

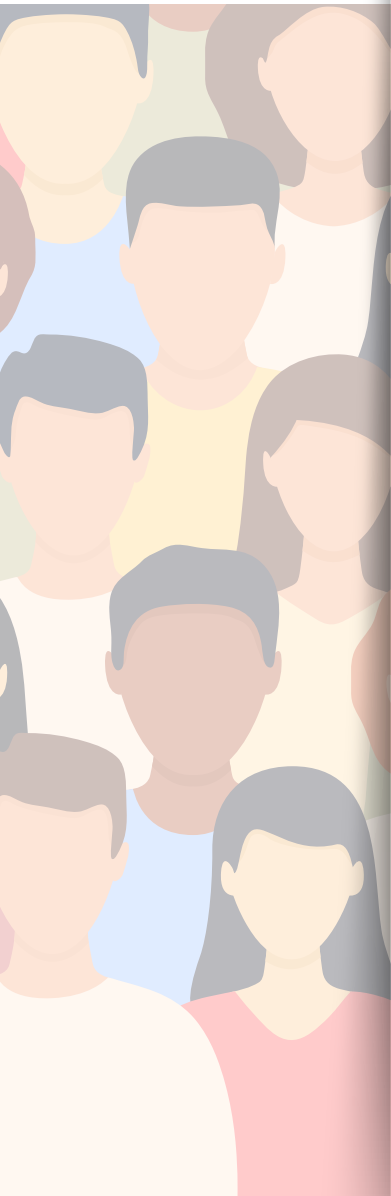
DISCLOSURES TO CUSTOMERS





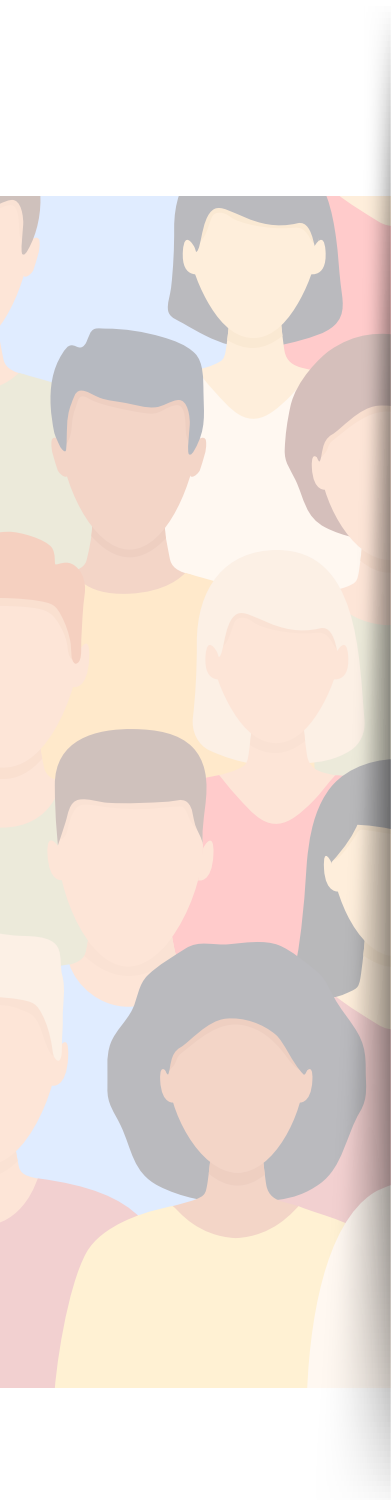
CONTENTS

INTRODUCTION	5
Context	7
Notes	8
DISCLOSURES	9
Website	10
Office and Branches	11
Loan Application	12
Loan Agreement	13
Loan Card	14
ANNEXURES (relevant clauses)	16
RBI Master Directions- Regulatory Framework for Microfinance Loans, 2022	16
Website	16
Office	16
Branch	16
Loan Agreement/Sanction Letter	17
Loan Card	17
Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023	17
Website	17
Loan Application	18
Loan Agreement	18





INTRODUCTION



CONTEXT

Providing relevant information to the customer (i.e. disclosure to the customer), is recognized as an important pillar of customer protection (or responsible lending) principle in the micro-credit industry. It serves the following objectives for the customers as well as the lenders :

- a. Lays the foundation of trust between customer and the company for a long-term relationship.
- b. Gives customer knowledge about the products and services to make informed choices aligned to her/his interests.
- c. Gives access to customers to information about her/his loan account (loan outstanding, processing fee, interest rate, frequency and date of her repayment, instalment paid, instalment remaining and other necessary conditions).
- d. Informs customer about the rights and obligations including how to reach out to the company for her/his grievances.
- e. Ensures that lack of information is not misused by employees or others to 'misinform' the customer – this helps the company in dealing with frauds and corruption.

Micro-credit sector mostly provides credit to women from low-income households. Given the customers' socio-economic background and low levels of education, they may not always proactively seek relevant information and need an assisted & proactive disclosure framework to ensure their access to the right information.

Therefore, lenders based on regulations and industry standards follow a detailed framework of disclosure to customers. Focus is on making all key information timely and easily available to the customer in the places (website, branches, offices) and documents (loan application, loan agreement and loan card) accessed by her/him.

This **Guidance Note on 'Disclosures to Customer'** captures the important regulatory and industry standards to support microfinance lenders in effective implementation.

For any clarification/suggestion, feel free to connect with us at sro@mfinindia.org

NOTES

In this Guidance Note, all regulatory requirements (RBI Master Directions-Regulatory Framework for Microfinance Loans, 2022, RBI Fair Practices Code) and Industry Standards (Industry Code of Conduct – 4th Edition) related to ‘disclosure to customers’ are captured. For ease of implementation by the lenders, they are organized in six categories as under.

- a. Website
- b. Office
- c. Branch
- d. Loan Application
- e. Loan Agreement/Sanction Letter
- f. Loan Card

For easy reference of members, all clauses related to disclosure to customers in RBI Master Directions Regulatory Framework for Microfinance Loans, RBI Scale based regulations, and Industry Code of Conduct (CoC) spread across different section and pages, are collated here, based on their requirement at different places and documents such as website, offices, branches, loan application form, loan agreement and loan card.

With respect to this Guidance Note, please note:

- Guidance Note is limited to written disclosures as per regulatory and industry standards targeted at the customers and does not cover verbal disclosures (through trainings, employee interactions etc).
- Further, lenders may also have additional disclosures and clauses (for website, offices, branches, loan application form, loan agreement, loan card and marketing materials etc) based on their own policies and processes.



DISCLOSURES

WEBSITE

Company's website should have the following disclosures:

Sl no.	Disclosure requirements	Drawn from Clause/Page no
1	Fair Practices Code (FPC) of the company which is aligned with RBI's FPC and approved by their board	RBI Harmonized Regulations, Clause 7.1.1 (p 5)
2	RE shall prominently display the minimum, maximum and average interest rates charged on microfinance loans	RBI Harmonized Regulations, Clause 6.7 (p 5)
3	The rates of interest and the approach for gradation of risks	RBI Scale based regulation Oct 2023
4	A declaration that the RE shall be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal	RBI Harmonized Regulations, Clause 7.3.2 (p 6)
5	The up-to-date details of the recovery agencies engaged by the RE shall also be hosted on the RE's website.	RBI Harmonized Regulations, Clause 7.5.5 (p 8)
6	Lenders should display MFIN CGRM details including MFIN toll-free number on their website ¹	Compendium of MFIN Directives and Advisories, Directive 4 (p 15)

¹ Applicable only to MFIN member NBFC-MFIs

OFFICE AND BRANCHES

Company's office (Head/Regional/Zonal) and branches should have the following disclosures:

Sl no	Disclosure requirements	Drawn from (clause/page no)
1	Fair Practices Code (FPC) of the Provider which is aligned with RBI's FPC in vernacular language	RBI Harmonized Regulations, Clause 7.1.1 (p 5)
2	The minimum, maximum and average interest rates charged on microfinance loans	RBI Harmonized Regulations, Clause 6.7 (p 5)
3	Declaration that Provider will be accountable for preventing inappropriate staff behaviour and timely grievance redressal	RBI Harmonized Regulations, Clause 7.3.2 (p 6)
4	Customer Grievance Redressal Mechanism (CGRM) of Provider as under: (i) Channels available to customers with Provider to register complaints (ii) CGRM number and contact details of RE's Customer Grievance Redressal Officer (iii) Escalation process (iv) Expected turnaround time at every level of escalation (v) Details of RBI ombudsman (vi) MFIN's CGRM number if customer needs support in resolving complaint²	CoC Annexure D.i.5

² Applicable only to MFIN member NBFC-MFIs

LOAN APPLICATION

Company's Loan Application should have the following disclosures:

Sl no	Disclosure requirements	Drawn from (clause/page no)
1	Necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower	RBI Scale based regulation Oct 2023
2	Documents required to be submitted with the application form	RBI Scale based regulation Oct 2023
3	Acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed of should also be indicated in the acknowledgement	RBI Scale based regulation Oct 2023
4	Following details of the product being offered to the customer (i) Amounts (ii) Annualised interest rate on a reducing balance basis (iii) Processing fees (iv) Tenure (v) Repayment frequency (vi) Other terms and conditions of the loan	CoC Annexure D.ii.4
5	List of KYC documents to be submitted by customers	CoC Annexure D.ii.5
6	Consent to check customer's credit data with credit information companies (CICs)	CoC Annexure D.ii.6

LOAN AGREEMENT

As per RBI FPC, company should provide a copy of loan agreement, preferably in vernacular, along with a copy each of all enclosures quoted in the loan agreement, to customer in a language understood by them, at the time of sanction/disbursement of loan, for each loan disbursed, stating all terms and conditions of the loan. Company's Loan Agreement should have the following disclosures:

Sl no	Disclosure requirements	Drawn from (clause/page no)
1	Amount of loan sanctioned	RBI Scale based regulation Oct 2023
2	All the terms and conditions of the loan	RBI Scale based regulation Oct 2023
3	A suitable condition which ensures that the changes in interest rates and charges are affected only prospectively.	RBI Harmonized Regulations, Clause 6.8
4	No customer and her household members' data will be shared with any third party without taking customer consent unless required by regulations	CoC Annexure D.iii.4

LOAN CARD

As per RBI Master Directions, company should provide loan card in vernacular language to the customer for every loan disbursed. Company's Loan Card should have the following disclosures:

Sl no	Disclosure requirements	Drawn from Clause/Page no
1	All entries in the loan card should be in a language understood by the borrower	RBI Harmonized Regulations, Clause 7.1.4 (p 6)
2	Issuance of non-credit products shall be with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself.	RBI Harmonized Regulations, Clause 7.1.5 (p 6)
3	Each RE shall provide a loan card to the borrower which shall incorporate the following: (i) Information which adequately identifies the borrower (ii) Simplified factsheet on pricing (iii) All other terms and conditions attached to the loan (iv) Acknowledgements by the RE of all repayments including instalments received and the final discharge and (v) Details of the grievance redressal system, including the name and contact number of the nodal officer of the RE	RBI Harmonized Regulations, Clause 7.1.3 (p 6)
4	Each RE shall disclose pricing related information to a prospective borrower in a standardised simplified factsheet (in accordance with the illustration provided in Annex II)	RBI Harmonized Regulations, Clause 6.3 (p 4)
5	Lenders should display MFIN CGRM details including MFIN toll-free number on the loan cards ³	Compendium of MFIN Directives and Advisories, Directive 4 (p 15)

³ Applicable only to MFIN member NBFC-MFIs

Lenders should continuously review their disclosure policy and ensure that it is aligned with the regulatory and industry standards.

There are several ways in which the lenders can achieve this.

- A dedicated resource should clearly map out the list of 'disclosures to customers' across full set of customer interface: written (website, offices, branches, loan application, loan agreement, loan card and other marketing materials) as well as those communicated verbally by its employees.
- List of disclosures should be vetted by the senior management team as well as the legal and compliance team.
- Design and visibility are critical consideration while putting out the disclosures to customers. It must be ensured that critical aspects are prominently displayed for easy access by the customers. For example, key elements should be easily accessible on the website through quick links, key branch displays should be prominently displayed in the customer sitting area, interest rate and key conditions can be written in bold in the loan documents.
- Field employee should be adequately trained on various disclosures for them to be able to respond to any queries and clarifications from the customers.
- A periodic review of disclosures to ensure that they are updated and aligned to regulatory and industry standards should be done.
- Internal Audit team should check the compliance with disclosure requirements across locations and documents and flag the lapses.

ANNEXURES (RELEVANT CLAUSES)

Disclosure requirements in RBI Master Directions - Regulatory Framework for Microfinance Loans, 2022 and Master Direction for NBFCs (Scale based regulation) are captured here. Clauses related to disclosure to customers, spread across these documents are collated based on their requirement at different places (such as website, offices, branches, loan application form, loan agreement/sanction letter and loan card).

RBI MASTER DIRECTIONS- REGULATORY FRAMEWORK FOR MICROFINANCE LOANS, 2022

Website

- Each RE shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.
- The FPC shall be displayed by the RE in all its offices and on its website. The FPC should be issued in a language understood by the borrower.
- The up-to-date details of the recovery agencies engaged by the RE shall also be hosted on the RE's website.
- A declaration that the RE shall be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal, shall be made in the loan agreement and also in the FPC displayed in its office/ branch premises/ website.

Office

- Each RE shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.
- The FPC shall be displayed by the RE in all its offices and on its website. The FPC should be issued in a language understood by the borrower.
- A declaration that the RE shall be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal, shall be made in the loan agreement and also in the FPC displayed in its office/ branch premises/ website.

Branch

- Each RE shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.
- The FPC shall be displayed by the RE in all its offices and on its website. The FPC should be issued in a language understood by the borrower.

- A declaration that the RE shall be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal, shall be made in the loan agreement and also in the FPC displayed in its office/ branch premises/ website.

Loan Agreement/Sanction Letter

- Each RE shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.
- A declaration that the RE shall be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal, shall be made in the loan agreement and also in the FPC displayed in its office/ branch premises/ website.

Loan Card

- Each RE shall provide a loan card to the borrower which shall incorporate the following:
 - (i) Information which adequately identifies the borrower;
 - (ii) Simplified factsheet on pricing.
 - (iii) All other terms and conditions attached to the loan;
 - (iv) Acknowledgements by the RE of all repayments including instalments received and the final discharge; and
 - (v) Details of the grievance redressal system, including the name and contact number of the nodal officer of the RE.
- All entries in the loan card should be in a language understood by the borrower
- Issuance of non-credit products shall be with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself.

MASTER DIRECTION – RESERVE BANK OF INDIA (NON-BANKING FINANCIAL COMPANY – SCALE BASED REGULATION) DIRECTIONS, 2023

Website

- Fair Practices Code (which should preferably be in the vernacular language, or a language as understood by the borrower) based on the guidelines outlined hereinabove should be put in place by all NBFCs having customer interface with the approval of their Boards. Applicable NBFCs have the freedom of drafting the Fair Practices Code, enhancing the scope of the guidelines but in no way sacrificing the spirit underlying the above guidelines. The same should be put up on their website, if any, for the information of various stakeholders.

- The rates of interest and the approach for gradation of risks shall also be made available on the website of the companies or published in the relevant newspapers. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest.

Loan Application

- Loan application forms should include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower. The loan application form may indicate the documents required to be submitted with the application form.
- The NBFCs should devise a system of giving acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed of should also be indicated in the acknowledgement.
- The Board of each applicable NBFC shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

Loan Agreement

- The NBFCs should convey in writing to the borrower in the vernacular language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record.
- NBFCs shall mention the penal interest charged for late repayment in bold in the loan agreement.
- NBFCs, shall furnish a copy of the loan agreement as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

*For any suggestion/clarification/query,
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