MICROFINANCE INSTITUTIONS NETWORK

powering responsible finance

COMPENDIUM OF MFIN DIRECTIVES & ADVISORIES

UPDATED ON 29TH NOV 2018

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Directives are mandatory to comply by the member NBFC-MFIs while Advisories are recommendatory in nature.

Abbreviations

CGRM	Customer Grievance Redressal Mechanism
CIC	Credit Information Company
CIR	Credit Information Report
CoC	Code of Conduct
EC	Enforcement Committee
FPC	Fair Practices Code
ID	Identity Document
JLG	Joint Liability Group
KYC	Know Your Customer
MFI	Microfinance Institution
MFIN	Microfinance Institutions Network
NBFC	Non-bank Finance Company
RBI	Reserve Bank of India
SHG	Self Help Group
SRO	Self-regulatory Organization
SROC	Self-regulatory Organization Committee
TPP	Third Party Product
UCRF	Uniform Credit Reporting Format

Preface

We are pleased to issue the Compendium of all Directives and Advisories issued by Microfinance Institutions Network (MFIN) so far. This compendium was approved by the Board in its meeting held on 25th May 2018 in Gurgaon.

Since 2012, a series of MFIN Directives, Advisories, Circulars and Guidelines have been issued. Based on issues in hand they have evolved over time and have been issued by the Board, Secretariat, Self-Regulatory Organization Committee (SROC) and the Enforcement Committee (EC). To harmonize and update these separate Directives, Advisories, Circulars and Guidelines, these documents were reviewed for clean-up, updating, and better context setting, without changing the spirit and consolidated into this single Compendium.

The Compendium has two categories of documents, Directives and Advisories. Directives are mandatory to comply by the member NBFC-MFIs while Advisories are recommendatory in nature.

It may be noted that Compendium supersedes all the previous Directives, Advisories, Circulars and Guidelines issued by MFIN earlier and is effective as on date. Going forward, this Compendium will be reviewed on an annual basis, besides the regular update, as required.

We request our member NBFC-MFIs' support for adherence to these Directives and Advisories to build a robust eco-system for the microfinance industry.

If you have any suggestions and clarifications, please do get in touch with Sheetal Prasad at sheetalprasad@mfinindia.org

Regards,

Harsh

(Harsh Shrivastava)
CEO, MFIN 6th July 2018

1. Directive on reference check of employees

a. Context

Adherence to this Directive by member NBFC-MFIs will encourage that employee recruitments are done with adequate information about the candidate in a rightful manner.

Industry Code of Conduct (CoC) has following provisions with respect to recruitment of the employees by NBFC-MFIs.

I. 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.
II. Whenever an MFI seeks to recruit an employee in another MFI, it will be mandatory to seek a reference check from the current 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.
III. MFIs should respond to the reference check request from another MFI within two weeks.
IV. MFIs must honour notice period as contractually agreed between employer and employee subject to a minimum of one month for an outgoing employee.
V. 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 20 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.
VI. 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 block where he/she was serving at the previous employer, for a period of 1 year.

Within this broad framework on employee recruitment, member NBFC-MFIs are directed to follow the process as outlined below:

b. Directive

1. All the MFIN member NBFC-MFIs must assign and designate a person, Head of Human Resources or equivalent to request for and respond to the reference checks. Details of designated person must be shared with the MFIN Secretariat for circulation amongst the member NBFC-MFIs. Member NBFC-MFIs must ensure to keep their details updated with the MFIN[1].
2. For a candidate, currently working with a NBFC-MFI, the recruiting NBFC-MFI needs to get a formal reference check by writing to the designated person at the current employer of the candidate. If the recruiting NBFC-MFI does not receive response to the request of reference check in a month's time, it (i.e. recruiting NBFC-MFI) may go ahead with the recruitment.
3. If the candidate is currently **not** working with a NBFC-MFI but has worked before, it is mandatory for the recruiting NBFC-MFI to ask for the relieving letter. It is advised that the recruiting NBFC-MFI do a reference check from the latest employer of the candidate. However, it is not mandatory if relieving letter is available.

[1] List of HR Contacts is available for view and edit at https://docs.google.com/spreadsheets/d/1Zs_qwlYwSh7pyNMydmhF_VnxnO6ymmpcZAadv9-luMk/edit?usp=sharing

2. Directive on submission of data to CICs

a. Context

In the microfinance sector, multiple and over lending at the customer level is a critical issue and RBI Directions for NBFC-MFIs address this issue through caps on number of NBFC-MFIs and total indebtedness per customer. Accordingly, NBFC-MFIs are required to ensure that they do not breach the caps while disbursing loan to a customer. For this purpose, NBFC-MFIs, among other things, greatly rely on customers' Credit Information Report (CIR) extracted from the Credit Information Companies (CICs). To ensure that NBFC-MFIs use CIR which is accurate and updated, MFIN member NBFC-MFIs are directed to comply with the following with respect to submission of data to the CICs.

> Adherence to this Directive by member NBFC-MFIs will ensure that customer's accurate and updated record is available with the CICs and in the CIR. Access to most updated CIR will give NBFC-MFIs better view of her borrowings (sources, total indebtedness, repayments) to make lending decision which is aligned to regulations and customer protection among other things.

b. Directive

1. All member NBFC-MFIs are required to submit complete data to all the CICs in the RBI specified Uniform Credit Reporting Format (UCRF) for Micro Finance Institution (MFI) Segment[2].

2. **Weekly submission:** Data must be updated to the CICs on a weekly basis in three weekly files as under:

2.1 Weekly submission needs to be reported on incremental basis[3] and should include following parameters:

a. Account status changes (payment update, delinquencies, write-offs and settlements etc))
b. New loans disbursed
c. Account closures
d. Account number change, if any

2.2 If any member NBFC-MFI is having active loan accounts < 100,000 then the NBFC-MFI can submit full data submission in weekly reporting.

2.3 Files for weekly submission to be submitted as per following schedule

a. Data extracted for the 1st Week (1 -7 of the month) to be submitted by 14th of the month
b. Data extracted for the 2nd Week (8-14 of the month) to be submitted by 21st of the month
c. Data extracted for the 3rd week (15-21 of the month) to be submitted by 28th of the month
d. Data extracted for the 4th/5th week (22-30/31 of the month) to be submitted along with the monthly file

3. **Monthly submission:** Full monthly data files for all the accounts (updated for all changes between 1st to the last date of the month) to be submitted to CICs by 7th of subsequent month. For example, updated complete data as on 31st October 2017 to be submitted by all members to the CICs 7th November 2017. This must include all accounts that had been active, delinquent or closed in last month. NBFC-MFI may consider including accounts that are closed or written off in last 3 months. It may be noted that data for last 4th /5th week (22-30/31) to be submitted along with the monthly file.

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[2] https://rbidocs.rbi.org.in/rdocs/content/pdfs/DFFCI270614FL_A2.pdf

[3] Incremental submission is recommended rather than full submission for NBFC-MFIs with loan accounts > 100,000 as submission of full data in weekly file leads to huge data loads and clogging of systems of the CICs.

4. Member NBFC-MFIs to strengthen their internal processes to ensure that correct and comprehensive data is submitted to the CICs, including mandatory seeding of 2 KYCs of the customer, as has been directed in MFIN Directive on KYC Standards.

5. Additionally, key demographic details of the customer at the time of on-boarding, should be captured from Aadhar and not randomly picked from different KYC documents.

3. Directive for using valid Credit Information Repot (CIR)

a. Context

RBI Master Circular on NBFC-MFIs stipulates that NBFC-MFIs must limit the multiple lending and over lending at the customer level and should use data available with Credit Information Companies (CICs) to ensure compliance with the conditions regarding level of indebtedness and sources of borrowing.

> Adherence to this Directive by member NBFC-MFIs will ensure NBFC-MFI use most updated CIR that gives them comprehensive view of her borrowings (sources, total indebtedness, repayments) to take informed lending decision which is aligned to regulations and customer protection among other things.

Over the years, credit information system for the microfinance customer segment has significantly strengthened and Credit Information Report (CIR) provided by the CICs include relevant information about customer including his/her existing indebtedness, sources of loans and previous credit history. This information must be used by the NBFC-MFIs to support the lending decisions.

b. Directive

To ensure regulatory compliance on multiple/over lending by member NBFC-MFIs, it is directed that:

1. NBFC-MFIs to use a valid CIR of the customer for all the loans disbursed to customer. CIR should be used for new loans (first cycle or subsequent cycles) as well as any top-up loan or mid-term loan.
2. Credit Information Report (CIR) is considered as 'valid' for 15 calendar days from the date of extraction of the CIR. This implies that NBFC-MFIs needs to disburse a loan to the customer within 15 calendar days from date of extracting her Credit Information Report (CIR).
3. To extract CIR, NBFC-MFI must accurately input customer's KYC information including Aadhaar, Voter ID, name, spouse name, date of birth and address (pin code, state, district) as required by the CICs to ensure optimum match by the CICs.

4. Advisory on dealing with customer disputes on CIR

a. Context

> Adherence to this Advisory by member NBFC-MFIs will provide a useful channel to customers to correct their data and CIR with the CICs

Several customer complaints are received on Customer Grievance Redressal Mechanism (CGRM) of regarding Credit Information Report (CIR). Complaints mostly arise when the application of a customer is rejected because of her a) having multiple loans from different lenders; b) total indebtedness being more than permissible limits; or c) being delinquent with other lenders. Typically, customer complaints fall into two broad categories:

- **Account status dispute:** Customer contends that her CIR report is not updated. To cite an example; the customer has closed her loan account, but the account still shows to be an outstanding one or she has paid her previous dues, but the CIR shows that the account is delinquent.
- **Ownership dispute:** The customer contends that the CIR report is showing a trade-line that does not belong to her. To cite an example, she has never ever taken a loan from a certain FI, but her CIR shows her to have done so. This could be the case of false positive or in-accurate search output due to poor data quality.

Customers do not have access to Credit Information Companies (CICs) for a variety of reasons. Therefore, the responsibility to ensure that the customer has an accurate CIR, must be shared equally between the CICs and member NBFC-MFIs. To support the customer to resolve their complaints with respect to CIR, member NBFC-MFIs are advised to follow the process outline below.

b. Advisory

Step 1: Loan application from a customer is rejected by a member based on her CIR which shows her in breach of multiple loans/total indebtedness or having a delinquent account status. However, the customer contests that the information in the CIR is incorrect and approaches the member NBFC-MFI which has rejected the loan for support.

Step 2: Member NBFC-MFI (rejecting the loan) acts as a facilitator to the customer and initiates the query/complaint by writing to the concerned CIC (on email id mentioned below) with the details of the CIR (report ID or report order number mentioned on the CIR along with copy of the CIR) and the nature of the dispute:

- CIBIL: support@cibil.com
- Crif High Mark: customerservice@crifhighmark.com
- Equifax: ecissupport@equifax.com

Step 3: CICs will resolve the queries by contacting the concerned member NBFC-MFI as required and update the facilitating member NBFC-MFI (along with a copy of new CIR). Turn Around Time (TAT) for CICs to resolve the queries is 30 working days[4].

Step 4: Facilitating member NBFC-MFI informs the customer of the changes in CIR, if any.

Step 5: Disputes not resolved within 30 working days can be escalated to MFIN (both by CICs and member NBFC-MFIs) for follow-up.

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[4] As per 'The Credit Information Companies (Regulation) Act 2005', Credit Information Company and the Credit Institution are mandated to take necessary action to update the credit information within 30 days from the date of the dispute.

5. Directive on Know Your Customer (KYC) standards

a. Context

Adherence to this Directive by member NBFC-MFIs will ensure that customer's KYC data is accurately and consistently captured by all NBFC-MFIs.

RBI has detailed directions on Know Your Customer (KYC). In the microfinance customer base, however, use of multiple KYC Identity Documents (IDs) has been found challenging. It has been observed that demographic data of the microfinance customer is not always consistent across different KYC documents and this can be manipulated to truncate an identity into 'multiple' identities. To address this gap, it has been decided that only a small-set of KYC documents which are uniformly and widely available amongst microfinance customer segments (Aadhaar, Voter ID, Ration Card and MNREGA Job Card) should be permissible.

Given the pervasiveness of Aadhaar amongst adults and authentication benefits associated with Aadhaar, NBFC-MFIs are advised to move towards capturing Aadhaar. However, considering that historically Voter ID has been captured for the microfinance customer, NBFC-MFIs should continue to capture Voter ID as well. This will ensure that the customer's Credit Information Report (CIR) optimally captures all her credit lines.

b. Directive

In the background of above, it is directed that, for all loans disbursed during a quarter, NBFC-MFIs must ensure that:

1. **Compulsory two (2) KYC IDs:** All (and every) loan disbursed will have to necessarily capture 2 standard KYC documents from amongst Aadhaar, Voter ID, Ration Card[5], MNREGA Job Card[6]. Only loans given in Assam and 5 north-eastern states are exempted from this rule.
2. **One KYC ID has to be from Aadhaar and Voter ID:** First (or Primary) KYC ID has to be Aadhaar or Voter ID and therefore all (and every) loans disbursed to necessarily capture Aadhaar or Voter ID. This means no loan can be given if neither Aadhaar ID nor Voter ID is available. Only loans given in Assam and 5 north-eastern states are exempted from this rule.
3. **Aadhaar ID:** In every state, loans disbursed during the quarter to capture Aadhaar as per benchmark data published by MFIN (one week before the beginning of the quarter). Only loans given in Assam and 5 north-eastern states are exempted from this rule.
4. **Voter ID:** Minimum 90% loans to have Voter IDs in all the states. In addition to 5 north-eastern states, exception on Voter ID is given to Odisha and Assam where Voter ID to be captured for 80% of the loans disbursed.

It is further clarified that

i. For all (and every) loan, NBFC-MFI to ensure that

- At least 2 KYC documents are captured from amongst Aadhaar, Voter ID, Ration Card and MNREGA Job Card
- First (or primary) KYC ID has to be from Aadhaar or Voter ID. No loan can be given if neither Aadhaar ID nor Voter ID is available for the client. If Aadhaar is not available, Voter ID has to be captured. If Voter ID is not available, Aadhaar has to be captured.

[5] Ration Card is accepted as KYC document for the customer only if customer name is mentioned on Ration Card
[6] Job Card issued to the customer by the state government under MGNREGA

- For loans where only Aadhaar or Voter ID is available (i.e. only Aadhar is available or Voter ID is available), second KYC document has to be captured from Ration Card or MNREGA Job Card

ii. At aggregated portfolio level, on a quarterly basis, NBFC-MFIs to ensure that

- 100% loans have 2 KYC documents from amongst Aadhaar, Voter ID, Ration Card and MNREGA Job Card. Only exception being Assam and NE state as per the exception list.
- 100% loans have Aadhaar or Voter ID. Only exception being Assam and NE state as per the exception list.
- For every state, where NBFC-MFI has disbursed loans, Aadhaar is captured as per benchmark data published by MFIN.
- Minimum 90% loans have Voter IDs in all the states except in Assam and Odisha. For Assam and Odisha, Voter IDs to be captured for 80% (minimum requirement) of the loans disbursed.
- For loans where either Aadhaar or Voter ID is not available (i.e. only Aadhar is available or Voter ID is available), second KYC document must be captured from Ration Card or MNREGA Job Card

iii. Exception list

- **North-eastern states:** Five North-Eastern states (Arunachal Pradesh, Meghalaya, Manipur, Mizoram and Nagaland) have been given an exemption due to low availability of standard KYC documents in the region. However, NBFC-MFIs are encouraged to collected standard KYC documents on a best effort basis.
- **Odisha:** Only exception available is on Voter ID. Voter ID must be captured for 80% (against 90% required for other states) loans disbursed in Odisha. All other KYC requirements remain same.
- **Assam:** 2 KYC IDs are not required. NBFC-MFIs are only required to capture Voter ID for 80% (against 90% required for other states) loans disbursed. NBFC-MFIs can take secondary KYC documents based on the availability in the state.

iv. Others

- To ensure the usability of KYC IDs, it is advised that IDs that are less than 5 digits in length should not be considered.
- KYC IDs should be populated in the appropriate column in the UCRF[7] submitted to Credit Information Companies (CICs). For example, Voter ID should be populated in Voter ID column of the UCRF.
- NBFC-MFIs must also perform internal/external validations on primary KYC IDs captured for the customers to ensure the quality and validity of KYC IDs
- Key demographic details of the customer (name, age/dob, father/spouse name, address) should be captured from Aadhaar.
- Please refer to the quarterly KYC benchmarks published and shared with the members at the beginning of each quarter (Annex).

[7] https://rbidocs.rbi.org.in/rdocs/content/pdfs/DFFCI270614FL_A2.pdf

6. Directive on cap of total indebtedness per customer under group lending

a. Context

Adherence to this Directive by member NBFC-MFIs will ensure that customer and groups are not stretched in case of non-repayment by customer of the group.

The Reserve Bank of India (RBI)[8]has raised the limit on total indebtedness of the borrower[9] to Rs 100,000. However, understanding the dynamics of social collateral and group lending, microfinance industry collectively agreed that the ability of the groups (Joint Liability Groups/Self Help Groups) to absorb such a large amount is limited.

The issue was comprehensively debated by MFIN member NBFC-MFIs and based on collective feedback all member NBFC-MFIs were directed that for *'all the loans disbursed, under group (JLG/SHG) liability lending, from 1st September 2015, total indebtedness of the borrower under group (JLG/SHG) liability lending does not exceed Rs 60,000 across rural and urban/semi-urban households'.* However, based on feedback received and review of matter, cap has been revised upwards from Rs 60,000 to Rs 80,000 from 1st April 2018.

b. Directive

In the above context, all member NBFC-MFIs are directed to adhere to following for all the loans disbursed, under group (JLG/SHG) liability lending, from 1st April 2018.

1. Total indebtedness of the customer under group (JLG/SHG) liability lending does not exceed Rs 80,000 across rural and urban/semi-urban households[10]
2. Total indebtedness of the customer under group (JLG/SHG) liability lending to be same (i.e. Rs 80,000) for both rural and urban/semi-urban households
3. Any lending above this cap has to be individual lending
4. A valid Credit Information Report (CIR) shall be considered for estimating the total indebtedness level for a customer
5. All types of loans (individual, JLG, SHG), should be reported in the microfinance Common Data Format (CDF) to the Credit Information Companies (CICs). This would ensure that all types of loans get reported in the microfinance bureaus of the CICs and Credit Information Report (CIR) captures all types (individual, JLG, SHG) of loans for a customer.
6. As per RBI Directions, member NBFC-MFIs must comply with all other criterions prescribed for the 'qualifying assets' including clause that 'not more than two NBFC-MFIs shall lend to the same borrower'

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[8] RBI Circular dated 1st July, 2015, DNBS.(PD) CC.No. 395/03.10.38/2014-15

[9] Total indebtedness of the customer at any point is loan amount outstanding of the customer

[10] To clarify, members, while lending to a customer under group (JLG/SHG) liability, must ensure that total indebtedness of the customer under JLG does not breach Rs 80,000. For example,

a) If a customer has a group (JLG/SHG) loan outstanding of Rs 40,000, Lender can give group (JLG/SHG) loan of maximum Rs 40,000 to this customer
b) If a customer has a group (JLG/SHG) loan outstanding of Rs 80,000 from, Lender **cannot** give group (JLG/SHG) loan to this customer. Lender can only give individual loan of maximum Rs 20,000 to this customer
c) If a customer has an individual loan outstanding of Rs 80,000, Lender can give JLG loan of maximum Rs 20,000
d) If a customer has an individual loan outstanding of Rs 10,000 from, Lender can either give JLG loan of maximum Rs 80,000 or individual loan of maximum Rs 90,000

7. Directive on lending to customers with delinquent accounts

a. Context

> Adherence to this Directive by member NBFC-MFIs will encourage credit discipline amongst customers

There are no industry-wide guidelines on lending to a customer with delinquent account(s) and NBFC-MFIs lends to such customers based on their own due-diligence and risk analysis. Post-demonetization, there has been a significant increase in the volume of delinquent loan accounts and there are very high number of loan accounts which are delinquent due to several reasons, some wilful or otherwise including income-wage losses, local level interferences by vested interests.

To deal with situation it is felt that there is a need for an industry-wide framework and guidelines to deal with customers with delinquent accounts. Such a policy will encourage credit discipline by exerting necessary pressure on defaulting customers to repay their dues.

b. Directive

In the context of above it is directed that:

For all loans disbursed from 1st June 2017, member NBFC-MFI should not lend to a new customer who has delinquent account(s) with other MFI(s). New customer is defined here as a customer who has no active loan account with member NBFC-MFI as on 8th Nov 2016.

8. Directive on Third Party products (TPP)

a. Context

NBFC-MFs are increasingly offering

- Credit which is linked to purchase of a Third-party Product (TPP) such as consumer goods, cycles, household items like solar lamps
- Purchase of TPP (without credit)
- Other financial products such as health/asset insurance.

Adherence to this Directive by member NBFC-MFIs will ensure TPP are purchased by the customers based on their need and choice.

With respect to such products, there are a significant number of customer complaints from customers pointing to practice of un-fair bundling of such product or customer being forced to take such products as pre-condition to take credit.

Relevant provisions in the context of Third Party products are as under:

- **RBI Directions on NBFC-MFIs**

Part 1, 4.C.a.iv - Pricing of Credit
NBFC-MFIs shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges where recovered, shall be as per IRDA guidelines.

- **RBI's Guidelines on Fair Practices Code for NBFCs**

Part B. NBFC-MFIs, (ii) Disclosures in loan card,
(c) v. Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself.

- **Charter of Customer Rights**

Point 3: **Right to Suitability**
The products offered should be appropriate to the needs of the customer and based on an assessment of the customer's financial circumstances and understanding.

b. Directive

To ensure that customer interests are protected in the sale of TPP, it is directed that:

1. Details of all TPP products offered by NBFC-MFI should be displayed/disclosed.
2. There should not be any bundling of a TPP with the primary credit product or vice versa.
3. There should be a minimum time gap of one month between the disbursement of the primary credit product and the credit for financing the TPP or vice versa.
4. Company's Customer Grievance Redressal Mechanism (CGRM) should cater to complaints related to TPP.
5. Selling price of TPP to the customer, in case of non- financial products, under no circumstances, should exceed the MRP as mentioned on the product.
6. Life insurance product linked to the credit is not considered as a TPP.

9. Directive on Insurance claims settlements

a. Context

> Adherence to this Directive by member NBFC-MFIs will ensure that in event of death of the customer or her family member, family is supported with insurance claims process and repayments.

NBFC-MFIs typically offer credit life insurance to their customers and one key family person (mostly spouse who is co-borrower) under which insured customer and family person are insured for the loan amount disbursed during the tenure of the loan.

In case of insured customer or her family person passing away during the tenure of the loan, insurance claim is settled in a way that outstanding principal amount on date of death (as per the death certificate) is paid to the NBFC-MFI and remaining amount is paid to the customer or her nominee, as applicable. However, there could be variations amongst different credit life insurance products offered by NBFC-MFIs and therefore different under-lying process to settle the claims. For example, if insured family member who has passed way is not a co-borrower, full insurance amount will be settled to the nominee and NBFC-MFI may continue to collect the repayment as per schedule.

Considering that huge financial distress is caused by the death of the customer and/or her family person, continuing the collection of repayment or delay in claim settlement can add further stress.

b. Directive

In the background of above, it is directed that

1. NBFC-MFIs should ensure that they cease collection of due instalment after the date of the demise of the insured customer or insured family person.
2. In case there has been any collection of due instalment post this date, NBFC-MFIs are required to refund the excess amount along with the death benefit to the customer or nominee, as applicable.
3. NBFC-MFI take all necessary steps including support to customer/nominee with documentation requirements to timely process the insurance claims.

10.Directive on charges for loans disbursed and re-paid digitally

a. Context

Adherence to this Directive by member NBFC-MFIs will ensure that pricing to customer is in line with RBI Directions.

NBFC-MFIs are increasingly moving to digital transactions, particularly disbursements through different instruments such as pre-paid Card, NEFT, wallets and cheques among others. It is possible that NBFC-MFIs incur additional cost to facilitate digital transactions.

However, as stated in Clause 2.C.a.iv of the RBI Master Circular on NBFC-MFIs – Directions,

- There shall be only three components in the pricing of the loan viz. the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof).
- Processing charges shall not be more than 1 % of gross loan amount.

b. Directive

In line with the position as stated above in the RBI circular, it is directed that member NBFC-MFIs must ensure that customers are not charged any additional fee (other than processing fee which is 1% of gross loan amount) if loans are disbursed and/or repayments collected digitally.

11. Directive for display of MFIN Customer Grievance Redressal Mechanism (CGRM)

a. Context

As per the RBI Guidelines for the Self-Regulatory Organization (SRO) for NBFC-MFIs, dated 26th November 2013[11], grievance and dispute redressal mechanism for the customer of NBFC-MFIs, is an important function of the SRO.

> Adherence to this Directive by member NBFC-MFIs will ensure the customer has access to an escalation level to address their grievances.

Following its recognition as the SRO by the RBI in June 2014, this specific mandate was operationalized by starting the MFIN Customer Grievance Redressal Mechanism (CGRM) Number (a toll-free number 1800 2700 317) from July 2015. This MFIN CGRM Number gives direct access to customers of NBFC-MFIs to reach out to the SRO to address their grievances. Relevant provisions in the Industry Code of Conduct (CoC) in this context are as under:

Part VIII, Feedback / Grievance Redressal Mechanism
Para VIII (1): The minimum standards required for the GRM are vi) nodal staff in the branch to guide customers to lodge grievance with RBI or SRO
Para VIII (2): MFIs must inform clients about the existence and purpose of these mechanisms and how to access them
Para VIII (4): MFIs must display contact number and address of SRO (as applicable) nodal official and details of the grievance redressal system of the SRO
Para VIII (6): 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 redress mechanism established by the SRO, as applicable.

It is noteworthy that to familiarize and publicize the number, sample stickers of MFIN CGRM number along with sticker design to be incorporated in the loan card, were sent to all the Member NBFC-MFIs. Additionally, a message script on communication about the MFIN CGRM was shared, which could be used for staff and customer education.

b. Directive

Considering that MFIN CGRM is important escalation mechanism to address and escalate customer grievance and MFIN CGRM is fully functional with capability to address 12 languages, it is directed that:

1. NBFC-MFIs' CGRM policy to include MFIN CGRM under information on the escalation levels. CGRM Policy along with details of MFIN CGRM should be available on the website of the company.
2. NBFC-MFI to display MFIN CGRM number on loan cards, and branches, and in vernacular language, as required.
3. NBFC-MFIs to include the information on MFIN CGRM for trainings for customer and employees.

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[11] https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=30052

12.Advisory on dealing with fraudulent activities using name of NBFC-MFI

a. Context

> Adherence to this Advisory by member NBFC-MFIs will support individual NBFC-MFI and the industry to deal with such episodes. This will also educate customers on careful financial transactions.

Several calls have been received on Customer Grievance Redressal Mechanism (CGRM) of MFIN and member NBFC-MFIs to report frauds by individuals/group of individuals/agencies posing as NBFC-MFI staff. Such frauds, perpetrated through phone calls, advertisements or direct visits, trap the customer through lucrative loan offers using name of the NBFC-MFI. Customers are then coaxed to submit the Know Your Customer (KYC) documents and make payment towards the processing fee/upfront fee etc by showing fake letter heads/contract letter and receipts etc. Once amount is received, the fraudulent individual(s) abscond.

These incidents adversely impact the customers and pose a direct reputation risk not just to the NBFC-MFI concerned but to the entire NBFC-MFI industry.

b. Advisory

Considering above factors, member NBFC-MFIs are advised to:
1. Take cognizance of such mal-practices and unscrupulous elements captured through field information.
2. Provide guidance and support to such individuals (having been duped using NBFC-MFI name), as required, such as registering a police complaint.
3. Report such cases to the Economic Offences Wing (EOW).
4. As a preventive measure, educate the customers about such unscrupulous practices/ elements and on checking the identity of any new person visiting or calling as a field staff before engaging in any transactions.

13.Advisory on taking Post-Dated Cheque (PDC) from customers[12]

a. Context

Adherence to this Advisory by member NBFC-MFIs will ensure that practice of taking PDC meets its intended objective of 'cash-less' repayments and practice is aligned to protect customer interests.

NBFC-MFIs are increasingly moving to cash-less transactions and a high percentage of disbursements are being done digitally. However, converting repayments by customer to digital medium remains a challenge for NBFC-MFIs considering several issues in the eco-system. And, amongst the cash-less repayment options that are being explored by NBFC-MFIs, taking Post-date-cheque (PDC) has also emerged.

To ensure that practice of taking PDC is aligned to customer interest and serves the intended objective of 'facilitating the cash-less repayments', there needs to be appropriate guidelines on using PDC as an instrument of repayment.

In this background, NBFC-MFIs are advised to follow the guidelines mentioned below. <u>This Advisory is only applicable to loans under the 'qualifying assets' criterion.</u>

b. Advisory

Member NBFC-MFIs are advised that:

1. PDCs from the customer should be used only to facilitate cash-less repayment as per her/his loan repayment schedule
2. PDC should be taken only from the customer's account
3. If PDC is collected from the customer towards repayment, PDC should have all the details of scheduled repayment i.e. payee, amount, date and signature duly filled in
4. PDC taken without all details being filled and for purpose other than taking scheduled repayments, is not acceptable
5. Customer should be given receipt of all the PDCs collected towards the repayment
6. Not more than 6 PDCs should be taken from a customer at one time
7. Customer should be adequately informed about legal and financial implications of cheque being dishonoured/bounced

[12] This Advisory was inserted on 28th Nov 18 based on approval by the Board in its meeting held on 27th Nov 2018 in Bangalore

14.Advisory on submission of data to employee bureau[13]

a. Context

Adherence to this Advisory by member NBFC-MFIs will strengthen the recruitment process in the industry as companies will be able to verify candidate's employment records on the employee bureau.

The NBFC-MFI industry currently employs close to 80,000 employees. The industry faces a lot of cross movement of employees specifically at field level. As per the Directive # 1 on reference check of employees:

- All the MFIN member NBFC-MFIs must assign/designate a person, Head of Human Resources (HR) or equivalent to request for and respond to for reference checks. These details must be shared with the MFIN Secretariat for circulation amongst the members. Members must ensure to update the contact list with MFIN for the changes.
- For a candidate, currently working with a NBFC-MFI, the recruiting NBFC-MFI needs to get a formal reference check by writing to the designated person of the candidate's current employer. If the recruiting NBFC-MFI does not receive response to the reference check request in a month's time, it may go ahead with the recruitment.
- If the candidate is currently not working with a NBFC-MFI but has worked before, it is mandatory for the recruiting NBFC-MFI to ask for the relieving letter. It is advised that the recruiting NBFC-MFI do a reference check from the latest employer of the candidate. However, it is not mandatory if relieving letter is available."

Since NBFC-MFI industry did not have any formal method of verifying references of new staff, to address this issue, an employee bureau was set up by MFIN with Equifax which is functional since December 2017 to help MFIN members track employee movement and prevent wrong hiring. As of October 2018, there are 44 signed members and 38 have submitted data at some point in time. Overall, the database now has data of 80,492 employees and around 2,000 queries were generated by 12 members with a match proportion of 11%. The analysis of staff data indicates that 63.9% of them are active, 12.1% have exited and 24.0% were either absconding, asked to resign or terminated, which provides an important data point for decision making at the time of new hiring.

Also, MFIs are currently sharing list of employees involved in fraud cases with MFIN which is informally discussed at state level forums which is not an appropriate way of control.

In order to streamline this information, it is critical that employee data must be submitted to employee bureau to make it available for all MFIs for reference checks. Regular usage of bureau will enhance the database and make the system more robust and useful.

b. Advisory

In the context stated above along with the Directive issued on reference check of employees, it is advised that:

1. All MFIN members shall submit exit employee data to the employee bureau on monthly basis from December 2018 onwards.
2. Submission of data of existing employees is optional.
3. Members may need to obtain appropriate consent from employees for sharing data to employee bureau.

[13] This Advisory was inserted on 29th Nov 18 based on approval by the Board in its meeting held on 27th Nov 2018 in Bangalore

4. Similarly, it is optional for MFIN Members to use employee bureau reference check facility for recruitments.
5. MFIN members shall stop sharing staff fraud details with MFIN. MFIs can directly share this information with other members when approached for the reference check.

Annex: Directive on KYC Standards, quarterly state level benchmarks for loans disbursed from 1st Oct 18 to 31st Dec 18

Sl no	States/UTs	Population (based on Census 2011 data)	Current population (2018, using CAGR on 1.2% btw 2010-15)	Aadhaar (based on UIADI data extracted on 1st Oct 2018)	Aadhaar penetration (%)	Aadhaar Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Voter ID Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Other IDs (ration card, MNREGA) Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Remarks
					(number of Aadhaar IDs/current population)	Mandatory to achieve Aadhaar benchmark mentioned against each state. For loans where Aadhaar is not available, it is mandatory to capture Voter ID.	Required to capture Voter ID for 90% loans in all states except in Arunachal Pradesh, Meghalaya, Manipur, Mizoram and Nagaland. Assam and Odisha to have 80% Voter ID.	For loans, where any one of the Primary KYC IDs are not available (i.e. either Voter ID or Aadhaar is not available), second KYC (I.e. ration card or MNREGA Job Card) has to captured. However, MFIs are encouraged to capture all standards KYC IDs available with a client	
1	Andaman and Nicobar Islands	3,80,581	4,13,724	4,10,730	99%	100%	90%		
2	Andhra Pradesh	4,92,94,020	5,35,86,800	5,18,60,551	97%	100%	90%		
3	Arunachal Pradesh	13,83,727	15,04,229	12,30,526	82%		Exempted from KYC standards.		Collect standard KYC documents on a best effort basis.
4	Assam	3,12,05,576	3,39,23,120	35,60,299	10%		Voter ID to be captured at least for 80% of the new loans disbursed.		Aadhaar and other IDs to be collected on a best effort basis

Sl no	States/UTs	Population (based on Census 2011 data)	Current population (2018, using CAGR on 1.2% btw 2010-15)	Aadhaar (based on UIADI data extracted on 1st Oct 2018)	Aadhaar penetration (%)	Aadhaar Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Voter ID Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Other IDs (ration card, MNREGA) Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Remarks
5	Bihar	10,40,99,452	11,31,64,975	10,14,88,179	90%	95%	90%		
6	Chandigarh	10,55,450	11,47,364	11,97,199	104%	100%	90%		
7	Chhattisgarh	2,55,45,198	2,77,69,807	2,73,02,157	98%	100%	90%		
8	Dadra and Nagar Haveli	3,43,709	3,73,641	3,85,137	103%	100%	90%		
9	Daman and Diu	2,43,247	2,64,430	2,20,916	84%	89%	90%		
10	Delhi	1,67,87,941	1,82,49,922	2,23,30,402	122%	100%	90%		
11	Goa	14,58,545	15,85,563	16,32,540	103%	100%	90%		
12	Gujarat	6,04,39,692	6,57,03,095	6,24,11,333	95%	100%	90%		
13	Haryana	2,53,51,462	2,75,59,199	2,89,63,619	105%	100%	90%		

Sl no	States/UTs	Population (based on Census 2011 data)	Current population (2018, using CAGR on 1.2% btw 2010-15)	Aadhaar (based on UIADI data extracted on 1st Oct 2018)	Aadhaar penetration (%)	Aadhaar Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Voter ID Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Other IDs (ration card, MNREGA) Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Remarks
14	Himachal Pradesh	68,64,602	74,62,407	77,41,961	104%	100%	90%		
15	Jammu and Kashmir	1,25,41,302	1,36,33,464	1,03,41,124	76%	81%	90%		
16	Jharkhand	3,29,88,134	3,58,60,913	3,55,27,911	99%	100%	90%		
17	Karnataka	6,10,95,297	6,64,15,794	6,29,30,801	95%	100%	90%		
18	Kerala	3,34,06,061	3,63,15,235	3,71,60,918	102%	100%	90%		
19	Lakshadweep	64,473	70,088	71,815	102%	100%	90%		
20	Madhya Pradesh	7,26,26,809	7,89,51,530	7,62,76,104	97%	100%	90%		
21	Maharashtra	11,23,74,333	12,21,60,476	11,57,63,044	95%	100%	90%		
22	Manipur	28,55,794	31,04,491	24,95,149	80%		Exempted from KYC standards.		Collect standard KYC documents on a best effort basis.

Sl no	States/UTs	Population (based on Census 2011 data)	Current population (2018, using CAGR on 1.2% btw 2010-15)	Aadhaar (based on UIADI data extracted on 1st Oct 2018)	Aadhaar penetration (%)	Aadhaar Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Voter ID Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Other IDs (ration card, MNREGA) Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Remarks
23	Meghalaya	29,66,889	32,25,261	8,66,546	27%		Exempted from KYC standards.		Collect standard KYC documents on a best effort basis.
24	Mizoram	10,97,206	11,92,756	10,65,992	89%		Exempted from KYC standards.		Collect standard KYC documents on a best effort basis.
25	Nagaland	19,78,502	21,50,800	12,87,963	60%		Exempted from KYC standards.		Collect standard KYC documents on a best effort basis.
26	Odisha	4,19,74,218	4,56,29,552	4,34,32,522	95%	100%	80%		
27	Puducherry	12,47,953	13,56,631	13,42,650	99%	100%	90%		
28	Punjab	2,77,43,338	3,01,59,372	3,11,12,841	103%	100%	90%		
29	Rajasthan	6,85,48,437	7,45,17,992	6,92,14,957	93%	98%	90%		
30	Sikkim	6,10,577	6,63,749	6,14,397	93%	98%	90%		
31	Tamil Nadu	7,21,47,030	7,84,29,969	7,31,01,195	93%	98%	90%		

Sl no	States/UTs	Population (based on Census 2011 data)	Current population (2018, using CAGR on 1.2% btw 2010-15)	Aadhaar (based on UIADI data extracted on 1st Oct 2018)	Aadhaar penetration (%)	Aadhaar Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Voter ID Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Other IDs (ration card, MNREGA) Benchmark (benchmark i.e. minimum requirement MFIs are expected to achieve)	Remarks
32	Telangana	3,52,86,757	3,83,59,712	3,89,69,352	102%	100%	90%		
33	Tripura	36,73,917	39,93,861	37,78,105	95%	100%	90%		
34	Uttar Pradesh	19,98,12,341	21,72,13,041	20,40,88,918	94%	99%	90%		
35	Uttarakhand	1,00,86,292	1,09,64,659	1,11,28,043	101%	100%	90%		
36	West Bengal	9,12,76,115	9,92,24,915	9,33,48,272	94%	99%	90%		

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