

# Madura Micro Finance Limited

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## *Code of Conduct Assessment Report Final Report*

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



***ICRA Management Consulting Services Limited***



# *Madura Micro Finance Limited (MMFL): Assessment on Compliance to Code of Conduct Framework*

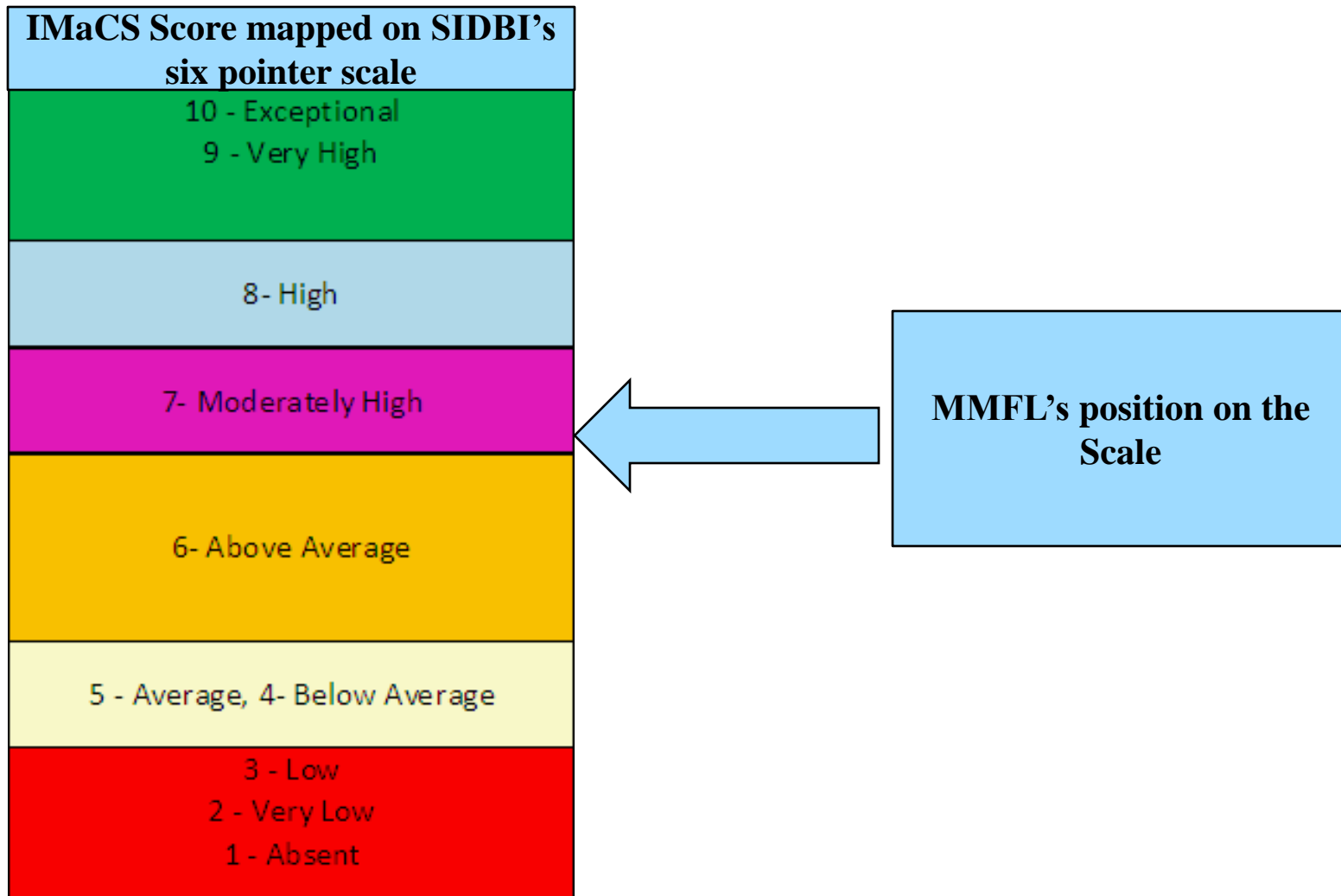
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**OVERALL SCORE: 7.0**

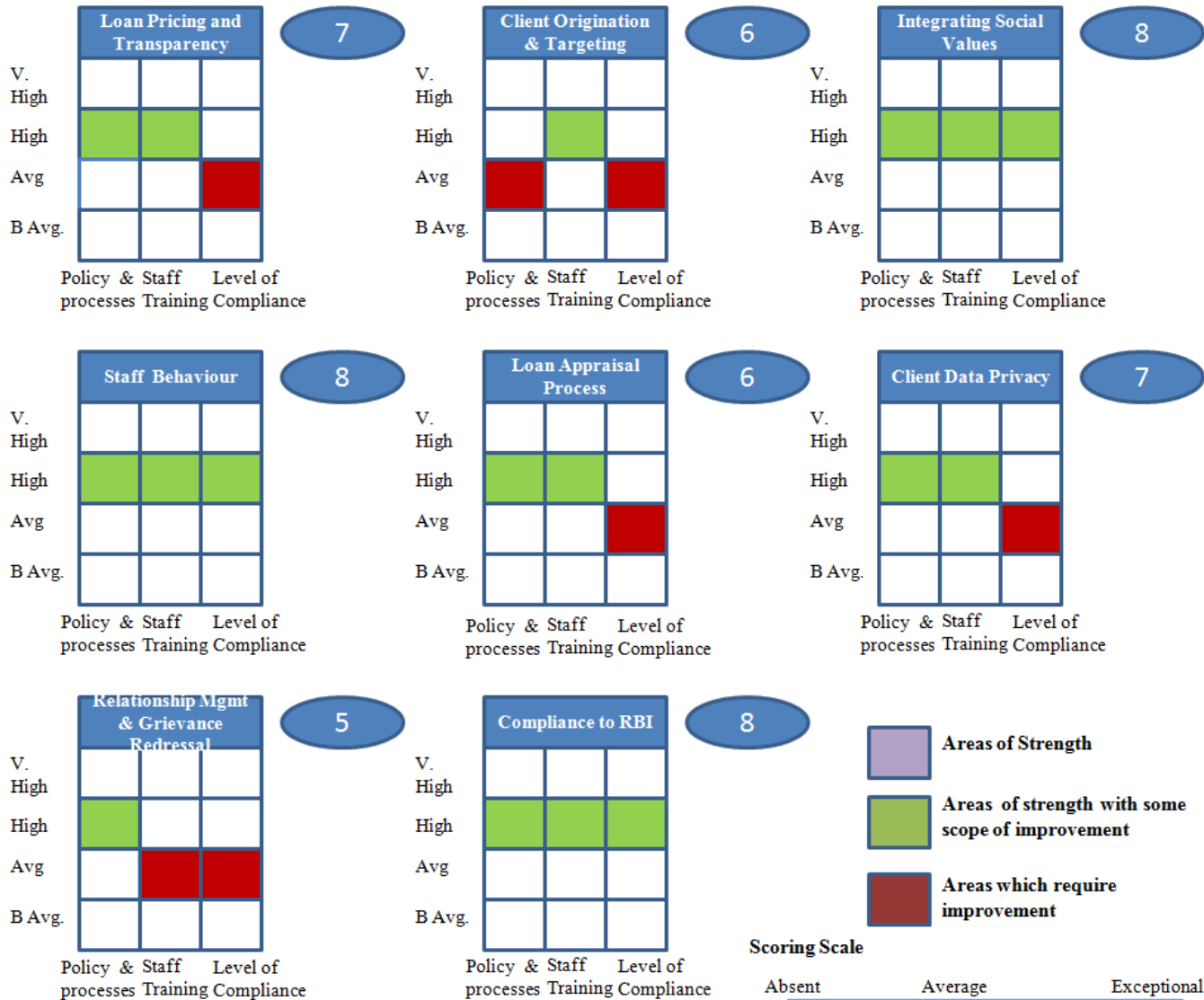
**DEFINITION: Moderately High Level of Adherence**

Madura Micro Finance has well established operations and has been able to capture and implement its key processes and policies in a reasonably detailed operating manual and multiple policy circulars. However, there remains a scope of improving processes and their documentation across several areas of operations including credit appraisal, internal audit, loan origination and targeting and grievance redressal. Further, there is also a scope of improving the MFI's on the field implementation of key processes such as audit, loan utilisation checks, client communication especially in its newly formed centres in the state of Karnataka.

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



# MMFL: Parameters Wise Code of Conduct Score



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

- ❑ MMFL has well established operations in the state of Tamil Nadu and has recently expanded into the states of Maharashtra and Karnataka. The company has captured its key processes and policies in an reasonably articulated operating manual with supporting policy circulars and shorter manuals issued and updated on a regular basis.
- ❑ MMFL conducts regular training program for its employees and the employees were found to be well versed with the company's processes and policies in the state of Tamil Nadu, which contributes the largest share of the company's portfolio (around 95% of the portfolio).
- ❑ Clients at the majority of the centres visited confirmed that the staff followed set processes and were ethical and polite in their dealings with the borrowers. We found no evidence of pressure tactics applied for recovery. Further, the MFI follows MFIN code of conduct which was displayed at the branches visited.
- ❑ The MFI has managed to put in place a centralised credit department, which processes all loan applications in terms of checking with the Credit Bureau, ensuring the completeness and accuracy of the details entered in the file. The centralised department acts as an independent check on loan sanction decisions which are otherwise based on the recommendations of the branch manager. Further, the MFI has also introduced a grading mechanism of SHGs for repeat loans based on multiple parameters such as attendance, repayment track record, maintenance of SHG books etc., which is a positive initiative to bring objectivity in their loan appraisal process.

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

- ❑ The MFI conducts a Basic Awareness Training (BAT) to educate the clients on the philosophy of the company, concept of JLG and key loans and terms . The BAT is structured with the help of simple exercises and visual aid to improve borrower’s retention of fundamental concepts. All borrowers reiterated that they have received multi-point communication from the MFI on key loans terms.
- ❑ MMFL communicates a single declining rate of interest in all its oral and written communication to its borrowers. We did not find any evidence of the MFI using flat rates which was further confirmed in our interactions with the borrowers.
- ❑ The company has a fairly well developed audit mechanism. In addition to regular audits, MMFL has recently constituted a separate team of 12 employees called Customer Relationship Association (CRA) to conduct random checks on the members on various parameters like grievances, loan terms, usage of loans, KYC, conduct of staff, etc. The team reports to Head-Audit and CEO and has already covered/checked 10,000 members.
- ❑ MMFL vision and mission reflects the basic essence of any micro finance operation and adequately highlights its social development objectives. The MFI organises compulsory monthly meetings with prescribed conditions for minimum attendance for all SHGs to discuss topics on health, financial awareness which can benefit the borrowers. The MFI has also collaborated on number of social development projects to improve the state of living for its borrowers.

## *Areas of Further Improvement at MMFL .....1*

- ❑ Even as coverage and documentation of key processes is satisfactory in different manuals, there remains a scope of improving the coverage of the manual in terms of including the village selection process, loan utilisation checks, key policies etc.
- ❑ There is a scope of improving the coverage of its Standard Operating manuals which is critical in implementing and ensuring a standard understanding of the MFIs processes and policies, especially in its new centres and branches. We observed that the MFI's staff in the newly formed centres in state of Karnataka exhibited a relatively lower level vis-a-vis their Tamil Nadu counterparts on a host of processes and policies such as loan utilisation checks, grievance redressal mechanism, importance of pass books and document updation, pre-payment penalties etc.
- ❑ The operating manuals are in English. Even as significant majority of CMR and MWAs are well versed in English, we recommend operating manuals in vernacular to ensure a further dissemination of the firm's processes and policies.
- ❑ MMFL has a policy of targeting poor household based on RBI's definition and is a member credit bureau. MMFL also prepares detailed family survey collecting information related to income and spending of the borrower households. However, it is yet to put in place a score based quantitative poverty assessment framework which enables it to score and shortlist households that meet their income threshold of poor based on occupation, living conditions etc.
- ❑ MMFL collects information related to borrower household income and expenses and has moved towards centralised credit decisions. However, the MFI is yet to develop and put in place a quantitative credit assessment framework with debt threshold limits or which links the credit decisions to Income to Installment Ratio.

## *Areas of Further improvement at MMFL MicroFin.....2*

- ❑ MMFL follows a policy of declaring a single effective rate of interest in all its oral and written communication. Yet at a few centres visited in Karnataka, the borrowers quoted inaccurate interest rates . We also observed that during the centre meetings, even as the field officers reiterated JLG terms , there was little emphasis on reinforcing the key loan terms such as effective interest rates, insurance etc. Incorporating frequent coaching to clients in regular centre meetings can be effective in improving the financial awareness of the clients. Further, the MFI may consider moving towards declaring an all-inclusive effective rate of interest (including processing fees and any other charges) to its borrowers
- ❑ MMFL has put in place a basic grievance redressal policy and mechanism for its customers. However, the company is yet to provide a 24 hour toll free phone number or complaint boxes at its branches for the customers. Further, we found that at a few centres, staff is not completely aware of the importance and process of implementing the grievance redressal mechanism.
- ❑ The MFI doesn't have an explicit loan restructuring policy even at the level of Head Office for genuine customers who are unable to repay loans in distressing situation such as a large scale natural disaster or a calamity.
- ❑ Even as the company has defined its social objectives clearly and has implemented several large scale social welfare programmers, it is yet to put in place a measure social performance monitoring and targetting programme.



# *Madura Microfinance: Company's Background and Lending Model*

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- Madura Micro Finance Private Limited (formerly known as Microcredit Foundation of India) is an NBFC-MFI (Microfinance Institution) registered with Reserve Bank of India and headquartered in Chennai, Tamil Nadu.
- Madura, although a relatively new company, carries a legacy that began at the former Bank of Madura. At the Bank of Madura, beginning in 1995, the late Dr. K.M. Thiagarajan, as Chairman and CEO, experimented with a new model of SHG training and lending as a means to create a sustainable profit based model of rural lending. As part of this effort, 95 rural branches of the bank were developed and equipped for this operation and by year 2000, Bank of Madura had developed 1500 SHGs.
- In 2000, the Bank of Madura was merged with ICICI Bank where the SHG lending operations were rapidly scaled. In 2003, however, Microcredit Foundation of India (MFI) a section 25 company founded by Dr. K.M. Thiagarajan, took over the management of these SHGs in Tamil Nadu in a partnership model with ICICI Bank.
- Madura has been promoted by Dr.K. M. Thiyagaraja. During 2007 his shares were transferred to his daughter Dr. Tara Thiagarajan- 48% of the shares. 21.73% of the stake is owned by Eliver Unitus Corporation and the rest owned by individual investors.
- As on September 2014, the company had 217 branches in Tamil Nadu , Karnataka and Maharashtra. Madura operates on a SHG (Self Help Group) wherein maximum of 20 women members come together to form a group.
- Madura offers loans form Rs14,000 to 42,000. The loans are offered for income generation purposes only. Madura also offers retail and business loans for micro-entrepreneurs

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

<b>Key Financial Parameters</b>	<b>As on Sep'14</b>	<b>As on Mar'14</b>	<b>As on Mar'13</b>	<b>As on Mar'12</b>
No: of registered members	247993	209042	173029	212753
Total Number of Branches	217	201	194	212
Staff Strength	1016	930	961	1107
Gross Loan Portfolio (Rs crore)	269.42	229.74	151.56	105.82
PAT (Rs crore)	6.96	10.95	5.82	3.16
Net Worth (Rs crore)	79.08	72.12	61.17	55.36
Return on Average Net worth	19.31	16.42	9.99	5.85
Return on Average Assets	4.38	4.90	3.55	1.85
Capital Adequacy	29.37%	27.82%	34.06%	46.54%

## *Product Offerings of Madura Micro Finance Limited*

Product Names	Purpose of the loan	Repayment Frequency and Tenure	Loan Amount	Annualized Interest Rate (AIR)	Effective Interest Rate (EIR)	Processing Fees (%)
<u>SHG</u> -Entry Level Loan	Income Generation	Monthly (1+16 months)	Rs.14,000/-	24.60% p.a.	24.00%p.a.	1%
<u>SHG</u> - Activity Term Loan	Income Generations	Monthly (24- 36 months)	Rs.21,000/- Rs.27,000/- Rs.33,000/- Rs.39,000/- Rs.42,000/-	24.60% p.a.	With prompt repayment rebate of 0.60%	1%
<u>SHG</u> - Certified Activity Loan	Income Generation	Monthly (12 months)	Rs.10,000/-	24.60% p.a.	-Do-	1%
<u>Retail Loan</u> -Viyabra Viruthi Loan	Income Generation	Weekly (6 months)	Rs.25,000/-	25.80%p.a	25.80%	1%
<u>Business loan</u> - Abiviruthi Loan	Income Generation	Monthly (12 months)	Rs.1,00,000/-	25.80%	25.80%	1%

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

Policies	Best Practices	MMFL's Policies and Observations	
Area Selection	Detailed process documented in the manual	Med	<ul style="list-style-type: none"> <li>Has a Village survey and selection criteria and the MFI conducts an area survey to identify new villages and clusters. However, the same needs to be documented and standardised in the form of a manual</li> </ul>
	Presence in under-banked areas	Med	<ul style="list-style-type: none"> <li>There is a focus on tapping under-banked areas and a significant proportion of centres / clusters offices are in villages which are the under-banked areas. The household annual income criteria for selection of members is Rs. 60,000 in case of rural areas and Rs. 1,20,000 in case of urban areas.</li> </ul>
	Explicit Policy of avoiding over-indebtedness in clients.	High	<ul style="list-style-type: none"> <li>Customer details are verified with RBI approved Credit Bureau (Highmark)</li> <li>Policy mandates that a Member shouldn't have taken loan from more than 2 MFIs including Madura MFI and the outstanding loan amount should be below Rs. 50,000</li> </ul>
Borrower Selection	Guidelines of members to form groups well articulated and groups to be formed by borrowers themselves	High	<ul style="list-style-type: none"> <li>Well Prescribed norms for selection of members to form groups</li> </ul>
	BAT process well documented with a strong focus on educating clients on the concept of Group liability and interest rates	High	<ul style="list-style-type: none"> <li>Adequate focus on training to client of concepts of group liability during Basic Awareness Training (BAT) . The BAT is structured with the help of simple exercises and visual aid to improve borrower's retention of fundamental concepts</li> </ul>
	Poverty Assessment Framework defined	Low	<ul style="list-style-type: none"> <li>A simple qualitative framework based on the findings of housing survey used to calculate the income eligibility of the borrower households. Family Survey Report (FSR) for each member is prepared and submitted to the corporate office. However, there is no quantitative framework to ascertain the score and eligibility of its borrower households.</li> </ul>

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

Policies	Best Practices	MMFL's Policies and Observations	
Policy on outsourced agents	Explicit Policy of not using outsourced agents	Med	<ul style="list-style-type: none"> <li>•Policy does not explicitly state against the use/employ outsourced agents but is followed in the field. No instance of use of outsourced agents seen for disbursal or collection of loans.</li> </ul>
	Strong Internal Audits and Checks	Med	<ul style="list-style-type: none"> <li>• Conducts internal audits by Corporate Office-audit department once every 3 months to capture the compliance to various processes related to Client origination , Loan Documentation, KYC checks, rotation of staff members etc.</li> <li>• Conducts Short Internal Audit (SIA) by the Cluster manager of a cluster from adjoining district once every 3 months such that they happen in between two internal audits</li> <li>• The audit department is headed by Head-Audit. The MFI has 7 auditors (2 regular and 5 in assignments) and 2 compliance officers.</li> <li>• Even as clusters are graded based on audit results, the scope of audit is more on checking on cash points and documentation, with relatively less emphasis on compliance to key processes like loan appraisal, LUCs etc. Further, the audit team is relatively small compared to the number of branches of the MFI.</li> </ul>
	Annual Rotation of Centre Leaders	Low	<ul style="list-style-type: none"> <li>•No explicit policy on rotation of animators, which typically happens only at the time of group dissolution or till the completion of loan repayment (if the members of the cluster decide to change the animator)</li> </ul>
Policy on incentive structure	Incentive Structure not linked to disbursements and recovery.	Med	Incentive structure of centre managers is linked to number of new groups member quality (members who pay their dues on time) and client retention.
	Incentive structure to be linked to borrower retention and process compliance	Low	Incentive structure of branch manager doesn't include any parameters of borrower retention or process compliance

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

Level of Dissemination	Level of Observed Compliance
<ul style="list-style-type: none"><li>• Adequate training to the staff at the time of joining as a mix of orientation and on the job training. MFI has a pre-orientation where prospective before employment, accompany an existing employee of the same grade at to be able to understand the company's process flow, volume of work and the challenges.</li><li>• Each Cluster/branch Office has a copy of the Operating Manual which can be accessed by all staff members. Operating manuals are in English. We recommend the manuals in vernacular to improve their dissemination with the field staff, even as majority of them are found to be conversant with English</li><li>• Member Welfare Associates (MWAs)/Cluster Mentors (CMRs) were found to be well-versed with company's policies related to origination, targeting, group formation, conducting BAT , loan sanction and remittance procedures.</li><li>• CLMs/RMs and corporate office conducts monthly review meeting with staff under him to take stock of the business and also educate them of any policy / process changes.</li><li>• No reported discrepancy in the information provided during the provisional screening by CMR and Basic Awareness Training (BAT) by CLM vis-a-vis the policy norms of the company</li><li>• On our visits to the clusters, branches and centres, employees were found to be reasonably aware of all the new processes / policies and the presence of the Operating Manual.</li></ul>	<ul style="list-style-type: none"><li>• The members acknowledged that the staff conducted meetings before/during the loan disbursement and apprised them of product features, rates and fees, repayment schedules, Joint liability mechanism and documentation process.</li><li>• The members also confirmed that the staff officers approached them for group formation and vice-versa and denied the presence of agents or outsourced staff in the group formation and loan appraisal processes</li></ul>

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

Policies	Best Practices	MMFL's Policies and Observations	
Board's policy and involvement in pricing	Loan pricing policy specified and fixed by board	High	<ul style="list-style-type: none"> <li>• Adequate coverage in policy. Loan Pricing and other fees are decided at the Corporate Office and approved by the Board and communicated to all officials on a periodic basis.</li> </ul>
Client Coaching and Communication	Documentation of processes with Manuals printed in vernacular	High	<ul style="list-style-type: none"> <li>• Operating manual is fairly detailed, but are in English and not in vernacular. Majority of the staff are conversant in English, so this is not an area of concern. Manuals in vernacular should ensure complete dissemination, MFI reported that the translation is work-in-progress</li> </ul>
	Structured training program with coverage on group liability, effective interest rates and other terms	High	<ul style="list-style-type: none"> <li>• Communicates all the terms, conditions and loan product details to the Borrowers during BAT and provisional screening</li> </ul>
	Refresher training programs and regular coaching of clients	Med	<ul style="list-style-type: none"> <li>• No concept of Refresher training programs mentioned in manuals. The field staff help borrowers with any loan related queries during group meetings. The Manager and Cluster Centre head visits the group periodically to provide clarification</li> <li>• Training conducted at the time of repeat loans, though the same is not documented</li> <li>• For additional loan of Rs. 10,000, members in ATL undergo Micro Business Education (MBE) program to coach clients on basic concepts of value</li> </ul>
	Multi-point communication of effective interest rates, processing fees, pre-payment terms common to the clients	High	<ul style="list-style-type: none"> <li>• Staff manual has guidelines on clear disclosure of declining interest rate, repayment instalments and other processing and insurance fees to the clients at the time of group formation, filling of loan application form and loan disbursal. The members are given a repayment chart detailing the amount (broken as principal and interest to be paid by each member every month.</li> <li>• Terms of interest and loans are detailed to the members during loan application and disbursal of loans and also displayed in every cluster office</li> </ul>

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

Policies	Best Practices	MMFL's Policies and Observations	
Transparency in disclosure of loan terms	All terms and conditions mentioned in the pass books and pass-books updated on a regular basis	Med	<ul style="list-style-type: none"> <li>All financial transaction are updated in Passbook in the presence of Borrowers at 1<sup>st</sup> group meeting and during remittance. At a few centres in Karnataka, we found that only group pass books are issued and individual borrowers have not been issued separate passbooks.</li> </ul>
	Pass books contains information in vernacular language	High	<ul style="list-style-type: none"> <li>Loan pass-books are in English and vernacular</li> </ul>
	No collateral or margin money accepted	High	<ul style="list-style-type: none"> <li>No asset as collateral/ security deposit/ margin money against any loan in SHG model taken</li> </ul>
	No hidden costs related to distribution of third party financial products	High	<ul style="list-style-type: none"> <li>No hidden charges related to third party financial products</li> </ul>
	No prepayment penalty	High	<ul style="list-style-type: none"> <li>No pre-payment penalty prescribed in line with RBI guidelines.</li> </ul>



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

Level of Dissemination	Level of Observed Compliance
<ul style="list-style-type: none"> <li>• Staff adequately trained and understand the importance of transparent communication with respect to interest rates and other fees</li> <li>• Customers acknowledge the multi-point disclosure of loan terms by the MFI staff</li> <li>• Staff was aware about the Loan disbursement, remittance and grading (before the repeat loan sanction) procedures.</li> <li>• Staff was observed guiding clients on various terms related to pre-payment and insurance on a regular basis , during the group meetings at the majority of the centers we visited. However, at a few centres in Karnataka, staff was found to be unaware of the MFI’s policy on pre payment.</li> <li>• We also noticed the staff reiterating the key loan terms such as interest rates, processing fees, remittance mechanism and the advantages of regular remittance of loan.</li> </ul>	<ul style="list-style-type: none"> <li>• MWAs/CMRs/CLMs at the visited branches/clusters followed the rules of group meetings as prescribed in the manuals</li> <li>• All SHG registers/pass-books in Tamil Nadu were found to contain information in local language and were updated. However, in the newly formed branches of Karnataka, we observed that at one centre, passbooks have not been issued to individual borrowers; only group passbooks are issued. At centres where passbooks have been issued to borrowers, there is no column for mentioning the rate of interest to the clients.</li> <li>• The members were well aware of the various charges associated with the loan, the insurance cover and the change in interest rate (from 25.8% to 24.6%). At the centres visited in Tamil Nadu clients displayed an understanding and awareness of the concept of diminishing interest rate and the availability of repayment chart. However, a similar level of knowledge was not found in Karnataka, where clients quoting divergent rates of interest, in many cases lower than the actual interest.</li> <li>• The members acknowledged the fact that the loans (net) were disbursed in cheque. And also the loan disbursement and remittance is done at the Cluster Centres/Branch offices.</li> </ul>

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

Policies	Best Practices	MMFL's Policies and Observations	
Loan Appraisal Process	Elaborate lending process in manuals	Med	<ul style="list-style-type: none"> <li>•There is sufficient coverage of the lending process in the different manual. However, Operating manuals are to be read in conjunction with multiple smaller manuals and policy circulars that are issued from time to time. Will be useful to compile them in a document at regular intervals</li> </ul>
	KYC Policy	High	<ul style="list-style-type: none"> <li>•KYC policy with the MFI lays down mandatory guideline for borrowers identity card before a lending decision.</li> </ul>
	Formal Credit Appraisal framework with credit scoring or Income to Installment Ratio	Low	<ul style="list-style-type: none"> <li>•There is no quantitative format to aid credit decisions in the form of debt threshold limits for households or Income tot Instalment Ratio.</li> <li>•Policy mandates Grading of the group before release of repeat loans taking into account the track record of repayment in the earlier loans, attendance in the group meetings, maintenance of SHG books and the Income Generation activity of the members. The irregular members are eliminated. However, critical parameters like attendance are not tracked in the MIS, thus reducing the efficacy of the grading model.</li> </ul>
Credit Risk Management	Strong MIS to track a customers credit history with the company, IIRs attendance, Loan purpose etc. Factors considered for future loan eligibility	Med	<ul style="list-style-type: none"> <li>•The company has centralised MIS called Shakti Sangamam tracking critical parameters such as loans sanctioned, loan purpose, KYC details etc related to a credit. The details are entered into the MIS by the Corporate officials with limited access to cluster/branch managers and regional managers</li> <li>•MFI Manager is a mobile GPRS application used in all cluster centres/branches for entering details on remittance.</li> <li>•Attendance is maintained manually and not tracked in the MIS and should be included as it is an important factor considered for repeat loans.</li> </ul>
	Centralised credit centres for conducting credit checks in addition to field checks	High	<p>Credit team at Corporate office is final decision authority for loan sanction. The credit and verification team in corporate office conducts independent checks on the application file and borrowers before sanctioning the loans.</p>

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

Policies	Best Practices	MMFL's Policies and Observations	
Loan Utilisation Checks	Loan Utilisation Declaration in the application form	High	Sufficient coverage in loan form.
	Policy on 100% LUC Checks and implications of non compliance specified	Med	<ul style="list-style-type: none"> <li>•CMR checks the end use of loans 15 days after the distribution of loans and reported to CLM who in turn reports to Corporate office in case the rectification is not done within 30 days from the date of distribution</li> <li>• The implications of non-compliance of loan utilization is not detailed in the manual</li> <li>• Regular quarterly audits by Corporate office- audit department at all clusters which includes check on LUCs on a sample basis. Members of 6 SHGs in every cluster are visited. The selection procedure of the SHGs for audit visit is detailed in Operation Manual.</li> </ul>
	Strong Audits on LUCs	Med	
Checks on over-indebtedness of clients	Declaration on total borrowings of the member's household in the application form	High	•Details like, loans taken, repayments made, arrears if any are collected for every Borrower
	Credit Bureau Checks	High	•Sufficient coverage in manuals with compulsory credit bureau checks for all new and repeat loan applications
	Mandatory House visits and reference checks of borrowers	High	•Detailed Housing survey verification process and policy

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

#### **Level of Dissemination**

- MWAs/CMRs understand the loan appraisal process of the company and their understanding was found to be quite uniform across centres.
- MMFI has regular training programs which included on the pre-orientation, job training, induction training, refreshing trainings on new processes and policies and special trainings focussed on aspects identified as areas of improvement during audits.
- Company also conducts regular monthly reviews and quarterly audits at all clusters/branches. The coverage and frequency of internal audits can be improved further with higher focus on process parameters such as verification visits, LUCs and conduct of centre meetings.
- The MWAs and CMRs in the newly formed centres in Karnataka had little understanding and knowledge of the importance and process of conducting loan utilisation checks.
- A separate team of 12 employees called Customer Relationship Association (CRA) have been formed 5 months back to conduct random checks on the members on various parameters like grievances, loan terms, usage of loans, KYC, conduct of staff, etc.,. It is then reported to Head-Audit and CEO. A total of 10,000 members both new and existing have been checked by the CRA team.

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

- Adequate documentation and filling of loan application forms
- Documentation related to filling of Application Form, KYC, interse agreement, resolution, MFI application were complied with.
- At centres visited in Tamil Nadu, members we spoke to confirmed that staff officers visited their residences for loan appraisal and Loan Utilization checks. They also confirmed the corporate office called them for checks before loan sanction.
- However, a few members in Karnataka centres denied any such visit and we also came across instances of loan being used for purposes other than that specified in the loan application.

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

Policies	Best Practices	MMFL's Policies and Observations	
Focus on client as reflected in company's values and policies	Mission and Vision reflects the company's social mission	High	<ul style="list-style-type: none"> <li>•<b>Vision:</b> "Expanding minds, connecting markets and catalyzing enterprise for inclusive Socio-economic transformation."</li> <li>•<b>Mission:</b> "To deliver viable credit to micro-entrepreneurs with the greatest potential to create scalable enterprise and economic value."</li> </ul>
Staff communication to clients	Standard Code of Behavior towards the clients captured in the manuals	High	Operations manual lays down the responsibilities of staff officers. The MFIN norms followed for code of conduct is displayed in every office.
	Clear penalties prescribed for breach of behavior specified in the manuals	Med	<ul style="list-style-type: none"> <li>•MFIN norms of Code of Conduct for Staff behaviour which catalogues the key commitments of MFI's employees towards clients to be followed.</li> <li>•Physical or Verbal misbehaviour towards a member or her family members is grounds for Suspension or other disciplinary action</li> </ul>
Policies for partial collection centres	Recovery policy for partial collection centers is client friendly	High	•The manual lays emphasis on treating customers with respect, dignity and restricts the use of force mechanisms for recovery
	Rules and timings for visit to clients house for recovery specified and captured in manuals	High	•Policy mandates that collections are to be done only in the cluster centres. If a person defaults, the procedure followed to make him pay is detailed in the manual and includes multiple reminders before issuing a final loan recall to the SHG. In any case the collection is done only at the centres.
	Restructuring Policy for genuinely distressed borrowers	Med	•No explicit restructuring policy. However, in case of natural disaster, the call will be taken by the CEO and the decision will be circulated to the offices through circular

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

### Level of Dissemination

- MWAs understand the code of behaviour towards the customers and that any breach of staff code of conduct shall result in strict disciplinary action against the erring employee.
- The MFIN Code of Conduct is found to be displayed on notice boards at all branches visited.
- MWAs were observed to be courteous and polite during all group meetings, greeted the client members, read and explained all required details to the customers.
- The MWA/CMRs at all centres in Tamil Nadu understood the grievance redressal mechanism and the importance of resolving customer complaints promptly within a pre specified turnaround time. However, a similar awareness was not observed in Karnataka.

### Level of Observed Compliance

- All customers were unanimous that the MWAs 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. The MFI operates under a SHG model, where peer pressure is applied on members to repay the loan, though there is no explicit guarantee given by members for each other. The MFI clearly stresses on regular and multiple reminders to the SHG to ensure that an defaulting member repays the loan with the final resort being a loan recall for the entire SHG.
- All the groups met were comfortable discussing a situation with the MWAs where a member is unable to pay and in deciding the next course of action.

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

Best Practices	MMFL's Policies and Observations	
Policy on maintaining client data privacy included	High	<ul style="list-style-type: none"> <li>• MFIN norms are followed for client data privacy</li> <li>• Norms prescribes strict compliance to keeping client data confidential except in cases of legal requirement and to credit bureau</li> </ul>
Policy prescribing conditions of sharing client data	High	<ul style="list-style-type: none"> <li>• Norms mandate that client information will not be shared with anybody without prior permission. The members are informed about the conditions of disclosure and the permission should be obtained in writing.</li> </ul>
Penalties for breach of client data privacy specified	High	<ul style="list-style-type: none"> <li>• As per staff policies, revealing confidential information relating to documents, manuals, member information, providing proprietary information) to outsiders may cause termination of the employee.</li> </ul>
Adequate storage of client documents with limited access	High	<ul style="list-style-type: none"> <li>• MMFI stores the copy of physical records of clients data in its branches/clusters and the originals in Corporate office with care and ensures that there is no unauthorized access</li> </ul>
MIS rights limited and access rights defined	Med	<ul style="list-style-type: none"> <li>• Access rights to the MIS system are well defined and ensures adequate security</li> </ul>

Level of Dissemination
<ul style="list-style-type: none"> <li>• Applications forms have an undertaking related to sharing the information of the client with insurance company and credit bureau and has to be signed by the client at the time of applying for loan.</li> <li>• The staff was found to be aware of the importance of maintaining client data privacy and the implications of unauthorised sharing of client data</li> </ul>

Level of Observed Compliance
<ul style="list-style-type: none"> <li>• We found no instance of breach of confidential data of the clients</li> <li>• The copy of the client documents are stored in branches/cluster. Cupboards with locks are available at the clusters/branches but due to shortage of capacity several files were lying outside the cupboards.</li> </ul>



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

Best Practices	MMFL's Policies and Observations	
Social Vision, Mission and Core Values	High	<ul style="list-style-type: none"> <li>•MMFI mission and vision appropriately reflects the essence of a MFI that works with a commercial orientation along with delivering value to its poor borrowers</li> </ul>
Corporate Social Responsibility Program	Med	<ul style="list-style-type: none"> <li>• The company doesn't have a formal social responsibility program but in the 2<sup>nd</sup> group meeting of every month different topics that benefit the members are discussed such as health, education, etc. The MFI also organises a few health camps, but their frequency and coverage is limited.</li> </ul>
Social performance targets monitoring and reporting	Low	<ul style="list-style-type: none"> <li>• The company has not put in place a structured social performance targets monitoring and reporting mechanism</li> </ul>

Level of Dissemination
<ul style="list-style-type: none"> <li>• The staff is found to understand the company's vision and mission and the company's social values and mission are well reflected in the conduct of its employees at the ground level.</li> </ul>

Level of Observed Compliance
<ul style="list-style-type: none"> <li>•MMFI's mission and vision are well reflected in the ground level operations.</li> <li>•MMFI does not have any explicit Corporate Social Responsibility Program even as it organises a regular group meeting every month to discuss and educate members on topics that can benefit the members</li> </ul>



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

Best Practices	MMFL's Policies and Observations	
Grievance Redressal Policy and Process – Involvement of board and top management	High	<ul style="list-style-type: none"> <li>Grievance management and redressal mechanism is put in place to resolve any issue that the borrower faces. Further, there is a escalation matrix where the complaints that are not resolved in a specified timeframe can be escalated up to the level of CEO or CMD. The board is given the status of the grievance once in every quarter.</li> </ul>
Multi-point Grievance Redressal Mechanism <ul style="list-style-type: none"> <li>Toll free 24 hour phone number for registering grievances</li> <li>Phone numbers of branch manager and centre managers noted on centre registers</li> <li>Complaints boxes/ registers for borrowers</li> </ul>	Med	<ul style="list-style-type: none"> <li>Company provides numbers of CMR, RM and the dedicated grievance officer at the corporate office in passbook.</li> <li>The contact number of the designated RBI official is provided, in case the complainant seeks external grievance redressal.</li> <li>Phone numbers and Email address for reporting complaints are exhibited prominently at all offices</li> <li>A grievance register is maintained at corporate office recording the various complaints with details of complainant, whom, mode of communication, date of communication, action taken and status of grievance</li> <li>However, there is no toll free 24 hr help-line number which can be critical channel of communication for the clients and no complaints box at each office that are easily accessible to the borrowers.</li> </ul>
Specific timeframe for complaints resolution and responsibilities prescribed and documented	High	<ul style="list-style-type: none"> <li>Timelines for resolution of grievances by respective responsible personnel are defined in manual. Policy mentions a time frame of 10 days.</li> </ul>
Penalty action specified for certain breaches and customer complaints	Med	<ul style="list-style-type: none"> <li>Scope of coverage in the manuals can be increased to be made more explicit. The manual prescribes an escalation matrix to achieve resolution of complaints within 10 days and most of the complaint calls are resolved within 10 days. However, it doesn't define clear penalties for non-resolution/delay in resolution of grievances.</li> </ul>

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

### **Level of Dissemination**

- Staff in Tamil Nadu is found to be aware of the complaints resolution process at MMFI and understand that any complaint/query received has to be addressed at the earliest possible. However, staff in Karnataka was not found to be aware of the formal grievance redressal mechanism, even as they reported that there are hardly any complaints received.
- 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 and also to identify any potential area of customer grievance.

### **Level of Observed Compliance**

- Members at the branches visited were found to be comfortable with visiting any staff member of MMFI for query resolution.
- Client members are comfortable discussing their needs and making suggestions to MWAs, Cluster/Branch Managers or Regional Managers.
- At the centres visited in Tamil Nadu, the Members were aware of the availability of the numbers in passbook that can be used in case of any grievance. However, in Karnataka, a few members had not been issued passbooks and did not know about the contact numbers for registering complaints or feedback.

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

Conditions	RBI Policy Announcement	MMFL 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. 14,000 And the maximum is Rs. 42,000	Satisfactory. All client groups and individuals were found to be lent within the slabs.
Indebtedness of the borrower	Limited to Rs 50,000	Limited to Rs. 50,000 MMFI 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	MMFL Policy	Compliance
Tenure	24 months for amounts in excess of Rs 15,000	MMFI offers tenure greater than 24 months for Activity Term Loans of more than Rs 15000	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 an undertaking from the client and does regular checks. However, at a few centres in Karnataka LUCs are not conducted or implemented as a policy
Repayment Frequency	Weekly, fortnightly or monthly at the choice of the borrower	As a policy, MMFI offers the clients only Monthly repayments	Satisfactory Compliance as the borrowers are informed about the Monthly repayment at the time of formation of groups.
Pricing Cap	Interest rate, 26% Margin Cap, 10% for large MFIs (Assets of more than Rs 100 crore) and 12% for small MFIs. Processing fee, 1% (not included in interest cap or margin cap)	Margin Cap is well within the prescribed limit. Interest Rate of 24 % (with prompt repayment rebate of 0.6%) 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	MMFL Policy	Compliance
Collateral & group mechanisms	No collateral, individuals as wells as SHGs and JLGs	The company does not accept any collateral and operates on Self Help Groups	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.	Satisfactory compliance

•Satisfactory compliance on all key provisions of RBI guidelines in terms of meeting the pricing caps, interest rate caps, pre-payment penalties and collaterals. The company meets the guidelines on income eligibility and loan usage criteria..

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

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

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

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

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

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

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

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

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

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

<b>S No.</b>	<b>Branch/ Cluster Name</b>	<b>State</b>	<b>Number of client groups interacted with</b>	<b>Number of clients interviewed</b>
1	Thiruverumbur	Tamil Nadu	1	10
2	Trichy	Tamil Nadu	1	11
3	Samayanallur	Tamil Nadu	1	13
4	Samayanallur	Tamil Nadu	1	15
5	Tenkasi	Tamil Nadu	1	10
6	Tenkasi	Tamil Nadu	1	13
7	Mayiladuthurai	Tamil Nadu	2	24
8	Mayiladuthurai	Tamil Nadu	1	18
9	Dharwad	Karnataka	2	18
10	Lakshmeshwar	Karnataka	2	18



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

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

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

4. **Staff Behaviour:** Another critical parameter is staff's conduct towards clients. It is extremely critical that the field officers and other staff of the MFI treat the customers with respect and humility so as to create an environment where the clients are at ease with sharing their concerns and suggestions. Further, in the past, coercive recovery mechanism of MFI staff have been an issue of concern. The assessment will focus on MFIs prescribed policies on granting grace period for repayment, norms for staff behaviour towards clients, execution of Joint Liability Group program, visit to client's houses and use of physical pressure/threats for recovery.
5. **Privacy of Client Information:** The Company should have a board level policy to ensure the privacy of individual client's data related to demographics, income, sex, race, age, education, home ownership etc and also define explicit acmes 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 acmes 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 endeavors to making contributions to improving the availability of livelihood opportunities and skills/capabilities of clients to leverage on these opportunities has to evaluated and given due weightage.

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

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