

**Suryoday Microfinance Pvt. Ltd (SMPL)**  
Mumbai, India  
**Legal form: NBFC** **November 2012**  
**Code of Conduct (CoC) Assessment**

Achievement	Maximum	Score achieved
Integrity, Governance and HR Strategy	30%	22.5%
Compliance with guidelines pertaining to clients	60%	49.5%
Effectiveness of client education efforts, and awareness	10%	8.9%
<b>Overall CoC</b>	<b>100%</b>	<b>80.9%</b>

Visit dates: 05-09 November 2012

**M-CRIL**

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# 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
  - 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 (CoC) 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 levels

## Method

- ▶ The assessment is based on a 5 day visit made by an M-CRIL team of 2 analysts to the MFI's head office in Mumbai, and 8 branches across Mumbai and Pune. 2 centers were visited in each branch. (Refer Slide No. 35 and 36 for details).

## Perspective on the MFI

- ▶ Suryoday has developed appropriate policies and mechanisms to ensure compliance to the CoC and RBI guidelines. However, it needs to report on CoC compliance to the Board and provide training to staff and clients on various aspects of the CoC, to ensure assimilation across the institution.
- ▶ Level of cooperation with assessment team:

HO	HIGH	Branches	HIGH	Follow-up	MEDIUM
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## ...Assessment tool and framework

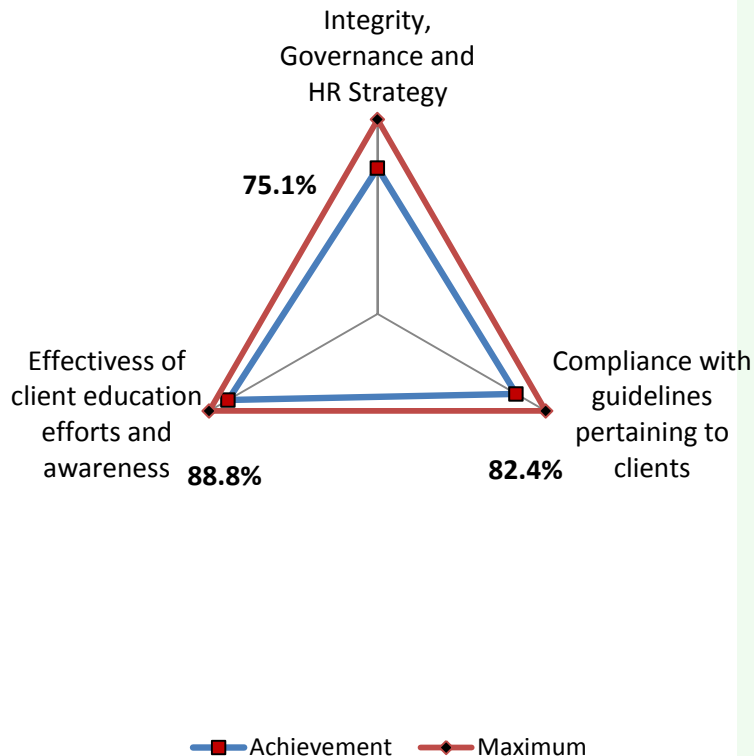
- ▶ The various aspects of the Unified Code of Conduct have been reclassified by M-CRIL under two broad heads (Integrity, governance & HR strategy, and Effectiveness of client education efforts and awareness) as per their logic and fit. Further, considering the importance of RBI guidelines and the Fair 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 Code 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>	<b>Compliance status of MFI vis-à-vis latest RBI guidelines</b>
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

- ✓ Suryoday has achieved a relatively good score in Integrity & Governance for implementing key aspects of the CoC. Overall score can be improved by reporting on CoC compliance to the Board, and dissemination of recently-developed, standardized training inputs for staff especially for soft-skills and behavioural aspects.
- ✓ Suryoday has achieved a good score in regulatory compliance due to its prompt adherence to RBI guidelines. The score can be further improved by tracking client indebtedness information in MIS, emphasizing transparency, using client feedback to improve product design, disseminating default-handling norms and designing a rescheduling policy.
- ✓ Suryoday has achieved a good score in client education due to its efforts to improve awareness levels through multiple interactions with clients. Suryoday can take further initiative to inform the clients on their rights and responsibilities specifically in the context of the CoC.

## Strengths

- ▶ Good monitoring of compliance at Operational and Audit level – Process audits and surprise centre visits by supervisory staff cover checks on fair and respectful treatment of clients and compliance with regulations.
- ▶ Very thorough process of loan appraisal- An independent check on client information, indebtedness levels and documentation is performed by an audit officer at each branch, prior to loan sanction
- ▶ Positive feedback from the clients about Relationship Officers'(RO) behavior and quality of services.
- ▶ Consistent efforts to educate clients on Suryoday's products and policies as well as general financial awareness.
- ▶ Proactive mechanism to assess client satisfaction levels (calls to clients)
- ▶ High awareness level and positive feedback from clients

## Issues

- ❑ Suryoday needs to evolve system for systematic reporting on Code of Conduct compliance to the Board as against a general operational compliance.
- ❑ The performance appraisal system does not include aspects of behaviour with clients, adherence to CoC and client satisfaction. Since incentive structure is based on half-yearly performance appraisal of field staff, such aspects can be included to enhance the importance with which they are perceived by staff
- ❑ Clients are educated on regulatory guidelines as part of pre-loan training and testing. Suryoday might consider educating clients on their rights and responsibilities with regard to CoC specifically.
- ❑ At the time of the visit, Suryoday did not had a standardized training module. Training to field staff was being imparted by their immediate supervisors. Although an e-learning module has been rolled out recently, it will take some time for all staff to be uniformly conversant with operational processes, expected behaviour, etc.

# Introduction and background

- ▶ **Suryoday Micro Finance Pvt Ltd** (Suryoday or SMPL) is a registered Non-Banking Finance Company, engaged in providing loans to women from economically weaker sections who do not have access to traditional banking, with an objective to reduce poverty in its area of operation. It received an NBFC license from the Reserve Bank of India in April 2009.
- ▶ Suryoday launched operations in Pune in May 2009 with 5 branches. Since inception, Suryoday has operated mainly in metro cities and surrounding urban areas with the majority of its portfolio in cities of Maharashtra, Gujarat and Tamil Nadu. The company has its registered office in Chennai and head office in Mumbai. Currently it has 33 branches across 6 states – Maharashtra, Gujarat, Tamil Nadu, Karnataka, Andhra Pradesh and Odisha.
- ▶ The Company is jointly promoted by R Baskar Babu, VL Ramakrishnan and Ganesh Rao, three professionals who have significant experience in banking and financial services sectors.
- ▶ Suryoday was provided with seed capital by Aavishkar Goodwell. Subsequently, Lok Capital invested in Suryoday along with further investments from Aavishkar Goodwell.
- ▶ Suryoday's Board consists of 7 members comprising 2 independent directors, 2 investor nominees and 3 promoters. Mr. R Sankaran – an independent director is the Chairman of the Board.
- ▶ All the Board members are individuals with good reputation and several years of experience in banking and IT sectors. The promoters form the top management and are also part of the Board. They look after operations, business, and audit/compliance respectively.
- ▶ Suryoday provides microcredit through Joint Liability Groups (JLGs), which function as larger centres of 15-30 clients.



# ...Introduction and background

## Vision

To be a world-class financial services organisation that provides products and value-added services to the economically challenged, helping them generate higher incomes, build an asset base and achieve a sustainably better standard of living.

## Mission

To cater to one million households by the year 2014.

## Main Performance Indicators

	Mar-11	Mar-12	Sep-12
Active borrowers (in Rs. lakhs)	0.85	1.01	1.33
Portfolio Outstanding (in Rs Cr)	47.56	92.28	102.94
Managed Portfolio (in Rs. Cr)	0.42	54.77	39.52
Own Portfolio (in Rs. Cr)	47.14	37.51	63.42
Number of states	4	5	5
Number of cities	9	10	12
Number of branches	31	27	32
Number of client centres	6,758	6,432	8,444
Total staff	310	253	294
PAR 60 (in Rs. Cr)	1.34	0.05	0.12
Write-off (in Rs. Cr)	1.00	1.30	NA
Yield on Portfolio	30.4%	26.4%	25.2%
Operating Self-Sufficiency	118%	112%	113%

As per the data provided by Suryoday

# Microfinance policies

## Area Selection

- ▶ Suryoday conducts an area survey to assess the potential for microfinance operations before opening a branch. The survey covers aspects like demographic details, economic indicators, socio-political environment, microfinance landscape, competition and infrastructure.
- ▶ The survey is typically conducted by visiting each household in the prospective area to record required data. It also includes a transact walk, assessment of housing conditions and standards of living, availability of transport, level of civic amenities and local infrastructure and presence of government institutions. Data is also gathered by talking with local community leaders and consulting the nearest police station.

## Branch structure

- ▶ Each branch in Suryoday is headed by a Branch Manager (BM) who supervises 5 Relationship Officers (ROs). The BM is responsible for conducting Group Recognition Tests (GRTs) and disbursement of loans as well as supervision of each RO's work so as to ensure good portfolio quality.
- ▶ ROs are responsible for formation of groups, conducting Compulsory Group Training (CGT) and group meetings for installment collections.
- ▶ Every branch has an Audit Officer(AO) who conducts Contact Point Verification (CPV) of each customer to enable customer selection for CGT and subsequently GRT. His role is to verify the customer details collected by RO and ensure proper client selection. The AO also makes surprise center visits to ensure compliance on regulatory aspects such as fair treatment of clients and adherence to CoC norms.

## Client Targeting

- ▶ Suryoday targets economically weak women in urban areas as its client segment. In order to ensure appropriate targeting, it conducts contact point verification (CPV) twice, through the RO and the AO. CPV is assessment of client eligibility as per regulatory guidelines and credit policies of Suryoday. Some of the clients are eliminated during AO's CPV on account of inadequate KYC documentation, ineligible loan purpose or low repayment capacity.

# Microfinance policies contd....

## Loan Process

- ▶ An RO assists in group formation by holding a meeting with potential customers to introduce them to Suryoday's products and policies, as well as features of the JLG model of microfinance. The RO advises prospective clients to form a group of 15-30 women with homogenous characteristics. The whole process generally takes about two weeks time.
- ▶ Once the group is formed, the RO holds a group formation meeting to check client's eligibility based on KYC documents, RBI guidelines and internal credit norms of Suryoday. The RO also informs the group about the training schedule.
- ▶ The RO then conducts the first CPV for each client in the group and fills the pre-sanction loan application forms and hands these over to the Audit Officer (AO). Details of these clients are sent to the Credit Department for a preliminary credit check.
- ▶ On receiving the client details, the Credit Department performs a de-duplication check for each client from its own database to eliminate dual membership in different groups and also weed out clients with bad history or negative profile. Detail of clients who pass de-duplication process are sent for a Credit Bureau (CB) check to High Mark. Clients approved in the CB report are segregated branch-wise and sent back to AO.
- ▶ After receiving the list of approved clients from Credit Department, the AO performs a second CPV and hands over the final list of eligible clients to RO for conducting 3 days Continuous Group Training (CGT).
- ▶ Group recognition test (GRT) is conducted by the BM after completion of CGT. GRT is designed to verify customer profile, eligibility as per credit norms and awareness levels regarding Suryoday's loan product, terms and conditions and processes.
- ▶ After a successful GRT, the loan documents of the approved clients are sent to the Credit Department which again performs a detailed verification of documents and repayment history of each client. The disbursement is made at the branch office within 7 days of the GRT.

# Loan products

Product Name	Income Generating Loans		
Target	Urban women between 18 and 58 years		
Loan size (Min-Max)	15,000	18,000	20,000
Term (months)	18	24	24
Repayment frequency	Monthly/ Fortnightly	Monthly/ Fortnightly	Monthly
Grace period (days)	30-35	30-35	30-35
Processing fee	1%	1%	1%
Rate of interest rate % (pa)	26% p.a.	27% p.a.	27% p.a.
APR (%)	27.52%	28.29%	28.19%
Guarantee/collateral	Joint Liability of group members. Spouse or main income earner of the family co-signs the loan, but this is treated as a non-enforceable guarantee		
Penalty on overdues	None	None	None
Prepayment & foreclosure charges	None	None	None

## Insurance

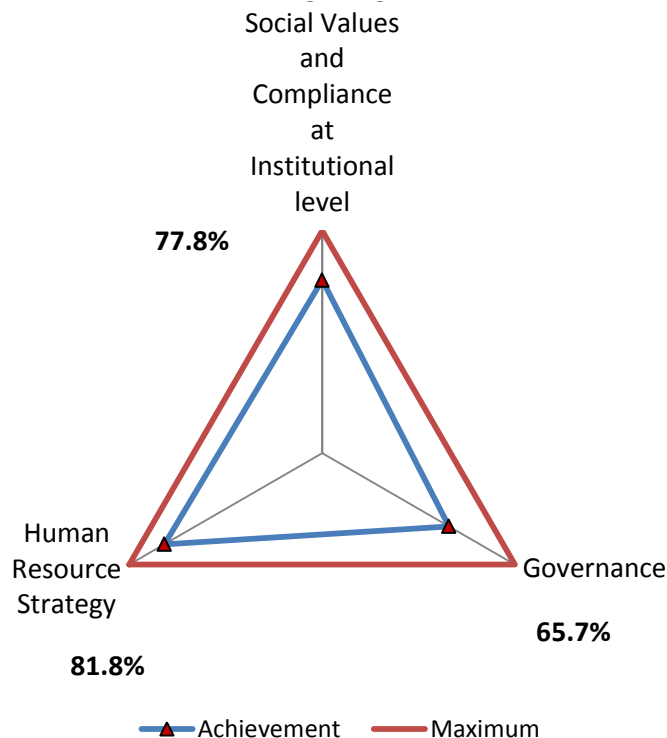
- ▶ Suryoday has a tie up with Kotak Life Insurance to provide life insurance coverage to its customers and the guarantor (usually spouse). For loan amount of Rs 15,000 it provides coverage for 18 months, with a premium of Rs200. For loan amount of Rs18,000/Rs20,000 it provides a coverage of Rs20,000 for 24 months, charging a premium of Rs360.

# Integrity, governance and strategy

Score

22.5% out of 30%

## Performance



## Levels of internalization

Parameter	Approval	Documentation	Dissemination	Observance
Integrity	Good	Weak	Moderate	Moderate
Governance	Good	Moderate	NA	Moderate
Strategy – Human Resources	Good	Good	Moderate	Moderate

## ...Integrity, governance and HR strategy

Integrating Social Values and Compliance at Institutional level	Compliance by Suryoday
Not less than 85% of total assets of MFI	Suryoday 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	Suryoday offers a single loan product for Income Generating Activity only. Information about client's occupation is collected at the time of Client Point Verification (CPV) by RO and AO, However no loan utilization check is done to verify actual use of the loan. Indebtedness information is also not entered in MIS.

### Integrating Social Values at Institutional Level

- ✓ Suryoday has incorporated various aspects of the Code of Conduct into operations and has a formal approval of the Board on implementation of Code of Conduct.
- ✓ The Board includes senior management representatives who have ensured that CoC has been integrated into the operational systems. They have adopted RBI guidelines, aspects of Fair Practices Code and CoC into Suryoday's systems and processes.
- ✓ Suryoday has changed its product design and delivery mechanisms in a timely manner to adhere to the RBI guidelines, Fair Practices Code and Code of Conduct.
- ✓ Suryoday has developed a robust monitoring structure and internal control using supervisory checks and involvement of Internal Audit (through separate business audit, process audit and surprise centre checks) to ensure adherence to RBI guidelines and Suryoday's own operational policies.
- ✓ Suryoday provides loans for income generating activities only, due to which its 100% portfolio falls into income generating loan category.

# ...Integrity, governance and strategy

## Integrating Social Values at Institutional Level

- ❑ Post M-CRIL's visit Suryoday has reportedly begun to display the Unified Codes of Conduct at its branches.
- ❑ On-the-job training to field staff was imparted through immediate supervisors, however this was not standardized and could vary considerably with the motivation, mentoring capacity and time available with the supervisor. Suryoday has recently rolled out standardized e-learning modules for its staff.
- ❑ As part of its e-learning modules, microfinance values and broad headings of RBI guidelines and CoC have been incorporated recently, but are not covered in adequate detail. However, many aspects of CoC were being practiced by the staff since these had been included during their on-the-job trainings.
- ❑ Aspects of RBI guidelines and CoC are included in the CGT manual for clients and the same are explained to them during CGT/GRT and supervisory visits. However, these are not communicated as CoC aspects per se, but as general rights and responsibilities.
- ❑ Suryoday has achieved the margin cap of 12% stipulated under RBI guidelines for smaller (Loan Portfolio < Rs100 crores) MFIs. As per the CA certificate dated October 22, 2012 Suryoday had a margin of 10.75% for the quarter ending September 30, 2012. Gross loan portfolio of Suryoday as on Sep 30, 2012 was Rs102.94 which also included managed portfolio of Rs39.52 cr.

# ...Integrity, governance and strategy

## Governance

- ✓ Suryoday inducts qualified people with expertise in investment banking, administrative services, technology services and corporate banking on its Board. Two out of seven board members are independent directors, one of them heads the Audit Committee.
- ✓ All Board members have good reputation and have been active in their engagement with Suryoday at a strategy-building level.
- ✓ Suryoday has 2 independent directors, 2 investor nominee directors and 3 promoters out of a total of 7 board members.
- ✓ The Board has approved the Code of Conduct and assigned the responsibility to three executive directors to adopt the Code and put it into practice through timely changes in operational processes.
- ✓ Suryoday has a board Audit Committee with an independent director (Mr. Sankaran) as chairperson. The Audit Committee meets twice a year to review the half yearly and yearly audited financial statements.
- ✓ Suryoday has maintained transparency in its reporting to the microfinance industry association (MFIN) and industry information networks like Microfinance Information Exchange (MIX). It also displays its audited financial statements on its website.
- ✓ Suryoday follows the Audit and Assurance standards issued by the Institute of Chartered Accountants of India (ICAI). Suryoday adheres to Corporate Governance guidelines given in the Master Circular issued for NBFC-MFIs on Corporate Governance vide CC No. 187.
- ❑ Suryoday could further improve its reporting to the Board by placing a report indicating the extent of compliance with the Code of Conduct, specifically indicating any deviations and reasons thereof, at the end of every financial year.





# ...Integrity, governance and strategy

## Human Resource Strategy

- ✓ Suryoday recruits staff from other MFIs based on references from its employees while in some cases it also recruits through advertisement in local newspapers and other print media.
- ✓ While recruiting from other MFIs, Suryoday performs compulsory reference checks, covering the prospective employee's behaviour record, reason for leaving the, salary drawn etc. Similarly Suryoday has always responded to reference checks from other organizations within two weeks.
- ✓ Suryoday does not assign new recruits the same operational area as their previous organization for at least one year.
- ✓ Suryoday honours a month's notice period from an outgoing employee. It has a policy for each level of staff in the organizational hierarchy with a minimum notice period of 30 days(for ROs).
- ✓ Suryoday does not hire employees without a relieving letter and provides the same to outgoing employees.
- ✓ Suryoday has a fixed incentive policy – incentives are revised following staff's half-yearly performance appraisal based on business target achievement and personality traits, but not covering CoC awareness and adherence, client satisfaction or any related indicators.
- ✓ In practice, Suryoday does not collect any shortfall from the staff. Disciplinary action is taken against any staff who violates the company rules laid down in the operational manual. However no penalty is imposed for non-compliance with CoC.
- ✓ Suryoday's Operational manual covers client protection principles and RBI's Fair Practice Code. CGT manual covers aspects such as seating arrangements and process for centre meetings. Behavioural aspects are implemented through on-the-job trainings, audit and supervision.

# ...Integrity, governance and strategy

## Human Resource Strategy

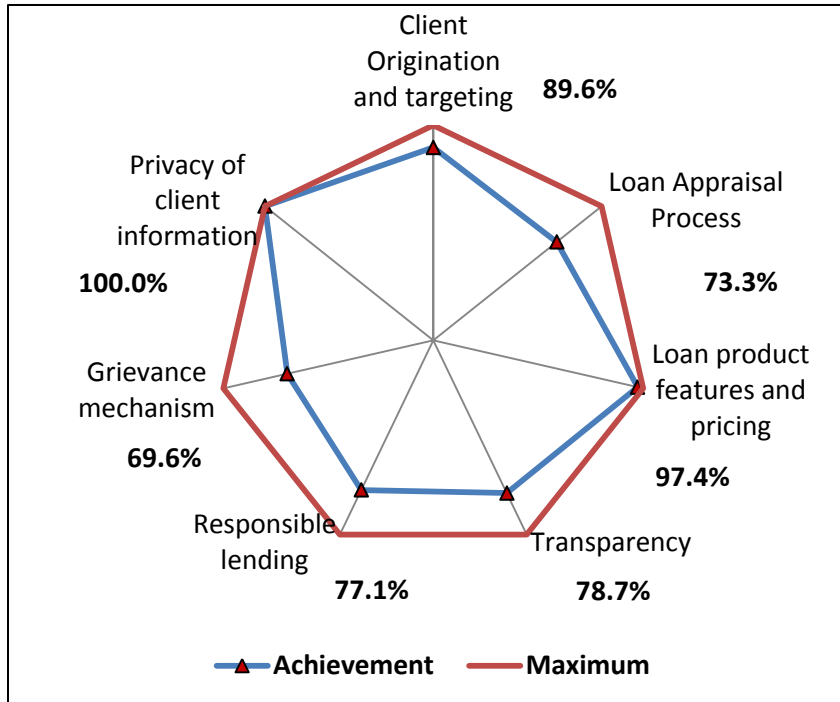
- ❑ Suryoday does not train its staff separately on the CoC in a detailed manner – this forms a brief part of a broader e-learning module, introduced recently. However, their job responsibilities include several aspects of Code of Conduct and RBI guidelines.
- ❑ Since no standardized training was being given to new recruits, levels of training input were largely dependent on the motivation levels of supervisors who themselves have several field-related responsibilities. Standardized training modules have subsequently been introduced (after M-CRIL's visit)
- ❑ Staff are trained to impart training to prospective borrowers during CGT/GRT. They undergo on-the-job training during their probation. As mentioned earlier, this training may have to be standardized in order to ensure quality training inputs and enhance intended outcomes.
- ❑ Suryoday's Operational manual does not cover guidelines on employee interactions with clients
- ❑ Suryoday has developed an action plan in case of overdues/default, however staff does not seem to be aware about any action plan. There were different opinions among different staff on the overdue recovery process.
- ❑ The incentive/ appraisal tools do not include any aspects of adherence to CoC. These could be improved by also including client satisfaction levels, effective resolution of complaints and rewarding staff showing exceptionally high adherence levels to CoC, along with other performance related aspects.

# Compliance on Guidelines pertaining to Clients

Score

49.5% out of 60%

## Performance



## Levels of internalization

Levels of internalization	Approval	Documentation	Dissemination	Observance
Client Origination and targeting	Good	Moderate	Good	Moderate
Loan Appraisal Process	Good	Good	Moderate	Moderate
Loan product features and pricing	Good	Good	Good	Good
Transparency	Good	Moderate	Moderate	Good
Responsible lending	Good	Moderate	Moderate	Moderate
Grievance mechanism	Good	Moderate	Moderate	Good
Privacy of client information	Good	Moderate	Moderate	Good



# Compliance on Guidelines pertaining to Clients

Client Origination and Targeting	Compliance by Suryoday
Borrowers <b>household income (HHI)</b> does not exceed Rs 60,000 in rural areas and Rs 120,000 in non- rural areas	Suryoday takes a self declaration from borrowers for their household income. Field staff also assess income during initial client-level interactions.

## Client Origination and Targeting

- ✓ Suryoday has a policy to conduct a survey of its targeted area and collect details on demography, socio-economic environment, microfinance potential and competition. The survey serves as a guiding tool for client origination and targeting.
- ✓ Suryoday has a two tier structure for client origination and KYC verification. The Relationship officer (RO) sources clients, collects the KYC documents and assesses the repayment capacity of these clients. An independent check is again performed by the Audit officer (AO) to ensure compliance to KYC and other RBI guidelines.
- ✓ Suryoday trains its clients at various levels like group formation meetings, CGT and GRT. These trainings cover eligibility norms and encourage groups to self select carefully and according to Suryoday's policies.
- ✓ Clients are not charged for any non-credit services including training.
- ✓ Suryoday does not discriminate amongst clients based on their caste. None of the clients surveyed reported any kind of discrimination.
- ❑ Though the self declaration made by Suryoday's clients at the time of loan application is within RBI guidelines, M-CRIL's field survey indicated that approximately 40% clients could be understating their incomes. This observation though suffers from the limitation of exactly capturing income of clients.

# Compliance on Guidelines pertaining to Clients

Loan Appraisal Process	Compliance by Suryoday
<p><b>Total indebtedness</b> of the borrower does not exceed Rs 50,000</p>	<ul style="list-style-type: none"> <li>✓ Suryoday offers a first cycle loan of Rs 15,000 and second and subsequent cycle loans of Rs 18,000 and 20,000 respectively.</li> <li>✓ In addition to compulsory Credit Bureau check, RO ensures through client declaration and cross verification that total borrower indebtedness does not exceed Rs. 50,000.</li> <li>✓ None of the clients visited by the M-CRIL team had loans greater than those specified in RBI limits.</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>✓ Before submitting the data for credit bureau check, de-duplication of all loan applications is performed to avoid multiple group membership by the same client.</li> <li>✓ A compulsory credit bureau check ensures that Suryoday does not become the third lender to any individual.</li> <li>❑ Field staff are trained to collect information regarding indebtedness from clients but it was observed during the visit that the field staff mostly rely on CB check and internal appraisal by the Credit Department for checking over-indebtedness and do not ask indebtedness-related questions in much detail</li> <li>❑ Indebtedness information is not recorded in the MIS or tracked</li> <li>✓ All sanctioning and disbursement of loans is done only at branch office in the presence of BM and AO.</li> </ul>

## Compliance on Guidelines pertaining to Clients

Product features	Compliance by Suryoday
<b>Loan size:</b> does not exceed Rs 35,000 in 1 <sup>st</sup> cycle and Rs 50,000 in subsequent cycles .	✓ Suryoday is fully compliant with this norm as loan sizes are well within the specified limits
<b>Tenure:</b> not less than 24 months when loan amount >Rs 15,000	✓ Tenure of loan amount greater than Rs15,000 is 24 months, thus fully compliant.
<b>Repayment frequency:</b> weekly/ fortnightly/ monthly at the choice of the borrower	❑ Customers are offered a choice of monthly and fortnightly loan repayment frequency. Although choice of weekly repayment option is not available to the clients, it was found during interactions with the clients that most of them prefer monthly repayments.
<b>Moratorium:</b> is not less than the frequency of repayment (or min. one installment)	✓ There is a minimum moratorium period of 30-35 days and accordingly the centre meeting dates are decided.

# Compliance on Guidelines pertaining to Clients

Product features	Compliance by Suryoday
<b>Interest rate/pricing cap:</b> <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>	<ul style="list-style-type: none"> <li>□ Suryoday is stipulated to maintain 12% margin cap as per RBI guidelines (for smaller MFIs having loan portfolio &lt;Rs100 cr). As per CA certificate dated Oct 22, 2012, It has maintained a margin cap of 10.75% over the average cost of borrowings as on September 30, 2012. Suryoday's gross portfolio was Rs102.94 which also included managed portfolio of Rs39.52 cr.</li> <li>✓ Suryoday offers a single loan product with fixed interest rate. There is no variation in the interest rate charged from the clients.</li> </ul>
<b>Pricing:</b> only 3 components: (i) processing fee (ii) interest (iii) insurance premium	<ul style="list-style-type: none"> <li>✓ Suryoday does not take any fees other than the three components specified in RBI guidelines, therefore is fully compliant.</li> </ul>
<b>Processing fee:</b> max 1% of loan amt.	<ul style="list-style-type: none"> <li>✓ Charges 1% of loan amount (excl. service tax)</li> </ul>
<b>Insurance commission:</b> as per IRDA norms	<ul style="list-style-type: none"> <li>✓ Suryoday has tied up with Kotak life insurance to provide coverage to both client and the main income earner in the household. Suryoday collects the premium and passes it on to Kotak without retaining any commission.</li> </ul>
<b>Other:</b> No penalty for prepayment & delay payments, No collateral & security deposit	<ul style="list-style-type: none"> <li>✓ Loans are extended without collateral of any kind.</li> <li>✓ No prepayment or delayed payment penalties/charges are collected from clients.</li> </ul>

# Compliance on Guidelines pertaining to Clients

Transparency	Compliance by Suryoday
<p><b>Standard form of loan agreement:</b> preferably in vernacular language</p>	<ul style="list-style-type: none"> <li>❑ Suryoday does not have the practice of issuing a loan agreement or sanction letter after sanction of loan. Loan documentation is only issued during disbursement.</li> <li>✓ However, the client is informed of the loan terms and conditions in the local language through CGT and loan application form which is signed by the client as well as spouse/ co-applicant. Repayment schedule and terms and conditions are also displayed on the loan card issued to the client.</li> </ul>
<p><b>Loan card:</b> reflecting of (i) EIR (ii) terms &amp; conditions (iii) record all transactions;(iv) all entries in vernacular</p>	<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 Suryoday of all repayments including instalments received and the final discharge.</li> <li>✓ All the entries are made in the local vernacular language.</li> </ul>
<p><b>Display of the EIR</b> in its offices &amp; website</p>	<ul style="list-style-type: none"> <li>❑ Suryoday does not display interest rates in its offices or branches though they are prominently displayed on its website and included in the operational manual.</li> </ul>
<p><b>Member education:</b> professional inputs to members in the formation of groups</p>	<ul style="list-style-type: none"> <li>✓ Clients are educated on group responsibilities, loan terms and conditions and Suryoday's eligibility criteria during group formation meeting, CGT/GRT and also at the time of disbursement.</li> <li>✓ Suryoday also plays a social message audio-clip every month to educate the clients on aspects of financial literacy, information on Aadhar card etc.</li> </ul>



## Compliance on Guidelines pertaining to Clients

Responsible lending	Compliance by Suryoday
<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>✓ Loan is disbursed at the branch office in the presence of BM and AO.</li> <li>✓ Instalment collections are made at the centre meeting and ROs do not visit borrowers' homes for recovery.</li> <li>✓ Recovery is not made by visiting clients' house at odd hours or on inappropriate occasions. In cases of overdue, staff are always accompanied by fellow group members when visiting a client's house.</li> </ul>
<p><b>Credit Bureau (CB)</b></p> <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>✓ Suryoday has a centralized credit department which performs a credit bureau check of all loan applications. No loan can be approved without CB approval.</li> <li>✓ Suryoday submits data to both the Credit Bureaus – High Mark and Equifax</li> <li>✓ Client's declaration on existing loans is taken for further rigour to avoid over-indebtedness. However, from field visits it was observed field staff place high reliance on the Credit bureau report and Credit Department checks rather than spending much time on gathering proper information from clients and triangulating it.</li> </ul>

# Compliance on Guidelines pertaining to Clients

## Responsible Lending

- ✓ Suryoday relies on detailed checking with applicants by RO and AO, cross verification from group members, and compulsory Credit Bureau check to ensure that total borrower indebtedness does not exceed Rs. 50,000.
- ✓ Suryoday ensures that a borrower cannot be a member of more than one of its SHGs/JLGs at the same time through a de-duplication check at the outset.
- ✓ Suryoday has a Board approved action plan to deal with default. It lays due emphasis on identification of reason of default and details the appropriate action to be undertaken. As per the action plan group members are expected to help an overdue member with her repayments for up to 3 months.
- ❑ However, in practice it was observed that the field staff was not aware of any action plan but emphasised joint liability of the group in all cases of default. This may be because of a training gap or because the policy is not disseminated adequately to supervisory levels in the field.
- ❑ Suryoday does not have a debt restructuring product/program for providing relief to borrowers facing repayment stress.

# Compliance on Guidelines pertaining to Clients

## Grievance Mechanism

- ✓ Suryoday has established a customer helpline to receive customer complaints/queries/suggestions and has printed the details of its Grievance Redressal functionary on customer passbooks in the vernacular language of each state. Complaints received are forwarded to Suryoday's senior leadership team (SLT) for appropriate action and are expected to be resolved within 3 working days.
- ✓ If customers are not satisfied with the response received from the customer helpline or if response is not received in 3 working days then the customers may call or write to the Grievance Redressal Officer who is expected to resolve their complaints within one week.
- ✓ Suryoday has an outbound call-center that makes calls to customers in Maharashtra/Gujarat to ascertain if there are any issues/grievances. Every day, over a 100 calls are made, and currently Suryoday is in the process of expanding the call-center to cover all areas of its operation.
- ✓ Customers are informed about the grievance redressal mechanism during CGT/GRT/disbursement meetings and collection meetings. The customer helpline number is printed in large font on the loan card. Most of the interviewed clients were aware of the helpline number.
- ❑ Although customers are educated about the customer helpline number, they prefer to discuss the issues verbally with the RO/BM. Customers may be encouraged to utilize the customer helpline number so that all complaints can be recorded and tracked for final resolution. Also, clients are not aware that they can approach grievance redressal officer if a timely or adequate response is not received from the helpline.
- ❑ Currently Suryoday does not have a regular reporting framework for consolidating, categorizing and reporting on grievances. It is important to lay down an effective procedure to track complaints by category, resolution time and seriousness, so that the grievance mechanism can give insight into required changes in operational design.

# Compliance on Guidelines pertaining to Clients

## Privacy of client data

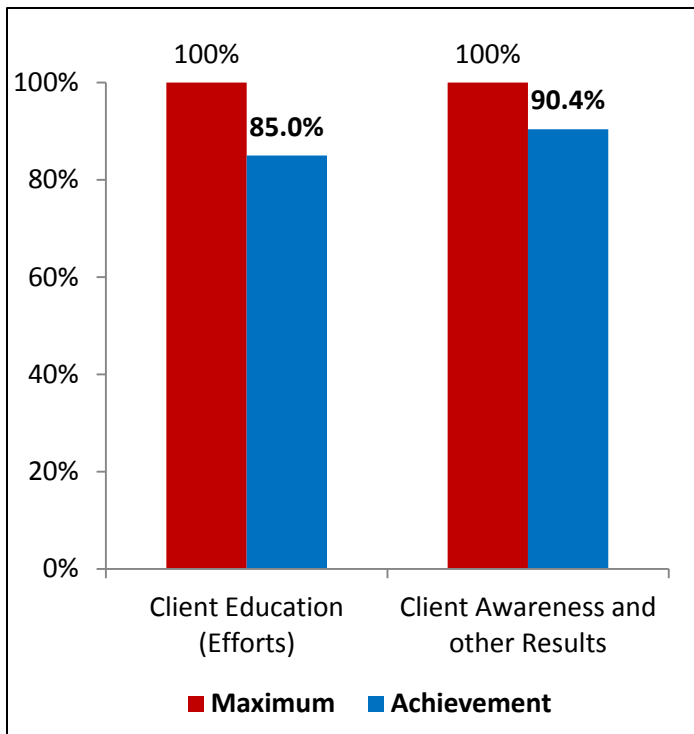
- ✓ Suryoday has a centralized MIS department which ensures privacy and security of client data. Branches send the loan application forms after disbursement to HO, Mumbai for data entry and safe-keeping in a centralized warehouse.
- ✓ Access to the MIS is not given in branch offices and adequate internal control has been built to access/enter the data at HO level, using password protection and hierarchy-based data access levels.
- ✓ Information is shared with the High Mark and Equifax as per RBI guidelines.
- ✓ Customer's consent is taken for sharing their data with the credit bureau(s) and their signature is taken on the loan documents, authorizing such data sharing.
- ❑ However, most of the clients interviewed were not aware about Suryoday's privacy policy and such data sharing, indicating that the clients need to be better informed about what they are signing.

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

- ✓ Suryoday has developed a comprehensive supervisory / audit structure to ensure monitoring of field staff. Every branch has an Audit Officer who conducts an independent check on all regulatory aspects including eligibility and over-indebtedness. The Area Manager and Area Audit Manager conduct surprise visits of the center meetings/branches and vouch for RO behavior with the client.
- ✓ Internal audit department conducts business audit and process audit of the branches on a quarterly basis. Apart from adherence to systems and process, scope of process audit also covers client awareness on regulatory requirements, pricing of loan products, insurance coverage, and JLG concept and its implications.
- ✓ However, aspects of grievance redressal such as nature and seriousness of complaints received, time taken for resolution, etc. are not covered in the process audit.

# Client education efforts & field results

## Performance



Score

8.9% out of 10%

## Levels of internalization

Parameter	Approval	Document ation	Dissemin ation	Observance
Client Education Efforts	Good	Moderate	Good	Moderate
Client Awareness	NA	NA	NA	Moderate

# ...Client education efforts & field results

## Client Education

- ✓ Suryoday educates the clients about loan products and loan terms and conditions at multiple stages (group formation meeting/CGT/GRT) to ensure that the borrowers make an informed decision.
- ✓ Initial group formation training introduces the clients to the company policies, loan process, products offered and the KYC documents required.
- ✓ Clients are educated on the entire gamut of issues - eligibility criteria, group liability, appraisal process and regulatory guidelines (including Credit bureau check, household income criteria and indebtedness criteria), product pricing, grievance redressal mechanism, during 3 days CGT.
- ✓ Anecdotes are used during CGT to improve the clients' understanding of over-indebtedness, importance of proper loan utilization and necessity of regular repayment.
- ✓ BM separately conducts a GRT during which each client's awareness level is tested and loans are approved and disbursed only after satisfactory awareness level of the group is established.
- ✓ Client awareness is checked during supervisory visits and clients are informed during these visits about any changes in policies of Suryoday in keeping with regulatory guidelines.
- ✓ Each month a social message is conveyed to the clients in every centre meeting through an audio clip. Clients are also educated on importance of savings and are encouraged to open saving accounts with banks as an additional financial capability input. There is a dedicated social initiatives group in Suryoday that works to provide financial literacy inputs to clients.
- ✓ No products are bundled, except compulsory credit-life insurance, whose terms and conditions, coverage and other product details are also printed on the loan documentation.
- ❑ Customers have not been informed about their rights and responsibilities with respect to the CoC per se. However, their knowledge about various aspects covered by the CoC was quite high.

# ...Client education efforts & field results

## Client awareness and other results

- ✓ Customers were particularly prompt in recalling details such as Company name, head office and branch location, loan amount, repayment frequency, tenure of the loan, and processing fees and other charges.
- ✓ Recall of training received on various topics was high, almost 100% for all topics. However, there was slightly lower recall of training on grievance redressal mechanism(87%) and avoiding indebtedness(79%).
- ✓ About 89% of the clients were aware about the nominal interest rate charged by the MFI, which indicates a good retention level.
- ✓ Almost all the customers knew about the importance of Joint Liability Group, and prepayment terms and conditions.
- ✓ 15% of the clients were unaware about the insurance premium and 23% of the clients could not state the details of their insurance cover.
- ✓ Interviewed clients reported that Suryoday does not collect any other charges except interest, processing fees and insurance premium, and does not ask them to deposit collateral/margin money
- ✓ Clients also reported that there was no discrimination or any kind of unfair treatment or undesirable behaviour from the field staff or branch staff.
- ✓ 100% sampled clients were visited by Branch Managers, 73% clients could remember visits by supervisory staff.
- ✓ Most clients indicated that they were satisfied with Suryoday's services – 100% clients indicated high satisfaction and 93% ranked Suryoday as the most preferred lender among all sources of loans.



# Annexes



# Profile of the Board

S. No.	Board Member	Position on Board	Brief Profile	Since
1	<b>Mr. R Baskar Babu</b>	<b>Promoter</b>	An Engineering and Management Graduate with 19+ years of experience in Financial Services, he has earlier worked with Cholamandalam, HDFC Bank and GE Commercial Finance in various leadership positions.	10-Nov-08
2	<b>Mr. Ganesh Rao</b>	<b>Promoter</b>	An MEP from IIM-A with 20+ years of work experience in banking and financial sector. His expertise is in setting new product lines for retail asset business. He has worked in reputed organizations such as GE, Cholamandalam and DCB Bank.	10-Nov-08
3	<b>Mr. VL Ramakrishnan</b>	<b>Promoter</b>	A Chartered Accountant and Company Secretary with 18+ years of work experience, he has acquired domain skill sets from exposures in financials services in three reputed business organizations like GE, Cholamandalam and DCB Bank. His expertise includes business and strategy development and credit and risk management for retail products.	10-Nov-08
4	<b>Mr. John Arun Kumar Diaz</b>	<b>Investor Nominee - Director</b>	Holds a Master's Degree in Management from XLRI. He is currently an entrepreneur / consultant and also a trustee and member of the Investment Committee of Aavishkaar Goodwill. He was earlier the head of Reuters Consulting for South Asia and had a distinguished career spanning 28 years at Standard Chartered Bank in various positions and international locations.	9-Jul-09
5	<b>Mr. R Sankaran</b>	<b>Chairman and Independent Director</b>	A Master in Economics and an eminent Consultant in the field of Financial Services Industry with over 3 decades of experience. He has held the position of Head of Merchant Banking for Standard Chartered Bank and Senior Partner of Arthur Andersen. He is an active speaker in the areas of Capital Market, Development Finance and Corporate Finance and is associated with various Bankers Training Colleges - the NIBM and IIM, Ahmedabad.	17-Aug-09
6	<b>Venkatesh Natrajan</b>	<b>Investor Nominee - Director</b>	He has over fourteen years of experience in product development and venture capital at Intel. he has led several equity deals in design software, computing and wireless technology sectors and acted as operational consultant to various MFIs in India. He is an MBA from Cornell University and has an Engineering Degree from Annamalai University	31-Aug-09
7	<b>Dr. Sheela Bhide</b>	<b>Independent Director</b>	She holds a Doctorate in International Trade from the Institute of International Studies, Geneva; a Masters Degree in Economics from George Mason University and a Masters in Public Policy from John F. Kennedy School of Government, Harvard University. She joined the Indian Administrative Service in 1973 and in the course of her 36 year long career with the GoI, has held various posts such as Chairman and Managing Director, ITPO; Additional Secretary and Financial Advisor, Ministry of External Affairs; Additional Secretary and Financial Advisor, Ministry of Defence and Joint Secretary, Ministry of Corporate Affairs.	11-Oct-10

# Shareholding Pattern

Sl. No.	Shareholder	No. of Shares	Percentage of Holding
1	Promoters	53,35,000	28.56%
2	Promoters' Associates	21,71,000	11.62%
3	Aavishkaar Goodwell India Microfinance Development Company Ltd	61,42,857	32.88%
4	Aavishkaar Goodwell India Microfinance Development Company Ltd II	8,84,150	4.73%
5	LOK CAPITAL LLC	24,90,850	13.33%
6	HDFC Holdings Limited	9,54,055	5.11%
7	HDFC Standard Life Insurance Company Ltd	7,03,234	3.76%
	<b>Total</b>	<b>1,86,81,146</b>	<b>100%</b>

# Methodology

- **Preliminary analysis of MFI's information, review of available reports and financial statements**
- ▶ **Visit to Head Office of MFI**
  - Discussions with the CEO and Head of Operations - 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 – 8 branches across Mumbai and Pune**
  - 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 Centre meetings per branch; total 16 centres with 157 clients**
  - Assessment of relationship between MFI staff and clients
  - Checking for implementation of the Unified Code of Conduct, Fair Practices Code and RBI guidelines  
Spot checking of passbooks, receipts and maintenance of documents
  - Collection of feedback on products – suitability to client needs, application of terms & conditions
- ▶ **Data Analysis and Report writing**
- ▶ **Internal Review at M-CRIL**
- ▶ **Draft report sent to Suryoday**

# Sampling Plan

S no.	Branch	Region	Loan Cycle			Missing Info	Clients	Total Centres
			L1	L2	L3			
1	Dharavi	Mumbai	15				15	2
2	Govandi	Mumbai	13				13	2
3	Bhosari	Pune	9	1	6	3	19	2
4	Chinchawad	Pune	3	16			19	2
5	Hadapsar	Pune	5	6	7	1	19	2
6	Shivaji Nagar	Pune	26		11		37	2
7	Yerawada	Pune	5	4	7		16	2
8	Dattewadi	Pune	19				19	2
<b>Grand total</b>			<b>95</b>	<b>27</b>	<b>31</b>	<b>4</b>	<b>157</b>	<b>16</b>

# Assessment tool: weight, scores and performance

Sections	No. of Indicators	Max Score	Weights	Performance
<b>Integrity, Governance and HR Strategy</b>	<b>35</b>	<b>175</b>	<b>30%</b>	<b>21.4%</b>
Integrating Social Values and Compliance at Institutional level	9	45	10.0%	6.7%
Governance	7	35	10.0%	6.6%
Human Resources Strategy	19	95	10.0%	8.2%
<b>Compliance with regulations pertaining to clients</b>	<b>93</b>	<b>470</b>	<b>60%</b>	<b>49.5%</b>
Client Origination and targeting	11	55	10.0%	8.1%
Loan Appraisal Process	7	35	7.0%	6.6%
Loan product features and pricing	23	115	9.0%	9.7%
Transparency	20	100	8.0%	7.9%
Responsible lending	19	95	9.0%	6.9%
Grievance mechanism	10	50	6.0%	6.3%
Privacy of client information	4	20	8.0%	4.0%
<b>Client education and financial literacy</b>	<b>28</b>	<b>135</b>	<b>10%</b>	<b>8.9%</b>
Client Education	4	20	3%	2.6%
Client Awareness	23	115	7%	6.3%
<b>Overall</b>	<b>156</b>	<b>780</b>	<b>100%</b>	<b>79.8%</b>

# Abbreviations

ADDO	Approval Documentation Dissemination Observation	PAR	Portfolio at Risk
AO	Audit Officer	RBI	Reserve Bank of India
APR	Annualized Percentage Rate	RO	Relationship Officer
BM	Branch Manager	SHG	Self Help Group
CB	Credit Bureau	SIDBI	Small Industries Development Bank of India
		Suryoday (SMPL)	Suryoday Microfinance Private Limited
CEO	Chief Executive Officer		
CGT	Continuous Group Training		
CIBIL	Credit Information Bureau (India) Limited		
CoC	Code of Conduct		
CPV	Contact Point Verification		
EIR	Effective Interest Rate		
EMI	Equated Monthly Installment		
FPC	Fair Practices Code		
GRT	Group Recognition Test		
HR	Human Resources		
ICAI	Institute of Chartered Accountants of India		
JLG	Joint Liability Group		
KYC	Know Your Customer		
M-CRIL	Micro-Credit Ratings International Ltd		
MFI	Micro Finance Institution		
MFIN	Microfinance Institutions Network		
NBFC	Non Banking Finance Company		