

Future Financial Services Limited

Code of Conduct Assessment Report Final Report

February 2014



ICRA Management Consulting Services Limited

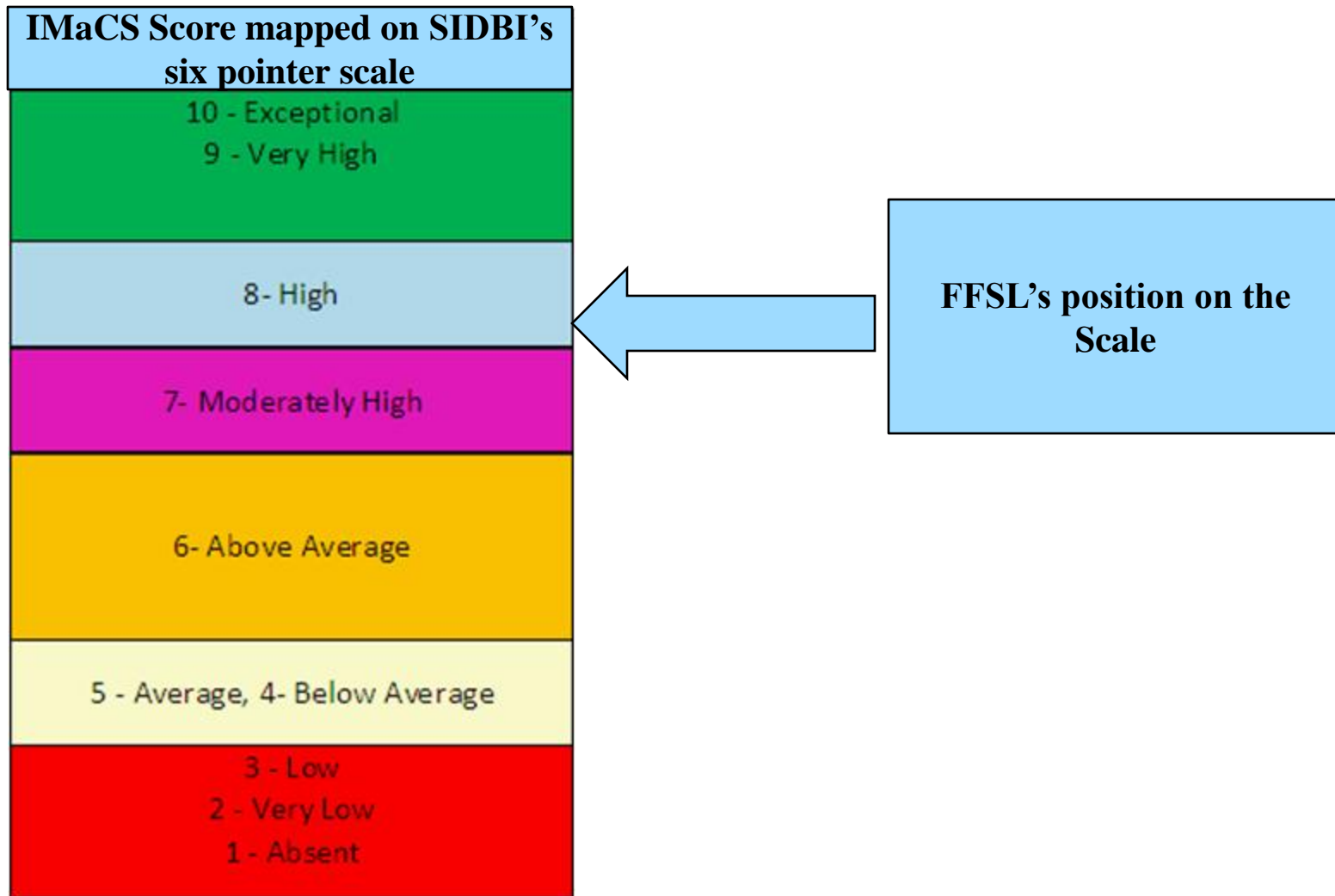
Future Financial Services Limited: Assessment on Compliance to Code of Conduct Framework

OVERALL SCORE: 7.5

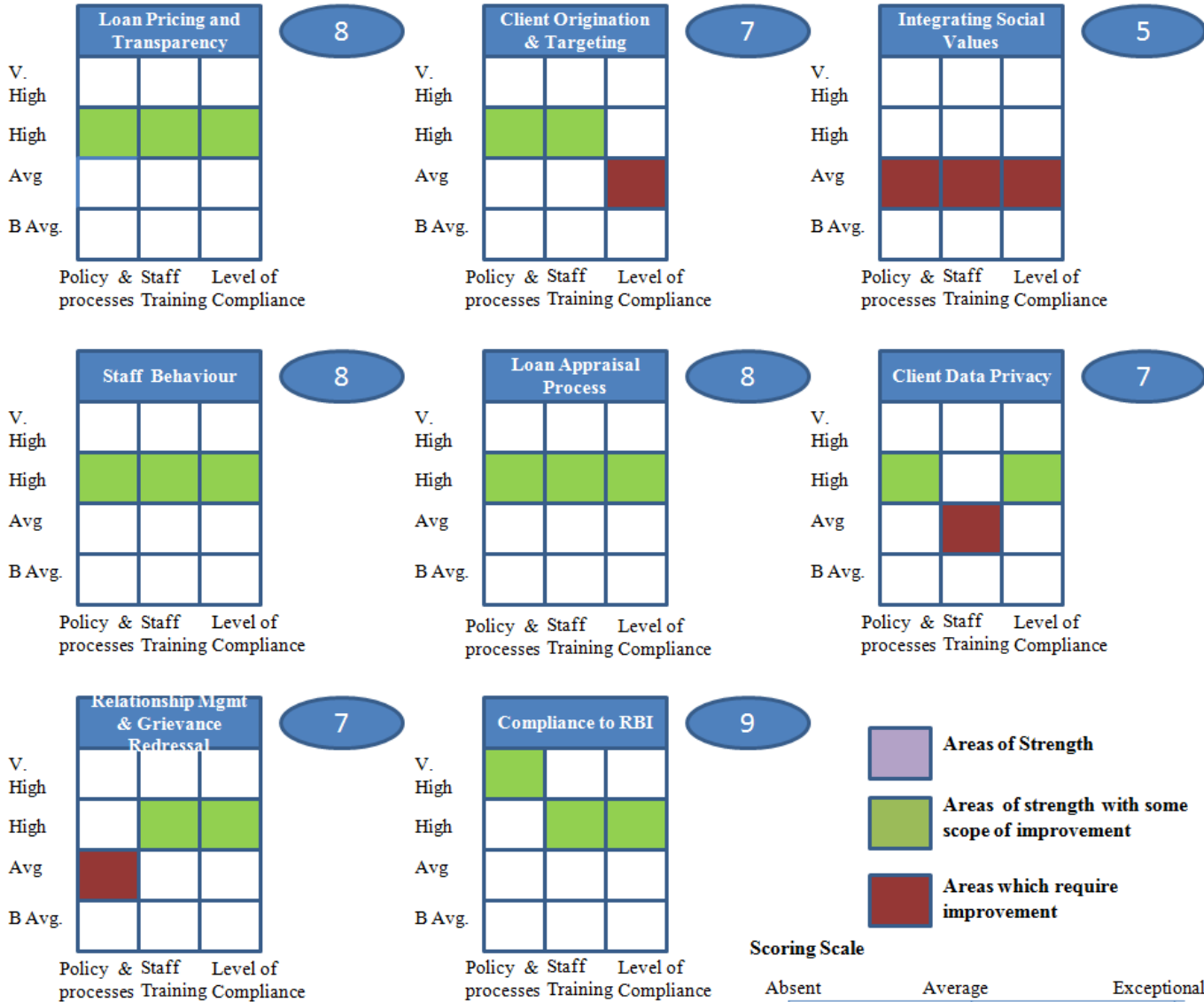
DEFINITION: MODERATELY HIGH TO HIGH LEVEL OF ADHERENCE

Future Financial Services Limited (FFSL) scores ‘Moderately High to High Level of Adherence’ on Code of Conduct Compliance assessment as it has successfully articulated detailed processes and policies adhering to several prescribed best practices for MFI lending value chain. The company has been fairly successful in disseminating and ensuring compliance to its documented processes and policies at the ground level, even as there remains a scope to further improve the compliance to its operating manuals.

Future Financial Services Limited : Mapping the IMaCS Score on Code of Conduct Assessment to SIDBI's Standardised Scale



Future Financial Services Limited: Parameters Wise Code of Conduct Score



Areas of Strengths at FFSL.....1

- ❑ FFSL had initiated a restructuring exercise in 2011, under which it has made continuous noteworthy improvements in its business policies and processes and documentation covering the entire life cycle of loans.
- ❑ The company has a strong focus on training their staff and employees. At the centres visited, we observed that the staff employees are reasonably attuned to the company's processes that have been standardised. At the beginning of a year, the company puts in place a monthly training schedule which covers induction program, refresher courses, HR training, Field visits, Excel, new applications, CGT,GRT, CBO etc.
- ❑ We did not find any evidence of use of outsourced sales agents for group formation and the company has included an explicit policy against use of sales agents along with checks at multiple levels.
- ❑ FFSL has put in place a robust & standardised credit appraisal process that includes centralised Credit Back Office (CBO) which conducts credit bureau check, application verification, loan eligibility test and a Group Affinity test via tele-calling. While the field level checks and house verification are conducted by the CMs/Field staff, the CBO conducts an additional level of check and is responsible to take a final decision on credit approval/rejection. The presence of CBO has demarcated the role of sales and credit staff which minimises the chances of frauds, personal prejudices and decisions based on incomplete information for the company and at the same time, benefits the borrowers by reducing the chances of wrong rejection and/or possibility of over-indebtedness amongst its members.

Areas of Strengths at FFSL.....2

- ❑ The company has also strengthened its loan appraisal criteria in terms of including credit history (credit bureau and internal checks), attendance track record, loan eligibility based on income and expenses and house verification and tele-checks.
- ❑ In addition to a CBO, the company has also introduced the usage of hand held device “MFIMO”, that works in synchronisation with MFIMO application loaded in mobile and is capable of issuing receipts and update the collection amount on real time basis. The application also captures photo and hence attendance, thus reducing the chances of frauds and enabling an attendance track record of the clients. Such process improvement initiatives have reduced the administrative workload of CMs who are now expected to be on field regularly for various planned and surprise centre meeting visits.
- ❑ The company has also put in place a multi-channel grievance redressal mechanism in the form of a toll-free number, surprise field visits, complaints boxes at the regional office and regular audits. Further, the company has put in place a process and timeline to address customer grievance within a specified time period (such as 24 hrs for high priority and 7 days for medium priority cases), with regular tracking of the complaints resolution status. List of Grievances/Issues is sent to the respective Department Heads once in 15 days for High, Medium & Low priority cases keeping the Divisional Manager and Regional Manager in the loop . Similar update on grievances received and their resolution is shared once in a quarter with the Board of Directors.

Areas of Strengths at FFSL.....3

- ❑ FFSL conducts a structured 2-day, Compulsory Group Training and one day Group Recognition Test programme for its clients at the time of group formation. CGT programme includes structured training sessions on Joint Lending Group mechanism, interest rate calculation, financial literacy and delinquency management process. GRT is conducted by a senior manager or branch manager to ensure that the members understand the key loan terms and guidelines of joint liability lending mechanism.
- ❑ The company has a Loan Utilisation Check (LUC) policy, which is multi-level and is done for 100% of the loans. Borrowers are asked to sign the “joint liability for LUC failed clause” in loan application and also regularly communicated during CGT and disbursement about the implications of deviating from the agreed loan utilisation purpose . CM does the LUC for all borrowers within two months of disbursement, BM for 50% borrowers within 3 months and RM for 10% of borrowers within 6 months of disbursements
- ❑ Company has a very exhaustive audit process, where a certain proportion of branches and centres are audited at a regular frequency ranging from monthly to quarterly. The coverage of audit is fairly comprehensive covering field audit and branch audit. The field coverage is comprehensive and include house verification, CGT, GRT, disbursements, centre meeting visits, LUCs and death verification. Further, the company has also implemented an audit score based evaluation system of branches and enables comparison and tracking of performance across the branches.

Areas of Strengths at FFSL.....4

- ❑ The company doesn't have variable incentives payments linked to disbursements or recovery and the annual bonuses of up to 10 per cent are made based on an annual performance appraisal of its staff. This highly reduces the pressure on field staff to achieve sales targets or recovery and hence, minimises any incentive to mis-represent client data.
- ❑ We observed that Centre Manager and other branch officials at the FFSL centres we visited were cordial to clients and there was no evidence of use of coercive recovery mechanisms or use of un-authorized agents to form groups and disburse loans. The company has a well defined Staff Code of Conduct which emphasizes the need to be polite , emphatic and patient towards the borrowers and also prescribes penalties for any violation of prescribed code of conduct by the staff.
- ❑ The company adheres to the guidelines prescribed by RBI for micro finance institutions to be eligible as priority sector priority sector lending by banks
- ❑ The company's social values and mission are fairly well reflected in the conduct of its employees at the ground level. FFSL also conducts one social day in every quarter across all the regions. The social days conducted include organising of health camps, eye checkups, planting trees, water and sanitation etc. Tie-ups with local hospitals and eye clinics such as Vasan Eye care have also been done to provide free health checkups for its borrowers.

Areas of Weaknesses/Further improvement at FFSL.....1

- ❑ FFSL's focus on documenting all critical processes and policies and disseminating the same to its staff members, has led to standardisation of various processes across the organisation. However, we observed that all operating manuals kept at branches are printed in English language only and not in vernacular which might restrict the understanding of staff members.
- ❑ FFSL communicates annual effective interest in all its interactions with the members and has also included a structured session in the CGT to explain the concept of reducing balance interest calculation to its borrowers. However, in our interactions, we observed that a significant number of clients were still unaware of the concept of effective interest rates, thus highlighting the need of a more frequent coaching for the clients through refresher trainings which can be conducted at centre meetings at regular intervals.
- ❑ Further, as the company evolves, it need to strive to take its disclosure and transparency to the next level by introducing its borrowers to the concept of all inclusive effective interest rates (including processing fees and insurance charges etc)
- ❑ The company has done away with regular pledges in its centre meetings. Even as pledge can be assumed to be a small gesture, it serves a very critical purpose of reiterating borrowers and lender's commitment to the spirit of JLG. In the current scenario, FFSL 's centre meetings are more transactional and there remains a gap in terms of reiterating the joint liability group mechanism and loan terms, either as a pledge or periodic refresher training for clients

Areas of Weaknesses/Further improvement at FFSL.....2

- ❑ Even as the company has put in place a multi channel grievance redressal mechanism, it does not keep suggestion/complaint boxes at its branches, but only at regional office. Borrowers may be reluctant to visit the regional office which are upto a 35 km radius to drop in their complaints and this reduces the efficacy of this mode of complaint
- ❑ Company does not use a structured poverty assessment framework to identify clients below the poverty threshold. The company has indicated its plan to implement a poverty assessment framework in near future and is in the progress of documenting the same
- ❑ Company has a grace period policy and an escalation policy to the BM/RM in case of default by member and group. However, the company does not provide any loan restructuring policy for clients who are unable to pay due to genuine reasons.
- ❑ Company doesn't have an explicit policy of maintaining client data privacy and/or prescribe penalties for non compliance to the same. The significance of maintaining client data privacy is verbally communicated to the branch staff as a part of its training programme. The same has been mentioned in the loan agreement as well, but there is no documented policy to ensure that privacy of client data is not compromised.
- ❑ The company conducts quarterly social programmes for its client, but it has not put in place any structured social programme with annual budgets, targets and a monitoring mechanism. As the company grows, it shall be reasonable to expect that the company should embark on a structured social programme in line with its stated vision and mission.

Areas of Weaknesses/Further improvement at FFSL.....3

- ❑ The audit report of December 2012, categorise a significant proportion of its branches in “Poor Category” which reflect low adherence of these branches to various defined operational parameters of internal audit and hence, reflect a need to improve compliance to company’s processes and polices. The internal audit scores improved significantly in the subsequent audit reports (Jan 2013-Mar-2013). Yet, these reports continued to highlight defects related to several field procedures such as inadequate documentation, loan utilisation checks not conducted, attendance at the centre meetings below 50 % and clients reporting low understanding of loan products and interest rates than desired. All these aspects reflect a scope of improving compliance to the companies processes and policies at the field level.
- ❑ Even as the company follows a policy of bonuses based on annual performance appraisal of field staff, there is some merit in linking the incentives of its branch managers and field officers to that of compliance to operations, internal audit score of the branches and other operational parameters of the employees. Linking internal audit score to the staff incentive structure may greatly improve the compliance to processes and policies across the organisation.

FFSL- Company's Background and Lending Model

- ❑ Acts Mahila Mutually Aided Co-operative Thrift Society Limited” (AMMACTS) was promoted by Mr. G. Dasaratha Reddy in 1998 and registered under APMACS Act 1995, Andhra Pradesh to provide microfinance for poor women in rural areas
- ❑ AMMACTS acquired Future Financial Services Limited (FFSL) in order to expand its operations beyond Chittoor District and the consolidated entity continued operations as an FFSL, a Non Banking Financial Company that was registered with the RBI in March 2007 and commenced operations on 1st April 2007. FFSL is a for-profit NBFC providing small loans ranging from Rs. 15,000 to 30,000
- ❑ FFSL is promoted by Mr. G. Dashratha Reddy. The other promoters of the company are Mrs. G. Kalavathi and Mr. G. Kartheek. A post graduate in economics, Mr. G. Dashratha Reddy has significant experience in microfinance and social development. He has been associated with various social development activities in different capacities
- ❑ FFSL follows a Joint Liability Group (JLG) lending methodology for its microfinance programme where each member of the group agrees to guarantee the payments of all other group members in accordance. The groups are formed with three (3) to ten (10) women who meet every week, twice a month or at least once a month. A centre is formed with minimum of fifteen (15) members where meetings are organised everyday

Key Financial Parameters: March 2011 to November 2013

Key Financial Parameters	As on Nov 13	As on Mar 13	As on Mar 12	As on Mar 11
No: of registered members	489383	467498	436098	397299
Total Centres	12317	11909	13880	13000
Total Number of Branches	60	58	60	87
Active Clients	164288	158377	221059	287942
Gross Loan Portfolio (Rs cr)	178.21	155.07	146.31	201.53

Product Offerings of FFSL

Product Name	Purpose of the loan	Loan Amount	Annualised Interest Rate (AIR)	Effective Interest Rate (EIR)
Income Generation Loans-Monthly	Financial assistance to support income generating activities, such as raising livestock, running kirana stores, providing tailoring and other assorted trades and services. Term of 18 months	Rs. 15,000	26.00%	30.98% (including processing fee and insurance charges)
Income Generation Loans-Monthly	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 24 months	Rs. 20,000	26.00%	30.60% (including processing fee and insurance charges)
Income Generation Loans-Monthly	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 24 months	Rs. 25,000	26.00%	30.60% (including processing fee and insurance charges)
Income Generation Loans-Monthly	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 24 months	Rs.30,000	26.00%	30.60% (including processing fee and insurance charges)

1. Client Origination and Targeting: Policy Articulation and Documentation

Policies	Best Practices	FFSL's Policies and Observations	
Area Selection	<ul style="list-style-type: none"> • Detailed process documented in the manual • High presence in under-banked areas • Explicit Policy of avoiding over-indebtedness in clients 	<ul style="list-style-type: none"> ✓ ✓ ✓ 	<ul style="list-style-type: none"> • Adequate and well documented coverage in policies • The operating manual specifies a focus on tapping under-banked areas and majority of its branches are present in under-banked areas . • Policy clearly specified that any client with more than loans shall not be eligible for a loan from the company
Borrower Selection	<ul style="list-style-type: none"> • Guidelines of members to form groups well articulated and groups to be formed by borrowers themselves • CGT process well documented with a strong focus on educating clients on the concept of JLG and interest rates • Poverty Assessment Framework defined 	<ul style="list-style-type: none"> ✓ ✓ ✗ 	<ul style="list-style-type: none"> • Adequate focus on training to client of concepts of JLG during GRT and CGT • Detailed Information on prospective borrowers collected, but not compiled in a quantitative poverty assessment framework and score, thus inducing subjectivity in the process
Policy on outsourced agents	<ul style="list-style-type: none"> • Explicit Policy of not using outsourced agents • Strong Internal Audits and Checks • Annual Rotation of Centre Leaders 	<ul style="list-style-type: none"> ✓ ✓ ✓ 	<ul style="list-style-type: none"> • Adequate coverage in policies and checks implemented at the ground level to ensure that there is no deviation. Branch managers confirms with the group at the time of GRT that no external agents were involved. Further, the audit process also includes a parameter to check on this aspect.

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

Level of Dissemination

- Adequate training to the staff at the time of joining
- Each Branch Office has a copy of the Operating Manual which can be accessed by all staff members. However such manuals are present only in English. It is suggested that such documents should also be available in vernacular language
- CMs were found to be well-versed with company's policies related to origination, targeting, group formation, conducting CGTs and GRTs
- New CM accompanies the CM of an existing branch to get acquainted with on-the-ground process of originating and managing clients
- On our visits to the branches and centres, employees were found to be aware of all the new processes and policies and have been, successfully using the new MFIMO application loaded in the mobile

Level of Observed Compliance

- Client members acknowledged that the branch staff conducted four meetings before the loan disbursement and apprised them of product features, rates and fees, repayment schedules, Joint Liability Group, related norms and documentation process
- However it has been noted in some instances that loan disbursement was done without conducting 2 CGTs.
- Client members also confirmed that the staff officers approached them for group formation and denied the knowledge of the presence of agents or outsourced staff in the group formation and loan appraisal processes
- No reported discrepancy in the information provided during the orientation meetings
- Significant proportion of the clients denied an understanding of the concept of Effective Interest Rates but acknowledged that they were informed of the same by CM

2. Loan Pricing and Transparency : Policy Articulation and Documentation

Policies	Best Practices	FFSL's Policies and Observations	
Board's policy and involvement in pricing	<ul style="list-style-type: none"> • Loan pricing policy specified and fixed by IFA • ROE and margin caps specified 	<ul style="list-style-type: none"> ✓ ✓ ✓ 	<ul style="list-style-type: none"> • Adequate coverage in policies • IFA takes decision on pricing and conveys the same to operational staff
Client Coaching and Communication	<ul style="list-style-type: none"> • Documentation of CGT process with Manuals printed in vernacular • Structured training program with coverage on JLG, effective interest rates and other terms • Refresher training programs and regular coaching of clients 	<ul style="list-style-type: none"> ✓ ✓ ✗ 	<ul style="list-style-type: none"> • Currently, all manuals are printed only in English and not in vernacular • Stronger emphasis on coaching and refresher trainings on the concept of effective interest rates to clients is required. However clients acknowledged receiving the information of effective interest rates by CMs
Transparency in disclosure of loan terms	<ul style="list-style-type: none"> • Multi-point communication of effective interest rates, processing fees, pre-payment terms communicated to the clients • All terms and conditions mentioned in the pass books and pass-books updated on a regular basis • Pass books contains information in vernacular language • No collateral or margin money accepted • No hidden costs related to distribution of third party financial products distribution • No prepayment penalty 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> • Adequate coverage and focus on disclosure of loan terms and client education in policies and manuals • FFSL communicates a single declining interest rate on its loan products . However, it needs to move towards disclosing an all-inclusive effective interest rate • Company accepted a refundable cash collateral of Rs. 1000 earlier but has stopped the practice now.

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, during the centre meetings at the centres we visited.

Level of Observed Compliance

- CMs 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
- Relatively lower awareness of the clients on effective interest rates with a significant majority of the clients disclosing only absolute amount of interest.

3. Loan Appraisal Process: Policy Articulation and Documentation

Policies	Best Practices	FFSL's Policies and Observations	
Loan Appraisal Process	<ul style="list-style-type: none"> • Elaborate lending process in manuals • KYC Policy • Formal Credit Appraisal framework with credit scoring or Income to Installment Ratio • Process to ensure adequate attendance in client meetings 	<ul style="list-style-type: none"> ✓ ✓ ✗ ✓ 	<ul style="list-style-type: none"> • Sufficient coverage in operations manuals • Lack of a formal credit appraisal framework based on scoring or quantitative analysis, • With the help of new MFIMO application, attendance can be captured easily and updated to CBO on real time basis
Credit Risk Management	<ul style="list-style-type: none"> • Strong MIS to track a customers credit history with the company, IIRs attendance, Loan purpose etc. Factors considered for future loan eligibility • Centralised credit centres for conducting credit checks in addition to field checks 	<ul style="list-style-type: none"> ✓ ✓ 	<ul style="list-style-type: none"> • Strong MIS Capabilities. • Strong and well-established centralised credit appraisal centre at CBO
Checks on over-indebtedness of clients	<ul style="list-style-type: none"> • Declaration on total borrowings of the member's household in the application form • Credit Bureau Checks • Mandatory House visits and reference checks of borrowers 	<ul style="list-style-type: none"> ✓ ✓ ✓ 	<ul style="list-style-type: none"> • Sufficient coverage in manuals with compulsory credit bureau checks for all new and repeat loan applications
Loan Utilisation Checks	<ul style="list-style-type: none"> • Loan Utilisation Declaration in the application form • Policy on 100% LUC Checks and implications of non compliance specified • Strong Audits on LUCs 	<ul style="list-style-type: none"> ✓ ✓ ✓ 	<ul style="list-style-type: none"> • Sufficient coverage in manuals • It is mandatory for CM to do LUC for all borrowers and fill the LUC form. Branch Manager and RM Manager conducts LUC for 50% and 10% respectively of the total borrowers

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

Level of Dissemination

- Credit Officers understand the loan appraisal process of the company and their understanding was found to be quite uniform across centres
- FFSL puts in place an annual training programme, which is quite exhaustive
- Company also conducts regular monthly audits at all branches which, does a random check on the loan appraisal process during centre meetings, attendance and LUCs. The coverage and frequency of internal audits is quite extensive and elaborate. Audit team consists of Internal Audit Officers (IAO), Internal Audit Team Leaders (IATL) who work under the Head of Internal Audit of the Organisation (Head-IA)
- Regular audits are conducted to ensure compliance to processes and systems.

Level of Observed Compliance

- Adequate documentation and filling of loan application forms
- Documentation related to filling of Application Form, KYC, CGTs and GRTs were largely complied with.
- Under the new system, loan files are verified by the CBO which provide an additional level of checks on adequate documentation and process compliance
- All of the clients we spoke to confirmed that staff officers visited their residences for loan appraisal and LUCs

4. Staff Behaviour: Policy Articulation and Documentation

Policies	Best Practices	FFSL's Policies and Observations	
Focus on client as reflected in company's values and policies	<ul style="list-style-type: none"> Mission and Vision reflects the company's social mission 	✓	<ul style="list-style-type: none"> Vision: "A society based on equity and social justice, where women are active financial partners in holistic development that gives women voice, economic power and visibility within the household and the community" Mission: "Our mission is to service low-income clients—women and men—and their families, providing them access to financial services, that are client focused, designed to enhance their wellbeing, and delivered in a manner that is ethical, dignified, transparent, equitable and cost effective."
Staff communication to clients	<ul style="list-style-type: none"> Standard Code of Behavior towards the clients captured in the manuals Clear penalties prescribed for breach of behavior specified in the manuals 	✓ ✓	<ul style="list-style-type: none"> Operations manual lays down the responsibilities of staff officers with detailed emphasis on behavioural issues. Company has framed a detailed policy of Code of Conduct for Staff behaviour which catalogues the key commitments of FFSL's employees towards the clients Training programme for staff officers emphasises on maintaining a courteous, honest and respectful attitude
Policies for partial collection centres	<ul style="list-style-type: none"> Recovery policy for partial collection centres is client friendly Rules and timings for visit to clients house for recovery specified and captured in manuals Restructuring Policy for genuinely distressed borrowers 	✓ ✓ ✗	<ul style="list-style-type: none"> Emphasis is on staying at the centre meeting place and motivate the group/centre to pay till they get the repayment from the group. CM sare advised to interact with clients during centre meetings and avoid going to member's house or place of work. No loan restructuring even in the case of defaults due to genuine constraints

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 strong focus on coaching the staff with an appropriate behaviour towards the clients.
- CMs were observed to be courteous and polite during all centre meetings, greeted the client members, reand 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

Level of Observed Compliance

- All customers were unanimous that the CMs are courteous and polite in all interaction and they are comfortable approaching the 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 CMs 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	FFSL's Policies and Observations	
<ul style="list-style-type: none"> • Policy on maintaining client data privacy included • Policy prescribing conditions of sharing client data • Penalties for breach of client data privacy specified • Adequate storage of client documents with limited access • MIS rights limited and access rights defined 	<ul style="list-style-type: none"> ✗ ✗ ✗ ✗ ✓ 	<ul style="list-style-type: none"> • Current policy manuals do not prescribe any explicit provision for maintaining the privacy of client information • In CGT and Loan agreement, terms and conditions are included to maintain the client privacy and conditions where data is shared with external parties such as credit bureau. • Relevant client data shared with the credit bureaus and the Insurance company with formal Clients' consent (in application form and agreements) • Manuals are also silent on defining penalties for client data privacy. MIS access rights are login based and limited

Level of Dissemination

- Current policy manuals do not prescribe any explicit provision for maintaining the privacy of client information.
- 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		FFSL's Policies and Observations
• Social Vision, Mission and Core Values	✓	• FFSL mission and vision appropriately reflects the essence of a MFI that works with a commercial orientation along with adequate focus on social values of the organisation..
• Corporate Social Responsibility Program	✓	<ul style="list-style-type: none"> • FFSL conducts one social day in every quarter across all the regions. The social days conducted are focussed mainly on health camps, eye checkups, planting trees, water and sanitation etc. Every region covers close to 200 beneficiaries in these camps • Tie- ups with local hospitals and eye clinics such as Vasan Eye care have also been done to provide free health checkups
• Social performance targets monitoring and reporting	✗	• The company is yet to put in place a formal mechanism of setting social targets and monitoring achievement against these targets.

Level of Dissemination

- The staff is found to understand the company's vision and mission and the company's social values and mission are well reflected in the conduct of its employees at the ground level.

Level of Observed Compliance

- FFSL's mission and vision are well reflected in the ground level operations.

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

Best Practices	FFSL's Policies and Observations	
<ul style="list-style-type: none"> Grievance Redressal Policy and Process – Involvement of board and top management 	✓	<ul style="list-style-type: none"> Grievance management feedback mechanism is put in place to resolve any issue that the borrower faces during her loan tenure Senior management is apprised through regular MIS Surprise visits are also conducted to assess or understand any problems within the centre.
<ul style="list-style-type: none"> Multi-point Grievance Redressal Mechanism <ul style="list-style-type: none"> 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 	✓ ✓ ✗	<ul style="list-style-type: none"> Company provides toll-free number and mentioned in passbook, group file register and verbally communicated. Phone number of BM and CM is also mentioned. Call transferred to mobile number if free lines are unavailable Complaint boxes are available only at Regional Offices
<ul style="list-style-type: none"> Specific timeframe for complaints resolution and responsibilities prescribed and documented 	✓	<ul style="list-style-type: none"> Times lines for resolution of grievances by respective responsible persons are defined in manuals for complaints categorised as high, medium and low priority SPOC team sends a detailed MIS to respective Department Heads once in 15 days cases keeping the Divisional Manager and Regional Manager in the loop.
<ul style="list-style-type: none"> Penalty action specified for certain breaches and customer complaints 	✗	<ul style="list-style-type: none"> Scope of coverage in the manuals can be increased and be made more explicit. Currently, no penalties have been mentioned for non-resolution of grievances

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 FFSL and understand that any complaint/query received has to be addressed at the earliest possible
- Staff officers were found to be responsive to the requirements of client members
- Regular external audits and surprise visits are made to ensure that staff officers adhere to the processes and systems

Level of Observed Compliance

- Members at the branches visited were found to be comfortable with visiting any staff member of FFSL for query resolution.
- Client members are comfortable discussing their needs and making suggestions to CMs/BMs
- Contact number of RMs was not found to be noted in the centre register or the repayment card

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

Conditions	RBI Policy Announcement	FFSL 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	The company collects information to assess the income of the clients and also conducts physical checks of the residences of clients. Further, borrowers are expected to declare their income.
Loan Size (Maximum)	First Cycle: Rs. 35,000 Later: Rs. 50,000	First Cycle: Rs. 15,000 Second Cycle onwards upto Rs. 20000 Third cycle onwards Upto Rs. 30000	Satisfactory. All client groups and individuals were found to be lent within the slabs.
Indebtedness of the borrower	Limited to Rs 50,000	FFSL 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 credit history of the client is verified with the credit bureau and also with other informal sources.

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

Conditions	RBI Policy Announcement	FFSL Policy	Compliance
Tenure	24 months for amounts in excess of Rs 15,000	FFSL offers loans upto Rs. 30000. For all loan amounts greater than Rs. 15,000, the tenor of the loan is 24 months	Satisfactory Compliance
Loan Used criterion	Minimum 75% of MFI portfolio for income generation	As a policy, loans are given only for income generation.	The company takes a declaration on the end use of the loan and has a loan utilisation check policy conducted within 30 days of disbursement
Repayment Frequency	Weekly, fortnightly or monthly at the choice of the borrower	As a policy, FFSL offers the clients the choice of weekly, fortnightly, monthly repayments	In practice, FFSL offers only a particular frequency product at a centre. However, it offers a choice of repayment frequency to the clients at the time of group formation.
Pricing Cap	Margin Cap of 12% above borrowing cost + processing fee, 1% (not included in interest cap or margin cap)	Margin Cap is well within the prescribed limit. Interest Rate of 26% and processing fee of 1% is also compliant	The company meets the interest rate and margin cap requirements.

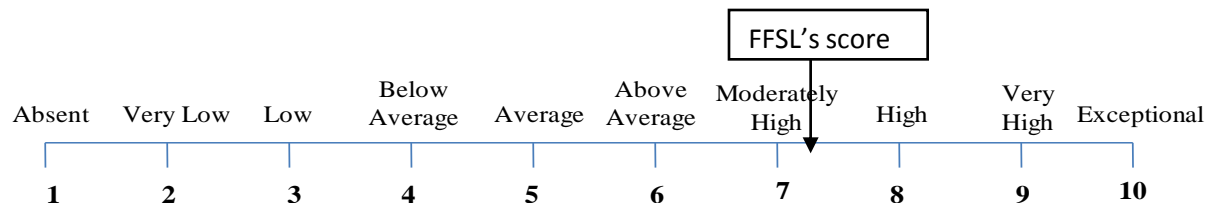
8. Compliance to RBI Guidelines for MFIs.....3

Conditions	RBI Policy Announcement	FFSL Policy	Compliance
Collateral & group mechanisms	No collateral, individuals as well as SHGs and JLGs	The company does not 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	The company has removed the prepayment penalty charged earlier. The company was earlier taking cash collateral of Rs. 1000 which as discontinued	Satisfactory: The company has changed its product features and repayment policy to be compliant with the RBI guidelines

- Satisfactory compliance on all key provisions of RBI guidelines in terms of meeting the pricing caps, interest rate caps, prepayment 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 monthly products

Annexure I: Overall Score Calculation for FFSL

Code of Conduct Parameters	Board Policy and Documented Processes	Staff Training and Efforts to disseminate	Level of Observed Compliance	Overall Score
Loan Pricing and Transparency	High	High	High	8
Staff Behaviour	High	High	High	8
Relationship management and grievance redressal mechanism	High	High	Average	7
Client Origination and Targeting	High	High	Average	7
Loan Appraisal Process	High	High	High	8
Compliance Status of MFI vis-a-vis RBI guidelines	Very High	High	High	9
Privacy of Client Information	High	Average	High	7
Integrating social values into operations	Average	Average	Average	5
OVERALL SCORE	OVERALL SCORE			7.5



Annexure II: Code of Conduct Assessment Framework...1/2

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...2/2

❑ **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 III : Details of Branches visited for exercise and number of clients interviewed

S No.	Region Name	Branch Name	State Name	Number of client groups interacted with	Number of clients interviewed
1	Chintamani	Kaivara Monthly Branch	Karnataka	2	25
2	Doddaballapur	Dodda Ballapur	Karnataka	2	35
3	Hoskote	Hoskote	Karnataka	1	35
4	Hoskote	Tekal Monthly	Karnataka	2	50
5	Kolar	Kolaramma	Karnataka	2	30
6	Tiruthani	Thiruthani	Tamil Nadu	5	50
7	Vellore	Vellore Monthly	Tamil Nadu	3	30
8	Vellore	Katpadi	Tamil Nadu	2	25
9	Vaniyambadi	tirupathur-i	Tamil Nadu	3	25
10	Nagapattinam	Singaravel	Tamil Nadu	2	45
11	Vellore	Arani	Tamil Nadu	3	25
12	Thanjavur	Kumbakonam	Tamil Nadu	2	30

Annexure IV: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 IV: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. 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 IV: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