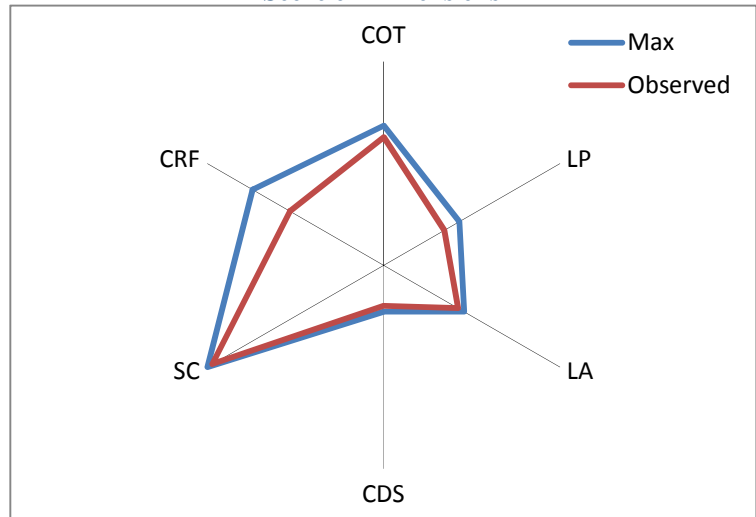


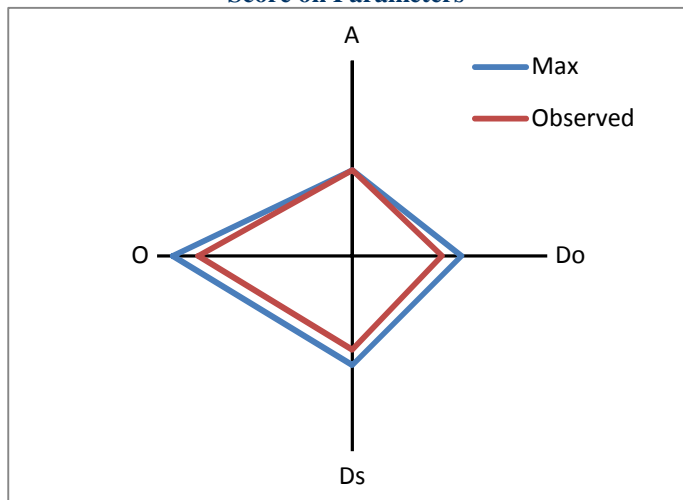
Composite COCA Score: 87%, very high level of adherence

Score on Dimensions



COT=Client Origination and Training, LP=Loan Pricing, LA = Loan Appraisal SC=Staff Conduct, CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback

Score on Parameters



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance

Rationale

Ujjivan receives high composite score on account of good institutional mechanism to ensure transparency in its operations, focus on client protection measures as well as professional staff conduct.

Highlights

- Ujjivan undertakes rigorous appraisal of its clients before giving them loans. This includes analysis of household income, expenses as well as indebtedness.
- In most of the large branches, Ujjivan has appointed dedicated Customer Care Representatives (CCR). The CCRs have the responsibility to collect customer feedback and respond to their queries and complaints.
- The organization has drafted a code of conduct for its staff members. This code emphasizes on transparent behavior and professional conduct of staff members towards clients.








Areas of improvement






- Many clients and some staff members were found not to be aware of declining balance interest rate charged by Ujjivan. The organization should try to improve this awareness.
- System of dissemination of grievance redressal mechanism requires improvement to ensure that all clients are aware of it and there is a mechanism to cross-check if there is satisfactory and timely redressal of all complaints.

Code of Conduct Assessment Compliance Assessment Tool

This tool requires scores to be assigned on the six Code of Conduct dimensions – **Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct and Client Relationship and Feedback**, across the four parameters – **Approval, Documentation, Dissemination and Observance**. The six dimensions have been drawn from a review of the norms prescribed for MFIs including Sadhan’s and MFIN’s code of conducts, fair practices guidelines from the Reserve bank of India and CGAP’s client protection principles (Smart Campaign). The methodology followed for this assessment is presented in annexure 2 and the framework of the tool is presented in annexure 3. This assessment has been commissioned by the Small Industries Development Bank of India (SIDBI).

Section 1: Scores¹ and facts

Code of Conduct dimensions	Maximum	Observed	%
 Client Origination and Targeting	24	22	92%
 Loan Pricing	15	12	80%
 Loan Appraisal	16	15	92%
 Client Data Security	8	7	88%
 Staff Conduct	35	34	97%
 Client Relationship and Feedback	26	19	71%
 Total	124	108	87%

Compliance parameters	Maximum	Observed	%
 Approval	22	22	100%
 Documentation	28	23	82%
 Dissemination	28	24	86%
 Observance	46	39	86%
 Total	124	107	87%

MFI's profile

Name of the MFI	Ujjivan Financial Services Pvt Ltd
Legal form	Non Banking Financial Company
Operational Head	Samit Ghosh
Year of starting microfinance	2006
Branches (Project offices)	351 (March 2011)
Operational area	20 states in India
Total number of staff involved in microfinance	4,009 (March 2011)
Visit of the Assessment team	May 2011 #93, Jakkasandra Extension
Correspondence address	Sarjapur Main Cross Road 1st Block, Koramangala Bangalore 560034

¹ The scores have been colour coded as follows. Red = Less than 60% indicating significant scope of improvement; Orange = 60% or more but less than 80% indicating moderate to high level of adherence; Green = 80% or more indicating high to very high level of adherence

Microfinance Methodology

Ujjivan primarily follows the Joint Liability Group (JLG) model of Microfinance inspired by the Grameen Bank of Bangladesh. Clients are organized in groups of five and up to eight groups constitute a center. Structured training is provided to the clients prior to their enrolment in the Microfinance program. Successful completion of the Group Recognition Test (GRT) marks the entry of a client in the microfinance programme of Ujjivan. Clients meet weekly, fortnightly or monthly in center meetings which are attended by the loan officers of Ujjivan. On a limited scale Ujjivan also provides loans to individuals for specific purposes.

Details of the loan products

Product	Description	Loan size*	APR	EIR	% in portfolio
GROUP LOANS					
Business loans	Business loans are provided to support small businesses of the clients. Rate of interest is 26%pa on a declining basis. 1% is charged as processing fees. Life insurance for the clients is compulsory. Rs100 is charged as premium for coverage of Rs30,000.	Rs6,000 to Rs25,000	28.0%	28.8%	76.2%
Educational loans	Education loans are provided to cover education related expenses of the wards of the clients. Rate of interest is 23% pa on a declining basis. 1% is charged as processing fees. Rs20-40 is charged as insurance premium on the loans.	Rs3,000 to Rs10,000	25.0%	25.8%	0.3%
Other loans	These loans are provided for other family needs of the clients. These include top-up loans provided to clients once they have repaid installments for six months on the business loans. Rate of interest is 26% pa on a declining basis. 1% is charged as processing fees. Life insurance for the clients is compulsory. Rs100 is charged as premium for	Rs6,000 to Rs25,000	28.0%	28.8%	20.8%

	coverage of Rs30,000.				
INDIVIDUAL LOANS					
Business loans	Individual Business Loans are provided to micro-entrepreneurs for working capital and investment requirements. Rate of interest is 28% pa on a declining basis. 2% is charged as processing fees. Rs3.15 per Rs1,000 is charged as premium for life insurance of the client.	Rs21,000 to Rs75,000	30.2%	30.5%	1.1%
Housing loans	Housing loans are provided to finance rental deposits, lease amounts or home improvements. Rate of interest is 24% pa on a declining basis. 2% is charged as processing fees. 10% of the loan is collected as refundable security deposit. Rs3.15 per Rs1,000 is charged as premium for life insurance of the client.	Rs10,000 to Rs50,000	31.3%	31.7%	1.1%
Livestock loans	Livestock loans are provided to women engaged in dairying business for purchasing cows and buffalos. Rate of interest is 26% pa on a declining basis. 1% is charged as processing fees. Rs3.15 per Rs1,000 is charged as premium for life insurance of the client. In addition, the organizations facilitates insurance of livestock for which premium of 3.92% of the loan amount is charged.	Rs15,000 to Rs35,000	27.1%	27.4%	0.5%

Notes:

1. The group loans have maximum term of 12 months. The Individual loans have term of 6 months to 24 months. While the group loans are payable in weekly or monthly installments, individual loans are payable in monthly installments
2. The interest rates and other charges mentioned above are effective from 5 May 2011 and the fees and other conditions on the products are as per the guidelines for MFIs issued by the Reserve Bank of India in this regard. Prior to this, Ujjivan was having a different interest and fees structure on the loans.
3. APR has been calculated by taking in to account interest, processing fees and upfront security deposit requirements for the loans assuming one-year term for the group loans and two year term for individual loans.
4. EIR has been calculated by taking in to account interest, processing fees, upfront security deposit as well as compulsory insurance requirement for the life of client. For Individual livestock loans, insurance premium for covering livestock has not been taken in to account while calculating EIR.

Key facts and figures			
Parameters	Mar-09	Mar-10	Mar-11
Active borrowers	261,993	566,929	847,671
Number of active loan accounts	280,013	647,814	2,364,013
Number of branches	127	230	351
Number of states	11	13	20
Total staff involved in microfinance	1,691	2,830	4,009
Portfolio outstanding (Rs millions)	1,689.8	3,707.7	6,251.4
PAR ₆₀	0.1%	0.4%	0.7%
Yield on Portfolio (YoP)	26.7%	27.1%	24.3%
Operating Self-Sufficiency (OSS)	97.2%	116.0%	112.8%
Return on Assets (RoA)	(0.6%)	2.9%	1.9%

Profile of the Board of Directors	
Name	Profile
K R Ramamoorthy	Non-Executive Chairman of ING Vysya Bank & Former Chairman & CEO of Corporation Bank
Samit Ghosh	Chief Executive Officer and Managing Director of Ujjivan
A Vikraman	Former Chief General Manager, SIDBI Foundation
Sunil Patel	Chartered Accountant and Management Consultant
M K Raveesha	Nominee Director from SIDBI
S Viswanatha Prasad	Fund Manager, Bellwether
Geeta Goel	Global Microfinance Initiative, Michael and Susan Dell Foundation
Christopher Miles Brookfield	Founder and Managing Director, Elevar Equity
Mohit Bhatnagar	Operating Partner, Sequoia Capital
Venkatesh Natarajan	Managing Director, Lok Capital

Equity Structure (March 2011)	
Shareholder	% stake in the company
Domestic Individual Investors	8.6%
Domestic Institutional Investors	16.6%
Foreign Individual Investors	5.4%
Foreign Institutional Investors	69.4%
Total	100.0%

Compliance with RBI's guidelines for MFIs
<p>Ujjivan has complied with most of the guidelines of the Reserve Bank of India for the MFI. This has been described below.</p> <p>Interest rate: From 5 May 2011, Ujjivan has revised its interest rates to comply with the RBI guidelines. On group loans interest rate charged by Ujjivan is 26%. Apart from this 1% is charged as processing fees.</p> <p>Loan size: For group loans, maximum loan size is Rs25,000 which is within the limits specified by the RBI (Rs35,000 in the first cycle and Rs50,000 in the second cycle).</p> <p>Indebtedness: As per the existing policy of the organization, total indebtedness of a client under group loans cannot be more than Rs50,000. This is also as per the limit specified by the RBI guidelines.</p> <p>Household income: Ujjivan already collects information pertaining to household income and has an upper limit of per capita income for the client's household. Ujjivan plans to modify this in accordance with RBI's guidelines. Additionally, the organization plans to obtain self-declaration from the client about her household income.</p> <p>Collateral on the loan: Ujjivan does not take any collateral on group loans, this is in accordance with RBI's guidelines.</p> <p>Duration of the loan: The maximum duration of loans for Ujjivan is 12 months on the group loans, while as per the guidelines provided by RBI the maximum duration of loans above Rs15,000 has to be 24 months or more.</p> <p>Proportion of income generation loans: 76% of the total loan assets of the organization are as group business loans. RBI's guidelines stipulate that at least 75% of the loans of the MFI should be in the form of income generating assets.</p> <p>Proportion of qualifying assets: Over 95% of the loan assets of Ujjivan are group loans and can be classified as qualifying assets. RBI's guidelines stipulate qualifying assets to be at least 85% of the total assets (excluding cash and bank balances and investment in securities).</p>

Section 2: Observations

2.1 Client Origination and Targeting (COT)

Observed score 92%



Ujjivan's score on COT is high on account of its strong systems to ensure identity of clients, commitments towards not involving unauthorised agents in the client origination process and its focus on avoiding clients who have taken loan from three or more MFIs.

Ujjivan consciously tries to expand its operations to the areas where concentration of MFIs is limited. Prior to starting operations, the distribution team of Ujjivan surveys the activity of the area to assess the potential and extent of activities of other MFIs. The area survey report is cross checked by the Internal Audit department before being sent to the Managing Director (MD) of the company for final approval.

Ujjivan has adopted MFIN's code of conduct where it has committed to ensure that

- Not more than three MFIs will lend to a client and
- Total exposure of the client will not be more than Rs50,000.

Required training has been provided to the staff to ensure that this condition is complied with. The Internal Audit department has also started covering this aspect during the branch audits.

Although, Ujjivan has been the first and the second MFI to start operations in most of the areas where it has started operations, many other MFIs have entered the areas served by Ujjivan, thereby changing the competitive landscape significantly. Almost all the areas visited by the assessment team had presence of at least three MFIs. As per the policy of the organisation, overall limit on indebtedness of a clients will be observed even in case of repeat loans, but given the fact that the credit bureau for microfinance clients is still not fully operational and incentives of the Client Relationship Staff (CRS)² are linked to loans outstanding and clientele handled by them, it is likely that at least in some cases, it will be difficult to observe this policy.

Client origination in a branch is primarily the responsibility of the CRS'. Terms and conditions of the products and processes are explained to the clients during the Compulsory Group Training (CGT). A pamphlet in the local language is also provided to all the clients during the CGT.

Ujjivan has rigorous systems to ensure identity of the clients. Key aspects of this system are

- Photograph and documentary evidence of identity and address are collected from all the applicants. In order to ensure that the client does not have loans from other branches in Ujjivan, de-duplication process is carried out by the credit department.
- The Client Relationship Manager (CRM)³ visits house of each client prior to Group Recognition Test (GRT).

² CRS are responsible for client origination, their training and conducting regular meetings of the clients.

³ Each branch is headed by a CRM

- The Programme Manager⁴ physically verifies each client during the Group Recognition Test and cross-checks information pertaining to income, expenses and indebtedness furnished by the client.
- The Internal Audit team meets about 14% of the clients in the branch every year.

Ujjivan discourages unauthorised agents being associated with their clients. A notice to this affect is put prominently in all the branches and is communicated to the clients during formal and informal interactions. Organisation’s efforts and policies notwithstanding, there are instances of presence of unauthorised agents and influential group leaders as has been pointed out in many Internal Audit reports of Ujjivan. The assessment team also observed many instances where the same center leader has been the leader for many years and that the same person is leader of more than one MFI center/group. Proliferation of MFIs in the operational area of Ujjivan has added to the problems of unauthorised agents and will require Ujjivan to be more proactive in containing their negative influence.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Ujjivan has approved of principles of ethically originating clients. This includes ensuring identity of clients before disbursement of loans through appropriate documentary evidences as well as physical verification and non-involvement of unauthorised agents in the client origination process. Ujjivan also takes in to account MFIN’s guidelines while originating clients.	The process of client origination has been documented clearly in the operational manual.	Ujjivan provides rigorous training to its staff before placing them in the field. The operational manual was found to be readily available in all the branches visited by the assessment team.	Ujjivan has been the first or second MFI to start operation in all the localities visited by the assessment team. However, now there is presence of many MFIs in almost all the localities where Ujjivan has been working. Also the organization is facing problems of unauthorized agents in several areas.

⁴ Each Programme Manager supervises 4-5 branches.

2.2 Loan Pricing (LP)

Observed score 80% 

Organization's score on loan pricing is high on account of its focus on charging and communicating interest rates in a transparent manner.

Ujjivan believes in charging fair interest to its clients. The Assets and Liabilities Committee (ALCO) of Ujjivan regularly discusses the interest rates on its loan products and takes in to account cost of funds and credit risk while determining interest rates on its loan products.

Interest rate

From 5 May 2011, Ujjivan has revised its interest rate structure on its loans products and has now aligned it in accordance with the recent RBI guidelines. On most of the group loans the organisation now charges 26% per annum as interest. In addition to this, 1% of the loan amount is charged as processing fees. On the individual loans interest rate is between 24% and 28% per annum in addition to the 1% processing fees.

Prior to this the interest rate was between 22% and 25% per annum. Processing fees was 2% on most of the loan products. A refundable security deposit of 10% was also collected by the organisation on most of the loan products.

Method of charging interest rate

Ujjivan charges interest on a declining balance method.

Prepayment charges

In case a client wants to prepay her loan, she is required to pay the outstanding principal as reflected in her loan account. There are no prepayment charges or penalties and interest for the unexpired loan period is not collected.

Late payment charges and penalties

The organisation does not charge any penalty or additional interest for delays in repayment of installments. Interest cease to be charged on the loan accounts in case it is past its loan term. Therefore, total amount to be paid by the clients does not exceed what has been communicated to them at the time of the disbursement even when the loan becomes overdue.

Communication of interest rates to the clients

Interest rate on a declining balance basis as well as equivalent flat rate is communicated to the clients in writing as well as in verbal communication. However, in verbal communication, it is apparent that more emphasis is provided in telling flat rate of interest rate rather than the declining balance interest rate. In our sample of interviewed clients⁵, only about 40% of the clients were found to be aware of declining balance interest rate while about 80% of the

⁵ 321 clients were interviewed by the assessment team across 15 branches.

clients were found to be aware of equivalent flat rate of interest. Some of the CRS' were also found to be not aware of the declining balance interest rate.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
<p>The Board of Ujjivan has approved of charging reasonable interest rates on its loans. It has also approved of the principles of communicating interest rates both on declining balance as well as on flat rate basis.</p>	<p>The operational manual and the circulars contain details of the interest rate and manner in which these have to communicated to the clients.</p>	<p>Staffs have been trained to communicate interest rates on declining balance as well as on flat rate basis. Some of the loan officers were, however, found to be unaware of the declining balance interest rate on the loans.</p>	<p>Most of the clients are aware of the interest rate on a flat rate basis. It is apparent that while telling interest rates, more emphasis is put on flat rate basis.</p>

2.3 Loan Appraisal (LA)

Observed score 92% ■

The score of Ujjivan on Loan Appraisal is good on account of the practice of the organization to undertake detailed and rigorous analysis of cash flow of the clients before sanctioning loans to them.

Ujjivan has an elaborate and rigorous process of loan appraisal. At the time of loan application, the loan officers collect detailed information on income, expenses and indebtedness of client’s household. This information is also crosschecked by the branch head during the house visit and the Programme Manager during the GRT.

Credit department of Ujjivan carries out analysis of repayment capacity of the clients. Monthly household surplus is calculated by subtracting monthly household expenses and monthly loan instalments on the existing loans (from all sources) from the monthly household income. As per the credit policy of the organisation, monthly household surplus of the client must at least be 25% more than the monthly installment on the applied loans. Apart from this, on the group loans, the overall exposure limit of Rs50,000 for each client is also observed.

At present, information pertaining to income, expenses as well as indebtedness of the clients used for credit analysis is what is self reported by the clients. Given the profile of its clientele, it may not be possible for the organization to obtain documentary evidence of the income, expenses and indebtedness. Ujjivan has already subscribed to the credit bureau and it hopes to utilise records of the credit bureau for determining indebtedness and credit history of the clients.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Ujjivan’s policy requires that adequate loan appraisal be performed before disbursing a loan. Analysis of income, expenses and indebtedness is performed for all the loans.	Appraisal guidelines are clearly documented in the credit policy.	Staff members are trained adequately on the appraisal guidelines during regular trainings. All the staff members in the credit department and most of other staff were found to be aware of these guidelines.	Review of loan files and discussions with clients reveal that thorough analysis of income and indebtedness of clients is carried out before providing loans.

2.4 Client Data Security (CDS)

Observed score 88% ■

Ujjivan’s score on CDS is high on account of its system to ensure privacy of client’s data.

Ujjivan has a well-defined system of storage and retrieval of documents and information collected from the clients. Documents collected from the clients are sent to the regional offices where data entry and scanning of documents is done. Physical documents are kept in the regional offices and are barred from unauthorised access. The software has also well-defined user rights to prevent unauthorised access. Branches do not have access to client’s data and documents.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Ujjivan’s policy requires that the information received from the clients is stored properly and unauthorized access is prohibited	Various manuals provide adequate guidelines regarding collection and storage of documents and information collected from the clients	Staffs are trained on the approved policies through training and dissemination.	All documents of the clients are stored in regional offices are barred from unauthorized access. Branches do not have access to client’s documents.

2.5 Staff Conduct (SC)

Observed score 97% 

The score on staff conduct is high on account of policies and systems to ensure professional conduct of staff members.

Ujjivan emphasises on professional conduct of its staff members. Most of the staffs of Ujjivan having frequent interaction with the clients have prior sales or customer service background. Before they start dealing with clients, the new staff members undergo induction training where special orientation is provided to acquaint staff of the values of the organisation. Training on soft skills is also provided to the staff on a regular basis. Ujjivan has formulated a code of conduct of its staff behaviour. Important points of this code of conduct are

- to conduct all transactions with the clients in an open and transparent manner
- to respect clients and their family members and to treat them in a professional manner
- to explain terms and conditions of all services in detail and in local language
- to provide loans to the clients on the basis of their repayment capacity
- to not use any coercive methods of recovery
- to provide easy access to the Customer Care Representatives (CCR) in the branches for registering complaints or queries.

Loan recovery practices

Ujjivan collects loan instalments from the clients in the weekly or monthly center meetings except for the individual loan clients where collections are made from their house or place of business. The center meetings are also attended by the designated Customer Relationship Staff (CRS) of the company. The CRS' carry collection sheets (which specify how much is to be collected from each member in the center). Respective group leaders collect the instalments from the clients and hand over the amount collected along with the loan passbook to the CRS. The CRS, after ensuring that the amount is correct, puts signature on the client's passbook as a token of receiving the money.

In case one or more members of the group are unable to pay the instalment, other members of the group are asked to contribute on their behalf, reminding them of the group liability (A center may consist of many groups but members of other groups are not asked to contribute). CRS' are trained to handle such situations carefully and asked not to put undue pressure on the group to pay for the delinquent member. Some time the center meetings extend beyond the stipulated time when the CRS tries to enforce the group liability but the meetings are not allowed to exceed beyond 30 minutes of the stipulated time.

The following are considered to be undesirable collection practices

- Too much pressure on the clients or unrealistic demands
- Not allowing center meetings to end
- Use of physical force
- Humiliation of clients through use of abusive language or otherwise
- Visiting clients beyond 6 o'clock in the evening
- Seizure of assets
- Holding personal belongings of the clients as collateral

Ujjivan has observed that enforcing joint liability indiscriminately or indefinitely sometimes creates situations of extreme stress for clients and the group. It has, therefore, restricted the imposition of group liability for not more than three months. This is to mean that in case the client becomes delinquent, other members of the group are asked to contribute for only three months (12 weekly instalments or three monthly instalments).

In case a client is facing extreme difficulty in repaying loans, loans can also be rescheduled on the recommendations of the Area Manager. (See caselet 1 and 2).

There are certain cases of delinquency, where the groups and centers have become dysfunctional and in such cases door-to-door visits are carried out for collection of instalments. The staff who are given responsibility of door-to-door collections are provided special soft skills training (see caselet 3).

The Internal Audit team specifically checks and reports the behaviour of the staff members towards the clients.

Caselet 1: Center No 55, Garia Branch, West Bengal.

Suparna Bhowmik, a client of Garia Branch took a loan of Rs15,000 from Ujjivan in 2010 to invest in her business. She has not been able to repay her instalments since January 2011 on account of business failure. Her group members have refused to pay on her behalf and the case was taken up for rescheduling, after the senior staff met the client. As per the terms of the rescheduled loan the client has agreed to repay Rs500 per month instead of Rs349 per week as the installment.

Caselet 2: Center no 13 and 136, Puri Branch Orissa

28 members of center no 13 and 5 members of center no 136 were affected by the eviction drive of the local government in April 2011. As a result of which these clients were not able to repay their instalments on 4 and 11 April 2011 but have been repaying their subsequent instalments regularly. The credit and vigilance team visited the clients to ascertain the reasons for overdues and is processing the request to provide repayment holiday for two weeks for these clients.

Caselet 3: Channapatna branch, Karnataka

Channapatna branch was impacted by a repayment crisis in 2009 caused due to mass protests against the activities of the MFIs in the area. The field operations were almost completely halted due to this for several months. The branch has gradually resurrected its operations and is reaching out to the clients who had overdues (about 560 in total). It has been successful in ensuring complete repayment from 350 clients and partial repayment from 60 clients. Hujna Bano is a senior CRS in the branch who has responsibility of following up with about 90 clients. The assessment team accompanied her on one of the recovery visits on 27 May 2011. The CRS met about 10 clients and 5 of them made partial payment. She encouraged remaining clients also to start repaying and cited examples of many clients who had started repaying and had also obtained fresh loan from Ujjivan. Ms Bano says that she has received special training in the Head Office on how to deal with the clients when on a recovery drive.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
<p>Ujjivan has developed a code of conduct for its staff members. This emphasizes professional conduct of the staff members in all situations.</p>	<p>Expected behavior of the staff members is mentioned in the staff rules as well as manuals.</p>	<p>The organization has a systematic process of training its staff members on the code of conduct. It also provides special training to the staff members on dealing with specific situations (eg dealing with clients who are delinquent).</p>	<p>Staff members interviewed were found to be aware of various elements of the code of conduct. Staff conduct was found to be professional in all the interactions of the staff with the clients.</p>

2.6 Client Relationship and Feedback (CRF)

Observed score 71%



Ujjivan's score on Client Relationship and Feedback can improve if efforts are made to ensure thorough dissemination of the grievance redressal system to its clients and independent checks are introduced to ensure that the all client complaints are reported and resolved in a timely manner.

Ujjivan has set up a dedicated Service Quality department to monitor the quality of its services and to address queries and complaints received from the clients. In mature branches (ie those branches where number of clients exceeds 2,500) a Customer Care Representative (CCR) is placed. A sticker containing the contact details of the CCR and the situations in which the clients can contact the CCR is pasted on the loan cards of the clients.

The CCR undertakes the following functions pertaining to client relationship management

1. Records and ensures resolution of queries and complaints of the clients.
2. Undertakes exit interviews of drop-out clients
3. Visits centers randomly to obtain feedback from the clients

For the branches, where no CCR has been appointed, customers can lodge their queries or complaints by calling the centralised toll-free helpline number provided to them (Clients from the branches where CCRs have been appointed can also call the toll-free helpline number). All complaints and queries are processed and tracked using a Customer Relationship Management (CRM) software. The Internal Audit team has recently started checking the complaints recorded in the CRM software.

The system of processing queries and complaints from the clients is, however, still evolving and suffers from the following limitations.

1. The CCRs have been appointed in only about 30% of the branches. In other branches clients approach the CRS, CRM or the toll-free number to address their queries and complaints. In the branches where there are no CRS, in case the client approaches with the query or complaint to the CRS or the CRM, these are not formally recorded.
2. Most of the CCRs do not provide adequate details of the resolution of the query/complaint in the register. They often put 'resolved', 'mail sent to help-desk' or 'spoken to CRS' as comments while closing a query/complaint. The regional office, on a random basis tries to call the client to ensure that the queries/complaints are resolved but this is not done in all cases (see caselet 5)
3. Many clients are still not aware of the mechanism of registering their queries/complaints through the CCRs or by calling the helpline number.
4. Interface of the clients with the centralized call center is not always convenient. (see caselet 4) Clients may become demotivated to call in case the interface is not friendly.

Caselet 4: Garia and Kasba branch, West Bengal, Meerut Branch Uttar Pradesh

Two clients in West Bengal called on the toll-free number mentioned on their loan card and asked the reasons for change in interest rates. In the first case, the client was provided with another number where to call. In the second case, the client was first told to ask the question in Hindi and regarding the query she was told that she will receive a call shortly. In none of the cases the query was addressed immediately.

In Meerut branch, some cases of insurance claims pending for over five months were

observed. Concerned clients had repeatedly called for resolution of their complaints but were not able to receive any satisfactory reply.

Caselet 5: Center number 29, Mettupalayam branch, Tamilnadu

The service quality register in Mettupalayam branch had an entry on 3 May 2011 regarding complaint received from some of the clients regarding unauthorised sum collected by the centre leader. The complaint status was ‘pending’ as on 25 May 2011. The branch head claimed that this complaint had been resolved the status was not updated. The service quality department in the Regional Office in Bangalore contacted some of the clients of the concerned group on 26 May 2011 and found that this was a case of a dispute between the group members and the center leader and upon intervention of the branch head, the members had agreed to withdraw the complaint. The status was, however, not updated in the software due to internet connectivity issues.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Ujjivan has created a separate Service Quality department to obtain feedback on its services and to manage queries and complaints of the clients.	Service quality manual details the process of obtaining feedback and dealing with queries and complaints of the clients.	CSRs have received training on service quality issues. Service quality manual was, however, not found in some of the branches.	There are issues with the system of processing of complaints.

2.7 Opinion of important stakeholders

Discussions with Ujjivan’s lenders revealed that they had a favorable opinion of its field practices and client relationships. It also enjoys a healthy reputation among its peer for its operational practices. It has played an important role in establishing MFIN – the network of NBFC MFIs in India. The MD of the organization is also involved actively in the activities of MFIN and he has played a key role in setting up a credit bureau for MFIs in India. He is also a member of the Smart Campaign Steering Committee which spearheads implementation of client protection principles among the MFIs.

Annexure 1: Matrix of Score Obtained

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	5	5	5	5	5	9	7	24	22
Loan Pricing	3	3	1	1	2	-	9	8	15	12
Loan Appraisal	4	4	4	3	3	3	5	5	16	15
Client Data Security	1	1	3	2	2	2	2	2	8	7
Staff Conduct	7	7	7	7	10	10	11	10	35	34
Client Relationship and Feedback	2	2	8	5	6	4	10	8	26	19
Total	22	22	28	23	28	24	46	39	124	108

A= Approval, Do=Documentation, Ds=Dissemination, O=Observance, Max = Maximum, Obt = Obtained score

Annexure 2: Tool Development, Methodology and List of Branches Visited

The code of conduct compliance assessment tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non Banking Financial Companies, Sadhan's code of conduct, MFIN's code of conduct, and CGAP's client protection principles. The most important challenge for M2i was to create objective indicators which could comprehensively measure the six dimensions. A total of 124 indicators were developed across each of these dimensions, so that subjectivity in measurement could be minimized. The number of indicators for each of the dimensions has been presented below.

Dimension	Nos. of Indicators
Client origination and targeting	24
Loan Pricing	15
Loan Appraisal	16
Client Data Security	8
Staff Conduct	35
Client Relationship and Feedback	26

In order to make the measurement comprehensive and objective, a method of scoring was developed so that:

1. Measurements on the indicators are taken on the dimensions across the four parameters within an MFI – Approval, Documentation, Dissemination and Observance
2. Indicators are mapped to underlying characteristics which can be objectively measured. This is illustrated in the box below.

Illustration

One of the indicators developed to measure the dissemination of guidelines related to staff conduct is:

Has the MFI provided training to its operational staff on their conduct with clients, particularly relating to:

- A. Conducting client meetings
- B. Collecting repayments
- C. Recovering overdue loans

The basis of scoring this indicator is the proportion of operational staff interviewed who have received training on these specific aspects. In case all the staff members have received trainings on each of these aspects then the score is 1 on each of these indicators, totaling to 3. If only 50% of the operational staff members interviewed have received training on these specific aspects then the score totals to 1.5 (0.5+0.5+0.5).

The Code of conduct assessment tool was tested on four MFIs during its portfolio audit and best practices validation engagements. M2i formally presented the code of conduct

assessment tool at a microfinance lender's forum meeting held in Mumbai at SIDBI's office in June 2010.

Methodology

The code of conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, three to fifteen branches and between 150 and 200 clients are sampled for primary survey.

Key Aspects

- Duration of the exercise: Four to eight days
- Nos. of branches to be visited: Three to Fifteen
- Nos. of MFI clients to be interviewed: 150-200

This exercise requires:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited 8 project offices of Ujjivan in Karnataka. The details of the project offices (branch) visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Mettupalayam	Tamil Nadu	17
2	RS Puram	Tamil Nadu	15
3	Ramanagar	Karnataka	5
4	Channapatna	Karnataka	21

5	Kengeri	Karnataka	0
6	Faridabad	Haryana	27
7	Jahangirpuri	Delhi	11
8	Dehradun	Uttarakhand	41
9	Meerut	Uttar Pradesh	52
10	Alwar	Rajasthan	15
11	Khurda	Orissa	5
12	Puri	Orissa	39
13	Chandrashekharpur	Orissa	35
14	Kasba	West Bengal	20
15	Garia	West Bengal	18
Total			321

Annexure 3: Code of Conduct Assessment – Framework

Code of conduct dimensions

- Client origination and targeting: Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination which results in greater access to financial services. Also, an MFI's commitment to target the low income clients demonstrates its social mission. The way an MFI identifies its clientele and goes about growing a clientele must be approved by the board, which should also see to it that there is adequate attempt by the MFI to ensure that its product and services reach the appropriate clientele.
- Loan pricing: The scientific determination of loan price (interest rates) reflects well on the MFI's management and it also shows how effective the MFI is in providing loans to the clients at the least possible cost. The way its loan products are priced should be approved by the board. Ideally the board members should be aware of the cost of the loan products to the clients.
- Loan appraisal: The lending to a client should be in accordance to her repayment capacity or else she may get over-indebted and her economic situation may deteriorate. The loan appraisal should take into account the repayment capacity of the clients given the loan sizes and the duration of the loan. These are important client protection principles.
- Client data security: The privacy of sensitive data of individual clients regarding their demographic details should be adequately secured so that it is not used by unauthorized parties to cause stress to the clients. For this purpose, MFIs need to define explicitly access rights to all the demographic data pertaining to clients sex, race, age, income, disabilities, mobility (in terms of travel time to work or number of vehicles available), educational attainment, home ownership, employment status, and location.
- Staff conduct: All the staff members of an MFI should treat its clients with respect and dignity. The two important aspects of staff behavior are:
 1. Communication with clients – There should be guidelines for staff to deal with specific situations involving their interface with the clients such as group meetings, loan disbursements and collections. These should ensure that customers with low levels of financial literacy understand the product, the terms of the contract, and their rights and responsibilities. Clients should also be aware of the debt recovery practices of the MFI. They should be aware of what to expect in case there is a delayed payment or a default. Clients should be encouraged to ask questions regarding the product and policies. Also, the staff should ensure that arrive for meeting in time.
 2. Loan collection and recovery process - MFIs should evolve collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. The following should be strictly avoided:
 - Abusive language or threats
 - Harassing borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders
- Relationship management and feedback mechanism: It is important for MFIs to build sustainable and long term relationship with clients. Sound relationship management

enhances the quality of the clients' experience with the MFI. It also allows the MFI to better understand clients' needs and grievances. MFIs need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints need to be taken seriously, investigated and resolved in a timely manner. The responsibilities relating to receiving client grievance and feedback and acting upon them need to be clearly identified and allocated.

Compliance

In order to fully integrate operations with the principles presented above, MFIs need to adopt a comprehensive approach involving the board, the management as well as other staff members and clients. This tool measures the adherence to these principles on four parameters:

1. Approval at the policy level from the board
2. Documentation of the guidelines and procedures that emerge from the policy
3. Dissemination of the guidelines and procedures across the organization
4. Observance in practice of these guidelines and procedures.

Weights

The following matrix presents the weights given to the various dimensions and parameters in the tool.

Weight Matrix	Approval	Documentation	Dissemination	Observance	Totals
Client Origination	4%	4%	4%	7%	19%
Loan Pricing	2%	1%	2%	7%	12%
Loan Appraisal	3%	3%	2%	4%	13%
Client Data Security	1%	2%	2%	2%	6%
Staff Conduct	6%	6%	8%	9%	28%
Client Relationship and Feedback	2%	6%	5%	8%	21%
Totals	18%	23%	23%	37%	100%