



Hindusthan Microfinance Private Limited
(HMPL)

POLICY AND PROCESS ON
CODE FOR RESPONSIBLE LENDING (CRL)
IN
PROVISION OF MICRO-CREDIT

Hindusthan Microfinance Pvt. Ltd.

Hindusthan Microfinance Private Limited (HMPL)
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PREFACE

Dear Colleagues,

As you all know that industry initiative termed as '**Mutually Agreed Code of Conduct**' (**MACC**) which aims to have certain common standards across Providers in provision of micro-credit was taken earlier by our SRO i.e. MFIN. This was coordinated by our SRO i.e. MFIN. While MACC was launched by the Deputy Governor of RBI Mr. NS Vishwanathan, more than a year ago, it could not be implemented due to lack of consensus, socialization and ownership amongst different category of Providers.

Considering the importance of the MACC for micro-credit industry, this initiative was revived and a Steering Committee representing Banks, NBFC-MFIs, NBFCs and SFBs was constituted last year (July 18) to drive it further.

The Steering Committee has worked out to align core elements of MACC to focus on customer protection. Other elements (such as disclosure, fair treatment, privacy, grievance Redressal) are also aligned to RBI FPC (for Banks and NBFCs) and Charter of Customer Rights. The Core requirements for lenders are enumerated in detail in the enclosed CRL document. All our staff are instructed to go through the same for its meticulous compliance at all our operating units.

The name MACC has undergone change to **CRL**, which stands for **Code for Responsible Lending**. This has been done to make it clear what this is about—responsible lending by all lenders.

CRL through its customer-protection measures will ensure that micro-credit is delivered with a customer-centric-long-term-view, leading to sustainable-robust development of the industry.

The MFIN Board in its meeting held on March 6, 2019 has approved the adoption of CRL by all MFIN member NBFC-MFIs. Being a member of our SROs i.e. MFIN and SADHAN and to support the initiative taken by them, we at Hindusthan Microfinance Pvt Ltd. has since signed up for the adoption of **Code for Responsible Lending (CRL)** in our company for its implementation. By putting in place the CRL in our company, it will go a long way in ensuring the corporate governance and adhere to the standard agreed principles of SRO.

All our staff are hereby instructed to be guided accordingly and adhere to the CRL norms without any deviation.

Mr. Anil L. Jadhav

Satishkumar G. Rao

Sd/-

Sd/

Chairman & Managing Director

Executive Director

Hindusthan Microfinance Pvt. Ltd.

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I. INTRODUCTION

Over the last two decades, the micro-credit sector has successfully mainstreamed itself as a key delivery channel for the provision of credit to low-income households. Currently, a wide range of Providers such as NBFC-MFIs, Banks, SFBs, NBFCs and non-profit/section-8 MFIs, under different regulatory framework, provide micro-credit to over 4 Crore customers from low-income households.

A microfinance customer as defined by the RBI (for NBFC-MFIs) is a person with an annual household income of Rs 1 lakh in rural India and Rs 1.60 lakhs in urban India. One fundamental challenge for the micro-credit sector today is that microfinance customer is served by differently regulated entities with no uniform regulation. With the multiplicity of sources of credit to the microfinance customers and without a uniform regulation, safeguarding the interests of low-income-customers, who are generally quite vulnerable, is becoming increasingly challenging. Clearly, uniform rules across the Providers, on customer-centric issues such as transparency and multiple/over-lending are important to ensure that power of micro-credit can reach its intended objectives in a responsible and nurturing way.

For this purpose, a meeting of all Providers of micro-credit was called by SRO i.e. MFIN to agree and adopt a uniform-common code for customer-conduct in the provision of micro-credit. This code is titled as 'Code for Responsible Lending (CRL) in Provision of Micro-credit'.

This document defines the elements of Code for Responsible Lending (CRL) which is sector specific and entity agnostic. Building on key regulatory customer-protection measures as described in RBI Master Directions for NBFC-MFIs, RBI Fair Practice Code for Banks and NBFCs, Industry Code of Conduct and RBI Charter of Customer's Rights in the context of micro-credit sector, CRL includes most critical elements which are required to be adopted by Providers while delivering micro-credit loan.

This code is applicable to unsecured micro-credit loans given under individually or group liability to microfinance segment by all Providers (regulated by the RBI).

II. CODE

This code applies to the provision of micro-credit to customers, individually or in groups either on its own or through an agent by Providers. Code has five elements:

- FAIR INTERACTION WITH CUSTOMERS
- INFORMATION ABOUT CUSTOMERS
- APPRAISAL OF CUSTOMERS
- TRANSPARENCY WITH CUSTOMERS
- GRIEVANCE REDRESSAL FOR CUSTOMERS

FAIR INTERACTION WITH CUSTOMERS:

- a. It must be ensured that customer is not unfairly discriminated against on grounds such as gender, religion and caste when offering and delivering financial products.
- b. It must be ensured that all employees and persons acting on its behalf.
 - Do not use coercion of any sort to make recovery of loans
 - Do not intimidate or humiliate verbally or physically
 - Do not contact customers at odd hours
 - Do not contact customers at inappropriate times such as bereavements, illness, social occasions such as marriages and births

INFORMATION ABOUT CUSTOMERS:

- a. We must obtain copies of relevant documents from customers, as per standard KYC norms of the RBI. As far as possible, AADHAAR and Voter ID of the customer must be captured.
- b. Identity details of customers (name, father/spouse name), age/DOB must be captured from AADHAAR or a valid KYC document if AADHAAR is not available.
- c. We must upload accurate and comprehensive customer data with all RBI approved Credit Information Companies' (CICs) as per Uniform Credit Data Format on a weekly basis. We must promptly address any dispute raised by the customer about her data with CICs.
- d. We must keep personal customer information strictly confidential. Customer information may be disclosed to a third-party subject to any of the following conditions:
 - Such information is required to be provided under the law or it is provided for a mandated business purpose (for example, to credit information companies)
 - Customer has been informed about such disclosure and prior permission has been obtained in writing
 - The party in question has been authorized by the customer with intimation to us to obtain customer information

APPRAISAL OF CUSTOMERS

- a. We must assess customer's financial circumstances, requirement, repayment capacity and indebtedness based on information from the customer, Credit Information Report (CIR) and/or field level intelligence before disbursing a loan.
- b. We must use a valid CIR before sanctioning any loan.
- c. We must disburse the loan commensurate with the customer's ability to repay.

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- d. We must not sanction/disburse a loan to customer who has non-performing (delinquency > DPD 90 days) accounts with loan amount outstanding > Rs 1,000 with another Provider.
- e. If a customer has active loans from three (3) different Providers (entity agnostic), Provider must not become the fourth lender to a customer. We must verify the lender count (i.e. number of Provider) to the customer by using a valid CIR prior to sanction of the loan.
- f. We must not breach the total indebtedness of Rs 100,000 per customer. We must verify the total indebtedness to customer factoring un-secured microfinance loans (individual as well as group) captured in the microfinance section of the Credit Information Report (prior to sanctioning of the loan).

TRANSPARENCY WITH CUSTOMERS

- a. HMPL will provide the key pre-contractual information in line with the RBI's Fair Practices Code (FPC) to the customer and include them in the loan documents such as application/loan sanction letter/loan agreement and loan card.
 - identity and address of HMPL
 - loan amount and tenure
 - annualised interest rate on reducing balance method
 - processing fee
 - any other charges or fees howsoever described
 - charges of late repayment and foreclosure, if applicable
 - total amount payable
 - total charges recovered towards premium of credit-linked life insurance cover and risks covered
 - details of HMPL's customer grievance Redressal system
- b. We must disclose all terms and conditions to the customers, in a form and manner that is understandable.
- c. We must communicate all the terms and conditions to customers in the official regional language or a language understood by them.
- d. We must take measures to ensure that customers fully understand the products, process and terms of the contract.
- e. We must provide a receipt for every payment received from the customer.

GRIEVANCE REDRESSAL FOR CUSTOMERS

- a. HMPL must provide a robust customer grievance redressal system to address customer complaints in an effective and timely manner.
- b. HMPL must clearly communicate the details of customer grievance redressal in loan documents and other communication materials.

III.COMPLIANCE AND ENFORCEMENT

- a. By adopting the CRL HMPL shall take the responsibility to align own policies and process to adhere with provisions of CRL.
- b. HMPL shall take the responsibility to incorporate professional governance system to ensure that staff and persons acting on their behalf are oriented and trained to follow CRL into practice.
- c. HMPL shall voluntarily agree to have a compliance and enforcement framework to ensure adherence of the CRL.
- d. The implementation of the CRL will be guided by the Steering Committee comprising of representatives from different Providers (NBFC-MFIs, SFBs, Banks, NBFCs and industry associations) as under:
 - BANKS: 2 SEATS
 - SFBS: 2 SEATS
 - NBFC-MFIS: 2 SEATS
 - NBFCS: 1 SEAT
 - Industry Associations (IBA, FIDC, MFIN, Sa-dhan): 1 seat each
- e. There will be a Terms of Reference (ToR) of the Steering Committee.
- f. **Compliance would be based on three-pronged approach**
 - Quarterly adherence report by HMPL will be based on independent data from a Credit Information Company (CIC) a standard template
 - Peer complaint system whereby Providers can bring forth the instances of non-compliances to the CRL Steering Committee.
 - Monitoring and assessment facilitated by the Steering Committee
- g. HMPL has assigned Mr. Ganesh Hankare, Vice President (Finance & Accounts) as dedicated CRL Coordinator who will be the focal point to coordinate on CRL.
- h. MFIN and Sa-dhan will act as a facilitator for the implementation of CRL and the CRL Steering Committee.
- i. Based on changes in the regulations and data on industry and compliances, CRL to be reviewed by the CRL Steering Committee on a periodic basis.

ANNEXURE

FORMAT FOR QUARTERLY ADHERENCE REPORT

	Name of the Provider: Hindusthan Microfinance Pvt Ltd	Quarter		
Sl No	Indicator	M1	M2	M3
1	Date of monthly submission to CICs			
2	If all weekly files were submitted to CICs (Yes/No)			
3	Number of active accounts submitted in monthly file to CICs			
4	Loan accounts disbursed during the period (as per monthly file to CICs)			
4.1	Loans disbursed crossing 3 Providers (regulated by RBI) norm per customer			
4.2	Loans disbursed crossing 3 loans from own company per customer			
4.3	Loans disbursed crossing max indebtedness (Rs 100,000) per customer			
4.4	Loans disbursed to customers who have non-performing (delinquency > DPD 90 days) accounts with loan amount outstanding > Rs 1,000 with another Provider			