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MICROFINANCE INDUSTRY NETWORK

Compendium *of* MFIN DIRECTIVES and ADVISORIES

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DIRECTIVES

and

ADVISORIES

Released on 15th February 2023

Updated on January 2025

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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 Industry Network
NBFC	Non-Banking 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

INTRODUCTION

Post the release of the new framework of regulations for microfinance by the RBI in March 2022, it was thought pertinent to review the existing compendium of Directives and Advisories. We are pleased to issue the revised Compendium of Directives and Advisories approved by the MFIN Governance Committees - SROC and EC.

While Directives are to be mandatorily complied with, Advisories are recommendatory in nature. The Directives and Advisories have been put in different sections for better clarity. Some Directives and Advisories especially those pertaining to COVID times, or those which are not relevant anymore have been removed. The new Directives and Advisories released post March 2022 have been included in this compendium.

It may be noted that this version of compendium overrides all earlier versions. The compendium will be reviewed periodically or as and when required. In the event of any regulatory changes in the future, if the provisions mentioned in the compendium are not in conformity with the regulations, the regulations will prevail.

Although this compendium is applicable to the member NBFC-MFIs only, all the lenders are requested to adhere to these guidelines to be in conformity with responsible lending practices across the industry. Adherence to this compendium by all lenders would help build a robust eco-system for the micro-credit industry.

If you have any suggestions and clarifications, please get in touch with us at sro@mfinindia.org

Please click on https://mfinindia.org/Resources/industry_standards to check if you are referring to the latest compendium.

SECTION A

DIRECTIVES

Directives are mandatory in nature and have to be complied with by all MFIN member NBFC-MFIs. It is recommended that all the other lenders of micro-credit also follow these Directives for creating robust industry standards and practices.

1. DIRECTIVE ON PRICING[1]

> Adherence to this Directive by lenders will facilitate conformance to the RBI guidelines and improve transparency in pricing of the loan products.

Context

Lenders in the microfinance sector have followed different approaches to determine the interest rate charged to the customers i.e., pricing the loan. Specifically, for NBFC-MFIs, the pricing framework was clearly defined by the RBI regulations. However, in the new regulatory framework for microfinance released by the RBI on 14th March 2022[2], the pricing has been deregulated. This is with the purpose of ensuring that microcredit pricing is fair, transparent, and competitive industry wide.

Relevant provisions in the context of pricing from the applicable 'Regulatory Framework for Microfinance' are as under:

Clause 6: Pricing of Loans

6.2 Interest rates and other charges/ fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.

6.9 As part of their awareness campaigns, SROs/ other industry associations may publish the range of interest rates on microfinance loans charged by their members operating in a district.

In the context of above, MFIN-SRO has already issued suggestive guidelines to support the members evolve a policy and framework for the pricing of the microfinance loans for their respective organizations. It is also important to note that any exceptional deviation in pricing by any lender from the cohort can have a negative impact for across the industry. MFIN-SRO will analyse industry pricing on a quarterly basis.

Directive

To ensure adherence to the RBI guidelines in the context of pricing, it is directed that:

1) The MFIN member organizations should submit the following, product wise and location wise (district/state or any other geographical differentiation as adopted by the organisation) on a quarterly basis to the MFIN-SRO.
    - i) Rate of interest per annum charged on a reducing basis
    - ii) Processing fee, if any, in percentage
    - iii) Internal Rate of Return (IRR) for the lender
    - iv) Effective Interest Rate (EIR) charged to the customer
2) Any changes in the pricing during the quarter needs to be informed to the MFIN-SRO.
3) This information should be sent to sro@mfinindia.org by the CEO/CFO/Compliance officer or any other person from the senior management of the company, as appointed.

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1 This Directive was released on 4th Apr 2022
2 Regulatory Framework for Microfinance

2. DIRECTIVE ON REPORTING LOAN REPAYMENT OBLIGATION TO INCOME RATIO OF A HOUSEHOLD[3]

Context

The regulatory framework for microfinance released by the RBI on 14th March 2022 defines microfinance loan as a collateral-free loan given to a household having an annual household income up to ₹3,00,000. The income assessment of the household is to be done based on the board-approved policy of each lender.

Adherence to this Directive by lenders will facilitate conformance to the RBI guidelines and improve transparency in assessment of the household income and determination of repayment obligation.

To ensure against over-indebtedness of the clients, the lenders are also required to 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. As per the regulations, this shall be subject to a limit of maximum 50 per cent of the monthly household income. Additionally, reporting of the following data to the CICs (credit information companies) has become mandatory from Oct 1st, 2022, as per the revised UCRF (Uniform Customer Reporting Format).

Segment	Field Name	Current Status
Member	Total Monthly Family Income	Required
Account	Number of Instalments	Required
Account	Repayment Frequency	Required
Account	Minimum Amount Due/Instalment Amount	Required

Lenders are thus obligated to rightly identify the micro-credit customer based on household income assessment, ensure against breaching the limit on loan repayment obligation to income ratio and to submit a record of the same. The RBI also tracks the income assessment and indebtedness data closely. It is an important part of the quarterly report that MFIN submits to RBI based on the data received from its members.

Relevant provisions of the regulatory framework for microfinance and obligations of MFIN as an SRO to the RBI are attached as an 'Annexure' with this Directive.

Directive

To ensure adherence to the RBI regulations, it is directed that lenders capture and store the data related to household income and indebtedness of their borrowers. The members should provide correct and verified data within specified timelines to MFIN for quarterly reporting to RBI, or as and when a request for data is received.

3 This Directive was released on 17th Oct 2022

The lenders should ensure that all loans disbursed during the quarter are captured and submitted in the below format prescribed by the RBI for data submission.

Household Income and Over-indebtedness Assessment*
(Number of microfinance loans under each category disbursed during the quarter)

HH Income / Indebtedness level	Less than Rs. 50,000	More than or equal to Rs. 50,000 but less than Rs. 1 lakh	More than or equal to Rs. 1 lakh but less than Rs. 1.5 lakh	More than or equal to Rs. 1.5 lakh but less than Rs. 2 lakhs	More than or equal to Rs. 2 lakhs but less than Rs. 2.5 lakh	More than or equal to Rs. 2.5 lakh but up to Rs. 3 lakhs
Less than 20%						
More than or equal to 20% but less than 30%						
More than or equal to 30% but less than 40%						
More than or equal to 40% and up to 50%						

** Quarterly reporting format shared by RBI to SROs*

ANNEXURE

Relevant clauses from the regulatory framework for microfinance

3. Definition of Microfinance Loan

3.1 A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

4. Assessment of Household Income

4.1 Each RE shall put in place a board-approved policy for assessment of household income.

4.2 Self-regulatory organisations (SROs) and other associations/ agencies may also develop a common framework based on the indicative methodology. The REs may adopt/ modify this framework suitably as per their requirements with approval of their boards.

5. Limit on Loan Repayment Obligations of a Household

5.1 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 per cent of the monthly household income.

5.2 The computation of loan repayment obligations shall take into account all outstanding loans (Collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (Including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

Relevant clauses from Obligations of MFIN as an SRO to the RBI

iv) The SRO shall inform the Reserve Bank of the violations of the provisions of the RBI Act 1934, the directions, the circulars, or the guidelines issued by the Reserve Bank from time to time, by any of its members

v) It shall provide information, including data, to the Reserve Bank periodically or as requested for by the Bank.

3. DIRECTIVE ON CREDIT BUREAU PROCESS[4]

Context

For micro-credit customers who lack physical collateral and regular income/cash flows to demonstrate repayment capability, developing 'reputation collateral' in a credit reporting system is a very important asset. For lenders and the industry, credit information improves transparency in financial transactions and accuracy in credit decisioning.

In the context of above, it is important that customer data is accurately and timely updated with the CICs and lenders use CIR, which is accurate and updated for lending decision. Hence, lenders are directed to comply with the following norms with respect to credit bureau process.

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

Directive

1) Submission

1.1 Format: Lenders are required to submit complete data to all the CICs in the RBI specified Uniform Credit Reporting Format (UCRF) for microfinance segment. They are required to ensure that data is filled as per the instructions and recommendations given in the UCRF. The following points need to be adhered:

i) Voter ID to be preferred KYC ID to be submitted to CICs. It is recommended that Voter ID be authenticated with Election Commission[5] website before submission.

ii) Key demographic details of the customer (name, DoB, age, father/mother/spouse name, address) should be captured from Voter ID and not randomly picked from different KYC documents.

iii) Mobile number of the customer or her family member should be filled, preferably after authentication through OTP, call etc.

iv) Bank account details of customer (which has been used to disburse the loan) should be filled (Bank name, IFSC code, customer's bank account number).

v) Field 49, 71, 84, 85, 86 to be filled with accuracy as per instructions given.

vi) Aadhaar ID to be used as per applicable guidelines issued by the RBI.

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

i) Weekly submission needs to be reported on incremental basis[6] and should include following parameters:

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4 This Directive was released on 12th Sep 2019.

5 https://electoralsearch.in/

6 Incremental submission is recommended rather than full submission in weekly files otherwise it leads to huge data loads and clogging of systems of the CICs.

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

ii) Files for weekly submission to be submitted as per following schedule[7]

- Data extracted for the 1st Week (1 -7 of the month) to be submitted by 9th of the month
- Data extracted for the 2nd Week (8-14 of the month) to be submitted by 16th of the month
- Data extracted for the 3rd week (15-21 of the month) to be submitted by 23rd of the month
- Data extracted for the 4th/5th week (22-30/31 of the month) to be submitted along with the monthly file and not as a separate weekly file, by 7th of the subsequent month.

1.3 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 the subsequent month. This must include all accounts that had been active, delinquent, or closed in last month. Lenders may consider including accounts that are closed or written off in last 3 months.

1.4 Daily submission: All lenders are mandatorily required to move to daily submission of data as under:

i) Daily submission needs to be reported on incremental basis and should include following parameters:

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

ii) Daily submission on t+1 basis, i.e., any changes as per above to be reported by next working day.

1.5 No weekly submission if data is submitted on a daily frequency.

1.6 Re-submission of rejected data: Records rejected by CICs should be re-submitted to CICs with necessary corrections within 7 calendar days from date of rejection.

2) Use of Credit Information Report (CIR)

2.1 Lenders are required to use a valid CIR of the customer for any loan disbursed to the customer. CIR should be extracted for all new loans (first cycle or subsequent cycles) as well as any top-up loan or mid-term loan.

7 If date of submission is a holiday, data to be submitted on working day prior to the holiday. For example, if 9th is a holiday, first weekly file to be submitted on the working day prior to the holiday.

2.2 CIR is considered as 'valid' for 15 calendar days from the date of extraction of the CIR. This implies that lenders need to disburse a loan to the customer within 15 calendar days from date of extracting her CIR.

2.3 To extract CIR, lenders must accurately input customer's KYC information including 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.

3) Resolving customer dispute with data

3.1 Any complaint received about submission of incorrect customers' data to CICs (from customers, other Providers or CICs etc) should be responded and resolved within 7 calendar days from receipt of the complaint by the lender.

3.2 Customer approaching a member NBFC-MFI for dispute with CIR which are related to other Provider, should be supported as per MFIN Advisory on 'Dealing with Customer Disputes on CIR' by flagging the issue with respective CIC.

4) Oversight

4.1 Lenders to strengthen their internal processes to ensure that correct and comprehensive data is submitted to the CICs. It is recommended that:

i) Internal audit conducts at least a quarterly review of adherence with this Directive and lapses are reported to the Senior management and the CEO/MD.

ii) Report received from CICs on data submission, rejection, quality as well as hanging accounts etc. are promptly analysed for corrective action.

4. DIRECTIVE FOR DISPLAY OF MFIN CUSTOMER GRIEVANCE REDRESSAL MECHANISM[8] (CGRM)

Context

As per the RBI Guidelines for the Self-Regulatory Organization (SRO) for NBFC-MFIs, dated 26th November 2013[9], grievance and dispute redressal mechanism for the customer of NBFC-MFIs, is an important function of the SRO.

Post MFIN's recognition as an SRO by the RBI in June 2014, the CGRM was operationalised from July 2015 providing direct access to customers to the SRO for grievance redressal.

Adherence to this Directive by lenders will ensure that the customer has access to a CGRM with multiple levels of escalation.

As per Annexure D.I.5.vi of the latest editions of the Industry Code of Conduct (CoC) released on 4th Oct 2022, lenders are required to disclose the SRO's CGRM number at their offices and branches.

Directive

Considering that MFIN CGRM is an important mechanism to address customer grievances, it is directed that:

1) Lenders' CGRM policy should include details of MFIN CGRM to facilitate customer's access to the SRO.
2) Lenders should display MFIN CGRM details including MFIN toll-free number on the loan cards, its offices/branches and website in a language understood by the borrower.
3) MFIN CGRM should form a part of the lenders training for customers and its employees.

8 Directive was last revised on 17th Aug 2020

9 https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=30052

5. DIRECTIVE ON THIRD-PARTY PRODUCTS (TPP)

Context

Lenders sometimes offer third-party products (TPP) to their customers which may or may not be linked to credit. These products may constitute consumer durables, household items, financial products etc.

It has been observed that many a times there are customer complaints pointing to practice of un-fair bundling of such products, and customers being forced to take such products as a pre-condition for availing credit.

Relevant provisions in the context of third-party products are as under:

Adherence to this Directive by lenders will ensure that the TPPs are purchased by the customers based on their need and choice.

Regulatory framework for microfinance – 14th Mar 2022

7. Guidelines on Conduct towards Microfinance Borrowers

7.1.5 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.

Industry Code of Conduct – 4th Oct 2022

C. Education and Transparency

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.

Directive

To ensure that customer interests are protected in the sale of third-party products, it is directed that:

1) Details of all third-party products offered should be displayed/disclosed in the offices of the lenders.
2) There should not be any bundling of a third-party product 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 third-party product or vice versa.
4) Lenders' Customer Grievance Redressal Mechanism (CGRM) should cater to complaints related to third-party products.
5) Selling price of third-party products 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 credit is not considered as a third-party product.

6. DIRECTIVE ON INSURANCE CLAIM SETTLEMENT

Context

Lenders typically offer credit life insurance to their customer and one of their family members (mostly spouse/children) under which both are insured for the loan amount disbursed during the tenure of the loan.

In case of either of them passing away during the tenure of the loan, insurance claim is settled in a way that outstanding principal amount on date of demise (as per the death certificate) is paid to the lender 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 lenders and therefore there may be different underlying processes to settle the claims.

Adherence to this Directive by lenders will ensure that in event of demise of the customer/insured family member, adequate support is provided for insurance claims process and repayments.

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

Directive

In the background of above, it is directed that

1) Lenders should ensure that they cease collection of due instalments after the date of the demise of the insured customer/family member.
2) In case there has been any collection of due instalments post the date of demise, lenders are required to refund the excess amount along with the death benefit to the customer or nominee, as applicable.
3) Lender takes all necessary steps including support to customer/nominee with documentation requirements for timely processing of the insurance claim.

7. DIRECTIVE ON SUBMISSION OF DATA TO EMPLOYEE BUREAU

Context

Due to scale of operations, growth, and attrition rate; recruitment is a huge on-going task in the microfinance industry. There is also high cross movement of employees within the industry and microfinance employees are the company's primary interface with the customers and are responsible for critical aspects other than business, such as risks and compliances, as well. All this makes for a compelling case for an efficient and objective platform for background/reference checks in the recruitment process, for both employers and employees.

> Adherence to this Directive by lenders will strengthen the recruitment process in the industry allowing companies to verify candidate's employment records on the employee bureau.

To bridge this gap, MFIN and Equifax Credit Information Services Pvt Ltd (a credit bureau) started collaborating in 2017 to develop a database of microfinance employee's relevant information. This Employee Bureau platform enabled employers to verify earlier employment and other information provided by candidates. The Employee Bureau also creates deterrence against frauds etc. as such instances are captured and reported.

It is mandatory for MFIN members to sign-up with the Employee Bureau and submit data. They are also encouraged to verify employment history of all candidates applying to their organisation. This Directive aims to also improve the overall efficacy of Employee Bureau by reiterating the necessity of submitting active employee data, in addition to exit employee data as many candidates apply with other employers before formally leaving their current organisation and lack of information about such employees undermines the usefulness of Employee Bureau in the recruitment process.

Directive

In the context stated above, it is directed that, all lenders

1) Sign-up with employee bureau
2) Submit/update data for all employees monthly, latest by 10th of the subsequent month. It is recommended that any negative exits be reported on a real-time basis to avert unwanted hiring due to time lags in submission.
3) Submit/update changes in employee data (for new recruits, employment status, personal information, location of posting etc) in the submission as per the format.
4) Submit accurate data as per defined standards in the format and mandatory fields should be duly filled. Any corrections in data (raised by employee, employer, or Equifax) must be resolved/rectified within 3 working days from date of such issues being received.
5) Enquiry through the employee bureau before hiring a candidate is strongly recommended. Candidates with negative employment record (absconding, fraudulent, not-open-to-rehire candidates) should not be recruited.
6) Obtain appropriate consent from candidates/employees for accessing/sharing their data from/to the Employee Bureau, as required.

8. DIRECTIVE ON LENDING TO CUSTOMERS HAVING DELINQUENT ACCOUNT(S) DUE TO NATURAL DISASTER

Context

In the last few years, there have been increasing instances of loans becoming delinquent due to natural disasters. Natural disasters bring immense hardship to the customers, leading to asset-income-wage losses. In order to ensure that lending to such customers (having delinquent account as a result of natural disaster) supports the customers to revive their livelihoods but does not spoil the credit culture, it is felt that there is a need for industry-level guidelines.

Adherence to this Directive by lenders will encourage responsible lending to customers who genuinely need credit support to revive their livelihoods in the event of natural disaster.

Directive

In the context of above, it is directed that:

1) For loans which are delinquent due to a natural disaster in an area[10], lenders can consider rescheduling loans to the extent of impairment to repayment capacity. Any rescheduling must be necessarily aligned to regulatory directions[11]. If required, all lenders operating in that area can come together to arrive at uniform norms for rescheduling.

2) New loans to own customers[12] (who have delinquent account(s) with the lender as a result of natural disaster) can be given under following conditions as per the Board approved policy of the lender:

   2.1 Such loans are given within 90 days from date of her last repayment (for loan account which is delinquent due to such event).

   2.2 A detailed due-diligence process is done factoring estimation on losses and time/resource requirements for recovery of household livelihoods, existing debt obligations and repayment capacities.

   2.3 Loan offering is suitably modified to meet the current circumstances of customer such as longer moratorium period and lower interest rates or processing fee.

   2.4 There should not be any deduction from the disbursed amount in the new loan to settle the overdue amount of delinquent loans.

3) Submission of data to Credit Information Companies (CICs) should continue as per the standard norms and delinquency status should not be masked or modified under any circumstances.

10 In areas affected by natural calamities as identified for implementation of suitable relief measures by the institutional framework viz., District Consultative Committee/ State Level Bankers' Committee.

11 https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10531&Mode=0?

12 Lenders to follow B.6 of the Industry CoC released on 4th Oct 2022 which states that 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. This is specifically applicable to microfinance loans. Applicable from 1st Jan 2023.

9. DIRECTIVE ON ORIGINAL DOCUMENTS OF THE EMPLOYEES

Context

The micro-credit industry takes pride in creating employment opportunities for local youths from underprivileged backgrounds. These field-level employees are crucial to business and carry responsibilities for adhering to customer protection norms and other company policies.

MFIN-SRO has received several communications from micro-credit employees sharing that some lenders take custody of their original documents, notably education certificates. Employees have also shared delays in getting back their certificates months after the relieving date, impacting their choices to seek employment elsewhere.

As an industry, we fully recognize challenges like employee retention, issues of employees absconding, embezzlement, and other frauds. However, lenders must address them by improving their employee engagement practices and by mandatorily submitting negative exits to the Employee Bureau. Practices such as retaining the original documents may demotivate the existing employees and may discourage good candidates from seeking recruitment. Further, such practices can also draw negative attention from the stakeholders, exposing the lenders to reputational risks.

Directive

In the background of the above, lenders are directed to abstain from retaining the employees' original documents. If the lender takes the original documents for verification purposes, it must institutionalize the process to return them to the employees within a reasonable timeframe, not beyond seven calendar days.

10. DIRECTIVE ON IMPLEMENTATION OF RBI GUIDELINES APPLICABLE FROM OCTOBER 1, 2022[13]

Context

Over the past few months, the Reserve Bank of India has issued several guidelines adherence to which is mandatory from October 1, 2022. This Advisory is meant to reiterate to the members the importance of the below mentioned guidelines (Regulatory Framework for Microfinance Loans, Recognition of NPA and CIC reporting) to ensure that the same are implemented in a timely manner and there is no regulatory breach.

Adherence to this Advisory by lenders will ensure conformance to the RBI guidelines applicable from 1st Oct 2022.

Please note that for NBFC-MFIs and NBFCs all the three points mentioned in the Advisory are applicable. For banks and SFBs, only point 1 & 3 are applicable as point 2 is already in force.

Directive

1) Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

The effective date of these directions was April 1, 2022. However, in the FAQs released later by RBI, REs were advised to implement these directions completely at the earliest on best effort basis, but not later than October 1, 2022.

2) Recognition of Non-performing Assets (NPAs)

Please refer to the the Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRACP norms) dated October 1, 2021, and the subsequent communication issued by the Reserve Bank of India 'Prudential norms on Income Recognition, Asset Classification and Provisioning vide circular DOR.STR.REC.68/21.04.048/2021-22' dated November 12, 2021.

Paragraph 10 of this circular stated as follows:

"10. It has been observed that some lending institutions upgrade accounts classified as NPAs to 'standard' asset category upon payment of only interest overdues, partial overdues, etc. In order to avoid any ambiguity in this regard, it is clarified that loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable."

Specifically with regards to this paragraph, the RBI in its circular DOR.STR.REC.85/21.04.048/2021-22 dated February 15, 2022, clarified that "NBFCs shall have time till September 30, 2022 to put in place the necessary systems to implement this provision. All other instructions of the Circular shall continue to be applicable as per the timelines specified therein."

13 Date of release: 4th October, 2022

3) Data Submission to Credit Information Companies (CICs):

- In its letter DOR.SIG.FIN.No./20.16.042/2022-23 dated June 7, 2022, the Reserve Bank of India had notified the modifications in the data format for furnishing of customer information to credit information companies. The necessary changes in the UCRF (Uniform Credit Reporting Format) for MFI segment were incorporated by the CICs and communicated to the CIs.
- As per the notification, from October 1, 2022, erroneous/non-submission of data in the modified fields will lead to rejection of the records by the CICs.

The changes notified by the RBI are reproduced below:

Field No.	Segment	Field Name	Required/ Required when present (current status)	Required/Required when present (modified to)
49	Member	Total Monthly family income	Required	Required
84	Account	Number of Instalments	Required when present	Required
85	Account	Repayment Frequency	Required when present	Required
86	Account	Minimum Amount Due/ Instalment Amount	Required	Required

11. DIRECTIVE ON DISPLAY OF INTEREST RATE ON THE WEBSITE[14]

Context

The regulatory framework for microfinance released by the RBI on 14th March 2022[15] outlines the details related to pricing of the loans. The framework emphasizes on fair pricing as per the Board approved guidelines of the lender. Transparency in pricing through adequate disclosures continue to be an important part of the framework. In addition to disclosure of interest rates in the loan documents, other literature (pamphlets, information booklets) issued by the lender and through display in the offices etc., disclosure of interest rates on the website is a regulatory requirement.

Adherence to this Directive by members will facilitate conformance to the RBI guidelines and improve transparency in terms of interest rates being charged.

Relevant provision regarding the display of interest rates on the website from the 'Regulatory Framework for Microfinance' is as under:

Clause 6: Pricing of Loans

6.7 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**.

Directive

To ensure adherence to the RBI guidelines taking into account the practices and their review, it is directed that:

1) The lenders should prominently display the minimum, maximum and average interest rates charged on microfinance loans on its website. **The minimum information required to be displayed** on the website is given below. The given format is recommended for the display.

   Display format:

   'The below interest rates are applicable from dd/mm/yyyy'

Microfinance loan – Product name	Minimum Interest Rate* (%)	Maximum Interest Rate* (%)	Average rate of interest in last quarter** (%)	Processing Fees (% of the loan), if range, give range

14 This directive supersedes the earlier directive released on 10th January, 2024

15 Regulatory Framework for Microfinance

In case, members have more than one product, after giving product wise details as above, the blended average should also be given as below:

All microfinance loans (To reflect all types of loans)	Minimum Interest Rate* (%)	Maximum Interest Rate* (%)	Average rate of interest in last quarter** (%)	Average Processing Fees (% of the loan) ***

**Interest rates are calculated on a reducing balance basis per annum*

*** Average interest rate: It is the 'weighted average interest rate' calculated for the loans disbursed in the last quarter. The loan amounts are used as the weights. The weighted average is arrived at by taking the sum of each loan's interest rate multiplied by the loan amount and then dividing this sum by the total loan amount disbursed.*

**** Average Processing Fee (% of the loan) is calculated as value of total processing fee collected across all microfinance loans disbursed in the quarter divided by the total value of microfinance loans disbursed in the quarter.*

Please specify the quarter for which the average interest rate is displayed on the website.

Members are encouraged to share additional details like range of loan amount, loan tenor, product wise details etc., without compromising on the above details.

2) Any changes in the interest rates should be updated on the website immediately, to ensure that the interest rate information displayed on the website is correct.
3) It is reiterated that any changes in the pricing during the quarter needs to be informed to the MFIN-SRO.[16]
4) Interest rate data reported to the SRO for quarterly RBI reports should be in line with the interest rates displayed on the website of the lender in that quarter.
5) The average interest rate submitted to the SRO for quarterly RBI report should be calculated on the loans disbursed in the reporting quarter and should be the weighted average interest rate for all types of microfinance loans.

This Directive supersedes the earlier directive on the subject. Members must ensure compliance of it by end of January 2024.

16 Point No 2: Directive on Pricing

12. DIRECTIVE ON INFORMATION TO BE PROVIDED IN THE LOAN CARD/FACTSHEET[17]

Context

Adherence to this Directive by members will facilitate transparency to the borrowers in terms of disclosure of all important loan related information in the loan card/factsheet.

Loan card/factsheet is a document which is given to the microfinance borrowers at the time of loan disbursement and remains with them throughout the loan cycle. It has all the important loan related information and helps in keeping track of the repayments made by the borrower. The borrower can at any time refer to this document for any loan related information.

The regulatory framework for microfinance released by the RBI on 14th March 2022[18] captures the mandatory information which the lenders should provide in the loan card, given to the borrowers. The framework also contains an illustrative factsheet on pricing of microfinance loans to be provided with the loan card. Relevant clauses of the regulatory framework about the information to be provided in the loan card/factsheet is available as an Annexure to this directive.

Directive

i) To ensure adherence to the RBI guidelines regarding the information to be provided in the loan card, it is directed that the lenders should ensure inclusion of all the information mentioned as mandatory in the regulatory framework and refer to the illustrative factsheet on pricing of microfinance loans for designing the factsheet.

ii) Additional loan related important information can be provided in the loan card/ factsheet but without compromising on the mandatory information as mentioned in the regulatory framework.

iii) Other industry standard documents (Industry CoC and Compendium of MFIN Directives and Advisories) should be referred and adhered to in terms of disclosures in the loan card/factsheet.

ANNEXURE

Relevant clauses from the regulatory framework for microfinance

Clause 7: Guidelines on Conduct towards Microfinance Borrowers

7.1.3 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.

17 Date of release: 24th April, 2023

18 Regulatory Framework for Microfinance

7.1.4 All entries in the loan card should be in a language understood by the borrower.

7.1.5 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.

ANNEX II

(cf. Para 6.3 of these Directions)
Illustrative Factsheet on Pricing of Microfinance Loans
(To be provided in a language understood by the borrower)

Date: XXX **Lender's Name:** XXX **Applicant Name:** XXX

Sr. No.	Parameter	Details
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	20,000
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	3,274
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	400
(a)	Processing fees (in Rupees)	160
(b)	Insurance charges (in Rupees)	240
(c)	Others (if any) (in Rupees)	-
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	19,600
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	23,674[19]
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	17.07%
(vii)	Loan term (in months)	24
(viii)	Repayment frequency by the borrower	Monthly
(ix)	Number of instalments of repayment	24
(x)	Amount of each instalment of repayment (in Rupees)	970
Details about Contingent Charges		
(xi)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xii)	Penal charges in case of delayed payments (if any)	
(xiii)	Other charges (if any)	

19 The difference in repayment amount calculated from the total of instalments given under the detailed repayment schedule i.e., ₹23,280 (=970*24) (excluding ₹400 (other up-front charges)) vis-à-vis the amount of ₹23,674 (₹20,000 (loan amount) + ₹3,274 (Interest charges) + ₹400 (other up-front charges) mentioned under (v) is due to rounding off the instalment amount of ₹969.73 to ₹970 under the detailed repayment schedule.

13. DIRECTIVE ON THE TREATMENT OF BULLET REPAYMENT LOANS & MISSING EMI TRADELINES[20]

Context

As per the RBI regulations, all microfinance lenders must calculate the loan repayment obligations to income ratio before extending microfinance loans. The monthly loan repayment obligations should take into account all the active loans of the borrower household.

Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022

5. Limit on Loan Repayment Obligations of a Household

   5.1 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 per cent of the monthly household income.

   5.2 The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

FAQs on Regulatory Framework for Microfinance Loans – 25th July 2022

Q 6. How should credit facilities not having an EMI feature be treated for arriving at total monthly repayment obligations of the household?

Board-approved policies of REs should cover such operational aspects. One possible way could be to distribute the annualized repayment obligations over twelve months to estimate monthly outgo of the household towards debt repayment.

Consultations of MFIN Credit Bureau Task Force (CBTF)

In the case of certain retail loans and bullet loans like gold loans, the value of the monthly/periodic instalment might be missing or not available in the comprehensive credit information report (CCIR). Based on the discussions with members and the study of their credit policies, MFIN SRO was made aware of varying practices being followed by the members with regard to treating tradelines with missing EMI data and/or bullet loans. Questions related to the subject also came up in the RBI supervisory reviews with certain members.

Due to the above, a need was felt to issue guidelines to facilitate the implementation of the RBI regulations on 'Limit on Loan Repayment Obligations of a Household' specifically with respect to estimating the monthly loan repayment obligations for tradelines with missing EMI data/bullet loans. This matter was placed before the MFIN Credit Bureau Task Force (CBTF) for its consideration. After multiple rounds of discussions with MFIN CBTF and an analysis of more than 12 crore loan

20 Date of release: 12th September 2024

records in collaboration with a Credit Information Company, the following directive is being issued.

The repayment obligations estimated based on the Directive are the minimum repayment obligations which the lender must take into account.

Directive

Board-Approved Policy:

All member organizations should establish a board-approved policy defining the methodology for calculating loan repayment obligations for tradelines with missing/not available monthly/periodic instalment values in the CCIR.

> Conformance to this Directive by the lenders will facilitate adherence to the RBI guidelines and improve the underwriting quality of microfinance loans.

This policy should cover:

- Mandatory inclusion, in calculating the monthly loan repayment obligations, of repayment obligations of bullet loans and other retail loans where the monthly/periodic instalment value is not available/missing in the CCIR.
- An approach to estimating the monthly repayment obligations for such loans.

Calculation Methodology: An indicative methodology is suggested-each RE should devise their own policy.

A) In cases where the limit is like an overdraft with no set EMI, the following approach is suggested:

- Gold loans: The monthly obligation can be calculated as 1-1.5% of the outstanding amount to cover serviceable interest.
- Credit Cards: The monthly obligation can be calculated as 5% of the outstanding amount.
- Kisan Credit Cards: The monthly obligation can be calculated as 1% of the outstanding amount.

B) For other retail loans where EMI data is missing in the CCIR, the lenders are advised to include the values provided in the table to calculate the minimum repayment obligation. The lenders are encouraged to use internal data/analytics to refine these indicative values for the purpose of underwriting.

EMI(Per Thousand) Rounded off to nearest 500															
#	Buckets	Personal Loan	Microfinance Personal Loan	Consumer Loan	Auto Loan (Personal)	Two-Wheeler Loan	Commercial Vehicle Loan	Tractor Loan	Microfinance Business Loan	Business Loan - Secured	Business Loan Unsecured	Mudra Loans – Shishu / Kishor / Tarun	Pradhan Mantri Awas Yojana - CLSS	Housing Loan	Microfinance Housing Loan
1	1K-20K	180	185	120	90	95	75	65	90	35	90	85	15	10	55
2	20K-40K	85	70	100	45	55	40	65	80	35	65	30	15	10	55
3	40K-60K	60	55	65	35	55	40	55	55	35	55	30	15	10	55
4	60K-80K	55	40	40	35	50	40	55	50	35	55	20	15	10	55
5	80K-1L	40	40	40	35	45	40	55	50	35	55	20	15	10	55
6	1L-1L20K	40	40	40	35	40	40	55	50	25	50	20	15	10	55
7	1L20K-1L40K	35	40	40	35	40	40	55	50	25	50	20	10	10	45
8	1L40K-1L60K	35	40	40	35	35	40	55	50	25	50	20	10	10	45
9	1L60K-1L80K	35	30	40	35	35	40	50	50	25	45	20	10	10	40
10	1L80K-2L	35	30	35	30	35	35	50	50	25	45	20	10	10	40
11	2L-2L20K	35	30	35	30	35	35	50	40	25	40	20	10	10	40
12	2L20K-2L40K	25	30	30	25	30	35	45	40	25	40	20	10	10	40
13	2L40K-2L60K	25	30	30	25	30	35	40	40	25	40	20	10	10	40
14	2L60K-2L80K	25	30	30	20	30	30	40	40	25	35	20	10	10	40
15	2L80K-3L & above	25	30	25	20	30	30	40	40	25	35	20	10	10	40

The table gives the value of EMI per Thousand for a specific type of loan and for a certain range of loan amount disbursed. Minimum Estimated Missing EMI Value = (Loan amount/1000) * Value from the table.

Example: For a personal loan of INR 50,000, the missing EMI value is calculated by reading the value from the cell in the table which corresponds to (a) Product Type: Personal Loan (b) Loan Amount range 40k-60k.

The missing EMI is (50,000/1000) * 60= INR 3000.

To arrive at the values in the table, more than 12 crore loan records available were analysed product wise. The records were split based on the loan amount disbursed into buckets of INR 20,000 each.

The repayment obligations estimated based on the Directive are the minimum repayment obligations which the lender must take into account. The Directive covers the common types of loans which overlap with MF loans.

14. GUARDRAIL 2.0 FOR THE MICROFINANCE SECTOR[21]

On July 8, 2024, MFIN introduced a comprehensive set of Guardrails for its members (refer Directive #14) developed after extensive deliberations on the prevailing issues in the microfinance sector. MFIN undertook a Mid-Year review of the policy and operational issues including implementation of Guardrails, microfinance data analysis, field inputs from members as well as current landscape including regulatory concerns.

It is evident that while members are actively implementing the Guardrails, the situation calls for further steps to bring back operational rigour, avoid over lending and improve credit quality. These steps are applicable to all member entities and intended to mitigate risks, address regulatory concerns, promote responsible lending, and thereby ensure the long-term sustainability of the microfinance sector.

These guardrails are in addition to the RBI Regulations and the Industry code of conduct and are "must follow" norms for Regulated Entities (REs). They will be tracked by MFIN as part of the Quarterly Adherence Reports (QARs) and Third-Party Evaluations (TPEs) and the violations will be escalated as per MFIN Enforcement Framework.

The new set of Guardrails 2.0 supersede points no. 1, 2 and 3 [Lender cap, Indebtedness cap and No lending to NPA client] of the previous guardrails, elaborates points on Interest rate and processing fee, retains the point on including Loan repayment obligations of missing EMI loans and adds points on KYC and CIC reporting.

1. Lender Cap

The maximum number of microfinance lenders (including all REs) to be capped at 3 (instead of 4 earlier). One cannot be the 4th microfinance lender. This cap applies only to microfinance loans and does not include loans from retail bureau. It will cover both existing and new clients.

2. Indebtedness Cap

The indebtedness cap for a client remains unchanged at the earlier level of Rs 2 Lakh but will now include both microfinance and unsecured retail loans - it excludes secured retail loans. However, all loans should be considered in calculation of total monthly repayment obligation.

This means that at the time of lending, the client indebtedness (loan outstanding including the loan under consideration) cannot exceed Rs 2 Lacs from microfinance and unsecured retail loans. For this purpose, the total indebtedness will exclude retail loans such as gold loan, loan against property and mortgage loan secured by any tangible asset and/or by hypothecation in favour of the lender.

3. No lending to a delinquent client

Any microfinance provider should not disburse a loan to a borrower who has a DPD >60 days (previously 90 days) on any loan that has an amount outstanding of greater than Rs 3,000 with any regulated entity (RE) at the time of underwriting the loan under consideration.

4. Interest rate (IRR) and Annual Percentage Rate (APR)

21 Date of release: 25th November 2024

a) Members should closely review their Board approved risk-based pricing policy and ensure that the interest rates are in line with the policy.

b) The processing fee as per earlier guardrails to be capped at a maximum of 1.5%, excluding GST.

c) At the time of loan disbursement, no charges other than processing fees and credit life insurance premium should be deducted. In other words, the difference between interest rate (IRR) and APR should only be on account of deduction of processing fee and credit life insurance from the sanctioned loan amount.

d) No other Third-party products, insurance policies etc. are to be sold with the loan. If it is done, it should be with explicit client consent for that product and only after at least 1 month after the disbursement of the loan in line with MFIN directive #5[22].

5. Loan Repayment Obligation

The calculation of loan repayment obligation to include all loans from CCIR including:

- Bullet loans
- Missing EMI tradelines

The EMI of the proposed loan should also be included in the repayment obligation calculation

Guidance on devising policies for missing EMI loans has been given by MFIN vide its directive #13 dated 7th October 2024. For convenience, the same is attached as Annex 2.

6. KYC

a) For credit bureau checks of clients, Voter ID to continue as the primary ID but with mandatory e-validation. The REs to take a call to lend based on validation of Voter ID but IDs not validated through source database / "no hit" should ideally be considered for rejection.

b) In order to strengthen the KYC process, PAN seeding for clients to be taken up in a Mission mode. MFIN has set an aspirational target of 50% seeding by 31st March 2025 and the progress will be tracked.

7. Reporting to Credit Bureaus

While MFIN had advised NBFC-MFIs to do daily reporting to CICs, the same is being extended to all REs to ensure accurate underwriting of loans for disbursement.

A SNAPSHOT OF THE CHANGES AS COMPARED TO EARLIER GUARDRAILS

#	Guardrails	Change	Summary
1	**Lender Cap**	Yes	Made stricter. The maximum number of MF lenders to be capped at 3 (instead of 4 earlier). Date of implementation: 1st April 2025

22 MFIN Directive #5: Directive On Third-Party Products (TPP)

#	Guardrails	Change	Summary
2	**Indebtedness Cap**	Yes	Made stricter. To include MF loans AND unsecured retail loans. Cap to remain at the earlier level of INR 2 lacs. Date of implementation: 1st Jan 2025
3	**No lending to a delinquent client**	Yes	Made stricter. Any MF lender not to disburse a loan to a borrower who has a DPD>60 days and an O/S of > Rs. 3000. Date of implementation: 1st Jan 2025
4	**Interest rate and Annual Percentage Rate (APR)**	Yes	4(a) & 4(b)- No change. These are existing norms. 4(c)-Added & to be implemented from 1st Jan 2025. 4(d)-Added & is a reiteration of MFIN Directive #5.
5	**Loan Repayment Obligation**	No	No change from the earlier norms
6	**KYC**	New Addition	(a) Mandatory e-validation of Voter ID. Date of implementation: 1st Jan 2025 (b) PAN seeding for clients to be taken up in a Mission mode.
7	**Reporting to Credit Bureaus**	New Addition	Daily submission of data to the CICs to be done by all REs (earlier it was applicable only for NBFC-MFIs). Date of implementation: 1st Jan 2025

Adherence to these guardrails to be monitored by MFIN using the data from CICs (Guardrails 1,2,3,6 (b),7), website monitoring, information furnished to MFIN, Third Party Evaluations (TPEs), field visits/surveillance/factsheet check (Guardrails 4,5, 6(a)).

It has also been decided to take a declaration from all Members, signed by the Chief Compliance Officer on adherence to guardrails including other key regulatory issues like giving a Key Fact Sheet to the client and the use of a Comprehensive Credit Information Report (CCIR) for underwriting loans. The frequency of the declaration will be based on the size of the Member.

15. DIRECTIVE ON RECOVERY RELATED PRACTICES

Context

There have been recent reports of field instances where microfinance borrowers have reported practices being followed by the lenders in violation to the the clauses of the RBI regulations and the Industry code of conduct. Such instances not only pose risk to the reputation of the individual lenders involved but also undermine the credibility of the entire microfinance sector. This directive is meant to reiterate to the members the importance of the guidelines on appropriate coduct towards the borrowers especially with regards to recovery related aspects as mentioned in the Annexure. It emphasizes the need for strict compliance, both at policy and process levels to avoid any regulatory breaches. This will help the industry address such field instances promptly and reinforce the commitment of lenders to regulatory compliance.

> Adherence to this Directive by lenders will ensure conformance to the RBI guidelines and Industry CoC and improve field related practices and conduct towards the microfinance borrowers.

Directive

To ensure adherence to recovery related practices, it is reiterated and directed that all lenders of microfinance should:

- Strictly adhere to all regulatory provisions as attached in the Annexure of this directive, both in letter and spirit.
- Provide adequate training to employees, particularly branch staff, on regulatory guidelines to promote appropriate conduct towards borrowers.
- Strictly follow norms on household income assessment and repayment obligation calculations to ensure lending is done responsibly only to the potential customers so that issues of non- repayment, going forward, is minimized.
- Establish robust internal monitoring mechanisms and system checks to detect instances of non- compliance so that immediate corrective actions are taken.

Any complaint or instance which comes to the notice of MFIN, where these regulatory guidelines are not adhered will be dealt strictly and action will be taken as per the MFIN-SRO enforcement framework. Such cases, if not resolved to the satisfaction of MFIN SROC, will be reported to the RBI.

Member REs should also ensure that Grievance redressal mechanism and MFIN CGRM toll free no. is provided to the client.

This Directive should be shared with the Board for information.

Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 (updated as on Oct 10, 2024)

7.4 Guidelines related to Recovery of Loans

7.4.1 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.

7.4.2 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. *(Reiterated in Industry CoC, clause A.2.C)*

7.4.3 RE or its agent shall not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, following practices shall be deemed as harsh:

i) Use of threatening or abusive language

ii) Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.

iii) Harassing relatives, friends, or co-workers of the borrower

iv) blishing the name of borrowers

v) Use or threat of use of violence or other similar means to harm the borrower or borrower's family/assets/reputation

vi) Misleading the borrower about the extent of the debt or the consequences of non-repayment

7.4.4 Each RE shall have a dedicated mechanism for redressal of recovery related grievances. The details of this mechanism shall be provided to the borrower at the time of loan disbursal. *(Reiterated in Industry CoC clause E.4)*

FAQs on Regulatory Framework for Microfinance Loans – 25th July 2022

Q 10. Is the practice of calling a borrower before 9.00 am and after 6.00 pm being considered as harsh practice only for recovery of overdue loans or also for normal conduct of business?

Ans. This clause is applicable only for recovery from borrowers having overdue loans. For other borrowers, REs can continue with the existing timing/ process for business like group meetings, collection in regular accounts, etc. as per borrowers' convenience.

Q 11. Is there any specific reason for including a dedicated mechanism for redressal of recovery related grievances when there is already a customer grievance redress mechanism?

Ans. The purpose of having a dedicated redress mechanism for recovery related grievances is that these grievances should be promptly addressed. Treating (clubbing) them as (with) other complaints (e.g., operational issues) may result in delayed action. However, this does not imply that a separate redress mechanism for recovery related grievances is being mandated. REs can restructure/ re-organise the existing customer grievance redress mechanism to identify and promptly address recovery related grievances.

Industry Code of Conduct - 4th edition – Oct 2022

A. Fair Interaction

The RE and any other microfinance provider must ensure that all employees and persons acting on its behalf:

- Do not intimidate or humiliate verbally or physically.
- Do not contact borrowers at odd hours or at inappropriate times such as bereavements, illness, social occasions such as marriages and births.
- Do not harass relatives, friends, neighbours, or co-workers of the borrower.

SECTION B

ADVISORIES

Advisories are recommendatory in nature for all MFIN member NBFC-MFIs. It is further recommended that all other lenders of micro-credit also adhere to these advisories for creating robust industry standards and practices.

1. ADVISORY ON HOUSEHOLD INCOME ASSESSMENT

Context

The regulatory framework for microfinance released by the RBI on 14th March 2022[23], has increased the income cap to be used to identify a microfinance customer. Additionally, to ensure against over indebtedness of the clients, the lenders are also required to assess the existing obligations of the clients related to loan repayments. Thus, the approach to rightly identifying the micro-credit customer, household/family income assessment and credit assessment would need a degree of adaptation and standardisation.

> Conformance to this Advisory by lenders will facilitate adherence to the RBI guidelines and improve transparency in assessment of the household income and determination of repayment obligation.

MFIN-SRO has already issued suggestive guidelines to support the members evolve a policy and framework for the household income assessment for microfinance loans for their respective organizations.

Relevant provisions in the context of household income assessment from the applicable 'Regulatory Framework for Microfinance' are attached as 'Annex' with this Advisory:

Advisory

To ensure that all the lenders adhere to the RBI guidelines in the context of household income assessment, it is advised that:

1) All the member organisations of MFIN may voluntarily submit their household income assessment framework to MFIN, with all its components to the MFIN-SRO.
2) Any subsequent changes in the framework may be informed to the MFIN-SRO.
3) This information should be sent to sro@mfinindia.org by the CEO/CFO/COO/Compliance officer or any other person from the senior management of the company, as appointed.
4) This will help the SRO to develop a common framework as desired by the regulator. This framework will serve as a reference which can be used by the members to improve/calibrate their individual frameworks. This will also inform the future Third Party Evaluations.

23 Regulatory Framework for Microfinance

ANNEXURE

Relevant clauses from the regulatory framework for microfinance

3) Definition of Microfinance Loan

3.1 A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

4) Assessment of Household Income

4.1 Each RE shall put in place a board-approved policy for assessment of household income.

4.2 Self-regulatory organisations (SROs) and other associations/ agencies may also develop a common framework based on the indicative methodology. The REs may adopt/ modify this framework suitably as per their requirements with approval of their boards.

5) Limit on Loan Repayment Obligations of a Household

5.1 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 per cent of the monthly household income.

5.2 The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

2. ADVISORY ON PRICING

Context

The framework for pricing of microfinance loans by the NBFC-MFIs was clearly defined by the RBI to ensure that the customers are fairly charged. However, in light of the new regulatory framework for microfinance released by the RBI on 14th March 2022[24], the onus of pricing has been placed with the Board with the caveat that the interest rates and other charges/fee should not be usurious and there has to be a well-documented interest rate model/approach.

> Conformance to this Advisory by lenders will facilitate adherence to the RBI guidelines and improve transparency in pricing of the loan products.

Relevant provisions in the context of pricing from the applicable 'Regulatory Framework for Microfinance' are as under:

Clause 6: Pricing of Loans

6.1 Each RE shall put in place a board-approved policy regarding pricing of microfinance loans which shall, inter alia, cover the following:

i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate.

ii) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters.

iii) The range of spread of each component for a given category of borrowers; and

iv) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

6.9 As part of their awareness campaigns, SROs/ other industry associations may publish the range of interest rates on microfinance loans charged by their members operating in a district. SROs/ other industry associations may also sensitize their members against charging of usurious interest rates.

In the context of above, MFIN-SRO has already issued suggestive guidelines to support the members evolve a policy and framework for the pricing of the microfinance loans for their respective organizations.

Advisory

To ensure that all the lenders adhere to the RBI guidelines in the context of pricing, it is advised that:

1) All the member organisations of MFIN may voluntarily submit their pricing policy to MFIN, along with all its components (as per Clause 6.1 of the regulatory framework for microfinance dated 14th Mar 2022) to MFIN-SRO.
2) Any subsequent changes in the pricing policy may be informed to the MFIN-SRO.
3) This information should be sent to sro@mfinindia.org by the CEO/CFO/Compliance officer or any other person from the senior management of the company, as appointed.

24 Regulatory Framework for Microfinance

3. ADVISORY ON ENGAGEMENT OF NBFCS/BANKS WITH DIGITAL LENDING PLATFORMS/ MOBILE APPS[25]

Context

This Advisory is being issued to reiterate the importance of being aware of and adhering to the circulars/ notifications issued by the RBI and the Government of India regarding the engagement of NBFCs/ Banks with Digital Lending Platforms/Mobile Apps.

There has been a rapid increase in lending done through digital platforms/ mobile apps in India. Several banks and NBFCs have also been engaging with digital platforms/mobile apps to provide loans to their customers. While some NBFCs have been registered with the Reserve Bank of India (RBI) as 'digital-only' lending entities, some are registered to work both on digital and brick-mortar channels of credit delivery. Thus, banks and NBFCs are observed to lend either directly through their own digital platforms or through a digital lending platform under an outsourcing arrangement.

The growth in digital lending has been followed by numerous media reports about suspicious activities being carried out through certain digital lending apps. The RBI has been issuing necessary notifications from time to time to guide banks and NBFCs on the subject. The RBI also issued a press release on 23 December 2020 cautioning against unauthorised digital lending platforms/mobile apps.

Among other things, communication from RBI to NBFCs/Banks has reiterated the importance of being transparent about transactions with borrowers and follow the Fair Practices Code and the extant guidelines on outsourcing of financial & IT services.

The Government of India has also taken action against certain apps with links to foreign shores.

The 'Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps' of Nov 2021 of the RBI analyzed the portfolio of loans sourced using digital lending platforms/mobile apps. A high proportion of the portfolio comprised borrowers whose profile was found to be similar to that of microfinance[26] customers. Therefore, any incident impacting customer protection or fair practices, or regulatory breach by digital lending platforms/mobile apps is likely to have a spillover effect on the microfinance industry.

Advisory

Members are advised to exercise due caution and comply with the existing RBI and Government of India guidelines before entering into any digital lending tie-up.

25 Date of release: 9th August, 2022

26 RBI in its Master Direction DoR.FIN.REC.95/03.10.038/2021-22 dated 14 March 2022 at para 3.2 states "All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to Rs 3,00,000, shall be considered as microfinance loans".

Reference to extant instructions

Links to some of the important communication from the Reserve Bank of India are given below[27]:

1) Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022. Section 7.3: Responsibilities for Outsourced Activities https://m.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12256
2) RBI circular dated June 24, 2020: Loans Sourced by Banks and NBFCs over Digital Lending Platforms: Adherence to Fair Practices Code and Outsourcing Guidelines https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=11920
   i) Para 2.5.2 (ii) (loan appraisal and terms/conditions) of 'Guidelines on Fair Practices Code for Lender' and Para 2.6 of 'Guidelines on Recovery Agents engaged by banks', of Master Circular on 'Loans and Advances – Statutory and Other Restrictions' dated July 01, 2015;
   ii) Para 4 of Annex to circular on 'Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks' dated November 03, 2006
   iii) Para 8.5(b) of Master Circular on 'Customer Service in Banks' dated July 01, 2015;
   iv) Para 29 (loan appraisal and terms/conditions) of the guidelines on Fair Practices Code and Para 4 of Annex XXV (Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs) of the Master Directions on Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016
   v) Para 7.2 of Section A of Master Direction on 'Information Technology Framework for the NBFC Sector' dated June 08, 2017; and,
   vi) Para 29 (loan appraisal and terms/conditions) of the guidelines on Fair Practices Code and Para 4.1 of Annex XIX (Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs) of the Master Directions on Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.
3) Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps dated Nov 18, 2021 (especially Section 5: Financial Consumer Protection) https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1189#S5
4) RBI Cautions against unauthorised Digital Lending Platforms/Mobile Apps dated Dec 23, 2020. https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50846

27 This is not an exhaustive list but only captures some important communication

4. ADVISORY ON DEALING WITH CUSTOMER DISPUTES ON CIR

Context

Several customer complaints are received on Customer Grievance Redressal Mechanism (CGRM) of MFIN 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:

> Adherence to this Advisory by lenders will provide a useful channel to customers to correct their data and CIR with the CICs.

- **ACCOUNT STATUS DISPUTE:** Customer contends that her CIR report is not updated. For example, the customer has closed her loan account, but the account still shows to be outstanding, 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. For example, she has never ever taken a loan from a certain lender, but her CIR shows her to have done so. This could be the case of false positive or inaccurate 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 the lenders. To support customers to resolve their complaints with respect to CIR, lenders are advised to follow the process outlined below.

Advisory

STEP 1: Loan application from a customer is rejected by a lender 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 lender which has rejected the loan for support.

STEP 2: Lender (rejecting the loan) acts as a facilitator for 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.

STEP 3: CICs will resolve the queries by contacting the concerned lender as required and update the facilitating lender (along with a copy of new CIR). Turn Around Time (TAT) for CICs to resolve the queries is 30 working days[28].

STEP 4: Facilitating lender 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 lenders) for follow-up.

28 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. ADVISORY ON DEALING WITH FRAUDULENT ACTIVITIES USING NAME OF ANOTHER LENDER

Context

Several frauds have been reported via different channels including MFIN CGRM, regarding individuals/groups/agencies falsely posing as staff of lenders. Such frauds, perpetrated through phone calls, advertisements, or direct visits, trap the customer through lucrative loan offers using name of the lender. 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 the amount is received, the fraudulent individual(s) abscond.

These incidents adversely impact the customers and pose a direct reputational risk not just to the concerned lender but to the entire industry.

> Adherence to this Advisory by lenders will support individual lenders and the industry to deal with similar episodes and will also educate customers on being careful while doing financial transactions.

Advisory

Considering the above factors, lenders are advised to:

1) Take cognisance of such mal-practices and unscrupulous elements captured through field information.
2) Provide guidance and support to such customers (having been duped using lenders name), as required, such as registering a police complaint etc.
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 transaction.

6. ADVISORY ON TAKING POST-DATED CHEQUE (PDC) FROM CUSTOMERS

Context

Lenders are increasingly moving to cash-less transactions and a high percentage of disbursements are being done digitally. In some cases, it has been observed that PDCs were taken and retained as a form of security against loan.

Since microfinance loans are required to be collateral free in nature, to ensure that practice of taking PDCs is aligned to customer interest and only serves the intended objective of 'facilitating cash-less repayments', there needs to be appropriate guidelines on using PDC as an instrument of repayment.

Thus, lenders are advised to follow the guidelines as mentioned below.

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

Advisory

Lenders 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 PDCs collected towards repayment
6) Not more than 6 PDCs should be taken from a customer and retained at any time
7) Customer should be adequately informed about legal and financial implications of PDC being dishonoured/bounced

7. ADVISORY ON DEALING WITH RINGLEADERS

Context

Adherence to this Advisory by lenders will strengthen lending process and credit culture of the industry.

Despite several control mechanisms adopted by the lenders, the problem of ringleaders continues to persist. It has been observed that generally, ringleaders are customers who start as group or centre leader and overtime acquire disproportionate influence in the lending process including customers' access to lenders and their repayment behaviour. A ringleader can completely control the lending process, leading to creation and aggregation of fictitious loans for his/her own interest. At times, field-level employees, under pressure to achieve high sales targets, find ringleaders an easy and quick channel to achieve the target. However, dependence on ringleaders means compromising lending principles including complete lack of connect with the customers.

While scale of micro-credit portfolio under the influence of ringleaders may be limited and hard to quantify, an inquiry into past episodes of large-scale defaults across regions and lenders, clearly establish channelling of loans through ringleaders as the root cause. Besides building credit risk for lenders and the industry, it corrodes the credit culture and creates reputational risk for the industry.

Advisory

In the context stated above, lenders are advised to:

1) Create awareness amongst customers about the detrimental effects of blindly trusting the group/ centre leader and how any default in the fictitious loan availed by a ringleader in customer's name can ruin her credit records and access to credit in future. As a significant number of new customers are regularly added, continuous reinforcement is needed on the same. This should also be a part of Compulsory Group Training (CGT)/Group Recognition Test (GRT) process.
2) Educate the employees about the context of ringleaders including how to identify and avoid them. Encourage the employees to inform their seniors if instances of ringleaders are found.
3) Engagement of employees with the ring leaders should not be acceptable and the same should be monitored by the lenders.
4) Develop specific internal controls to identify and avoid ringleaders in the lending process and system such as direct connect with customers, pre-disbursement confirmation calls to customers, loan utilisation checks, regular rotation of group/centre leaders, and customer verification during internal audit etc.
5) Set sales target for the employees based on a reasonable criterion including understanding of micro-credit requirement in an area as undue targets may lead to perverse practices.
6) Share necessary information about the ringleader in an area with other lenders operating in the same area. This can be done through the MFIN's state/district forum meetings or by informing MFIN state representatives.

8. ADVISORY ON THE DISTRIBUTION OF THIRD-PARTY FINANCIAL PRODUCTS TO MICRO-CREDIT CUSTOMERS

Context

Micro-credit customers offer non-credit financial products such as insurance, savings, investments – mostly in partnership with third-party providers or intermediaries. Indeed, access to a diverse set of financial products provides the customers with more choices to meet their various financial needs. However, considering the vulnerability of low-income microcredit customers, there could be barriers in exercising that choice and therefore there is a need for lenders to ensure that:

- Customers are fully aware of the costs, benefits, and risks of offered products to take an informed decision. The complexity of products and lack of financial education and previous experience with such products amongst customers means that creating awareness for new products requires much greater effort and resources over time.
- Customers are protected against forced mis-selling of these products to avail micro-credit.
- Customer-protection norms of suitability, education, transparency, data privacy, and grievance redressal mechanisms are fully adhered to for such products.

There have been feedback and complaints from the customers regarding the above challenges. The scale of such instances is limited at this point, nonetheless, lenders must put in place adequate policies and processes to ensure adherence to universal customer protections norms. It may be noted that customers' unsatisfactory experience with such financial products can also have an adverse impact on their behavior and perception towards micro-credit, and hence lenders should be cautious regarding the same.

Advisory

In the context of above, lenders are advised[29] as under:

1) The lender should identify and scrutinize financial products as per the requirement of the micro-credit customers. The onus of right choice of products lies with the lenders as they understand their customers' financial position, preference, and vulnerabilities. The products should be reasonably priced and should be provided to improve the well-being of the customers.
2) The lender should not mandate or link the purchase of third-party product(s) for availing micro-credit loans.
3) The lender must develop the process and collaterals for educating customers and deliver a comprehensive program before offering a product to customers to ensure that customers know the products in terms of costs, benefits, risks, fees, transaction process and other terms and conditions. Such a program should emphasize that the products are not mandatory for availing a micro-credit loan, and the customer has the right to refuse them as per her/his requirement.

29 Please also refer to MFIN Guidance Note on third-party sell which has more details about this as well as MFIN Directive on third-party products.

4) The lender should align pre/post-sale disclosures for such products as per relevant regulatory norms and mention the critical terms and conditions in a clear and understandable manner.
5) The lender should take separate and explicit customer consent from the customers for every product availed by the customer.
6) The lender must adequately train the employees responsible for distributing such products on product features and process. Any incentive framework for such products should have safeguards and controls in place to address mis-selling/forced selling and conflict of interests.
7) Systems and processes regarding customer data (personal and financial data collected for this specific purpose and shared with third parties) must have
   - mechanisms to inform the customer about data-sharing and take explicit consent
   - controls to ensure accuracy, safety, and privacy of customer data
8) The lender should suitably adapt the customer grievance redressal mechanism (policies, process, employee training, categorization of complaints, TAT, reporting) for queries/complaints arising from such products.
9) The lender must establish a proper connection between customers and the third-party through convenient means or digital solutions.
10) The lender should fully abide by the extant regulations for such products.
11) The lender should undertake periodic internal audits to assess the adherence to processes for such products.
12) The lender should undertake the periodic review of such products' performance for efficacy and customer satisfaction based on internal or external assessments.

9. ADVISORY FOR FAIR TREATMENT OF EMPLOYEES

To ensure that lenders follow certain minimum standards in their treatment of employees, lenders are advised as under.

Equality

1) No discrimination due to color, gender, race, religion, caste, ethnicity, birthplace, and residence, in recruitment, remuneration, benefits, access to services and promotion.
2) Equal pay for equal skills and work.

Transparency

1) Written communication of employment contract and HR policies such as:
   - The designation, location of posting, probation/notice period, joining date, duration of the contract, non-competitive clause if any
   - Details of compensation including performance bonus/Incentive, increments.
   - Benefits/Allowances/Reimbursements (ESI/PF, insurances, mobile/internet, conveyance, books/periodical/stationeries, accommodation, food, education/training etc).
   - Working days/hours, lunch/break time, paid/unpaid/special leaves.
   - Usage, privacy and confidentiality of employee data and documents.
   - Employee Code of Conduct.
   - Implications of misconduct such as unauthorized absence, theft of data, financial fraud, sexual harassment, misbehavior with colleagues, customers and third parties.
2) Written communication on salary, leave records, performance, disciplinary action, relieving letter, final settlement.
3) Access to Human Resource (HR) manual, policies, performance measurement metrics, and HR department to understand HR policies/process and seek clarifications.

Safety

1) Safe workplace and official premises with access to clean drinking water, hygiene, toilet, fire safety and emergency medical kit.
2) Adequate safety measures during official travel due to late hours, cash and hostile environment including legal safeguard towards harassment/violence/false allegations.
3) Zero tolerance for any remarks or differentiations based on color, gender, race, religion, caste, ethnicity, birthplace and residence and threats of any kind.

Grievance redressal

1) Access to fair and independent mechanism towards grievance redressal of any nature including but not limited to charges against the employee. The mechanism to include access to HR department towards the process including details on internal committee members of Prevention of Sexual Harassment (POSH).

Others

1) Timely payment of salary, allowances, reimbursement claims, bonus and incentives.
2) Training and support to learn required skills to perform the job and improve the performance.
3) Work life balance and protection from persistently long working hours.
4) Leaves for personal/family needs (marriage, birth, death, emergency, illness, functions).
5) Timely and accurate reporting for the reference check and submission of employee data to the Employee Bureau, as required by industry standards.

For any clarifications, please contact sro@mfinindia.org

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