schedule or similar documents which tells about the amount (no of instalments) paid and outstanding after each instalment.	75.0%	15	20	Every loan card has repayment schedule in it in English. However in case of arrear loan card which has been issued in AP, repayment schedule is not printed as it lacks a fixed schedule.
v % of cases where repayment schedule/passbook was found to be updated.	100.0%	20	20	All the members in the visited groups had their passbooks updated, or receipts issued, as the case maybe.
Total	74.0%	74	100	

Client Protection – Fair & Respectful treatment of clients

Indicator	Perf.	Score	Max	Scoring Rationale
i Operational manual and other documents specify respectful treatment of clients	87.5%	7	8	Operations Manual states that clients are to be treated respectfully. In circulars post crisis, it is more emphasised.
ii Staff are trained specifically on respectful treatment of clients	100.0%	10	10	Respectful interactions with the clients are emphasised in the trainings. If there is enough evidence, staff are even terminated for misbehaviour.
iii Operations Manual/Circulars has guidelines on step-by-step procedures and time frames on dealing with default borrowers	90.0%	9	10	In addition to the usual guidelines, circulars were issued in AP & other states after crisis and staff are regularly oriented on how to deal with overdue loans.
iv Staff are aware of step by step method of dealing with default	80.0%	8	10	Staff are reasonably aware of the procedure to deal with overdue cases.
v Acceptable and unacceptable debt collection practices are clearly spelt out in a code of ethics, book of staff rules and/or debt collection manual which also contain inappropriate timings and occasion for debt collection	90.0%	9	10	Operations Manual clearly states the process to be followed for collection, and the staff are also trained on it. Post crisis, additional focus is given on these aspects.
vi Discussions with a sample of borrowers reveal respectful treatment of clients	100.0%	20	20	All the clients interviewed vouched for non-abusive behaviour of the staff.
vii No documents other than what are required as per KYC norms are collected from the clients	100.0%	8	8	MFI only collects copies of identity cards and address proof documents.
viii There is no evidence of blank signed cheques of clients being collected	100.0%	8	8	Clients in the visited groups confirmed not giving any cheque to the MFI at any point of time.
ix There is no evidence of blank signed stamp papers or agreements being collected	100.0%	8	8	No instances of client signatures on blank forms were found.
x MFI emphasizes on using social collateral for loan recovery while lending through group methodology	100.0%	8	8	Applying peer pressure is the usual practice; however in the wake of AP crisis, no pressure is exercised for loan recovery.
Total	95.0%	95	100	

Client Protection – Effective complaint resolution

Indicator	Perf.	Score	Max	Scoring Rationale
i MFI has a formal mechanism to address client grievances	92%	12	13	MFI has a Grievance Cell at HO whose number is printed on the loan cards. Complaint boxes are kept at the branches. Recently, it developed a software exclusively to record and analyse grievance calls. Also, MFIN Grievance Cell number is displayed at branches in AP and TN.
ii Mechanism of grievance redressal is part of the training given to the clients	77%	10	13	Clients are not informed fully of the various ways; clients are not completely aware when can calls be made at grievance cell number at HO.
iii Details of this mechanism are mentioned in the loan card/other communication	75%	9	12	In some of the old loan cards, complaint number is not printed. Though the number is printed in the new loan cards, detailed mechanism is not mentioned.
iv There are dedicated staff in the MFI for feedback and grievance redressal	100%	7	7	Dedicated team at HO to handle grievance calls, record and analyse client grievances. At the time of visit, a new software was being developed to record such calls. Reports will be shared with the senior management on a daily basis, and only limited persons will have access to the software.
v Level of client awareness about the grievance redressal process	73%	11	15	Majority of the interviewed clients were aware of the HO grievance cell number, but very few knew about complaint box at the branches.
vi MFI conducts regular client satisfaction studies	50%	2	4	No formal client satisfaction study has been conducted yet. Client feedback is collected through informal discussions with the staff.
vii Monitors client exit rate and conduct regular exit surveys to understand reasons for leaving MFI program	0%	0	4	Reasons for exit is collected at the branch level but no report is prepared or information analysed.
viii Quality of documentation - grievances and actions taken	86%	6	7	Client complaints or queries are manually documented and since October 2011, actions taken are also recorded in the register.
Total	76.0%	57	75	

Client Protection – Privacy of client data

Indicator	Perf.	Score	Max	Scoring Rationale
i The MFI has clear policy on sharing of client data (what, to whom)	66.7%	4	6	MFI has policy on sharing client data at the HO level with credit bureaus and other agencies. Although there is no written policy, staff are trained on the extent of client data that can be shared with other MFIs' staff at branch level.
ii The operational manual define access rights (within the MFI) to client data collected	66.7%	4	6	No policy; but an implicit understanding of limited access at various levels and no unauthorised usage of client data.
iii The clients are informed or clients' consent is sought before information regarding them is shared	33.3%	2	6	Clients are neither informed, nor are their consents sought. Post AP crisis, clients are now being persuaded to repay by making them aware that their credit history with the MFI can be used by other banks to lend to them.
iv There is no evidence that client's data have been used for purposes other than regular operations or by unauthorized personnel	100.0%	7	7	No evidence that the data has been shared for any other purposes other than with the credit bureau.
Total	68.0%	17	25	

Monitoring and audit of client protection issues

Indicator	Perf.	Score	Max	Scoring Rationale
i The internal audit check the accuracy of client information reported by the field staff	40.0%	8	20	Internal audit does moderate checks on the client information reported in the application forms.
ii The internal audit verify the client awareness on MFI policies	25.0%	5	20	Client awareness is a part of the new audit format. However, the branches were yet to be audited and scored as per the new format, at the time of visit.
iii The internal audit take client feedback on staff behaviour	55.0%	11	20	Client feedback is not usually reported in detail in the audit report. Usually, just a score is attributed.
iv The monitoring staff check that the field staff are not abusive towards clients	80.0%	16	20	This has gained significance since the AP crisis, but not necessarily documented in the absence of any incident
v Comments on client protection issues were found in majority of audit reports checked	25.0%	5	20	Additional checklist pertaining to client protection was introduced recently, but adequate emphasis is not given. Client protection issues form a minor segment of audit report and is not always reported .
Total	45.0%	45	100	

Levels of internalization

Levels of internalization			
Prevention of over-indebtedness Approval Documentation Dissemination Observance			
		Good	
			Moderate
			Weak Weak
Transparency Approval Documentation Dissemination Observance			
		Good	
			Moderate
			Moderate Moderate Moderate
Fair and respectful treatment of clients Approval Documentation Dissemination Observance			
		Good	
		Good	
		Good Good	
Effective complaint resolution Approval Documentation Dissemination Observance			
		Good	
		Good	
			Moderate Moderate
Privacy of client data Approval Documentation Dissemination Observance			
			Moderate
			Weak
		Good	Moderate
Monitoring and audit of client protection issues Approval Documentation Dissemination Observance			
			Moderate
			Weak Weak Weak

Rationale

- ▶ **Assessment of repayment capacity**
 - ▶ Until the adoption of RBI guidelines on income, MFI had significantly low income cut off level, resulting in staff understating the income levels of clients to enable them to meet eligibility norm.
 - ▶ Expenses, other than information on indebtedness, are not captured. It would have allowed useful cash flow analysis and consequently better assessment of clients' repayment capacity.
 - ▶ Lack of clarity amongst staff on the lending criteria (not more than 3 lenders and Rs50,000 outstanding). Information on other loans not effectively captured.
 - ▶ MFI has shared 100% data with credit bureau - High Mark - and plans to start using the information on client's credit history for lending by the end of current financial year.
- ▶ **Communication to the clients**
 - ▶ 6-7 days of compulsory group training given to the clients at the time of association with the MFI. It covers the concept of group liability, loan terms and conditions and grievance redressal mechanism, amongst others.
 - ▶ Effective interest rate is not communicated to the clients. The terms on pre-closure is not covered in detail in the trainings.
 - ▶ Repayment schedule, and the charges including processing fee, insurance premium and interest rate under flat and reducing balance methods are mentioned in English in the individual loan cards given to the clients. Grievance Cell number is also mentioned.
- ▶ MFI has developed a software to record and analyse grievance calls; report will be shared with the senior management on a daily basis.
- ▶ Clients visited were satisfied with staff's behaviour.
- ▶ Monitoring and Audit systems need to give more emphasis on checking and reporting on client protection issues.

Client education and awareness

Performance	65.0%
Grade	$\beta+$

Client Education

Indicator	Perf.	Score	Max	Scoring Rationale
i The clients are given training on loan terms and conditions before associating with the MFI	100.0%	6	6	6-7 days of Compulsory Group Training (CGT) is imparted to the clients, immediately after group formation. Loan terms and conditions are discussed.
ii The clients are given training on financial literacy	0.0%	0	6	MFI does not provide training on financial literacy or other social issues.
iii Staff members are trained on how to give training to the clients	83.3%	5	6	All staff are trained at the time of induction on how to conduct the CGTs.
iv The training methodology is suitable for the target clients	50.0%	3	6	Modules are made simple to enable clients understand better.
v Clients are informed about the interest rate, processing fees and other charges on loans during the pre-loan training	66.7%	4	6	EIR is not communicated to the clients; it was observed that terms of pre-closure is also not discussed in detail.
Total	60.0%	18	30	

Client Awareness

Indicator	Perf.	Score	Max
i % of clients aware of Name and address of the MFI	90.0%	4.5	6
ii % of clients aware of details of various products and services of the MFI	58.3%	3.5	4
iii % of clients aware of Instalment Amount	92.9%	6.5	7
iv % of clients aware of Repayment period	100.0%	7	7
v % of clients aware about nominal interest rate	64.3%	4.5	7
vi % of clients aware of prepayment conditions and charges	33.3%	2	6
vii % of clients aware of processing fees	58.3%	3.5	6
viii % of clients aware of insurance charges	71.4%	5	7
ix %of clients aware of insurance cover	64.3%	4.5	7
x % of clients aware of group liability	100.0%	6	6
xi % of clients aware of breakup of instalment amount	0.0%	0	7
Total	67.1%	47.0	70

Note: The assessment team conducted Focus group discussions with 215 clients across 24 groups in 12 branches. The awareness level of the clients were quantified during the interview, and the percentages are calculated on this basis.

Rationale

- ▶ 6-7 days of comprehensive training provided to clients before the first loan disbursement covering details of the company's mission, products offered, terms and conditions, concept of group liability, grievance mechanism.
- ▶ Awareness level of clients was observed to be moderate.
- ▶ Majority of the clients remember total amount paid for processing and insurance; however does not know the break up.
- ▶ Interest rate under reducing balance method is printed on the loan cards. EIR, including the processing fee and insurance charge, is not communicated to the clients.
- ▶ Financial literacy trainings are not provided to the clients.

Abbreviations

AP	Andhra Pradesh
APR	Annual percentage rate
CEO	Chief Executive Officer
CGT	Compulsory Group Training
COC	Code of Conduct
CPP	Client Protection Principles
EIR	Effective Interest Rate
HO	Head Office
KYC	Know Your Customer
M-CRIL	Micro-Credit Ratings International Limited
MFI	Micro-finance Institution
MFIN	Association of Micro-finance Institutions
MIS	Management Information Systems
MP	Madhya Pradesh
NBFC	Non Banking Finance Company
PAR	Portfolio at risk
RBI	Reserve Bank of India
SIDBI	Small Industries Development Bank of India
SML	SHARE Microfin Limited
TN	Tamil Nadu