

Sep 2019

CODE FOR RESPONSIBLE LENDING

in Micro-credit

CODE

FAIR INTERACTION



SUITABILITY
(AVOIDING MULTIPLE/OVER LENDING)



EDUCATION & TRANSPARENCY



INFORMATION & PRIVACY



GRIEVANCE REDRESSAL



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Introduction

Over the last two decades, the micro-credit sector has successfully mainstreamed itself as a key delivery channel to provide 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 5 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 1.6 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 to agree and adopt a uniform-common code for customer-conduct in micro-credit. This code is titled 'Code for Responsible Lending (CRL) in 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 loans¹ given to microfinance segment² by all Providers³.

¹ For NBFC-MFIs, these loans come under 'qualifying asset' criterion. It may be noted individual loans i.e. loans without the group liability and where repayment capacity of the customer is thoroughly assessed by the Provider are outside the purview of CRL.

² As defined by the RBI.

³ Provider is defined as a legal entity, which provides micro-credit in line with RBI norms under 'qualifying assets' criterion for NBFC-MFIs and provide their data to Credit Information Companies (CICs). Therefore, Provider includes entities such as NBFC-MFI, SFB, Bank, NBFC, Section 8 Company etc. It is clarified that all micro-credit loans delivered directly or indirectly (such as under partnership model or through securitization, direct assignment or co-origination) are covered.

Code

The Code has five elements:

- a. Fair Interaction
- b. Suitability
- c. Education & Transparency
- d. Information & Privacy
- e. Grievance Redressal

a. Fair Interaction

1. Provider must ensure that customer is not unfairly discriminated against on grounds such as religion, caste, marital status or sexual orientation etc.
2. Provider must ensure that all employees and persons acting on its behalf.
 - Use respectful language, maintain decorum and are respectful of social and cultural sensitives
 - 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 or at inappropriate times such as bereavements, illness, social occasions such as marriages and births

b. Suitability (avoiding multiple/over lending)

1. Provider must assess customer's financial situation (income and expenses), credit requirement, repayment capacity and indebtedness based on information from the customer, Credit Information Report (CIR) and/or field level intelligence before disbursing a loan.
2. Provider must use a valid⁴ CIR before sanctioning any loan. It is clarified that valid CIR must be used for all loans including small value top-up loans, second and subsequent cycle loans.
3. Provider must disburse the loan commensurate with the customer's ability to repay. Prior to sanctioning of loans, Provider (based on micro-credit loans captured in the microfinance section of the CIR) must ensure that:
 - It does not become the fourth lender to a customer if a customer has active loans from three (3) different Providers. NBFC-MFIs are additionally required to ensure that not more than 2 NBFC-MFIs lend to a customer⁵.
 - It does not breach the total indebtedness of Rs 100,000 per customer. It is reiterated that Provider must verify the total indebtedness of customer factoring all unsecured micro-credit loans (individual as well as group) captured in the microfinance section of the CIR prior to sanctioning of the loan⁶.
 - It does not sanction/disburse a loan to customer who has non-performing (delinquency > dpd 90 days⁷) accounts with loan amount outstanding > Rs 1,000 with another Provider⁸.

⁴ CIR is considered as 'valid' for 15 calendar days from the date of extraction of the CIR. This implies Provider needs to disburse loan to customer within 15 calendar days from date of extracting her CIR.

⁵ As per the RBI Directions for the NBFC-MFIs.

⁶ Loan, if any availed towards meeting education and medical expenses shall be excluded while arriving at the total indebtedness of a customer.

⁷ If applicant contests on her delinquent account status in CIR or share that her delinquent account is attributed to withdrawal/closure of operation of micro-credit Provider in her area, Provider must support her to resolve the issues by contacting with CICs, relevant Providers or the SROs, as required.

⁸ Exception to this is available to loans affected by natural calamities which are qualified under RBI Guidelines for Relief Measures in areas affected by Natural Calamities for Banks and NBFCs <https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=11394&Mode=0>, https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=10531

c. Education & Transparency

1. Provider must provide the key information to the customer and include them in the loan documents such as loan application, loan sanction letter/loan agreement and loan card. This must include:
 - Identity and address of the Provider
 - Identity and address of the customer
 - Product details (loan amount, tenure, repayment frequency, annualised interest rate on reducing balance method⁹, processing fee, any other charges or fees howsoever described, total amount payable, total charges recovered towards premium of credit-linked life insurance cover, coverage amount and risks covered, if applicable and other key terms and conditions)
 - Details of customer grievance redressal system
2. Provider must communicate all the terms and conditions to customers in the official regional language or a language understood by them.
3. Provider must provide a receipt for every payment received from the customer.
4. Provider must take measures (such as training, assessment and periodic interactions with customers) to ensure that customers fully understand the products, process and terms of the contract.

d. Information & Privacy

1. Provider must obtain copies of KYC documents from customers as per RBI norms.
2. Provider 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.
3. Provider must promptly address any dispute raised by the customer about her data with CICs.
4. Provider 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 the Provider to obtain customer information

e. Grievance Redressal

1. Provider must provide a robust customer grievance redressal system to address customer complaints in an effective and timely manner.
2. Provider must clearly communicate the details of customer grievance redressal in branches, loan documents and other communication materials.

⁹ NBFC-MFIs are required to follow the RBI Directions with respect to pricing including interest rate and processing fee.

Governance & Enforcement

1. Provider must get the CRL signed by the Chief Executive (or equivalent senior management personnel), backed by a Board resolution of the company¹⁰.
2. Provider adopting the CRL must take the responsibility to align own policies and process to adhere to the norms of CRL.
3. Provider adopting the CRL must take the responsibility to incorporate professional governance system to ensure that employees and persons acting on their behalf are oriented and trained to follow the CRL into practice.
4. Provider adopting the CRL must voluntarily agree to CRL's governance & enforcement framework to ensure adherence to the CRL.
5. Provider adopting CRL must assign a dedicated CRL Coordinator who will be the focal point to coordinate on CRL.
6. 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
7. MFIN and Sa-Dhan shall act as facilitator for the implementation of CRL and the Steering Committee.
8. Steering Committee shall have a Terms of Reference (ToR).
9. Compliance would be based on three-pronged approach
 - Quarterly adherence report on/by Provider based on independent data from a Credit Information Company (CIC) in a standard template¹¹
 - Peer complaint system whereby Providers can bring forth the instances of non-compliances to the Steering Committee.
 - Monitoring and assessment facilitated by the Steering Committee
10. Based on changes in the regulations and data on industry and compliances, CRL shall be reviewed by the Steering Committee on a periodic basis.

¹⁰ Refer to Annexure for suggested formats for Board resolution and sign-up

¹¹ Report from a CIC in a standard format (refer Annexure) will capture data for all new loans disbursed by a Provider during the quarter for their adherence to standards of CRL with respect to a) number of Providers (≤ 3) per customer, b) total indebtedness of Rs 100,000 per customer and c) loans to customers who have non-performing (delinquency > dpd 90 days) accounts with loan amount outstanding > Rs 1,000 with another Provider, d) submission of comprehensive and timely data to CICs on a weekly basis

Annexures

a. Suggested Format for Board Resolution

Certified true copy of resolution passed at the meeting of the Board of Directors of the Company held on dd.mm.yyyy at

Adoption of Code for Responsible Lending (CRL) in Micro-credit

“Resolved that, the Board agrees to adopt the Code for Responsible Lending (CRL) in Micro-credit”.

Certified True Copy

For Name of the Company

(Name/signature)

Board Chair

(Name/signature)

CEO/MD

b. Suggested Format for Sign-up¹²

To,

Date: dd.mm.yyyy

The Steering Committee

Code for Responsible Lending (CRL)

Subject: Sign-up for Code for Responsible Lending (CRL) in Micro-credit

With reference to our micro-credit portfolio (unsecured loans upto Rs 100,000¹³ to low-income households) we hereby confirm and declare the following:

1. Company will follow the CRL in letter and spirit
2. Company's policies and process will be aligned to adhere with all the norms of CRL
3. Company will incorporate professional governance system to ensure that employees and persons acting on their behalf are oriented and trained to follow CRL into practice
4. Mr XX, whose coordinates are given below will be company's focal point to coordinate on issues related to CRL
 - Name
 - Designation
 - Email
 - Phone

Yours sincerely,

Signature

(Name of the CEO/MD)

Designation

¹² Provider can first send confirmation for sign-up as per this format. However, Provider must get a Board resolution in the subsequent Board meeting and send a copy.

¹³ Or any other amount defined for micro-credit as per RBI Directions for NBFC-MFIs.

c. Suggested Format for Quarterly Adherence Report ¹⁴

	Name of the Provider	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 the norm of 3 Providers per customer			
4.2	Loans disbursed crossing 3 loans from own company per customer ¹⁵			
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			

¹⁴ This report will be pulled by the Provider at own cost from a CIC and shared with CRL Steering Committee. A reasonable cost has been worked-out to ensure that cost is not burdensome. This report will be taken for all group loans disbursed by the Provider.

¹⁵ There is no cap on number of loans per Provider per customer under CRL. However, this data is captured to see the trend of multiple lending by a Provider.

**₹esponsible
Lender**
FIDC
MFIN
SA-DHAN
Microcredit