

# Janalakshmi Financial Services Pvt. Ltd (JFSPL)

Bangalore, India

Legal form: NBFC

October 2012

## Code of Conduct (CoC) Assessment

Achievement	Maximum	Score achieved
Integrity, Governance and HR Strategy	30%	24.3%
Compliance with guidelines pertaining to clients	60%	53.3%
Effectiveness of client education efforts, and awareness	10%	8.0%
<b>Overall CoC</b>	<b>100%</b>	<b>85.6%</b>

Visit dates: 01-11 October 2012

### M-CRIL

Berenice da Gama Rose, [berenice@m-cril.com](mailto:berenice@m-cril.com)

Pankaj Kumar, [pankaj@m-cril.com](mailto:pankaj@m-cril.com)

Pravir Jha, [pravirjha@m-cril.com](mailto:pravirjha@m-cril.com)

Shraddha Jha, [shraddhajha@m-cril.com](mailto:shraddhajha@m-cril.com)

Tel: +91 124 230 9497; Fax: +91 124 230 9520

### Janalakshmi

Mr. V.S. Radhakrishnan, CEO

[radhakrishnan.vs@janalakshmi.com](mailto:radhakrishnan.vs@janalakshmi.com)

Phone: +91-080-42595700



# Structure

- ▶ Assessment tool and framework
- ▶ Code of Conduct performance & Rationale
- ▶ Strengths & issues
- ▶ Introduction and background
- ▶ Microfinance policies
- ▶ Products – loan, insurance and other
- ▶ **Integrity, Governance and HR Strategy**
  - Integrating Social Values and Compliance at Institutional level
  - Governance
  - Human Resource Strategy
- ▶ **Compliance with guidelines pertaining to clients**
  - Client Origination and targeting
  - Loan Appraisal Process
  - Loan product features and pricing
  - Transparency
  - Responsible lending
  - Grievance mechanism
  - Privacy of client information
- ▶ **Effectiveness of client education efforts and awareness**
  - Client education
  - Client awareness and other results
- ▶ Annex
  - Profile of the Board members/ Shareholding pattern
  - Client Awareness from Field interactions
  - Methodology and Sampling Plan
  - Assessment tool: weight, scores and performance
  - Abbreviations

# Assessment tool and framework

## Assessment Tool

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

## Methodology

- ▶ The assessment is based on a 7 day visit by an M-CRIL team of 1 analyst to the MFI's head office in Bangalore, and 4 analysts to 12 branches across 4 states. 2 groups were visited in each branch. (Refer Slide No. 40 and 41 for details).

## Perspective on the MFI

- ▶ JFSPL performs well in many of the aspects of CoC owing to its customer-centric culture and automation of several aspects of RBI guidelines, which prevents any kind of deviation. However, it is yet to frame and document policies to formalise some of these practices.
- ▶ Level of cooperation with assessment team:

HO	HIGH	Branches	HIGH	Follow-up	HIGH
----	------	----------	------	-----------	------

## ...Assessment tool and framework

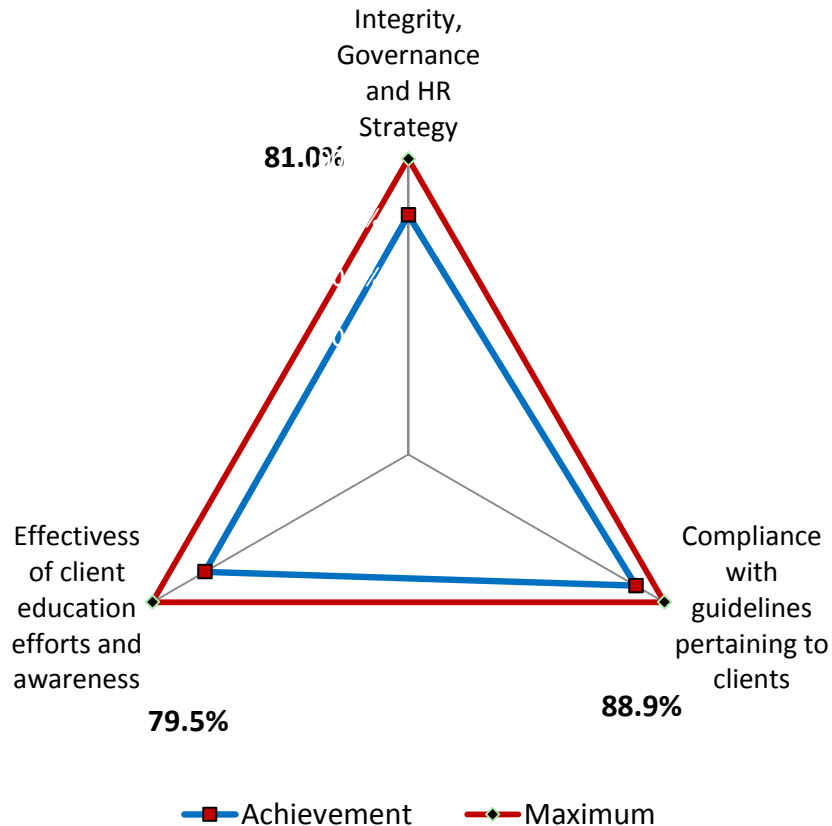
- ▶ The various aspects the Unified Code of Conduct have been reclassified by M-CRIL under two broad heads (Integrity, governance & HR strategy, and Effectiveness of client education efforts and awareness) as per their logic and fit. Further, considering the importance of RBI guidelines and the Fair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

## ...Assessment tool and framework

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

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

# Code of Conduct performance



## Rationale

- ✓ JFS scores high in the Code of Conduct Compliance assessment with its strong focus throughout all levels of hierarchy on customer friendly products and policies and its adherence to the RBI guidelines and Fair Practices Code.
- ✓ JFS has also achieved high level of adherence on the Compliance with guidelines, due to assimilation of the spirit behind them and efforts from all field staff to implement them.
- Slightly lower score in Integrity & Governance stem from a lack of documentation of these good practices in written policies.
- Client education efforts are being undertaken sincerely but low awareness levels on savings and pension products indicate that more emphasis is needed when promoting these and other third party products.

## Strengths

- ✓ JFS has assimilated the values enshrined in the CoC at all levels of the institution – most of these are practiced at field level, even if not formally documented.
- ✓ Principles of the CoC are backed completely by the top management and are included in orientation of all staff.
- ✓ Behaviour is a key selling point for JFS – customer feedback indicated the good behaviour of staff as a key loyalty point.
- ✓ Customers ranked JFS high for the range of financial services provided; biometric smart cards also remain a unique selling point of JFS.

## Issues

- ❑ Documentation of grievances is sometimes overlooked, although the grievances are proactively addressed by branch and regional staff.
- ❑ Loan sanction letter which includes the repayment schedule continues to be in English – customers are given a complete translation in the state language; however, this is sometimes different from their actual vernacular.
- ❑ Client awareness levels on pension and savings products need to be improved – currently customers are not well aware of importance of PIN number safety, withdrawal process at ATM and withdrawal limits; or benefits or pension post minimum lock-in period.
- ❑ Collection of savings in front of other group members may affect privacy, although JFS sees this as a positive feature as it encourages others to save.
- ❑ Code of Conduct displays at branches need to have more visibility.

# Introduction and background

- ▶ Janalakshmi (JFS) was started by Dr. Ramesh Ramanathan as an NGO in 2002. Later in 2005, it became a Section 25 company called Janalakshmi Social Services (JSS) and eventually the promoter and JFS's investors established an NBFC, Janalakshmi Financial Services, which became operational in 2008.
- ▶ JFS's target group consists of urban women in need of financial services – primarily credit for working capital, but also savings, micro-pensions, investments and remittances. JFS has also entered into the housing finance, enterprise finance and gold loan space .
- ▶ JFS started its operations in Bangalore, but has expanded to 66 branches in 47 cities across India since 2010.
- ▶ JFS has placed strong focus on technology since inception –tracking its customers via biometric authentication, Core Banking Solution, and adoption of Customer Relationship Management software for tracking internal efficiency levels.
- ▶ JFS's Board consists of 11 members, including the Chairman Dr. Ramanathan, the Vice Chairman and the MD & CEO. Other Board members comprise 3 independent advisors and 5 investors. (See Board Profile, Annexure on Slide 37).
- ▶ The focus of the Board has been to steer JFS towards a country-wide presence, and consolidate its position as a leading urban MFI.



# ...Introduction and background

## Vision & Mission

“Janalakshmi envisions being a new age financial institution that seeks to service the microfinance needs of urban un-banked in India, in a market-oriented fashion”

## Values

- ▶ Care
- ▶ Positivity
- ▶ Professionalism
- ▶ Excellence and
- ▶ Team play

## Main Performance Indicators

	Mar-11	Mar-12	Sep-12
Active borrowers	193,515	301,000	434,000
Portfolio Outstanding (Rs cr)	181	351	553
Number of states	10	10	10
Number of cities	47	47	47
Number of branches	66	66	66
Number of groups	38,154	57,675	86,307
Staff strength	919	1,004	1,484
PAR 60	0.80%	0.98%	0.19%
Write off %	1.8%	0.5%	0.6%
Yield on Portfolio	36.9%	28.8%	26.0%
Operating Self-Sufficiency	95.6%	102%	108%
Return on average assets	-1.7%	0.5%	2.0%
Capital adequacy ratio	21.3%	25.0%	31.0%

# Microfinance policies

## Area Selection

- ▶ JFS started operations in Bangalore, and expanded to disparate regions - Gurgaon, Jaipur, Coimbatore and Chennai), for risk diversification. It has now 66 branches across 47 cities.
- ▶ Establishment of new branches is overseen by a Branch Expansion Head whose team prepares Area Potential reports. The reports include weightage for secondary data regarding urban population (50%), population in the socio-economic segment appropriate for microfinance (30%) and area of the city (20%). Area surveys include a interviews with 300-500 potential customers in recognised slums to map unmet demand.

## Branch structure

- ▶ JFS branches are monitored by a Branch Head (BH), and are divided into 2-3 “areas”, each monitored by an Area Head (AH). JFS’s model is designed to support multiple product offerings, hence the responsibilities of customer creation, addition and servicing are clearly divided between field staff called Customer Relationship Executives – undertaking Marketing, Sales and Collections respectively (CRE-M/ CRE-S/ CRE-C)
- ▶ Branches are staffed with at least one CRE-M, and several CRE-Ss and CRE-Cs based on branch potential.

## Client selection

- ▶ JFS targets urban, low-income women, mostly working as domestic help, factory workers and doing some entrepreneurial activity either alone or with family members. It is compulsory that the applicant should get at least a 50% credit score in JFS’s loan process.

## Loan process

- ▶ Each branch has at least 1 CRE-M who identifies new areas for group formation and liaises with the public, explaining the terms and conditions of JFS’s loans to them.
- ▶ The Customer Representatives -Sales (CRE-Ss) then train interested applicants over 2 days. Training covers all details and terms and conditions of products.

# Microfinance policies contd....

## Loan Process contd...

- ▶ Documentation is done through a Customer Information Sheet (CIS), which covers income/ asset/ indebtedness/ demographic details, and is later used for verification. After this the groups are evaluated through a Group Verification Test by the AH or BH from another branch, for better stringency. If successful, the group is inducted through a Group Verification Report (GVR).
- ▶ Customers' applications are sent to a data entry firm where data is captured, and automated checks are made for error detection followed by credit scoring of individual customers.
- ▶ For groups whose customers meet the information requirements, the records are sent to the Central Processing Centre (CPC) where a credit score report (CSR) is electronically prepared. A 15% sample tele-enquiry is made to cross check borrower information by the credit approval team at the CPC. Around 25-50 borrowers per branch are picked for physical verification by the local credit team in the region. The credit score should not be lower than 50% for 4 customers and 40% for 1 customer per group of 5 members.
- ▶ If the group members pass all these checks, their smart cards are printed and sent to the respective branches. The loan is sanctioned at the CPC and customer's accounts are created in the Core Banking System, after which a disbursement list and loan documents are mailed to the branches.
- ▶ After a pre-disbursement confirmatory meeting which reiterates product terms, the disbursement is made at the branch. For those customers with savings bank accounts, disbursements are directly made into their accounts to reduce risk of ghost loan disbursements.
- ▶ Collections are done by a Customer Service Executive – Collections (CRE-C) for a set group of centres. Attendance at monthly meetings is recoded through biometric authentication.
- ▶ Smart card swipes in the POT terminal are linked directly to the customer accounts in the Core Banking System. This prevents any manipulation of repayment data and ensures prompt identification and tracking of overdues. A printed receipt is given to the customer and the CRE-C signs their loan card.

# Loan products

Product Name	Small Group loans	Education Loans*	Gold Loans	Nano Loan / Auto Loan*	Build Up and Loan Against Property*
Target	Urban women over 18 years			Existing JFS customers	
Loan size (Min-Max)	5,000-30,000	10,000-30,000	Based on gold value	30,000-2 lakhs	50,000 – 3,00,000
Term (months)	12-24 months		Up to 1 year	12-36 months	12-60 months
Repayment frequency	Monthly	Monthly	Bullet	Monthly	Monthly
Grace period (months)	If disbursement in the latter half of the month, moratorium on the 1st month repayment		N.A.	Nil	Nil
Processing fee	1%	1%	1%	Rs. 1000/-	Rs. 1000/-
Rate of interest rate % (pa)	26% p.a.	26% p.a.	21-23% based on gold value	24% (auto) / 26% (nano)	26% (LAP)/ 28% (build up)
APR (%)	26% p.a	26%	21-23%	24-26%	26-28%
EIR (%)	26.08% p.a				
Guarantee/ collateral	Group guarantee	Nil	Gold ornaments	Inventory or Guarantor/ Auto	RD Savings (BUUp/ Property (LAP))
Penalty on overdues	None	None	None	24% p.a.	24% p.a.
Prepayment & foreclosure	None	None	None	2% of amount prepaid	
Share in portfolio on 30-Sep-12	93%	0%	1%	0%	0%

The above products comprise 94% portfolio. Remaining 6% portfolio is constituted by Enterprise Financial Services loans and housing loans (see next slide)

\* These products had not been rolled out at the time of the assessment visit and have not been evaluated as part of the CoC assessment.

# Loan products

## Housing Loans

- ▶ JSS has invested in Janadhar Constructions Pvt. Ltd (JCPL), a construction company exclusively for low cost housing. JCPL has tied up with builders having core competencies in low cost design.
- ▶ The model is to build low cost apartments half of which are sold exclusively to families with monthly income of Rs. 15,000-25,000 (they need not be existing JFS customers).
- ▶ The loans extended by JFS are 80% of the cost of the apartment (around Rs. 7 lakhs), at 12.5% interest p.a. The remaining apartments would be sold at market value at a higher price in the open market.
- ▶ JFS and JCPL faced some challenge in converting demand into actual sales because of rigorous screening of borrowers, lack of disposable income of applicants, and escalating construction costs.
- ▶ However, the project is being scaled up, and JFS is trying to tie up with National Housing Bank for funding/ subsidies.

## Enterprise Loans

- ▶ JFS has a separate vertical for enterprise loans – Target businesses have >3 years vintage and loan sizes range from Rs 1-10 lakhs. Loan tenure is 12-36 months, with EMIs, backed by post dated cheques. Processing fees constitute 3% of loan amount.
- ▶ Compulsory CIBIL check of all applicants is done at their cost, while a Fraud Control Unit of JFS investigates all applications.
- ▶ There is extensive use of channel referral partners for these loans. Outsourced, RBI-certified recovery agents are empanelled for overdue recovery, but selected only after checks regarding their reputation and operational practices.
- ▶ Employees of EFS branches are screened extremely carefully with CIBIL check, reference checks, and background investigation to avoid risk of fraud.

# Insurance, Micro-Pensions and Savings

## Insurance

- ▶ JFS has tied up for compulsory life insurance for borrowers with Max New York Life and for personal accident insurance (optional) with Bajaj Allianz.
- ▶ Life insurance premium is Rs. 50 per head per year, and 2 members of the family (customer and spouse/ chief household wage earner) are insured. Coverage is Rs. 25,000 for natural death, from which JFS can deduct its loan outstanding and the remaining benefit goes to the surviving member. JFS has negotiated for higher payout to cover higher size loans, for slightly higher premiums.

## Micro Pensions

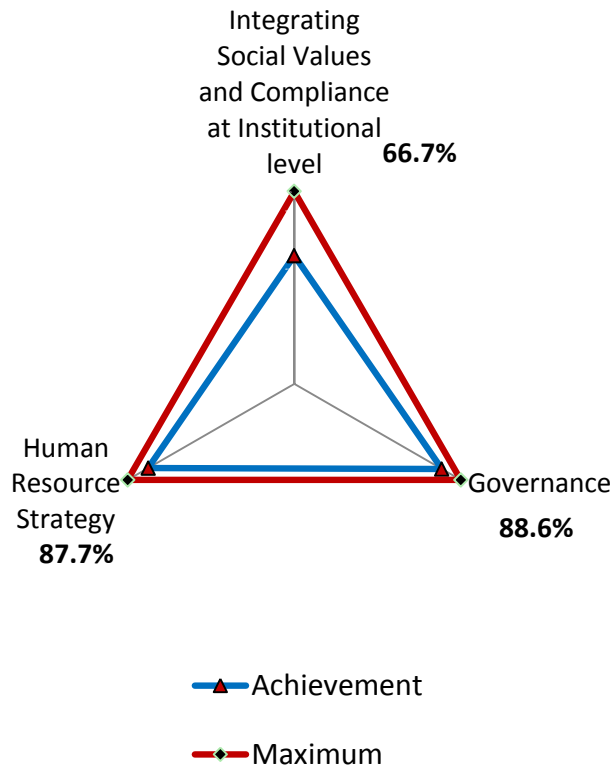
- ▶ Through a tie up with UTI IIMPS, JFS has offered its customers the option of investing Rs. 100, 200 or 500 per month in a micro pension scheme, which has a lock in period of 5 years.
- ▶ Payout begins after the customer has reached the age of 58 years. This is marketed as a cross-sell product linked to group loans. Each CRE-S has a target to extend outreach of this product to at least 40% of their loan customers.
- ▶ Customers can call a 24 hour toll free number to seek clarification on product terms, balances, returns, etc.

## Savings – Banking Correspondent model

- ▶ JFS has leveraged its parent organization JSS to enter into a BC arrangement with Axis Bank. JSS staff operate from JFS branches at marginal incremental cost. Currently, only 15% of savings customers are existing borrowers of JFS.
- ▶ A profile is created in JFS's Core Banking Solution as well for each of the depositors, and staff are equipped with Axis Bank's POS terminals to do real time reporting of collections, directly synced to Axis Bank's CBS, thereby preventing any fraud.
- ▶ Customers save on demand, or immediately after their monthly loan repayment meetings.

# Integrity, governance and HR strategy

## Performance



## Score

24.3% out of 30%

## Levels of internalization

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

## ...Integrity, governance and HR strategy

Integrating Social Values and Compliance at Institutional level	Compliance by JFS
Not less than 85% of total assets of MFI	JFS is compliant with the 85% minimum level of qualifying assets.
Aggregate amount of loan extended for <b>income generating activity is &gt;70%</b> of the total loans given	Aggregate amount of loans extended for income generation is >70% of total loans . JFS's loans are taken for business activity, but no formal utilization check is conducted

### Integrating Social Values and Compliance at Institutional level

- ✓ Janalakshmi's top management had already applied most aspects of the CoC (especially those pertaining to fair and appropriate treatment of clients) in its operations before the Code was issued.
- ✓ After signing the CoC, more emphasis has been placed on implementing its tenets, such as recruitment guidelines, avoidance of over-indebtedness, setting up a grievance redressal mechanism, rather than on espousing it in written documentation
- ✓ JFS was also proactive in changing its product terms and conditions in keeping with the RBI guidelines and ensuring that its products and processes were all within the scope of the RBI Fair Practices Code.
- ✓ There is sufficient supervisory rigour from both Operations (Area, Branch and Regional Heads) and Internal Audit to ensure that the tenets of the CoC are being adhered to. The CEO is responsible for compliance.
- ✓ Many aspects of the Code, especially for client targeting and loan appraisal have been incorporated as automated, system-based checks so that deviation is not possible. JFS has reviewed its back office operations and has made necessary investments in Information Technology and systems to achieve better control.
- ❑ While the CoC is being implemented well and endorsed by management, there is inadequate documentary proof in terms of 1) Inclusion of specific changes post CoC and Guidelines in the Operations and HR Manuals 2) Formal Compliance report filed with the Board, reporting on the status of adherence to the CoC and instances of non-compliance if any. 3) Displays at branches could be made more visible and eye-catching



# ...Integrity, governance and HR strategy

## Governance

- ✓ JFS has inducted highly qualified persons with expertise in investment banking, ratings and advisory services, and corporate banking in its Board. All Board members have been active in their engagement with JFS at a strategy-building level.
- ✓ JFS has 3 independent directors and 5 investor directors out of a total of 11 members of the Board
- ✓ The Board has approved the Code of Conduct and the authorized the CEO to oversee changes in keeping with its tenets; the same applies to RBI guidelines and the RBI Fair Practices Code. Monitoring of Grievance redressal has been assigned by the Board to the Head of Products.
- ✓ JFS has appointed an audit committee of the Board with an independent director (Mr. Sunil Mathur) as chairperson.
- ✓ JFS has maintained high levels of transparency in its reporting to the microfinance industry association MFIN and industry information networks like Microfinance Information Exchange (MiXMarket.org)
- ✓ Transparency is ensured in reporting and presentation of financial statements , which are shared on the website as well as on the networks mentioned above.
- ✓ JFS follows the Audit and Assurance standards issued by the Institute of Chartered Accountants of India (ICAI).
- ✓ JFS also adheres to Corporate Governance guidelines given in the Master Circular issued for NBFC-MFIs on Corporate Governance vide CC No. 187
- JFS intends to place a report indicating the extent of compliance with the Code of Conduct, specifically indicating any deviations and reasons therefore, to the Board. Since there have been no non-compliance issues hitherto, such a report has not been filed yet, but is being planned for the end of every financial year starting March 2013. JFS management has indicated that in the event of any issues of non-compliance in the interim, the Board will be informed.

# ...Integrity, governance and HR strategy

## Human Resource Strategy

- ✓ In the event of receiving applications from staff who have worked in other MFIs, JFS follows the due process laid down in the CoC, making sure that a reference check from the previous employer is obtained before completing the selection process.
- ✓ Although there has been an influx of staff from other MFIs especially during the AP crisis period, JFS has adhered to the norms for hiring these staff.
- ✓ JFS also conducts its own verification checks by an independent agency, which contacts the staff's family, neighbours and finds out about any police record, financial fraud or (in the case of Enterprise Financial Services staff) credit bureau-rejections pertaining to the new recruit
- ✓ JFS makes sure not assign the same operational area to the concerned employee
- ✓ JFS also provides similar documentation to its own staff who wish to join other institutions and alerts other MFIs about staff who have been dismissed for fraudulent or other unacceptable behaviour
- ✓ JFS has deliberately not included any special incentives for staff's adherence to the CoC, as this is considered a basic requirement necessary for all staff to fulfil.
- ✓ JFS has a rigorous 19 day training for all its recruits, irrespective of their prior field experience. Staff are adequately trained during the orientation in all aspects covered in the CoC and RBI guidelines. RBI guidelines and Fair Practices Code are covered during the module on product details.
- ✓ In order to improve retention levels, a separate module is being conducted during the induction training, exclusively covering aspects relating to the CoC and specific challenges which operational staff may encounter with regard to implementation.
- ✓ The CoC has been incorporated in all relevant processes. Any changes to CoC are communicated to all JFS staff through the release of an internal circular by Audit department after which all staff can be audited for adherence of the same.
- ✓ JFS displays the CoC on the notice board of all branches in vernacular and on the website.

# ...Integrity, governance and HR strategy

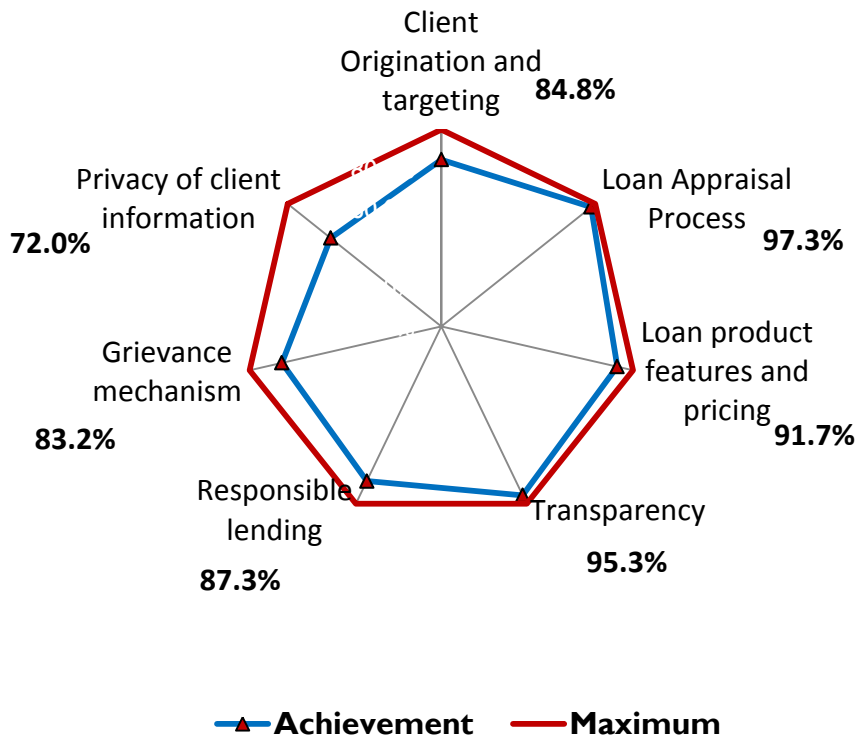
## Human Resource Strategy...continued

- ✓ Appraisal of staff covers behavioural aspects. Any staff against whom grievances are registered, would face disciplinary action and would not be promoted. As yet, these aspects do not affect staff incentives, but would be expected to negatively influence increments.
- ✓ Penalties are not imposed on staff for non compliance, as there have not been any such instances for JFS to consider putting such a system in place.
- ✓ Generally only employees and not out sourced recovery agents are used for recovery in sensitive areas. Outsourced agents are only used in recovery of EFS loans. These are all RBI certified agents, and are chosen by JFS only after a background check on their history and reputation.
- ✓ Staff had a high recall on most of the client relationship management aspects of the CoC, though there was low recall on grievance mechanism, privacy of client data and product pricing
- ✓ There was better recall in South branches compared to those in North, perhaps because of the vintage of these branches.
- ✓ Documentation was available to support adherence to aspects of CoC and Fair Practices Code on staff recruitment, incentivization and disciplinary action.



# Compliance with guidelines pertaining to clients

## Performance



## Score

53.3% out of 60%

## Levels of internalization

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



# Compliance with guidelines pertaining to clients

Client Origination and Targeting	Compliance by JFS
Borrowers <b>household income (HHI)</b> does not exceed Rs 60,000 in rural areas and Rs 120,000 in non-rural areas	JFS collects borrower self-declaration of income for all borrowers, ensuring that only those whose declared incomes are within the Rs. 1,20,000 limit are eligible for group loans.

## Client Origination and targeting

- ✓ JFS has not expanded into any new cities and does a stringent area selection process to ensure that it does not enter areas which have too many MFIs operating in relation to potential customers
- ✓ The customer profile form, (Customer Information Sheet or CIS) captures all socio-economic and demographic details of the customer as well as her financial status (income, repayment capacity) and other financial products and services availed (informal loans, other MFI loans, savings facility etc.)
- ✓ The KYC Guidelines of RBI are complied with, and no borrower can pass the Group Verification Test unless her identify and address documentation is original and valid
- ✓ Phone verification is done for a sample of 15% customers to ensure that the data reported by them in the CIS form is in fact correct, especially on income and other borrowings.
- ✓ As functions of marketing, sourcing and servicing is performed by CRE-Ms, CRE-Ss and CRE-Cs separately, CRE-Ss are able to focus on their specific activity and ensure quality in group formation.
- ✓ As the GVR is done by an independent staff (AH or BH from another branch) there is no conflict of interest in terms of quality of group vs business targets
- ❑ Around 15-20% customers declared a different income to the assessment team than in CIS, indicating that self-declaration of income is not a wholly reliable indicator of repayment capacity.

# Compliance with guidelines pertaining to clients

Loan Appraisal Process	Compliance by JFS
<p><b>Total indebtedness</b> of the borrower does not exceed Rs 50,000</p>	<ul style="list-style-type: none"> <li>✓ JFS adheres to loan size limits. JFS does not disburse loans exceeding Rs. 10,000 in the first cycle and only graduated customers with excellent repayment over at least 3 cycles can avail individual loans of up to Rs. 50,000</li> <li>✓ For indebtedness checks, JFS relies on detailed checking with applicants, group members and family, tele-checks and physical visits , as well as compulsory Credit Bureau check to ensure that total borrower indebtedness does not exceed Rs. 50,000.</li> </ul>
<p>The MFI ensures</p> <ul style="list-style-type: none"> <li>○ borrower does not have <b>more than two NBFC-MFIs</b> loans</li> <li>○ borrower cannot be a <b>member of more than one of its SHGs/JLGs</b></li> <li>○ not lend to a single person as an individual &amp; group borrower, simultaneously.</li> <li>○ <b>Involvement of more than one staff</b> in loan sanctioning &amp; disbursement</li> </ul>	<ul style="list-style-type: none"> <li>✓ De-duping through smart cards ensures only one loan to each client and no multiple membership across groups</li> <li>✓ A compulsory credit bureau check ensures that JFS does not become the third lender to any individual.</li> <li>✓ In addition, JFS staff are trained to realistically gauge the indebtedness levels of applicants with regard to informal sources, by triangulating with neighbours and other group members.</li> <li>✓ All sanctioning and disbursement of loans is done only at a central location (Central Processing Centre) and a team is responsible for these functions, which are run through an automated system with maker-checker functions at every level to prevent deviations from the credit policy.</li> </ul>

# Compliance with guidelines pertaining to clients

## Loan Appraisal Process...continued

- ✓ JFS has also tried to implement the guidelines in spirit by ensuring that staff continue with an independent check of customer's indebtedness from informal sources as well, so that the credit bureau check does not replace assessment of true repayment capacity at customer level.
- ✓ During the filling up of the CIS form, the CRE-S tries to assess the need and repayment capacity of customer – details are captured of all other loans , both formal and informal. In case a customer has 2 existing loans, either her form will not be filled further, or she will be requested to prepay and approach JFS after that.
- ✓ The form also captures details of household income and expenditure so as to facilitate a proper repayment analysis. However, with borrowers declaring incomes only under Rs. 120,000, the quality of repayment analysis might not be too realistic.
- ✓ JFS has therefore done a study of around 40 common occupations in the urban low-income segment, and the average cash flows for each of these occupations in terms of volume and frequency. This acts as a proxy to gauge repayment capacity as most customer households would have one of these occupations as its main source of income.
- ✓ Information captured in the CIS is later verified by the BH conducting the Group Verification (since he is an independent person he has no incentive to pass a risky group). Further verification is done through tele-checks (15% sample), physical checks (5% sample) and credit scoring.
- ✓ JFS does not extend more than the limit of Rs. 50,000 to its group borrowers. Higher loan sizes are only extended under the 15% of non Priority Sector Lending loans.
- ✓ No cases were observed where loans had been disbursed without Credit bureau check or in the case of an erroneous report, without an NOC from the corresponding MFI.
- ✓ Almost 100% customers reported their outstanding from other MFIs at the time of applying for the JFS loan correctly

# Compliance with guidelines pertaining to clients

Loan Appraisal Process	Compliance by JFS
<b>Credit Bureau (CB)</b> <ul style="list-style-type: none"><li>○ MFI is a member of at least one CB</li><li>○ submits data regularly to the CB</li><li>○ checks with CB before sanctioning of loan</li><li>○ In addition to CB checks, takes self certification from the borrowers</li></ul>	<ul style="list-style-type: none"><li>✓ JFS submits data to both the Credit Bureaus – High Mark and Equifax</li><li>✓ A compulsory credit bureau check is incorporated in the CRM software, so that no loan can be sanctioned without having first been approved by the Credit Bureau.</li><li>✓ In cases where the CB report is erroneous, proof of completion of the other MFI loan has to be brought by the customer (cancelled loan card, with No Objection letter of other MFI). This is screened by JFS for authenticity before the loan is sanctioned.</li><li>✓ Deviations in the case of erroneous CB reports, are passed by a senior person in the sanctioning team and are logged for further checks by supervisors/ audit team.</li></ul>

- ✓ EFS borrowers are compulsorily screened through CIBIL as their loan sizes are much higher (Rs 1-10 lakhs). There is also a very detailed verification which is done on-site as well as an independent third party verification performed for such loans. Repayment capacity is established in detail, with documentary proof of promoter's personal and business income through tax returns, etc.
- ✓ For JFS's housing loan products there are stringent checks on income levels and frequency, as well as detailed repayment capacity calculations, ensuring that not more than 40-45% of a household's disposable income would be used in monthly loan repayments



# Compliance with guidelines pertaining to clients

Loan Product features	Compliance by JFS
<b>Loan size:</b> does not exceed Rs 35,000 in 1 <sup>st</sup> cycle and Rs 50,000 in subsequent cycles .	JFS does not disburse loans of more than Rs15,000 (1 <sup>st</sup> cycle Rs10,000 and subsequent cycles Rs15,000) as it has not yet adapted its back end systems to the two year loan term requisite for higher loan sizes.
<b>Tenure:</b> not less than 24 months when loan amount >Rs 15,000	JFS is fully compliant as it offers loans only up to Rs. 15,000 at present
<b>Repayment frequency:</b> weekly/ fortnightly/ monthly at the choice of the borrower	Customers are not offered a choice of loan repayment frequency –as JFS has only the monthly repayment option and its existing software restricts it from offering other options. However, since over 99% of its customers (as per feedback collected in this assessment) prefer monthly repayments this is in keeping with customer choice and demands.
<b>Moratorium:</b> is not less than the frequency of repayment (or min. one installment)	There is a minimum period of moratorium between the grant of the loan and the due date of the repayment of the first instalment for loans disbursed in the second half of any month.

# Compliance with guidelines pertaining to clients

Loan Pricing	Compliance by JFS
<p><b>Interest rate/pricing cap:</b></p> <ul style="list-style-type: none"> <li>○ Margin cap of 10% for large MFIs (with portfolio &gt; Rs 100 crore), 12% for others</li> <li>○ Max. variance between the min. &amp; max. interest rate does not exceed 4%</li> </ul>	<p>JFS has not complied with the 10% margin cap as stated in the revised RBI Guidelines as on August 3<sup>rd</sup> 2012, as it has made a representation to the RBI to reconsider this along with all other members of MFIN. However, it continues to charge 26% p.a. declining interest, despite the removal of the interest rate ceiling on loans and maintains a permissible variance of 4% or less between products.</p>
<p><b>Pricing:</b> only 3 components: (i) processing fee (ii) interest (iii) insurance premium</p>	<p>JFS stopped collection of security deposits and smart card charges as soon as the guidelines were issued.</p>
<p><b>Processing fee:</b> max 1% of loan amt.</p>	<p>Charges 1% of loan amount (exclusive of service tax)</p>
<p><b>Insurance commission:</b> as per IRDA norms</p>	<p>In keeping with its insurance tie ups, JFS offers a coverage over and above the loan amount, covering both the customer and family's main income earner. Only the premium is collected from customers.</p>
<p><b>Other:</b></p> <ul style="list-style-type: none"> <li>○ No penalty for prepayment &amp; delayed payments</li> <li>○ No collateral &amp; security deposit</li> </ul>	<p>JFS does not charge penalty on prepayment &amp; delayed payment for group loans. Group loans are extended without collateral of any kind. JFS takes collateral only for gold loans and Enterprise finance which are non-qualifying assets</p>

# Compliance with guidelines pertaining to clients

Transparency	Compliance by JFS
<b>Standard form of loan agreement:</b> preferably in vernacular language	<ul style="list-style-type: none"> <li>✓ The loan agreement is standardized and issued as a “sanction letter” along with the loan card/ repayment schedule through the CRM software so as to ensure no changes can be made by any individual. However, as it is routed through the software it can only be issued in English. To compensate for this, JFS gives customers a printed sheet in the State language with all the details included in the loan document.</li> <li>☐ As customers may not always be conversant in the State language, it may be more appropriate to give them the vernacular sheet in their own language. For customers who cannot read, contents are verbally communicated to them at the time of disbursement.</li> </ul>
<b>Loan card:</b> reflecting of (i) EIR (ii) terms & conditions (iii) record all transactions;(iv) all entries in vernacular	<ul style="list-style-type: none"> <li>✓ The loan card reflects (i) the effective rate of interest (ii) all other terms and conditions attached to the loan (iii) identification (KYC) details (iv) acknowledgements by JFS of all repayments including instalments received and the final discharge.</li> <li>✓ Entries in the loan card constitute only the signature of the CRE-C collecting the repayment.</li> </ul>
<b>Display of the EIR</b> in its offices & website	<ul style="list-style-type: none"> <li>✓ JFS displays its APR and EIR on A4 size paper on the notice board and on the walls of its branches.</li> <li>☐ While this meets regulatory requirements, better visibility is recommended to reinforce the CoC among staff and customers</li> </ul>
<b>Member education:</b> professional inputs to members in the formation groups	<ul style="list-style-type: none"> <li>✓ Information is imparted to members during pre-loan training (2 days for new members and 1 day for repeat loans), again as an interactive discussion during the GRT process and finally at the pre-disbursement confirmation meeting at the branch.</li> </ul>

# Compliance with guidelines pertaining to clients

## Transparency ...continued

- ✓ The Fair Practices Code in English and in the State language is displayed by JFS in its H.O and branches
- ✓ Borrowers are trained at several stages from CGT till disbursement, to reinforce their rights and responsibilities with respect to JFS and its staff
- ✓ All such trainings are compulsory and are provided by the field staff, who are specifically trained in how to communicate in a simple and effective manner with the customers.
- ✓ In addition, JFS screens 5 short films about various aspects of financial literacy, to help its customers pick up inputs on budgeting, financial planning, saving and borrowing within their means.
- ✓ JFS tries to be as transparent as possible within the constraints of its technology system which does not allow it to print sanction letters and other customer documentation in a language other than English. To overcome this difficulty, JFS prints all customer documentation in the State language and hands this over to customers along with English documents.
- ✓ For those customers who cannot read the State language or are unable to read at all, the contents of all documentation are read aloud and translated during disbursement.
- ✓ All charges are communicated to the customer verbally in terms of a monthly rate, and in written form as an Annualized Percentage Rate and Effective Interest Rate.
- ✓ Receipts are provided for all transactions through the Point-Of-Transaction(POT) terminals used by the CRE-Cs and JSS staff (for savings). However, since these receipts fade with time, there is also documentary proof on the loan card (CRE-C signature) and Micro-pensions pass book.
- ✓ For SB accounts, a regular statement is not provided by Axis Bank but a mini-statement of the past 10 transactions can be accessed free through Axis Bank ATMs.

# Compliance with guidelines pertaining to clients

## Transparency...continued

- ✓ EFS loans carry detailed documentation regarding Post Dated Cheques, collateral if any, and JFS's rights in the event of non payment of instalments. All documentation is in English but is explained in detail to customers and guarantors before the loan is sanctioned, to ensure that they are fully aware of all terms and conditions, in keeping with the Fair Practices Code. A cooling off period is given to EFS customers to allow them to weigh options carefully before completing the formalities
- ✓ Formal records of all transactions are maintained in accordance with all regulatory and statutory norms, and borrowers' acknowledgment/acceptance of terms/conditions forms a part of these records.
- ✓ Records of completed disbursement cycles are transferred to a rural storage space rented by JFS.
- ✓ JFS has been particularly attentive to following the FPC in its gold loans. Systems are in place to evaluate the jewellery value and store it in safe custody. Constant review of the valuation and storage systems is done by the internal audit department.
- ✓ All jewellery and collateral documents such as original titles, etc. stored at the branch are insured against theft and loss through accidents, fire or force majeure.
- ✓ The gold loan documents also carry details of the auction procedure, in case of non-repayment. A transparent process has been put in place for auction, post-advertisement in the national newspapers, and only as a last resort in the event of repeated failure to recover the dues.
- ❑ Communication of pension terms and conditions has been a challenge, as recall of the former is restricted to the short term 5 year lock-in period and not to the long term benefits.
- ❑ Similarly for savings bank accounts, customers are not entirely sure about withdrawal limits and charges for exceeding the allowable transaction limits, as there have been changes in Axis Bank's product terms
- ❑ JFS's customers are not all conversant with the State language. With some effort from persons conducting the GRV, the mother-tongue of the customer could be established so that the vernacular sheet handed over at disbursement is in a language she understands.

# Compliance with guidelines pertaining to clients

Responsible Lending	Compliance by JFS
<p><b>Location</b> for transactions and overdue recovery</p> <ul style="list-style-type: none"><li>○ all transactions at a central location</li><li>○ staff are allowed to make recovery at the place of residence or work if borrower fails to appear at central place on 2 or more successive occasions</li></ul>	<ul style="list-style-type: none"><li>✓ Recoveries are made at the “batch meeting” location, so that all group members witness each others’ repayments.</li><li>✓ In case of default, the CRE-C leaves the meeting on time, but calls the Area Head to follow up with the batch leader and the concerned members, though all discussions take place at the meeting location and not at the member’s house.</li></ul>
<ul style="list-style-type: none"><li>✓ JFS had clear and strict guidelines for employee interactions with customers, even before the Code of Conduct and regulatory guidelines came into existence.</li><li>✓ JFS had already established the practices of addressing borrowers as “Madam” and treating them with utmost courtesy. This has been further emphasised since the CoC and guidelines were issued.</li><li>✓ In the event of default staff do not stay on at the centre but call the Area Head or Branch Head to tackle the situation so that there is a senior person interacting with customers and the CRE-C does not get burdened with recovering late payments. Since the AHs and BHs have several years of experience, they are able to handle the situation diplomatically in most cases.</li><li>✓ Collection shortfalls are not made good from employees.</li><li>✓ Misbehaviour of any staff can easily be traced as the grievance mechanism is emphasised during pre-loan and disbursement training. Furthermore, the internal audit checklist covers feedback on staff behaviour during interactions with customers.</li><li>✓ Staff are restricted from contacting customers individually or demanding repayments at inappropriate hours.</li></ul>	

# Compliance with guidelines pertaining to clients

## Responsible lending...continued

- ✓ No cases were reported by customers of any kind of misbehaviour or violation of ethics (demanding commission, threatening, coercing, snatching assets) by customers interviewed by the assessment team.
- ✓ JFS top management has been designated by the Board to implement debt restructuring and write-off in extreme cases for providing relief to borrowers facing repayment stress for genuine reasons. The final approving authority in such cases is the CEO.
- ❑ Although there is adequate emphasis on how NOT to behave with customers in a default situation, JFS does not recommend a step by step strategy for overdue recovery, rather it leaves the Area and Branch heads to develop a case-by-case based strategy.

# Compliance with guidelines pertaining to clients

## Grievance Mechanism

- ✓ JFS has a toll free number for grievance redressal, which is answered by a dedicated staff. Grievances are recorded, tabulated and reported once a month to the Products Head.
- ✓ Customers are informed about the grievance redressal mechanism during both pre-loan training as well as pre-disbursement interaction. The toll free number is printed in large print on the plastic cover of the loan card, as well as on the card itself and the vernacular sheet.
- ✓ Customers are encouraged to call the number to seek any information or resolve queries as well.
- ✓ Separate numbers are given for seeking information on Micro-pensions (IIMPS micro pension helpline) and Industry Association (Sa-Dhan and MFIN) numbers are also provided.
- ✓ A complaint and suggestion box is installed at all branches with the Regional Head's name and phone number pasted on the top. Regional Heads check the boxes and compile feedback received from this channel every quarter. The feedback from this channel is quite low, but the toll free number is expected to be an easier channel for customers.
- ✓ Volume of grievances received through the toll free number is quite low (25-30 per month), indicating that customers may need some more time to assimilate the concept of a helpline. Of these, 80% are inquiries about various products.
- ❑ A large number of cases go unreported as customers come to the branch or call the AH or BH directly to resolve their queries or to make a complaint. The answer or solution is also given verbally and the case is not recorded as branch staff perceive that since it is addressed, there is no need to document it.
- ❑ Almost all customers could point to the grievance redressal toll free number on their documentation though hardly any had ever used it even to make inquiries
- ❑ There is as yet no fixed Turnaround time for grievance redressal, but once volumes pick up JFS will need to design an escalation matrix with time frames for resolution.
- ❑ There is also a perception that the more grievances recorded, it would reflect badly on the branch's performance. This negative perception will have to be changed through inputs from senior management.



# Compliance with guidelines pertaining to clients

## Privacy of client data

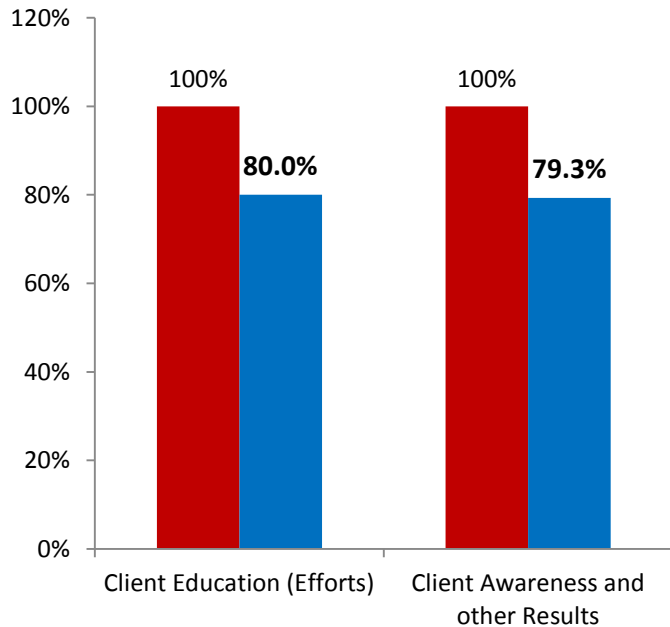
- ✓ JFS is able to ensure privacy of customer data through highly secure software in the form of its CRM package and Core Banking Solution. Branch staff can only view customer information pertaining to their branch, restricted according to their operational area and level in the operational hierarchy.
- ✓ All access is password protected and all transactions such as downloading or copying of data are logged.
- ✓ Outsourced data entry operators are only able to view the fields for which data is being entered, therefore removing any chance of them accessing customer loan details, credit score or repayment history.
- ✓ Information is shared with the Credit Bureau(s) as per the RBI guidelines and the industry network agreements. Prior permission is sought from customers for this and signature is taken on the loan documents for such data sharing.
- ✓ Axis Bank does not allow JFS or JSS to access individual customer's saving balances or other savings data as these are protected by Bank's privacy agreements with the customers.
- ❑ Some customers were observed keeping their loan documentation with the centre leader for safety or convenience. This should be strictly discouraged by JFS staff

## Monitoring & audit of compliance on guidelines pertaining to clients

- ✓ JFS's internal audit scope covers client protection issues adequately. These are investigated in the field as part of the checklist for customer interactions.
- ✓ Any changes to CoC is communicated to all JFS staff through the release of an internal circular by Audit department and all staff can be audited thereafter for adherence of the same
- ✓ Supervisory visits to centers by the Area Head and Branch Head adequately cover adherence to various aspects of the guidelines and CoC, especially Respectful Treatment of clients and Grievance Redressal.
- ✓ Avoidance of Over-Indebtedness, Transparency and Privacy of client data are adequately built into the operational processes to ensure that there is no scope for flouting these principles

# Client education efforts & field results

## Performance



■ Maximum ■ Achievement

Score

8.0% out of 10.0%

## Levels of internalization

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

# ...Client education efforts & field results

## Client Education

- ✓ JFS has designed its systems so as to provide customers with full and fair information and enough reinforcement of product charges and terms and conditions over repeated interactions, for customers to make an informed and unhurried decision.
- ✓ Preliminary information about the company and its range of loan products and broad terms and conditions are given by the CRE-M at the time of liaison and relationship building in the area.
- ✓ 2 day training during group formation serves as the basis for potential customers to decide whether they want to become group members or not.
- ✓ The GVR process ensures that applicants have understood all product terms and conditions and charges, as well as group responsibility and group-related processes adequately.
- ✓ Pre-loan disbursement session conducted by the Area Head, ensures that customers are able to clear any doubts and that any misinformation from the CRE-S is adequately addressed before actual disbursement.
- ✓ 1 day group training is conducted before every subsequent loan cycle to reinforce product features
- ✓ The issue of mis-selling has been addressed. CRE-Ss are not allowed to give details of pension and savings bank products to customers before disbursements so that customers don't feel compelled to take these products to get their disbursement.
- ✓ Customer education has been taken a step further as JFS has designed and produced 5 short films covering financial literacy topics. These films are screened at the branch for each group prior to their disbursement.
- ✓ Further inputs are given to customers during supervisory visits (by Area Head and Branch Head)
- ✓ No products are bundled, except compulsory credit-life insurance, whose terms and conditions, coverage and other product details are also printed as part of loan documentation (sanction letter).
- ✓ Awareness levels are regularly checked by the internal audit department during customer interactions
- ❑ Customers have not been informed about their rights and responsibilities with respect to the CoC per se.

# ...Client education efforts & field results

## Client awareness and other results

- ✓ Awareness and recall of training received on various topics was high, at almost 100% for all topics.
- ✓ Customers were particularly prompt in recalling details such as Company name, head office and branch location, loan amount, repayment frequency and term, and processing fees
- ✓ Awareness of interest rate was better when quoted as a monthly rate or amount rather than APR or EIR
- ✓ No customers reported policy violations regarding collection of other charges, collateral, margin money etc.
- ✓ They also reported that there was no discrimination or any kind of unfair treatment or undesirable behaviour from the field staff or branch staff
- ✓ Most customers indicated that they were satisfied with JFS services - 71.6% indicated high satisfaction and 90.5% ranked JFS either 1st or 2nd most preferred lender among all sources of loans.
- ❑ Awareness of pension and savings products terms and conditions is lower than awareness on loan products, probably because these are more complex products and are also newer.
- ❑ Most customers are unaware of the long term benefits of pension and are only considering the lock-in period of 5 years after which they can withdraw without loss. However, the real benefit after 57 years of age is not yet understood by most customers
- ❑ Many of the customers are depositing soon after the group meetings, often in view of other members. Only 4.3% interviewed customers were making individual deposits outside the group meetings. This may be of concern with regard to client data privacy.
- ❑ A high proportion of customers are unaware of how to transact at an ATM and rely on family members to help them or actually transact on their behalf. While this is acceptable in most situations, it would be more desirable for customers to be taught how to transact, but JSS/ JFS have deliberately kept away from this as management feels that staff should not be involved in any transactions involving cash withdrawals, even if their aim is to provide demonstration or guidance.



# Annexes

# Profile of the Board

S.No.	Board Member	Position on Board	Experience	Since
1	<b>B. Mathur</b>	<b>Independent Director</b>	<ul style="list-style-type: none"> <li>Former Chairman of Life Insurance Corporation of India</li> <li>Chairman of National Stock Exchange</li> <li>Currently on the Boards of IL&amp;FS, ITC, HDIL, Grasim and IRCTC</li> </ul>	2010
2	<b>Uday Chitale</b>	<b>Independent Director</b>	<ul style="list-style-type: none"> <li>Senior Partner in the very respected audit firm M/s M.P. Chitale and Co</li> <li>Founder Director, Indian Council for Dispute Resolution</li> <li>Currently on the Boards of ICICI Bank, Jindal South West, GMR Industries</li> <li>Earlier on the Boards of SIDBI and State Bank of India (SBI)</li> <li>Has served on expert committees set up by ICAI, SEBI, RBI, IRDA, and IBA</li> </ul>	2006
3	<b>Rama Bijapurkar</b>	<b>Independent Director</b>	<ul style="list-style-type: none"> <li>Thought leader, authority on market strategy and consumer issues in India</li> <li>Consultant to several blue-chip global companies</li> <li>On Boards of Infosys, CRISIL, Axis Bank, Godrej Consumer Products &amp; IIM A</li> </ul>	2010
4	<b>Zaheer Sitabkhan,</b>	<b>Investor Director</b>	<ul style="list-style-type: none"> <li>CEO, Tree Line Investment Management</li> <li>Earlier with Lloyd George Management; Former Head of LG Asian Plus Fund</li> </ul>	2010
5	<b>T. S. Siva Shankar,</b>	<b>Investor Director</b>	<ul style="list-style-type: none"> <li>Director, Private Equity, in Citigroup Venture Capital International</li> <li>Was earlier part of the Special Situations group with investments across private equity / public equity and mezzanine debt</li> <li>20 years of experience with Citibank</li> </ul>	2011
6.	<b>Narayan Ramachandran</b>	<b>Investor Director</b>	<ul style="list-style-type: none"> <li>Former Country Head of Morgan Stanley India, &gt;20 years of investment banking experience</li> <li>Former Head and Lead Portfolio Manager of Morgan Stanle 's Global Emerging Markets and Global Asset Allocation teams, managing over \$25 billion in assets</li> </ul>	2010
7.	<b>S.Viswanatha Prasad,</b>	<b>Investor Director</b>	<ul style="list-style-type: none"> <li>Co-founder and Managing Director of the Bellwether Microfinance Fund</li> <li>Formerly CEO of BASIX</li> </ul>	2008
8.	<b>Vikram Gandhi</b>	<b>Investor Director</b>		2012
9.	<b>Ramesh Ramanathan</b>	Founder Promoter		2006
10.	<b>V.S. Radhakrishnan</b>	MD & CEO		2011
11.	<b>Srinivasan</b>	Vice Chairman		2006

# Shareholding Pattern

	Shareholder	Class	Value	% of total
1	Janalakshmi Social Services	Class A	2,489,300	25.26%
2	Treeline Asia Master Fund (Singapore) Pte. Ltd.	Class A	1,997,120	20.27%
3	Bellwether Microfinance Fund Private Limited	Class A	1,091,280	11.07%
4	Michael and Susan Dell Foundation	Class A	493,260	5.01%
5	Lok Capital LLC	Class A	477,640	4.85%
6	Narayan Ramachandran	Class A	369,010	3.74%
7	Badri Pulinja	Class A	230,390	2.34%
8	CVCIGP II Client Rosehill Limited	Class B&C	1,732,630	17.58%
9	CVCIGP II Employee Rosehill Limited	Class B&C	970,370	9.85%
10	All others	Class B&C	3930	0.04%

# Methodology

- ▶ **Preliminary analysis of MFI's information, review of available reports and financial statements**
- ▶ **Visit to Head Office of MFI**
  - ❑ Discussions with the Vice Chairman, CEO, Head of Strategy & Planning, and Head of Products department – broad strategic issues and mission orientation, commitment towards CoC
  - ❑ Discussions with the senior management (Operations, Human Resources, 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, various documents and Board minutes
- ▶ **Visit to branches – 11 branches across Bangalore, Chennai, Jaipur & Delhi**
  - ❑ Discussion with Branch Head 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 – 2-3 group meetings per branch; total 33 batches with 254 clients**
  - ❑ Assess relationship between MFI staff and clients
  - ❑ Check for implementation of the Unified Code of Conduct, Fair Practices Code and RBI guidelines in practice
  - ❑ 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**



# Sampling Plan

			Loan Cycle					
	Branch	Region	L1	L2	L3	L4	Customers	Total Batches
1	KBS	Karnataka	15				15	1
2	HSR	Karnataka			7		7	1
3	KR Puram	Karnataka		7	10		17	2
4	CBD	Karnataka		14		7	21	3
5	B G Road	Karnataka	42		10		50	5
6	Malathalli	Karnataka	8		7		15	2
7	Alandur	Tamil Nadu	32				32	2
8	Porur	Tamil Nadu	20				20	2
9	Uttamnagar	Delhi		18			18	7
10	Mangolpuri	Delhi	29				29	4
11	Jaipur	Jaipur	30				30	4
	<b>Grand total</b>		<b>176</b>	<b>39</b>	<b>34</b>	<b>7</b>	<b>254</b>	<b>33</b>

# Assessment tool: weight, scores and performance

Sections	No. of Indicators	Max Score	Weights	Performance
<b>Integrity, Governance and HR Strategy</b>	<b>38</b>	<b>190</b>	<b>30%</b>	<b>24.3%</b>
Integrating Social Values and Compliance at Institutional level	12	60	10.0%	6.7%
Governance	7	35	10.0%	8.9%
Human Resources Strategy	19	95	10.0%	8.8%
<b>Compliance with regulations pertaining to clients</b>	<b>104</b>	<b>520</b>	<b>60%</b>	<b>53.3%</b>
Client Origination and targeting	11	55	9.0%	7.6%
Loan Appraisal Process	7	35	9.0%	8.8%
Loan product features and pricing	25	120	10.0%	9.2%
Transparency	25	125	10.0%	9.5%
Responsible lending	20	100	9.0%	7.9%
Grievance mechanism	10	50	9.0%	7.5%
Privacy of client information	6	30	4.0%	2.9%
<b>Client education and financial literacy</b>	<b>33</b>	<b>165</b>	<b>10%</b>	<b>8.0%</b>
Client Education	4	20	3%	2.4%
Client Awareness	29	145	7%	5.6%
<b>Overall</b>	<b>175</b>	<b>870</b>	<b>100%</b>	<b>85.6%</b>

# Abbreviations

ADDO	Approval Documentation Dissemination Observation	HR	Human Resources
AH	Area Head	ICAI	Institute of Chartered Accountants of India
AP	Andhra Pradesh	IIMPS	Invest India Micro Pension Services
APR	Annualized Percentage Rate	JCPL	Janaadhar Construction Pvt Ltd
ATM	Automated Teller Machine	JFSPL	Janalakshmi Financial Services Pvt Ltd
BC	Banking Correspondent	JSS	Janalakshmi Social Services
BH	Branch Head	KYC	Know Your Customer
CBS	Core Banking Solution	M-CRIL	Micro-Credit Ratings International Ltd
CEO	Chief Executive Officer	MD	Managing Director
CIBIL	Credit Information Bureau (India) Limited	MFI	Micro Finance Institution
CIS	Customer Information Sheet	MFIN	Microfinance Institutions Network
CoC	Code of Conduct	MIX	Microfinance Information eXchange
CPC	Central Processing Centre	NBFC	Non Banking Finance Company
CRE-C	Customer Relationship Executive - Collections	NHB	National Housing Bank
CRE-M	Customer Relationship Executive - Marketing	OSS	Operational Self Sufficiency
CRE-S	Customer Relationship Executive - Sales	PAR	Portfolio at Risk
CRM	Customer Relationship Management	PDC	Post Dated Cheque
CSR	Credit Score Report	PIN	Personal Identification Number
EFS	Enterprise Financial Services	POT	Point of Transaction
EIR	Effective Interest Rate	PSL	Priority Sector Lending
EMI	Equated Monthly Installment	RBI	Reserve Bank of India
FPC	Fair Practices Code	SIDBI	Small Industries Development Bank of India
GVR	Group Verification Report	UTI	Unit Trust of India