

CODE OF CONDUCT FOR MICROFINANCE INSTITUTIONS IN INDIA

PREAMBLE

Microfinance Institutions (MFIs), irrespective of legal forms, seek to create social benefits and promote financial inclusion by providing financial services to clients of financially un-served and underserved households. Over time, the Microfinance Sector has become an integral part of the financial infrastructure for the vulnerable sections of society in India.

Hence, it is important to define core values and fair practices for the microfinance sector so as to ensure that microfinance services through MFIs are provided in a manner that benefits clients, and is ethical and dignified.

This document includes:

Part I: The Core Values of Microfinance

Part II: Code of Conduct for Microfinance Institutions (The Code)

Part III: Client Protection Guidelines for MFIs

Part IV: Institutional Conduct Guidelines

PART I

CORE VALUES OF MICROFINANCE

The Core Values of Microfinance can be stated as follows:

A. INTEGRITY:

- To provide low-income clients - women and men - and their families, with access to financial services that are client focused and designed to enhance their well-being, and are delivered in a manner that is ethical, dignified, transparent, equitable and cost effective.

B. QUALITY OF SERVICE:

- To ensure quality services to clients, appropriate to their needs, and delivered efficiently in a convenient and timely manner.
- To maintain high standards of professionalism based on honesty, non-discrimination and customer centricity.

C. TRANSPARENCY:

- To provide complete and accurate information to clients regarding all products and services offered.
- To create awareness and enable clients and all other stakeholders to understand the information provided with respect to financial services offered and availed.

D. FAIR PRACTICES:

- To ensure that clients are protected against fraud and misrepresentation, deception or unethical practices.
- To ensure that all practices related to lending and recovery of loans are fair and maintain respect for client's dignity and with an understanding of client's vulnerable situation.

E. PRIVACY OF CLIENT INFORMATION:

- To safeguard personal information of clients, allowing disclosures and exchange of relevant information with authorized personnel only, and with the knowledge and consent of clients.

F. INTEGRATING SOCIAL VALUES INTO OPERATIONS:

- To ensure high standards of governance and management.
- To monitor and report social as well as financial data.

G. FEEDBACK and Grievance Redressal MECHANISM:

- To provide clients formal and informal channels for feedback and suggestions.
- To consistently assess the impact of services in order to enhance competencies and serve clients better.
- To provide a formal grievance redressal mechanism for clients.

PART II

CODE OF CONDUCT FOR MICROFINANCE INSTITUTIONS

All Microfinance Institutions are required to follow all regulatory norms as well as consumer protection practices (specifically, RBI's Guidelines on Fair Practices issued for NBFCs) laid down by the government and the regulators in both letter and spirit. The Code of Conduct lays down additional requirements to enhance and improve sector practices. The code of conduct is to be followed by all MFIs regardless of their form.

APPLICATION OF THE CODE:

This Code applies to the following activities undertaken by Microfinance Institutions:

1. Providing credit services to clients, individually or in groups.
2. Recovery of credit provided to clients.
3. Collection of thrift from clients, where ever applicable.
4. Providing insurance and pension services, remittance services, or any other related products and services.
5. Formation of any type of community collectives including self-help groups, joint liability groups and their federations.
6. Business development services including marketing of products or services made or extended by the eligible clients or for any other purpose for the welfare and benefit of clients.

MFIs must agree to:

1. Promote and strengthen the Microfinance movement in the country by bringing low-income clients to the mainstream financial sector.
2. Build progressive, sustainable, and client-centric systems and practices to provide a range of financial services (consistent with regulation) to clients.
3. Promote cooperation and coordination among themselves and other agencies in order to achieve higher operating standards and avoid unethical competition in order to serve clients better.

In order to adhere to the core values of Microfinance, the Code of Conduct, as mentioned below, must be abided by all institutions providing microfinance services.

CODE OF CONDUCT

I INTEGRITY AND ETHICAL BEHAVIOUR

1. MFIs must design appropriate policies and operating guidelines to treat clients and employees with dignity.
2. MFIs must incorporate transparent and professional governance system to ensure that staff and persons acting on their behalf are oriented and trained to put this Code into practice.
3. MFIs must educate clients on the Code of Conduct and its implementation

II TRANSPARENCY

1. MFIs must disclose all terms and conditions to the client for all services offered. Disclosure must be made prior to disbursement in accordance with the Reserve Bank of India's (RBI) fair practices code, in any of the following ways:
 - a) Individual sanction letter
 - b) Loan card
 - c) Loan schedule
 - d) Passbook
 - e) Through Group/Centre meetings (Details can be printed on a paper and all borrowers can sign on the same as acknowledgement of their acceptance)
2. MFIs must communicate all the terms and conditions for all products/services offered to clients in the official regional language or a language understood by them.
3. At the minimum, the MFI must disclose the following terms:
 - a) Rate of interest on a reducing balance method
 - b) Processing fee
 - c) Any other charges or fees howsoever described
 - d) Total charges recovered for insurance coverage and risks covered
4. MFIs must communicate in writing, charges levied for all financial services rendered. Fee on non-credit products/services will be collected only with prior declaration to the client.
5. MFIs must declare all interest and fees payable as an all-inclusive Annual Percentage Rate (APR) and equivalent monthly rate.
6. MFIs must follow RBI's guidelines with respect to interest charges and security deposit.
7. Formal records of all transactions must be maintained in accordance with all regulatory and statutory norms, and borrowers' acknowledgment/acceptance of terms/conditions must form a part of these records.

III CLIENT PROTECTION

A. Fair Practices

1. MFIs must ensure that the provision of micro finance services to eligible clients is as per RBI guidelines.

2. MFIs must obtain copies of relevant documents from clients, as per standard KYC norms. Additional documents sought must be reasonable and necessary for completing the transaction.
3. Products should not be bundled. The only exceptions to bundling may be made with respect to credit life, life insurance & live-stock insurance products, which are typically offered bundled with loans. The terms of insurance should be transparently conveyed to the client and must comply with RBI & Insurance Regulatory and Development Authority (IRDA) norms. Consent of the client must be taken in all cases.

B. Avoiding Over-indebtedness

1. MFIs must conduct proper due diligence as per their internal credit policy to assess the need and repayment capacity of client before making a loan and must only make loans commensurate with the client's ability to repay.
2. If a client has loans from 2 separate lenders, then irrespective of the source of the loans, a MFI shall not be the third lender to that client.
3. MFIs must not, under any circumstance, breach the total debt limit for any client, as prescribed by RBI or Central/State Government(s).

C. Appropriate interaction and collection practices

1. MFIs must have clearly defined guidelines for employee interactions with clients.
2. MFIs must ensure that all Staff and persons acting on behalf of the MFI
 - a) Use courteous language, maintain decorum, and are respectful of cultural sensitivities during all interaction with clients.
 - b) **DO NOT** indulge in any behavior that in any manner would suggest any kind of threat or violence.
 - c) **DO NOT** contact clients at odd hours, as per the RBI guidelines for loan recovery agents.
 - d) **DO NOT** visit clients at inappropriate occasions such as bereavement, sickness, etc., to collect dues.
3. MFIs must provide a valid receipt (in whatever form decided by the MFI) for each and every payment received from the borrower.
4. MFIs must have a detailed Board approved process for dealing with clients, at each stage of default.
5. MFIs must not collect shortfalls in collections from employees and their HR policies must categorically denounce this practice. An exception can however be made in proven cases of frauds by employees.

D. Privacy of client information

MFIs must keep personal client information strictly confidential. Client information may be disclosed to a third party subject to the following conditions:

- a) Client has been informed about such disclosure and permission has been obtained in writing.
- b) The party in question has been authorized by the client to obtain client information from the MFI.
- c) It is legally required to do so.

- d) This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau).

IV GOVERNANCE

MFIs must incorporate a formal governance system that is transparent and professional, and adopts the following best practices of corporate governance:

1. MFIs must observe high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body.
2. MFIs must endeavor to induct independent persons to constitute at least 1/3rd of the Governing Board, and the Board must be actively involved in all policy formulations and other important decisions.
3. MFIs must have a Board approved debt restructuring product/program for providing relief to borrowers facing repayment stress.
4. MFIs will appoint an audit committee of the Board with an independent director as chairperson.
5. MFIs must ensure transparency in the maintenance of books of accounts and reporting/presentation and disclosure of financial statements by qualified auditor/s.
6. MFIs must put in best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).
7. MFIs must place before the Board of Directors, a compliance report indicating the extent of compliance with this Code of Conduct, specifically indicating any deviations and reasons therefore, at the end of every financial year.

V RECRUITMENT

The code covers all MFI staff.

1. As a matter of free and fair recruitment practice, there will be no restriction on hiring of staff from other MFIs by legitimate means in the public domain like general recruitment advertisements in local newspapers, web advertisements, walk-in interviews, etc.
2. Whenever an MFI recruits from another MFI, it will be mandatory to seek a reference check from the previous employer. The reference check will be sought from current employer only after an offer is made and an offer letter is issued to the prospective employee.
3. MFIs should respond to the reference check request from another MFI within two weeks.
4. MFIs must honor a one month notice period from an outgoing employee.
5. No MFI shall recruit an employee of another MFI, irrespective of the grade/level of the employee, without the relieving letter from the previous MFI employer. An exception can however be made in instances where the previous employer (MFI) fails to respond to the reference check request within 30 days. All MFIs must provide such relieving letter to the outgoing employee in case he/she has given proper notice, handed over the charge and settled all the dues towards the MFI, except in proven cases of fraud or gross misconduct by the employee.

6. Whenever an MFI recruits from another MFI, at a level up to the Branch Manager position, the said employee shall not be assigned to the same area he/she was serving at the previous employer, for a period of 1 year.

VI CLIENT EDUCATION

1. MFIs must have a dedicated process to raise clients' awareness of the options, choices and responsibilities vis-à-vis financial products and services available.
2. New clients must be informed about the organization's policies and procedures to help them understand their rights as borrowers.
3. MFIs must ensure regular checks on client awareness and understanding of the key terms and conditions of the products/ services offered / availed. (As part of internal audit systems or through some other regular monitoring)

VII DATA SHARING

MFIs will agree to share complete client data with all RBI approved Credit Bureaus, as per the frequency of data submission prescribed by the Credit Bureaus.

VIII FEEDBACK/ GRIEVANCE REDRESSAL MECHANISM

1. MFIs must establish dedicated feedback and grievance redressal mechanisms to correct any error and handle/receive complaints speedily and efficiently.
2. MFIs must inform clients about the existence and purpose of these mechanisms and how to access them.
3. MFIs must designate at least one grievance redressal official to handle complaints and/or note any suggestions from the clients and make his/ her contact numbers easily accessible to clients.
4. Each MFI will have an appropriate mechanism for ensuring compliance with the Code of Conduct.
5. Where complainants are not satisfied with the outcome of the investigation conducted by the concerned MFI into their complaint, they shall be notified of their right to refer the matter to the grievance redressal mechanism established by the Industry Associations.

CLIENT PROTECTION GUIDELINES FOR MICROFINANCE INSTITUTIONS (CPG)

The CPG states that all MFIs, regardless of their form:

1. **Shall** display the Client Protection Code in all branches and offices, in plain view.
2. **Shall** endeavor to provide micro finance services to all eligible clients, as per RBI guidelines.
3. **Shall** educate clients, staff, and any persons acting on their behalf on the Code of Conduct and its implementation.
4. **Shall** disclose all terms and conditions to the client for all products/services offered, prior to disbursement, in any of the following ways:
 - a) Individual sanction letter
 - b) Loan card
 - c) Loan schedule
 - d) Passbook
 - e) Through Group/Centre meetings (Details can be printed on a paper and all borrowers can sign on the same as acknowledgement of their acceptance)
5. **Shall** communicate all the terms and conditions for all products/services in the official regional language or a language understood by clients.
6. **Shall** disclose the following terms:
 - a) Rate of interest on a reducing balance method
 - b) Processing fee
 - c) Any other charges or fees howsoever described
 - d) Total charges recovered for insurance coverage and risks covered
7. **Shall** communicate in writing, charges levied for all financial services rendered.
8. **Shall not** collect fee on non-credit products/services without prior declaration to the client.
9. **Shall** declare all interest and fees payable as an all-inclusive APR and equivalent monthly rate.
10. **Shall** follow RBI's guidelines with respect to interest charges and security deposit.
11. **Shall** obtain copies of relevant documents from clients, as per standard KYC norms. Additional documents sought must be reasonable and necessary for completing the transaction.
12. **Shall not** bundle products, except for credit life, life insurance & live-stock insurance products. The terms of insurance should be transparently conveyed to the customer and must comply with RBI & IRDA norms. Consent of the client must be taken in all cases.
13. **Shall** conduct proper due diligence to assess the need and repayment capacity of client before making a loan and must only make loans commensurate with the client's ability to repay.
14. **Shall not** be the 3rd lender to a client if the client has loans from 2 other lenders (irrespective of the source of loan).
15. **Shall not** breach the total debt limit for any client, as prescribed by the RBI or Central/State Governments.
16. **Shall** ensure that all employees follow company guidelines for interaction with clients.
17. **Shall** ensure that all staff and persons acting for the MFI or on behalf of the MFI:

- a) Use courteous language, maintain decorum, and are respectful of cultural sensitivities during all interaction with clients.
 - b) **DO NOT** indulge in any behavior that in any manner that would suggest any kind of threat or violence to clients.
 - c) **DO NOT** contact clients at odd hours, as per the RBI guidelines for loan recovery agents.
 - d) **DO NOT** visit clients at inappropriate occasions such as bereavement, sickness, etc., to collect dues.
18. **Shall** provide a valid receipt (in whatever form decided by the MFI) for each and every payment received from the borrower.
19. **Shall** follow approved company procedure to deal with client default sensitively.
20. **Shall** follow the debt restructuring mechanism adopted by the MFI for borrowers under liquidity stress.
21. **Shall** keep personal client information strictly confidential.
22. **Shall** disclose client information to a third party only under the following conditions:
- a) Client has been informed about such disclosure and permission has been obtained in writing.
 - b) The party in question has been authorized by the client to obtain client information from the MFI.
 - c) It is legally required to do so.
 - d) This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau).
23. **Shall** follow company approved process to raise clients' awareness of the options, choices, and responsibilities vis-à-vis financial products and services available.
24. **Shall** inform all new clients about the organization's policies and procedures.
25. **Shall** inform clients about the existence and purpose of feedback mechanisms and how to access them.

INSTITUTIONAL CONDUCT GUIDELINES FOR MICROFINANCE INSTITUTIONS (ICG)

The ICG states that all MFIs, regardless of their form:

1. **Shall** have an appropriate mechanism for ensuring compliance with the Code of Conduct.
2. **Shall** have appropriate policies and operating guidelines to treat clients and employees with dignity.
3. **Shall** maintain formal records of all transactions in accordance with all regulatory and statutory norms, and borrowers' acknowledgement/acceptance of terms/conditions must form a part of these records.
4. **Shall** have detailed board approved process for dealing with clients, at each stage of default.
5. **Shall not** collect shortfalls in collections from employees except in proven cases of frauds by employees.
6. **Shall** have a Board approved debt restructuring product/program for providing relief to borrowers facing repayment stress.
7. **Shall** seek a reference check from previous employer for any new hire.
8. **Shall** provide within 2 weeks the reply to the reference check correspondence for another MFI.
9. **Shall** honour a one month notice period from an outgoing employee.
10. **Shall not** recruit an employee of another MFI without the relieving letter from the previous MFI employer except where the previous employer (MFI) fails to respond to the reference check request within 30 days.
11. **Shall not** assign a new employee recruited from another MFI, to the same area he/she was serving at the previous employer, for a period of 1 year. This restriction applies to positions up to the Branch Manager level.
12. **Shall** have a dedicated process to raise the client's awareness of options, choices, rights and responsibilities as a borrower and shall conduct regular checks on client awareness and understanding of the key terms and conditions of the products/ services offered / availed.
13. **Shall** agree to share complete client data with all RBI approved Credit Bureaus, as per the frequency of data submission prescribed by the Credit Bureaus.
14. **Shall** establish dedicated feedback and grievance redressal mechanisms to correct any error and handle/receive complaints speedily and efficiently.
15. **Shall** designate an official to handle complaints and/ or note any suggestions from the clients and make his/ her contact numbers easily accessible to clients.
