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MICROFINANCE INSTITUTIONS NETWORK

Mutually Agreed Code of Conduct (MACC)

in

Provision of Micro-Credit

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A. 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 frameworks provide micro-credit to over 4 crore women customer from low income households.

One fundamental and ongoing challenge for the micro-credit sector today is the plethora of players lending to the microfinance customer. A microfinance customer as defined by the RBI is a person with an annual household income of Rs 1 lakh in rural India and Rs 1.6 lakhs in urban India. With the multiplicity of sources of credit to the sector and with regulation only in place for the NBFC-MFI segment, safeguarding the interests of low-incomeless-educated-vulnerable customers has become a challenge. There is a need to address this situation by implementing a suitable pricing regime, addressing multiple and over lending issues and ensuring an appropriate interface mechanism with the providers. The existing regulation for micro-credit, currently applicable to NBFCMFI only, primarily aims to address these challenges. However, other regulated entities (Banks, SFBs and NBFCs lending directly or indirectly through Business Correspondent partnerships) have become a major provider of micro-credit, accounting to over two third of the supply and they do not have a similar regulatory business conduct framework such as applicable to NBFC-MFIs.

In the background of above, it is essential that all providers of micro-credit come together on a uniform set of business conduct rules, which are sector specific and entity agnostic. It is only through the support of all microcredit providers to put in place a universal code of conduct, that power of micro-credit can reach its intended objectives in a responsible and nurturing way. For this purpose, MFIN facilitated a meeting, where all microcredit providers have mutually agreed to adopt a uniform-common code for market conduct in the provision of micro-credit.

This document defines elements of Mutually Agreed Code of Conduct (MACC) which is sector specific and entity agnostic. **This code is applicable to all providers of un-secured micro-credit under the group liability or individual model of microfinance as defined by the RBI.**

B. Code of Conduct

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

1. Customer Engagement
2. Employee Behaviour and Recruitment
3. KYC and Reporting Standards
4. Risk Management Unit
5. Enforcement and Accountability

1. Customer Engagement

1.1 Transparency

1.1.1 Providers 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 contractual documents such as loan sanction letter and loan card.

- identity and address of lender
- loan amount and tenure

- interest rate on reducing balance method
- processing fee
- any other charges or fees howsoever described
- charge of late repayment and foreclosure
- total amount payable
- total charges recovered for insurance coverage and risks covered

1.1.2 Providers must disclose all terms and conditions to the customers, in a form and manner that is understandable.
1.1.3 Providers must take measures to ensure that customers fully understand the products, process and terms of the contract.
1.1.4 Providers must communicate all the terms and conditions to customers in the official regional language or a language understood by them.
1.1.5 Providers must provide a valid receipt for every payment received from the customer and record the payment in the loan passbook/loan card with the customer.
1.1.6 Providers must provide a robust customer grievance redressal system to address customer complaints and problems in an effective and timely manner.

1.2 Avoiding Over-indebtedness

1.2.1 Providers must conduct proper due diligence to assess the need and repayment capacity of customer based on information from the applicant, credit bureau and/or field level intelligence before disbursing a loan.
1.2.2 Provider must disburse the loan commensurate with the customer's ability to repay.
1.2.3 Providers must use a valid Credit Information Report (CIR) before sanctioning any loan.
1.2.4 If a customer has loan from three (3) different providers (entity agnostic[1]), provider must not become the fourth lender to a customer. This should be validated by the Credit Bureau Report prior to sanction of the loan.
1.2.5 Provider, must not breach the total indebtedness for any customers, as prescribed by RBI. This should be validated by the Credit Information Report prior to sanctioning of the loan.
1.2.6 Providers on the basis of CIR will ensure that loans given on the basis of joint liability of the group (JLG/SHG) is restricted to Rs 80,000 per customer. Where the loan to a specific customer exceeds Rs 80,000, or the loan takes the total debt of the customer above Rs 80,000, such a loan should be given as an individual loan without involving the JLG/SHG.

1.3 Customer Information

1.3.1 Providers must obtain copies of relevant documents from customers, as per standard KYC norms.
1.3.2 As far as possible, Aadhaar and Voter ID of the customer must be captured.
1.3.3 Identity details of customers (name, father/spouse name), age/DOB must be captured from Aadhaar.
1.3.4 Providers must progressively move towards authentication of KYC documents through adoption of Aadhaar based e-KYC. During the interim, Provider must use other sources of Aadhaar verification such as number verification, demographic verification through CICs or other third-party vendors.
1.3.5 Provider must keep personal customer information strictly confidential. Customer information may be disclosed to a third-party subject to the following conditions:

- Customer has been informed about such disclosure and prior permission has been obtained in writing.

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[1] NBFC-MFIs, to comply with the RBI regulations (''not more than two NBFC-MFIs should lend to the same borrower''), must ensure that a customer does not have more than 2 NBFC-MFI as lenders.

- The party in question has been authorized by the customer with intimation to the provider to obtain customer information from the MFI. ▪ It is legally required to do so.
- This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau) provided that the i) customers' prior consent has been obtained and ii) the receiver of such information is also bound by these conditions to keep the customer information confidential.

2. Employee Behaviour and Recruitment

2.1 Employee behaviour

2.1.1 Providers must incorporate transparent and professional governance system to ensure that staff and persons acting on their behalf are oriented and trained to put this Code into practice.

2.1.2 Providers must ensure that all employee and persons acting on its behalf ▪

Do not use coercion of any sort to make recovery of payments.

- Do not intimidate or humiliate verbally or physically.
- Do not indulge in any behaviour that in any manner would suggest any kind of threat or violence.
- Do not contact customers at odd hours.
- Do not contact customers at inappropriate times such as bereavements, illness, social occasions such as marriages, births, etc.

2.2 Employee Recruitment

2.2.1 As a part of recruitment process, provider must do a reference check of the applicant from the previous employer. The reference check will be sought from current employer only after an offer is made and an offer letter is issued to the prospective employee. Providers should respond to the reference check request from other Provider within two weeks.

2.2.2 No Provider shall recruit an employee of another Provider, irrespective of the grade/level of the employee, without the relieving letter.

2.2.3 All Providers must provide a relieving letter to the outgoing employee in case he/she has given proper notice, handed over the charge and settled all the dues, except in proven cases of fraud or gross misconduct by the employee.

3. KYC and Reporting Standards

3.1 Providers will ensure that Aadhaar and Voter ID seeding on new loans disbursed is as per the industry agreed benchmarks and E-KYC is implemented in a time bound manner.
3.2 Providers will upload accurate and comprehensive customer data with all RBI approved Credit Information Companies' (CICs) as per Uniform Credit Data Format on a weekly basis.
3.3 Providers must share key outreach, operational and risk related data for an aggregate-comprehensive view of the micro-credit sector and improved market discipline.

4. Risk Management Unit

A joint Risk Management Unit (RMU) will be set-up within the MFIN where all Providers, who have signed up, will provide all ground level information about episodes, stress points and intelligence from risk perspective on a real-time basis. The RMU, in turn, will share this information with the all the members of the MACC as an early warning measure for necessary mitigatory measures. For this purpose, the MACC point person in each institution will forward this information to the MACC Coordinator at MFIN.

C. Compliance and Enforcement

1. All entities signing up to the MACC **voluntarily** agree to have a compliance and enforcement framework to ensure adherence of the Code by all the Providers signing up to the Code.

2. MACC to be signed at the Chief Executive/appropriate Senior Management level of the Provider

3. The implementation of the Code will be guided by the Steering Committee comprising of representatives from different stake holding bodies (NBFC-MFIs, SFBs, Banks, others). There will be a Terms of Reference (ToR) of the Steering Committee.

4. Compliance would be based on three-pronged approach
   - Self-declaration by the Provider
   - Independent monitoring and assessment facilitated by the MFIN through third party agencies
   - Peer complaint system whereby Providers can bring forth the instances of non-compliances to the afore mentioned Committee. MFIN will act as the Coordinator and facilitator for the implementation of MACC and the MACC Steering Committee

5. Each Provider will have a dedicated MACC Coordinator who will work as a point person in tandem with the MACC Coordinator in MFIN.

D. Funding Mechanism

Implementation of MACC will be supported by a MACC Coordinator at MFIN who will be responsible for various tasks associated with MACC including coordination with the MACC Advisory Committee. MACC Steering Committee will examine the cost structure and suggest the mechanism to independently fund the initiative.