

4<sup>th</sup>  
Edition

# Code of Conduct

*for the* **Microfinance Industry**



**OCTOBER  
2022**



# Code of CONDUCT



Fair Interaction

Suitability



**Education & Transparency**

**Information & Privacy**



Grievance Redressal

Employee Engagement



Others





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# I. INTRODUCTION

The Code of Conduct (CoC) for microfinance was framed for the first time in 2011, which was subsequently updated in the year 2015. The 3rd edition of the CoC for the Microfinance Industry was released in September 2019. The CoC applied to NBFC-MFIs and other providers of microfinance<sup>1</sup> which were members of the Self-Regulatory Organization (SRO).

The primary focus of the Industry Code of Conduct has always been to promote and advance 'responsible lending' practices in microfinance. Much of the academic work, business practices and regulatory directions on microfinance in India and globally, broadly converge towards the core principles of fair treatment, suitability, transparency, privacy, and grievance redressal. Building on this knowledge, the industry's own experience of CoC over the years and the evolving landscape of micro-credit in the country, this CoC continues to focus on 'responsible lending' practices. Given that customers of micro-credit may not always fully understand the product and its impact, it is imperative that microfinance providers take greater responsibility to ensure that customers' interests are protected.

As different types of Regulated Entities (REs)<sup>2</sup> were governed by different regulatory frameworks in the microfinance sector, the Code for Responsible Lending (CRL) was also released in September 2019. CRL was sector-specific and entity agnostic and included the most critical elements required to be adopted by REs while delivering microfinance.

The voluntary acceptance of CRL by the REs and other microfinance providers was a very important step and signalled a consensus across the microfinance sector about the approach to be followed for customer-centric issues such as transparency and guarding against over-lending. This was a critical initiative in ensuring that microfinance achieved its intended objectives in a responsible manner and supported the economic and social progress of its customers.

The Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 effective from April 1st, 2022 (Harmonized Regulations) are based on the regulation of the 'activity of microfinance' and are agnostic to the 'type of entity' involved in the activity. These regulations are applicable to all the Regulated Entities (REs) as mentioned below:

- 1) All Commercial Banks (including Small Finance Banks, Local Area Banks, and Regional Rural Banks) excluding Payments Banks
- 2) All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks; and
- 3) All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

The Harmonized Regulations have necessitated a revision of the Industry Code of Conduct for the microfinance industry. The revised code enumerates important features

<sup>1</sup> NGOs, Societies, Trusts, Co-operatives, Section 8 companies

<sup>2</sup> Commercial Banks, Co-operative Banks, NBFCs, NBFC-MFIs, HFCs

of the new regulations to be followed by all the REs in the microfinance sector as well as industry best practices. The applicability of this code is detailed in section III.

It may also be noted that the Industry CoC 2019 and CRL 2019 are henceforth being discontinued and this document, i.e., the 4<sup>th</sup> edition of the Industry Code of Conduct 2022, has been instituted in their place.

## II. MASTER DIRECTION – RESERVE BANK OF INDIA DIRECTIONS, 2022 : A BRIEF SUMMARY (Regulatory Framework for Microfinance Loans)

- 1) A microfinance loan is defined as a collateral-free loan given to a household having an annual household income of up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife, and their unmarried children. *(Clause 3.1)*
- 2) Each RE shall put in place a board-approved policy for assessment of household income. *(Clause 4.1)*
- 3) Each RE shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 percent of the monthly household income. *(Clause 5.1)*
- 4) Each RE shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. *(Clause 5.4)*
- 5) Each RE shall put in place a board-approved policy regarding pricing of microfinance loans. *(Clause 6.1)*
- 6) Each RE shall disclose pricing-related information to a prospective borrower in a standardized simplified factsheet. *(Clause 6.3)*
- 7) A fair practices code (FPC) based on these directions shall be put in place by all REs with the approval of their boards. *(Clause 7.1.1)*
- 8) Each RE shall have a board-approved policy regarding the conduct of employees and system for their recruitment, training, and monitoring. *(Clause 7.2.1)*
- 9) Outsourcing of any activity by the RE does not diminish its obligations and the onus of compliance with these directions shall rest solely with the RE. *(Clause 7.3.1)*
- 10) Each RE shall put in place a mechanism for identification of the borrowers facing repayment related difficulties, engagement with such borrowers, and providing them necessary guidance about the recourse available. *(Clause 7.4.1)*
- 11) Recovery shall be made at a designated/central designated place decided mutually by the borrower and the RE. However, field staff shall be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/central designated place on two or more successive occasions. *(Clause 7.4.2)*

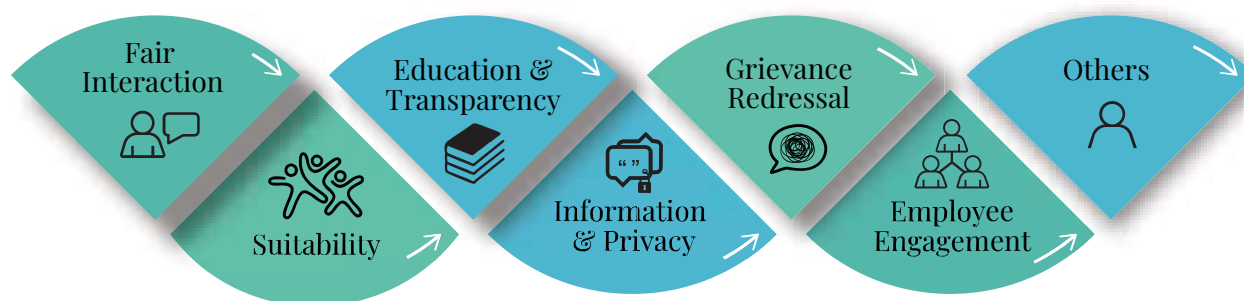
- 12) The REs shall have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process.  
(Clause 7.5.2)

### III. APPLICABILITY OF THE CODE OF CONDUCT

- 1) This code is applicable to all the lenders of microfinance – Regulated Entities (REs) as well as other microfinance providers<sup>3</sup>.
- 2) For REs and other microfinance providers who are members of the Self-Regulatory Organization (SRO), CoC is obligatory to follow and is a necessary condition for membership. SROs would enforce adherence to the CoC by members.
- 3) All other REs and microfinance providers (irrespective of legal form) delivering micro-credit loans are strongly encouraged to voluntarily adopt the CoC.
- 4) As micro-credit is the key product offered by microfinance providers to low-income market segments, the focus of CoC is ‘responsible lending’ practices. However, the underlying principles of customer protection (fair treatment, suitability, transparency, privacy and grievance redressal) can very well be applied to other financial products offered by the providers.
- 5) REs and other microfinance providers are required to adhere to all legal and regulatory requirements as required by the RBI, SEBI, IRDA, Central & State Government Acts etc. It may be noted that CoC is in addition to these compliances and does not substitute them. In the event of future regulatory changes, if provisions of code and regulation are not in conformity, the regulations will prevail.

### IV. CODE

*The Code has seven elements:*



<sup>3</sup> Provider is defined as an entity which provides micro-credit in line with norms as defined by the RBI in the Regulatory Framework for Microfinance Loans, Directions, 2022.



## A. Fair Interaction

- 1) The RE and any other microfinance provider must ensure that borrower is not unfairly discriminated against on grounds such as religion, caste, gender, marital status, sexual orientation, etc.
- 2) The RE and any other microfinance provider must ensure that all employees and persons acting on its behalf:
  - a) Undergo training on how to exhibit appropriate behaviour towards the borrowers.
  - b) Use respectful language, maintain decorum, and show respect to social and cultural sensitivities.
  - c) Do not use coercion of any sort to make recovery of loans and take recovery only at a central designated place. An employee can take recovery at the place of residence or work of the borrower only if the borrower fails to appear at the central designated place on two or more successive occasions.
  - d) Do not intimidate or humiliate verbally or physically.
  - e) Do not contact borrowers at odd hours or at inappropriate times such as bereavements, illness, social occasions such as marriages and births.
  - f) Do not harass relatives, friends, neighbours, or co-workers of the borrower.
- 3) A Fair Practices Code approved by the board of the RE and any other microfinance provider shall be displayed in vernacular/a language understood by the borrower in all the offices and the website of the RE.
- 4) The RE and any other microfinance provider must ensure that the engagement of the recovery agents and their interaction with the borrowers is as per the guidelines mentioned in the Harmonized Regulations.



## B. Suitability

- 1) The RE and any other microfinance provider must disburse the loan commensurate with the borrower's ability to repay. The RE shall ensure a limit of maximum 50 percent on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. The computation of loan repayment obligations shall take into account all outstanding loans of the household.
- 2) The RE and any other microfinance provider should ensure that the Interest rates and other charges/fees on microfinance loans are not usurious and there should not be any pre-payment penalty charges.
- 3) The RE and any other microfinance provider should ensure that the household income is properly computed by considering the income of the borrower, spouse, and their unmarried adult children.

- 4) The RE and any other microfinance provider must use a valid<sup>4</sup> CCIR (Comprehensive Credit Information Report) for the borrower and all the household<sup>5</sup> members of the borrower before sanctioning any loan. It is clarified that valid CCIR must be used for all loans including small value top-up loans, and second and subsequent cycle loans.
- 5) To ensure that the CCIR remains current and valid, each RE and any other microfinance provider shall mandatorily submit timely (preferably daily) and accurate information including household income and other parameters to the Credit Information Companies (CICs).
- 6) The RE and any other microfinance provider should not sanction/ disburse a loan to a borrower who has non-performing (delinquency > dpd 90 days) accounts with loan amount outstanding > ₹3,000 with another RE or any other microfinance provider.<sup>6</sup> This is specifically applicable to microfinance loans.<sup>7</sup>



## C. Education & Transparency

- 1) The RE and any other microfinance provider must provide key information to the borrower and include them in the loan documents such as the loan application, loan sanction letter, loan agreement, and loan card. This must include:
  - i) Identity and address of the RE.
  - ii) Identity and address of the borrower.
  - iii) Product details (simplified factsheet on pricing in the format specified in the RBI regulations, including instalments received and the final discharge and other key terms and conditions).
  - iv) Details of customer grievance redressal system.
- 2) The RE and any other microfinance provider must ensure that the issuance of third-party products is done with full consent of the borrowers, kept voluntary and the fee structure for such products is explicitly communicated to the borrower.
- 3) The RE and any other microfinance provider must communicate with the borrower in vernacular/a language understood by the borrower. The communication could pertain to the terms and conditions of the loan, entries in the loan card, fair practices code, standard form of loan agreement, factsheet on pricing of

4 CIR (Credit Information Report) is considered as 'valid' for fifteen calendar days from the date of extraction of the CIR. This implies that the REs needs to disburse the loan within fifteen calendar days from the date of extracting the CIR

5 Clause 3.1 of the Harmonized Regulations states that the 'Household' shall mean an individual family unit, i.e., husband, wife, and their unmarried children

6 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](https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=10531)

7 This clause is applicable from 1st Jan 2023.

the microfinance loan, and other such communication pertaining to the loan and non-credit products and their servicing.

- 4) The RE and any other microfinance provider must take measures (such as training, assessment, and periodic interactions with borrowers) to ensure that borrowers fully understand the products, process, and terms of the contract.
- 5) The RE and any other microfinance provider must provide a receipt/ acknowledgement for every payment, including the digital payments, received from the borrower.
- 6) The RE and any other microfinance provider must give emphasis to educating customers on the importance of timely repayment for good credit history with the CICs, benefits, risks and necessary safeguards of digital financial transactions and grievance redressal mechanism including internal and external escalation mechanism<sup>8</sup>.
- 7) The RE and any other microfinance provider must educate customers against blind trust on group and centre leader and how any default in the fictitious loan (also referred to as ghost lending/pipelining taken by group/ centre leader in customer's name) can ruin her credit records and access to credit in the future. This should be a part of the Compulsory Group Training (CGT)/Group Recognition Test (GRT) process. The RE must also strive to ensure customer attendance in the group meetings. Any training offered to customers should be free of cost.
- 8) The RE and any other microfinance provider must disclose the reason to the customer if her loan is rejected. For this purpose, an easily accessible channel through which the borrower can enquire about the status of her application should be provided.
- 9) Please refer to the Annexure for details of disclosure requirements in branches and loan documents.



## D. Information & Privacy

- 1) The RE and any other microfinance provider must obtain copies of KYC documents from borrowers as per the RBI norms.
- 2) The RE and any other microfinance provider must upload accurate and comprehensive borrower data with all RBI approved Credit Information Companies (CICs) as per Uniform Credit Reporting Format.<sup>9</sup>
- 3) The RE and any other microfinance provider must take the borrower's consent for checking her CCIR and her acceptance of the terms and conditions of the loan. Consent should also be obtained from the borrower's household members for checking their CCIRs as per the extant regulations and laws.

<sup>8</sup> External escalation mechanism must include regulatory channels available to customer to escalate including Ombudsman where applicable

<sup>9</sup> On a weekly frequency for NBFC-MFIs

- 4) The RE and any other microfinance provider must promptly address any dispute raised by the borrower about her data with CICs.
- 5) The RE and any other microfinance provider must have systems to safeguard borrower and borrower's household members' data as per the accepted principles of data protection including collection limitation, purpose specification, use limitation, incorporation of access controls etc.
- 6) The RE and any other microfinance provider must keep borrower and borrower's household members' personal information strictly confidential. This information may be disclosed to a third-party subject to any of the following conditions:
  - i) 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)
  - ii) Borrower/borrower's household members have been informed about such disclosure and prior permission has been obtained in writing
  - iii) The party in question has been authorized by the borrower/borrower's household members with intimation to the RE and any other microfinance provider to obtain their information



## E. Grievance Redressal

- 1) The RE and any other microfinance provider must have a board-approved customer grievance redressal policy covering the process to register, resolve and escalate the complaints, internal and external escalation mechanism, complaint categories and TAT, review/audit of redressal system, and reporting to the board and top management.
- 2) The RE and any other microfinance provider must provide a robust customer grievance redressal system to address complaints in an effective and timely manner. RE and any other microfinance provider must provide easy access to redressal system to all its borrowers through a dedicated phone number or a staff-assisted procedure at the branch to register grievances.
- 3) The RE and any other microfinance provider must clearly communicate the details of customer grievance redressal system in branches, loan documents, and other communication materials.
- 4) The RE and any other microfinance provider must have a mechanism as part of its grievance redressal framework for redressal of recovery-related grievances, the details of which must be provided to the borrower at the time of loan disbursement. However, this does not imply that RE, and any other microfinance provider should have a separate redress mechanism for recovery related grievances. REs and any other microfinance provider can re-structure/re-organise the existing redressal system to identify and promptly address recovery related grievances.

- 5) The RE and any other microfinance provider must at least have one grievance redressal officer to oversee the customer grievance redressal function.
- 6) The RE and any other microfinance provider must record and analyse individual and aggregate level data for grievance redressal system capturing the nature of complaints, action taken, and turn-around time. Report on grievances received, resolved, and pending along with the nature of complaints should be shared with the board for review.



## F. Employee Engagement

- 1) The RE and any other microfinance provider must recruit a candidate from another RE based on a satisfactory reference check and should not confirm the employee without a relieving letter from the previous employer.
- 2) The RE and any other microfinance provider is encouraged to participate in Employee Bureau to submit their employee's data and check candidate's employment records.
- 3) The RE and any other microfinance provider must give comprehensive induction training to the employees on policies, processes, and regulations. Emphasis should be given to CoC related aspects on borrower-interface aspects such as fair treatment, household and income assessment, the privacy of data, service quality, customer grievance redressal system, POSH, relationship management, dealing with borrower facing difficulty in repayment, etc.
- 4) The RE and any other microfinance provider must regularly assess employee's understanding of the above elements and conduct refresher training to address the gaps in understanding.
- 5) The RE and any other microfinance provider must train their employees on understanding and dealing with gender issues including appropriate interaction with women colleagues and customers.
- 6) The RE and any other microfinance provider must necessarily orient their employees on professional conduct and integrity issues including expected behaviour and not indulging in any unlawful and anti-social activities.
- 7) The RE and any other microfinance provider must engage new employees in the branch-level business operations only after completion of their induction training.
- 8) The RE and any other microfinance provider must ensure that employees directly responsible for grievance redressal system receive detailed training about the system, processes, and soft skills required for resolving complaints.
- 9) The RE and any other microfinance provider must set targets for the branch-level employees based on a reasonable-objective criterion including an understanding of microfinance requirement and repayment capacity in an area.

- 10) The RE and any other microfinance provider must have a well-defined protocol to be followed by employees to handle risks arising from going to difficult areas and cash handling.
- 11) Compensation matrix for the staff should be designed in a manner to align their behaviour with fair interaction practices as mentioned in Section IV. A of this code.
- 12) The RE and any other microfinance provider, while recruiting an employee, must honour the notice period as mutually agreed between prospective employee and his/her current employer.
- 13) The RE and any other microfinance provider must respond to request from other RE/microfinance provider for reference check within 15 calendar days/a reasonable time-period from the receipt of such communication.



## G. Others

- 1) The RE and any other microfinance provider must have a board approved framework to deal with crises arising from natural disasters, mass defaults, negative media, local-level hostility, etc., which is reviewed periodically.
- 2) The REs and any other microfinance provider, who have underlying digital (i.e., paper-less) processes for sourcing (loan application), borrower consent, due diligence, contracts, disclosures, payment receipts, grievance redressal, etc. must ensure that these processes are aligned with the applicable regulatory norms and borrower is made fully aware, educated, and comfortable with digital modes of transaction.
- 3) Any new initiatives encouraging digital transactions should be introduced keeping in mind the borrower's level of knowledge and comfort. During the initial adoption of digital methods, an enhanced focus on grievance redressal system and customer handholding should be instituted.
- 4) The RE and any other microfinance provider must prominently display information about the interest rates charged on microfinance loans in its offices, literature issued by it and its website.
- 5) The RE and any other microfinance provider agrees to share updated pricing information to the highest granularity possible with the SROs for publishing as required by the RBI.<sup>10</sup>
- 6) The RE and any other microfinance provider, if withdrawing operations from an area, must make alternate arrangements to service the existing loans of its borrowers. As an example, an arrangement with an existing RE and any other microfinance provider, in such cases can be worked out to receive loan repayments from borrowers.
- 7) The RE and any other microfinance provider must ensure that the well-being (For ex: adequate remuneration, working hours, working conditions etc) and security of their employees is given due importance.

<sup>10</sup> Applicable only to NBFC-MFIs

## V. GOVERNANCE & ENFORCEMENT

- 1) The RE and any other microfinance provider must get the Industry CoC signed by the Chief Executive (or equivalent senior management personnel), backed by a board resolution of the company<sup>11</sup>.
- 2) REs and any other microfinance provider adopting the Industry CoC must:
  - i) Take the responsibility to align own policies and processes to adhere to the norms of CoC.
  - ii) Take the responsibility to incorporate a professional governance system to ensure that employees and persons acting on their behalf are oriented and trained to follow the CoC into practice.
  - iii) Must voluntarily agree to CoC's governance & enforcement framework to ensure adherence to the CoC.
- 3) Compliance would be based on a three-pronged approach
  - i) Half-Yearly/Quarterly<sup>12</sup> Adherence report on/by RE and any other microfinance provider based on independent data from a Credit Information Company (CIC) in a standard template<sup>13</sup>. Self-reported data by the microfinance providers, who are not covered under the CICRA.
  - ii) Peer complaint system whereby RE and any other microfinance provider can bring forth the instances of non-compliances to the SROs.<sup>14</sup>
  - iii) Monitoring and assessment facilitated by the SROs.<sup>15</sup>

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

12 Quarterly for large REs (AUM of Rs. 500 Cr or more) and half-yearly for others

13 Report from a CIC in a standard format (refer Annexure) will capture data for all new loans disbursed by a RE for their adherence to standards of CoC

14 Applicable only to NBFC-MFIs

15 Applicable only to NBFC-MFIs