

# ***UTKARSH MICRO FINANCE PRIVATE LIMITED***

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## ***Code of Conduct Assessment Report Final Report***

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December 26, 2012



***ICRA Management Consulting Services Limited***

# *Utkarsh Micro Finance Private Limited: Assessment on Compliance to Code of Conduct Framework*

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**OVERALL SCORE: 7.8**

**DEFINITION: HIGH LEVEL OF ADHERENCE**

Utkarsh Micro Finance Private Limited (Utkarsh MFI) scores 'High' on Code of Conduct Compliance assessment given its strong focus on articulating and implementing processes and policies that adequately reflects the firm's focus on achieving its dual objectives: financial and social from its operations. Further, the company has been fairly successful in disseminating and ensuring adherence to its documented processes and policies at the ground level.

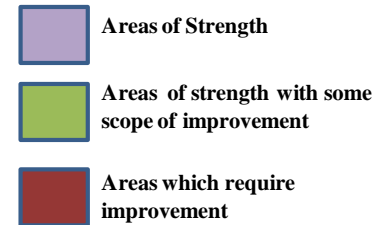
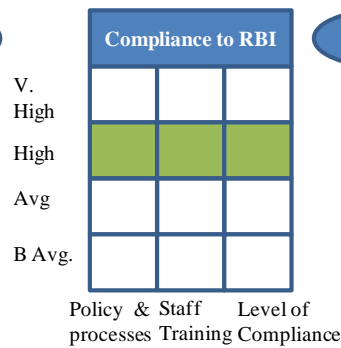
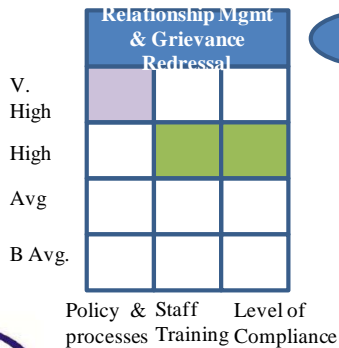
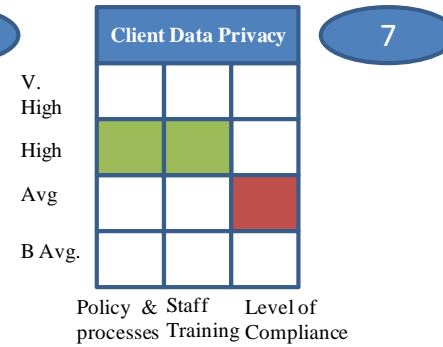
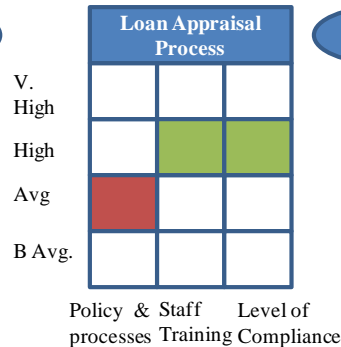
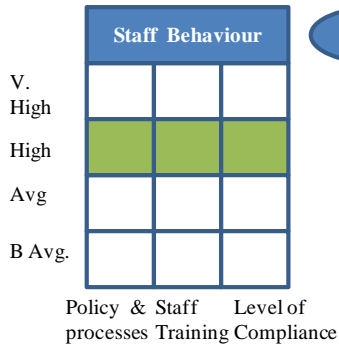
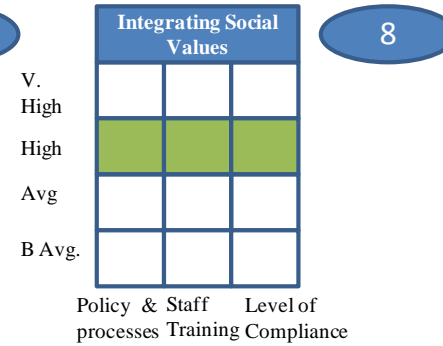
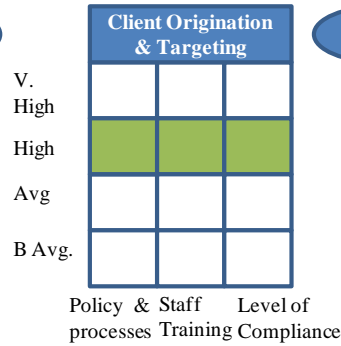
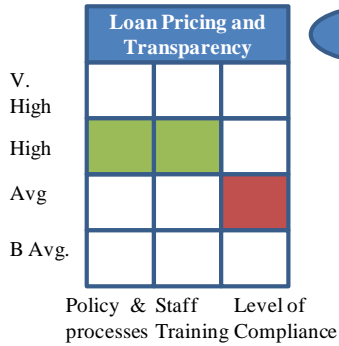
# *Utkarsh Micro Finance Private Limited: Mapping the IMaCS Score on Code of Conduct Assessment to SIDBI's Standardised Scale*

IMaCS Score mapped on SIDBI's six pointer scale
10 - Exceptional 9 - Very High
8 - High
7 - Moderately High
6 - Above Average
5 - Average, 4 - Below Average
3 - Low 2 - Very Low 1 - Absent

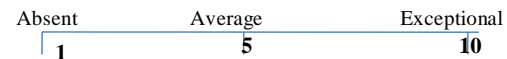


**Utkarsh's position on the Scale**

# Utkarsh Micro Finance Private Limited: Parameters Wise Code of Conduct Score



Scoring Scale



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

- ❑ Utkarsh follows a double bottomline approach: social and financial. Board is closely involved in devising policies and monitoring the functioning of the MFI in terms of setting targets and measuring social and financial performance, reviewing internal audit reports and ensuring satisfactory closure of client grievances.
- ❑ The company has elaborate processes and policies that have been documented satisfactorily in manuals.
- ❑ The company has put in place a strong internal audit system to ensure compliance, risk management department for regular monitoring of risks and MIS systems that provides regular monitoring reports.
- ❑ The company has a structured and comprehensive training programme for its staff to attune them to company's values, policies and processes.
- ❑ The company has put in adequate policies, processes and internal checks to ensure adherence to parameters related to loan utilisation verification and over indebtedness.
- ❑ We did not find any evidence of coercive recovery mechanisms deployed by the company in the centres we visited, even though as a policy Utkarsh staff are advised to stay at the centre meeting till 100% recovery is achieved. Further, incentive structure for loan officers is linked to number of loan accounts (Capped at 75 per month) and not linked to recovery and disbursements.

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

- ❑ The company declares a single effective interest rate to the clients in all its communication and the same was found to be updated in the clients pass- book and included in all its correspondence to clients at centre meetings
- ❑ The company has put in place a multi-point grievance redressal system for the clients such as a toll-free number, complaint boxes at branches and a minimum of two clients visits to Utkarsh's branches during the tenure of a loan. The grievances committee checks every month, if all the complaints have been satisfactorily settled; cases are closed only after approval from the committee. Similarly, the complaints boxes at the branches are accessed by internal auditors during their monthly visits
- ❑ We observed a reasonably fair degree of understanding and compliance to the prescribed policies, procedures and values of the company by the Staff Officers at the ground level.
- ❑ Utkarsh also runs a social programme for its clients through its NPO arm, Samutkarsh Welfare Services (SWS) and contributes a certain percentage of its profits to SWS annually to run welfare programmes.

## *Areas of Weaknesses/Further improvement at Utkarsh.....1*

- ❑ Utkarsh collects and verifies the information related to the living conditions of the borrowers in its application form. However, it lacks a quantitative/score based poverty assessment framework, which can ensure a more objective identification of its target clientele.
- ❑ The company estimates the cash flow to assess the repayment capacity of its borrowers. It, however does not have formal credit appraisal framework in place for the credit decision to be based on a quantitative credit score or repayment indicators such as Income to Installment Ratio.
- ❑ The clients acknowledged that the company educated them on various terms and conditions of the loans including interest rates but at majority of the centres, customers could only recollect absolute amount of interest paid to the MFI and not the effective interest rates. While this is understandable given the low literacy level in the target clientele, it does call for a stronger emphasis on coaching and refresher trainings on the concept of effective interest rates to clients.
- ❑ The company runs a few social programs through its NPO arm, SWS . However, outreach has been limited to a few geographies and scalability is a concern, given complete dependence on Utkarsh for funding. Recently, SWS has been able to identify a few independent sources of income and that might address the issues related to funding and related scalability.

## *Areas of Weaknesses/Further improvement at Utkarsh.....2*

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- ❑ The company has done away with pre-payment penalty but it prescribes certain clauses which makes clients ineligible for further loans or lower amount of loans in their loan cycles. Clients at several centres were not found to be aware of the implications of prepayment before 18 weeks, even though they acknowledged that it was covered during the Compulsory Group Training (CGT).
- ❑ There is a scope to improve the coverage in the manuals for areas related to specifying penalties for staff for breach of code of conduct related to staff behavior, privacy of client data and in terms of elaborating the process of grievance redressal.



## *Utkarsh Micro Finance Pvt. Ltd.- Company's Background and Lending Model*

- ❑ Utkarsh Micro Finance Pvt. Ltd. is an NBFC based at Varanasi in Uttar Pradesh, which started microfinance operations in September 2009.
- ❑ The MFI has been promoted by Mr. Govind Singh, former Business Head for Microbanking at ICICI Bank. He has over 22 years of experience in the banking industry.
- ❑ The MFI has presence in 4 states – Uttar Pradesh, Uttarakhand, Bihar and Madhya Pradesh with 85 branches as on 30<sup>th</sup> September 2012. The company aims to stay in Northern and Central Belt (Hindi Speaking areas) of India. Currently the MFI has a client base of 1.49 Lakh and intends to grow it to 10 lakh customers by FY16.
- ❑ The company primarily lends to underprivileged women engaged in income-generating activities and follows the mechanism of Joint Liability Group (JLG) under Grameen Methodology for lending. Groups of 5 (maximum) women are formed and minimum 2 groups are needed to form a center.
- ❑ The company has a policy of compulsorily having a male guarantor for each member thus excluding women led families from availing loans. However, recently the company has launched 1-2 experimental branches that offer loans even to women with female guarantors.

## *Key Financial Parameters: March 2010 to September 2012*

<b>Key Financial Parameters</b>	<b>As on Sep'12</b>	<b>As on Mar'12</b>	<b>As on Mar'11</b>	<b>As on Mar'10</b>
No: of registered members	159681	110888	58623	8727
Total Centres	11099	7826	3902	499
Total Number of Branches	85	75	52	17
Active Clients	149196	106371	55506	8208
Disbursements (Rs mn)	2850.8	1851.1	712.3	77.5
Outstanding Loans (Rs mn)	1116.5	753.0	318.5	63.4

## Product Offerings of Utkarsh

Product Name	Purpose of the loan	Loan Amount	Annualised Interest Rate (AIR)	Effective Interest Rate (EIR)
Utkarsh Pragati	Financial assistance to support income generating activities, such as raising livestock, running kirana stores, providing tailoring and other assorted trades and services. Term of 58 Weeks/ 29 Fortnights /12 Months	Rs. 6,000 to Rs. 15,000 for the first loan; subsequent loan amounts determined by past credit history and increased each in set increments upto a maximum of Rs. 15,000	25.94%	27.94% (including processing fee and insurance charges)
Utkarsh Kiran	Financial assistance to support income generating activities, such as raising livestock, running kirana stores, providing tailoring and other assorted trades and services. Offered to existing clients only. Term of 104 weeks/52 fortnights/ 24 months.	Rs. 18,000 to Rs. 25,000 for the first loan; subsequent loan amounts determined by past credit history and increased each in set increments upto a maximum of Rs. 25,000	25.94%	27.94% (including processing fee and insurance charges)
Utkarsh Samridhi (MEL)	Loan product for working capital, business structure renovation, machine purchase and business investment/expansion. Loan Tenure of 6 months to 36 months	Rs. 25,000 – Rs. 3,00,000 with monthly repayment	29%	29% + Processing fee of 1% or Rs.500 (whichever is higher)

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

Policies	Best Practices	Utkarsh's Policies and Observations	
Area Selection	<ul style="list-style-type: none"> <li>• Detailed process documented in the manual</li> <li>• High presence in under-banked areas</li> <li>• Explicit Policy of avoiding over-indebtedness in clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate coverage in policies</li> <li>• Explicit Policy of not being the third MFI in any region. Policy of not being the third lender in any case and second lender where the outstanding loan is more than R Rs 30000</li> </ul>
Borrower Selection	<ul style="list-style-type: none"> <li>• Guidelines of members to form groups well articulated and groups to be formed by borrowers themselves</li> <li>• CGT process well documented with a strong focus on educating clients on the concept of JLG</li> <li>• Poverty Assessment Framework defined</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✗</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed Information on prospective borrowers collected, but not compiled in a quantitative poverty assessment framework and score</li> </ul>
Policy on outsourced agents	<ul style="list-style-type: none"> <li>• Explicit Policy of not using outsourced agents</li> <li>• Strong Internal Audits and Checks</li> <li>• Annual Rotation of Centre Leaders</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate coverage in policies</li> <li>• Branch managers to check with the group at the time of Group Recognition Test (GRT)</li> </ul>
Policy on incentive structure	<ul style="list-style-type: none"> <li>• Incentive Structure not linked to disbursements and recovery.</li> <li>• Incentive structure to be linked to borrower retention and process compliance</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✗</li> </ul>	<ul style="list-style-type: none"> <li>• Incentives of the Credit Officers (COs) is linked to number of customers recruited (capped at 75 per month).</li> <li>• Incentive structure does not include parameters for borrower retention and process compliance. High client dropout of 23% (Annualised) for FY12</li> </ul>

# 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 Office has a copy of the Operating Manual which can be accessed by all staff members.
- COs were found to be well-versed with company's policies related to origination, targeting, group formation, conducting CGTs and GRTs
- Operational area of a branch and CO is restricted to a 10-15 km radius. Each CO is assigned a minimum of 40 centers which he/she has to cover. This corresponds to roughly around 600-800 customers per CO. This corresponds well with the best practice average of 500-700 client accounts per field officer.

## Level of Observed Compliance

- Members confirmed the conduct of 5 days CGT at the time of group formation and that they were apprised of product features, rates and fees, repayment schedule and JLG. Also, confirmed that there was no discrepancy in the information provided in the CGT vis-a-vis the actual transactions
- At few centres, members felt that the groups were formed by the COs and they also felt that the COs are best placed to finalise the group composition
- Members denied that any agent other than Utkarsh officers to have approached them for group formation
- Members visit branch office atleast twice during the loan duration which reduces the chances of mis-representation by the company in the field.
- Several branches are in their first cycles, but in older branches visited, the principle of rotation of center leader and rotation of person depositing the money at the branch has been implemented

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

Policies	Best Practices	Utkarsh's Policies and Observations	
Board's policy and involvement in pricing	<ul style="list-style-type: none"> <li>• Loan pricing policy specified and fixed by board</li> <li>• ROE and margin caps specified</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate coverage in policies</li> <li>• Board takes decision on pricing and conveys the same to operational staff</li> </ul>
Client Coaching and Communication	<ul style="list-style-type: none"> <li>• Documentation of CGT process with CGT Manuals printed in vernacular</li> <li>• Structured training program with coverage on JLG, effective interest rates and other terms</li> <li>• Refresher training programs and regular coaching of clients</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✗</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed coverage in CGT and operational manual</li> <li>• Stronger emphasis on coaching and refresher trainings on the concept of effective interest rates to clients required</li> </ul>
Transparency in disclosure of loan terms	<ul style="list-style-type: none"> <li>• Multi-point communication of effective interest rates, processing fees, pre-payment terms communicated to the clients</li> <li>• All terms and conditions mentioned in the pass books and pass-books updated on a regular basis</li> <li>• Pass books contains information in vernacular language</li> <li>• No collateral or margin money accepted</li> <li>• No hidden costs related to distribution of third party financial products distribution</li> <li>• No prepayment penalty</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate coverage and focus on disclosure of loan terms and client education in policies and manuals</li> <li>• Prepayment has certain clauses <ul style="list-style-type: none"> <li>• If pre-paid before 12<sup>th</sup> installment the client is not eligible for a future loan from Utkarsh in the existing group</li> <li>• If paid between 12<sup>th</sup> and 18<sup>th</sup> installment then the client is eligible for a lower/same amount of loan that she availed of this cycle</li> <li>• After 18<sup>th</sup> installment – eligible for the next cycle of loan</li> </ul> </li> </ul>

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

### Level of Dissemination

- Staff adequately trained and understands the importance of transparent communication with respect to interest rates and other fees.
- Customers acknowledge the multi-point disclosure of loan terms by the MFI staff.
- Staff was observed guiding clients on various terms related to pre-payment and insurance on a regular basis. In one instance, the staff guided the member to pre-pay after a week as a pre-payment before 18 weeks would have made the member eligible for a lower loan amount in the next cycle

### Level of Observed Compliance

- COs at all visited branches followed the rules of centre meetings as prescribed in the manuals
- All loan cards/pass-books were found to contain information in local language and were updated
- Members were well aware of the concept of JLG and processing fees.
- There was relatively lower awareness of the clients on effective interest rates with a significant majority of the clients disclosing only absolute amount of interest.
- Utkarsh does not have a pre-payment penalty clause, but prescribes a few clauses related to pre-payment which make a client in-eligible or eligible for a lower amount in the next cycle. Clients at a few centres could not remember the clause, though they confirmed being informed of the same

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

Policies	Best Practices	Utkarsh's Policies and Observations	
Loan Appraisal Process	<ul style="list-style-type: none"> <li>• Elaborate lending process in manuals</li> <li>• KYC Policy</li> <li>• Formal Credit Appraisal framework with credit scoring or Income to Installment Ratio</li> <li>• Process to ensure adequate attendance in client meetings</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✗</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>• Sufficient coverage in operational manuals</li> <li>• Lack of a formal credit appraisal framework based on scoring or quantitative analysis</li> </ul>
Credit Risk Management	<ul style="list-style-type: none"> <li>• Strong MIS to track a customers credit history with the company, IIRs attendance, Loan purpose etc. Factors considered for future loan eligibility</li> <li>• Centralised credit centres for conducting credit checks in addition to field checks</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✗</li> </ul>	<ul style="list-style-type: none"> <li>• Strong MIS Capabilities. Clients have unique client ids, and cycle-wise client information maintained. Monthly reports include religion and caste wise break-up of clients, dropout number and loan purpose etc. Centre attendance and LUC visits also tracked and reported</li> </ul>
Checks on over-indebtedness of clients	<ul style="list-style-type: none"> <li>• Declaration on total borrowings of the member's household in the application form</li> <li>• Credit Bureau Checks</li> <li>• Mandatory House visits and reference checks of borrowers</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>• Sufficient coverage in manuals</li> </ul>
Loan Utilisation Checks	<ul style="list-style-type: none"> <li>• Loan Utilisation Declaration in the application form</li> <li>• Policy on 100% LUC Checks and implications of non compliance specified</li> <li>• Strong Audits on LUCs</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>• Sufficient coverage in manuals</li> <li>• It is mandatory for CO to do LUC for all borrowers and fill the LUC form. Branch Manager and Area Manager conducts LUC for 50% and 20% respectively of the total borrowers</li> </ul>



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

#### **Level of Dissemination**

- The Credit Officers understand the loan appraisal process of the company thoroughly.
- The training programme for new recruits starts with a weeklong class room and a week long on the job training for Credit Officers further imbibes a standard understanding of processes and policies across the organisation.
- The company also conducts regular monthly audits at all branches which does a random check on the loan appraisal process, centre meetings, attendance and LUCs. Coverage and frequency of internal audits is quite extensive and elaborate

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

- Documentation related to filling of Application Form, KYC, CGTs and GRTs were largely complied with
- Staff members took regular attendance at the centre meetings.
- In come cases, the centre attendance was in the range of 75-80%, which is lower than the minimum prescribed norm of 80%.
- COs are required to visit the members houses at the time of conducting GRT and later for a LUC. This was confirmed at all centres we visited.

## 4. Staff Behaviour: Policy Articulation and Documentation

Policies	Best Practices	Utkarsh's Policies and Observations	
Focus on client as reflected in company's values and policies	<ul style="list-style-type: none"> <li>Mission and Vision reflects the company's social mission</li> </ul>	✓	<ul style="list-style-type: none"> <li>Vision: Serving one million households through a range of socially oriented products and services by 2016.</li> <li>Mission: Support underprivileged and underserved segments by providing financial and non-financial services through a socially responsible, sustainable and scalable institution</li> </ul>
Staff communication to clients	<ul style="list-style-type: none"> <li>Standard Code of Behavior towards the clients captured in the manuals</li> <li>Clear penalties prescribed for breach of behavior specified in the manuals</li> <li>Keeping staff attrition rate under check to ensure better and continuous compliance to guidelines</li> </ul>	✓ ✗ ✗	<ul style="list-style-type: none"> <li>Operational manual stress on a polite and courteous behavior to the clients at various points of the process. No standard document to capture staff behavior guidelines or penalties for breach.</li> <li>Staff attrition rate is high at 24.2%, for FY2011-12 and translates to 30.8 % (annualised from October data) for FY13. Hence, this phenomena requires a check.</li> </ul>
Policies for partial collection centres	<ul style="list-style-type: none"> <li>Recovery policy for partial collection centres is client friendly</li> <li>Rules and timings for visit to clients house for recovery specified and captured in manuals</li> <li>Restructuring Policy for genuinely distressed borrowers</li> </ul>	✓ ✓ ✓	<ul style="list-style-type: none"> <li>Emphasis is on staying at the centre meeting place and motivate the group/centre to pay till they get the repayment from the group. CO are advised to interact with clients during centre meetings and avoid going to member's house or place of work.</li> <li>Restructuring policy for genuine borrowers specified at the HO level and prescribes relief to the clients in distressing situation.</li> <li>Insurance scheme is meant to offer immediate relief in case of the death of the borrower or guarantor</li> </ul>

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

### Level of Dissemination

- COS understand the code of behaviour towards the customers and the training programme places strong focus on coaching the staff with an appropriate behaviour towards the clients.
- COs were observed to be courteous and polite during all centre meetings, greeted the client members, recited pledges and explained all required details to the customers.
- Code of Conduct, staff behaviour and HR have been included as parameters in the internal audit report to ensure on the ground compliance
- We observed a certain level of discontent amongst the staff officers of a few branches, which might be reflecting into a larger problem of staff attrition

### Level of Observed Compliance

- All customers were unanimous that the Utkarsh COs are courteous and polite in all interaction and they are comfortable approaching them for loans, queries and/or difficulties.
- Further, there were no complaints of odd time visits to client residence and any sort of pressure tactics applied on the group to contribute on behalf of any defaulting member.
- Majority of the groups we met were comfortable discussing a situation with the COs where the group or centre is unable to contribute on behalf of the defaulting member.

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

Best Practices	Utkarsh's Policies and Observations	
<ul style="list-style-type: none"> <li>• Policy on maintaining client data privacy included</li> </ul>	✓	<ul style="list-style-type: none"> <li>• Operating Manual includes a policy on maintaining client data privacy and also prescribes to check with higher authorities before sharing any client information</li> </ul>
<ul style="list-style-type: none"> <li>• Policy prescribing conditions of sharing client data</li> </ul>	✓	<ul style="list-style-type: none"> <li>• Relevant client data shared with the credit bureaus and the Insurance company with formal Clients' consent.</li> </ul>
<ul style="list-style-type: none"> <li>• Penalties for breach of client data privacy specified</li> </ul>	✗	<ul style="list-style-type: none"> <li>• Manuals doesn't specify the penalty clauses for sharing client data</li> </ul>
<ul style="list-style-type: none"> <li>• Adequate storage of client documents with limited access</li> </ul>	✗	<ul style="list-style-type: none"> <li>• MIS access rights are login based, limited and defined based on the role/position of employees</li> </ul>
<ul style="list-style-type: none"> <li>• MIS rights limited and access rights defined</li> </ul>	✓	

### Level of Dissemination

- The operating manual prescribes a client data privacy and clearly states the conditions for sharing client data
- Further, the applications forms have an undertaking related to sharing the information of the client with insurance company and credit bureau. The undertaking has to be signed by the client at the time of applying for loan.

### Level of Observed Compliance

- We found no instance of breach of confidential data of the clients
- The client documents are stored in branches arranged in a proper order. However, several branches do not have cupboards with locking facility to store the documents and the documents are kept on shelf and can pose risk to data privacy and protection

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

Best Practices	Utkarsh's Policies and Observations	
• Social Vision, Mission and Core Values	✓	• Utkarsh mission and vision appropriately reflects the essence of a MFI that works with a commercial orientation along with a strong social mission and values.
• Corporate Social Responsibility Program	✓	• Utkarsh through its Section 25 company, Samutkarsh has launched several welfare programmes such as providing vocational training, organising health camps, conducting financial awareness programmes as well as running an academy under Samutkarsh. 3% PBT of FY 2011-12 to be allocated for credit+ activities; 2% planned for FY 2012-13.
• Social performance targets monitoring and reporting	✓	• The company has a Double bottom line focus –social and financial. It has set social targets and has systems in place to monitor social performance.

### Level of Dissemination

- 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

### Level of Observed Compliance

- Utkarsh's mission and vision are well reflected in the ground level operations.
- Outreach of Samutkarsh has been limited to a few geographies and scalability is a concern, given dependence on Utkarsh for funding. Samtukarsh has been able to identify a few independent sources of income and that might address the issues related to funding and related scalability.

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

Best Practices	Utkarsh's Policies and Observations
<ul style="list-style-type: none"> <li>Grievance Redressal Policy and Process – Involvement of board and top management</li> </ul>	<ul style="list-style-type: none"> <li>✓ A grievance redressal committee at the head office which meets every month to discuss issues and various complaints received. Committee checks if all the complaints have been satisfactorily settled; cases are closed only after approval from the committee.</li> </ul>
<ul style="list-style-type: none"> <li>Multi-point Grievance Redressal Mechanism               <ul style="list-style-type: none"> <li>Toll free 24 hour phone number for registering grievances</li> <li>Phone numbers of branch manager and centre managers noted on centre registers</li> <li>Complaint boxes at branches</li> <li>Clients visit branches during the loan tenure</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Has put in place a multi-point grievance redressal mechanism and has recently introduced as 24x7 toll free number for receiving client grievances</li> <li>✓ Complaint resolution usually happens within 7 working days of receiving complaints</li> <li>✓ Internal auditors open the complaint boxes at branches during their audit visits.</li> <li>✓ Clients have access to branch managers for voicing queries and concerns</li> </ul>
<ul style="list-style-type: none"> <li>Specific timeframe for complaints resolution and responsibilities prescribed and documented</li> </ul>	<ul style="list-style-type: none"> <li>✗ The scope of coverage in the manuals can be increased and be made more explicit. The process of new grievance redressal mechanism will take more time to stabilise</li> </ul>
<ul style="list-style-type: none"> <li>Penalty action specified for certain breaches and customer complaints</li> </ul>	<ul style="list-style-type: none"> <li>✗ The scope of coverage in the manuals can be increased and be made more explicit.</li> </ul>

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

### **Level of Dissemination**

- Staff is found to be aware of the complaints resolution process at Utkarsh and understand that any complaint/query received has to be addressed at the earliest possible.
- Toll free complaint phone number and contact numbers of branch manager was found to be noted on all pass-books
- In one instance, a CO was terminated from employment for missing a centre meeting and hence causing inconvenience to members.
- Utkarsh has a high client dropout of 19% for FY12 and 14.5% (Annualised) for FY13, despite adequate focus on grievance redressal and overall satisfaction of clients. As per the company's survey, 65% of the dropout is involuntary with the company dropping clients on non compliance to processes.

### **Level of Observed Compliance**

- Members at the branches visited were found to be comfortable with visiting any staff member of Utkarsh for query resolution.
- Members were also found to be aware of complaints drop box and toll-free numbers for grievance redressal.

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

Conditions	RBI Policy Announcement	Utkarsh 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 between Rs.6000 - Rs.15000 and maximum loan size is Rs.25000	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	Utkarsh takes a declaration of the amount of indebtedness by the client in the loan application form and is the same is captured in the MIS. Further the company checks with credit bureau before any loan disbursement.	The company has a policy of not being second lender to any borrower having loan from other formal institutions where the total exposure on the client on the date of application including the current outstanding from the other FI and proposed loan from Utkarsh exceeds Rs. 30,000 in first two loan cycles from Utkarsh and exceeds Rs. 40,000 in third and subsequent loan cycles from Utkarsh



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

Conditions	RBI Policy Announcement	Utkarsh Policy	Compliance
Tenure	24 months for amounts in excess of Rs 15,000	For loan product more than Rs 15000 ,tenor is 24 months	For loan product more than Rs 15000 ,tenor is 2 4 months
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 has a 100% loan utilisation check policy, with multi-point checks
Repayment Frequency	Weekly, fortnightly or monthly at the choice of the borrower	As a policy, Utkarsh offers the choice of weekly, fortnightly, monthly repayment to the clients	In practice, Utkarsh offers only fortnightly loans at majority of the centres except for a few weekly and monthly centres. The company conveys the frequency to the clients at the time of group formation and takes self certification from the clients on the same.
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)	Interest Rate, 25.94% Interest Spread (on new loans disbursed) was 9.0% for Q2 2012-13 Processing fee, 1%	The company meets the interest rate and margin cap requirements.

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

Conditions	RBI Policy Announcement	Utkarsh 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 Joint Liability 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 were aware of this change
Registration as NBFC MFI.	Fresh applications to be submitted by 31 October 2012	Application for this has already been submitted on Sept 12, 2012	Compliant.
Minimum Capital	Rs 3.0 crore by March 2013 and Rs 5.0 crore by March 2014	Currently the company has a capital of Rs 40 crore	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 offer monthly/fortnightly/weekly repayment option products to clients, but in practice the company encourages mainly the fortnightly products.
- Further, even though the company doesn't prescribe any pre-payment penalty, it doesn't allow the customer to avail any further loan, if the borrower prepays before 12<sup>th</sup> instalment and lower/same amount if prepaid before 18<sup>th</sup> instalment.

## *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	Ashok Vihar	Uttar Pradesh	4	19
2	Sarasul	Uttar Pradesh	5	24
3	Allahabad	Uttar Pradesh	3	14
4	Jalalpur	Uttar Pradesh	5	20
5	Bhabua	Bihar	4	20
6	Durgawati	Bihar	3	13
7	Bharwari	Uttar Pradesh	2	10
8	Harahua	Uttar Pradesh	5	22

## *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.