

DISCLOSURE TO CUSTOMERS



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INTRODUCTION

Context

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

- 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 choice aligned to her/his interests
- c. Gives access to customers on ready information about her/his loan account (loan outstanding, processing fee and 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 and therefore supports the company in dealing with frauds and corruption

Micro-credit sector mostly provides credit to women from low-income households. Given the customers' economic-social-educational background, many customer's may not always proactively seek relevant information and need an assisted-proactive disclosure framework to ensure their access to right information.

Therefore, companies (NBFC-MFIs) based on regulations and industry standards follow a detailed framework of 'disclosure to customers' in the sector. Focus has been that all key information is fairly, 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 'Disclosure to Customer'** comprehensively captures the regulatory and industry standards to support our member NBFC-MFIs to more effectively implement the regulatory standards and progressively move to higher standards with respect to 'disclosure to customers'.

We sincerely hope that the Guidance Note meets its purpose and our member NBFC-MFIs find it useful.

We also request the MFIN member NBFC-MFIs to review their existing 'disclosure to customers' based on this Guidance Note and make suitable changes, as required.

For any clarification/suggestion, feel free to connect with us. We also invite you to send us your feedback and suggestion to improve the Guidance Note. You can connect with us at sro@mfinindia.org

Notes

In this Guidance Note, all regulatory (RBI Master Directions, RBI Fair Practices Code, the Ombudsman Scheme for NBFCs 2018) and Industry Standards (Industry Code of Conduct) related to 'disclosure to customers' are captured. For ease of implementation by member NBFC-MFIs, they are organized in six categories as under.

1. Website
2. Office
3. Branch
4. Loan Application
5. Loan Agreement/Sanction Letter
6. Loan Card

For easy reference of members, all clauses related to disclosure to customers in RBI Master Directions for NBFC-MFIs¹, RBI Fair Practices Code (FPC)² for NBFCs, the Ombudsman Scheme for NBFCs³ and Industry Code of Conduct (CoC)⁴ 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/sanction letter and loan card.

With respect to this Guidance Note, the following is noteworthy:

- RBI Master Directions and RBI Fair Practices Code describes the regulatory requirements. Industry Code of Conduct (CoC) is also an obligatory requirement for the MFIN Member NBFC-MFIs.
- **Guidance Note is limited to written disclosure targeted to the customers and does not cover oral disclosures (through trainings, employee interactions etc) and other company-level disclosures required by the law or other regulatory provisions for example Financial Performance, Annual Report, Rating Reports, Risk etc.**
- Further, companies may also have many other additional disclosures and clauses (for website, offices, branches, loan application form, loan agreement, loan card and company's marketing materials etc) based on their own policies and processes.

¹ <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/20BF010715FSCFC4543A097A94AA3B1B9133EBE9C602B.PDF>

² http://mfinindia.org/wp-content/uploads/2011/07/Guidelines-Grievance_Redressal-Nodal1.pdf

³ <https://rbidocs.rbi.org.in/rdocs/Content/PDFs/NBFC23022018.pdf>

⁴ <https://mfinindia.org/Admin/Pdf/COC-Sep-2019.pdf>

DISCLOSURES

Website

Company's website should have following 'disclosure to customers'

Sl no	Disclosure requirements	Drawn from	Clause/Page no
1	Fair Practices Code (FPC) of the company which is aligned with RBI's FPC	RBI FPC	2.A.vi.a (p 6)
2	The effective rate of interest charged	RBI FPC	2.B.i.e (p 9)
3	Grievance Redressal System set-up by the company	RBI FPC	2.B.i.e (p 9)
4	Ombudsman Scheme for NBFCs ⁵	RBI's Ombudsman Scheme for NBFCs 2018	Chapter IV, 15, 1 (p 13)

⁵ https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=46900

Office

Company's office (Head/Regional/Zonal) should have following 'disclosure to customers'

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 FPC, 2.B.i.a (p 9)
2	The effective rate of interest charged	RBI FPC, 2.B.i.e (p 9)
3	Declaration that Provider will be accountable for preventing inappropriate staff behaviour and timely grievance redressal	RBI FPC, 2.B.i.f (p 9)
4	Commitment to transparency and fair lending practices	RBI FPC, 2.B.i.b (p 9)
5	Grievance Redressal System set-up by the Provider	RBI FPC, 2.B.i.e (p 9)
6	The name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Provider	RBI FPC, 2.A.vi.a (p 6)
7	If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI (complete contact details), under whose jurisdiction the registered office of the Provider falls	RBI FPC, 2.A.vi.b (p 6)
8	Ombudsman Scheme for NBFCs: Purpose and contact details of the Ombudsman to whom complaints are to be made ⁶	RBI's Ombudsman Scheme for NBFCs 2018, Chapter IV, 15, 1 (p 13)
9	CoC in English and vernacular	CoC
10	Customer Grievance Redressal Mechanism (CGRM) of Provider as under:	CoC
i	Channels available to customers with Provider to register complaints	
ii	Escalation process	
iii	Expected Turnaround time at every level of escalation	
iv	SRO's CGRM number if customer needs support in resolving complaint	
11	Details of all loan products offered as under	CoC
i	Amounts	
ii	Annualised interest rate on a reducing balance basis	
iii	Processing fees	
iv	Tenure	
v	Repayment frequency	
vi	Purpose	

⁶ This is currently applicable to NBFCs with assets size > Rs 100 Cr or above with customer interface

Branch

Company's branch should have following 'disclosure to customers'

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 FPC, 2.B.i.a (p 9)
2	The effective rate of interest charged	RBI FPC, 2.B.i.e (p 9)
3	Commitment to transparency and fair lending practices	RBI FPC, 2.B.i.b (p 9)
4	Declaration that Provider will be accountable for preventing inappropriate staff behaviour and timely grievance redressal	RBI FPC, 2.B.i.b (p 9)
5	Grievance Redressal System set-up by Provider	RBI FPC, 2.B.i.e (p 9)
6	The name and contact details (telephone/mobile nos and email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Provider	RBI FPC, 2.A.vi.a (p 6)
7	If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI (complete contact details), under whose jurisdiction the registered office of the Provider falls	RBI FPC, 2.A.vi.b (p 6)
8	Ombudsman Scheme for NBFCs: Purpose and contact details of the Ombudsman to whom complaints are to be made ⁷	RBI's Ombudsman Scheme for NBFCs 2018, Chapter IV, 15, 1 (p 13)
9	Details of all loan products offered as under	CoC
i	Amounts	
ii	Annualised interest rate on a reducing balance basis	
iii	Processing fees	
iv	Tenure	
v	Repayment frequency	
vi	Purpose	
10	Pricing of loan involves only three components viz; interest charge, processing charge and insurance premium (which includes administrative charges in respect thereof)	CoC
11	Customer Grievance Redressal Mechanism (CGRM) of Provider as under:	CoC
i	Channels available to customers with the Provider to register complaints	
ii	Escalation process	
iii	Expected Turnaround time at every level of escalation	
iv	CGRM number and contact details of Provider's Customer Grievance Redressal Officer	
v	SRO's CGRM number if customer needs support in resolving complaint	

⁷ This is currently applicable to NBFCs with assets size > Rs 100 Cr or above with customer interface

Loan Application

Company's Loan Application should have following 'disclosure to customers'

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 FPC, 2.A.i.b(p 3)
2	Documents required to be submitted with the application form	RBI FPC, 2.A.i.b(p 3)
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 FPC, 2.A.i.b(p 3)
4	Following details of the product being offered to the customer	CoC
i	Amounts	
ii	Annualised interest rate on a reducing balance basis	
iii	Processing fees	
iv	Tenure	
v	Repayment frequency	
vi	Purpose	
vii	Other terms and conditions of the loan	
5	List of KYC documents to be submitted by customers	CoC
6	Consent to check customer's credit data with credit information companies (CICs)	CoC
7	Written acknowledgement provided to the customers captures the CGRM number of the Provider	CoC

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 loan agreement, to customer in 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 following 'disclosure to customer'

Sl no	Disclosure requirements	Drawn from (clause/page no)
1	Amount of loan sanctioned	RBI FPC, 2.A.ii(p 3)
2	Annualised rate of interest on a reducing balance basis	RBI FPC, 2.A.ii(p 3)
3	The NBFCs should give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. NBFCs should also ensure that changes in interest rates and charges are affected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement	RBI FPC, 2.A.iii.a (p 4)
4	All the terms and conditions of the loan	RBI FPC, 2.B.i (p 9)
5	Pricing of the loan involves only three components viz; the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof)	RBI FPC, 2.B.ii (p 9)
6	There will be no penalty charged on delayed payment	RBI FPC, 2.B.iii (p 9)
7	No Security Deposit / Margin is being collected from the borrower	RBI FPC, 2.B.iv(p 9)
8	Borrower cannot be a member of more than one SHG / JLG	RBI FPC, 2.B.v (p 9)
9	The moratorium period between the grant of the loan and the due date of the repayment of the first instalment (as guided by the NBFC-MFIs (Reserve Bank) Directions, 2011	RBI FPC, 2.B.vi (p 10)
10	Assurance that the privacy of borrower data will be respected	RBI FPC. 2.B.vii (p 10)
11	Provider is accountable for preventing inappropriate staff behaviour and timely grievance redressal	RBI FPC, 2.B.i.f (p 9)
12	No customer data will be shared with any third party without taking customer consent unless required by regulations	CoC

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 following 'disclosure to customers'**

Sl no	Disclosure requirements	Drawn from Clause/Page no
1	Commitment to transparency and fair lending practices as prescribed by RBI	RBI FPC, 2.B.i.b (p 8)
2	The effective rate of interest charged	RBI FPC, 2.B.ii.c.i (p 10)
3	All the terms and conditions of the loan	RBI FPC, 2.B.ii.c.ii (p 10)
4	Information which adequately identifies the borrower	RBI FPC, 2.B.ii.c.iii (p 10)
5	Acknowledgement of all repayments including instalments received and the final discharge	RBI FPC, 2.B.ii.c.iii (p 10)
6	If the loan is classified as "Qualifying Asset"	RBI FAQ ⁸
7	Prominently mention the grievance redressal system set up by the Provider and also the name and contact number of the nodal officer	RBI FPC, 2.B.ii.c.iv (p 10)
8	Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself	RBI FPC, 2.B.ii.c.v (p 10)
10	Grant of loan is not linked to any other product /services offered by the Provider or third-party	CoC
11	Pricing of the loan as under <ul style="list-style-type: none"> › Processing fee › Annualised interest rate on a reducing balance basis › Insurance premium collected towards credit-linked life insurance 	CoC
12	No penalty is charged on delayed payment or pre-payment	CoC
13	SRO's CGRM number if customer needs support in resolving complaint	CoC
14	Coverage amount in credit-linked life insurance and period/tenure of coverage	CoC

⁸ <https://m.rbi.org.in/Scripts/FAQView.aspx?Id=102>

Moving towards the superior standards of 'disclosure to customers' is a continuous process and works at different levels. Companies should continuously review the 'disclosure to customers' to ensure that they meet the customer's need in the most suitable and convenient way and have most updated information about the products and services aligned to regulatory and industry standards.

There are several ways in which companies can achieve this.

- A dedicated resource should clearly map out the list of 'disclosure 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 orally by its employees
- List of disclosures should be vetted by the senior management team as well as 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 on loan documents
- Field employee should be adequately trained on various disclosures for them to be able to support the customer for any queries and clarifications
- A periodic review of disclosures to ensure they are updated and aligned to regulatory and industry standards
- 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 for NBFC-MFIs⁹, RBI Fair Practices Code (FPC)¹⁰ for NBFCs, Ombudsman Scheme for NBFCs¹¹ and Industry Code of Conduct (CoC)¹² are captured here. Clauses related to disclosure to customers, spread across different section and pages are collated based on their requirement at different places (such as website, offices, branches, loan application form, loan agreement/sanction letter and loan card).

⁹ <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/20BF010715FSCFC4543A097A94AA3B1B9133EBE9C602B.PDF>

¹⁰ <http://mfinindia.org/wp-content/uploads/2011/07/Guidelines-Grievance-Redressal-Nodal1.pdf>

¹¹ https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=43221

¹² <https://mfinindia.org/Admin/Pdf/COC-Sep-2019.pdf>

RBI Master Directions for the NBFC-MFIs

Website

- The effective rate of interest charged by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it and on its website.

Office

- The effective rate of interest charged by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it and on its website.

Branch

- The effective rate of interest charged by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it and on its website.

Loan Card

- Every NBFC-MFI should provide to the borrower a loan card reflecting
 - › the effective rate of interest charged;
 - › all other terms and conditions attached to the loan;
 - › information which adequately identifies the borrower; and
 - › acknowledgements by the NBFC-MFI of all repayments including instalments received and the final discharge;
- All entries in the Loan Card should be in the vernacular language.

RBI Fair Practices Code for NBFCs

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 with the approval of their Boards within one month from the date of issue of this circular. NBFCs will 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 web-site, if any, for the information of various stakeholders.
- The effective rate of interest charged, and the grievance redressal system set up by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website.

Office

- The FPC in vernacular language shall be displayed by an NBFC-MFI in its office and branch premises
- The effective rate of interest charged, and the grievance redressal system set up by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website
- A declaration that the MFI will be accountable for preventing inappropriate staff behaviour and timely grievance redressal shall be made in the loan agreement and also in the FPC displayed in its office/branch premises
- A statement shall be made in vernacular language and displayed by NBFC-MFIs in their premises and in loan cards articulating their commitment to transparency and fair lending practices

Branch

- The FPC in vernacular language shall be displayed by an NBFC-MFI in its office and branch premises
- The effective rate of interest charged and the grievance redressal system set up by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website
- A statement shall be made in vernacular language and displayed by NBFC-MFIs in their premises and in loan cards articulating their commitment to transparency and fair lending practices
- A declaration that the MFI will be accountable for preventing inappropriate staff behaviour and timely grievance redressal shall be made in the loan agreement and also in the FPC displayed in its office/branch premises
- At the operational level, all NBFCs have to display the following information prominently, for the benefit of their customers, at their branches / places where business is transacted:
 - › The name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Company
 - › If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI (complete contact details), under whose jurisdiction the registered office of the NBFC falls.¹³

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

¹³ Details available at table 1 on <https://www.rbi.org.in/Scripts/NBFCcitiChart.aspx>

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

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 should give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. NBFCs should also ensure that changes in interest rates and charges are affected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement
- In the loan agreement the following shall be disclosed:
 - › all the terms and conditions of the loan
 - › that the pricing of the loan involves only three components viz; the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof)
 - › that there will be no penalty charged on delayed payment
 - › that no Security Deposit / Margin is being collected from the borrower
 - › that the borrower cannot be a member of more than one SHG / JLG
 - › the moratorium period between the grant of the loan and the due date of the repayment of the first instalment
 - › an assurance that the privacy of borrower data will be respected
 - › a declaration that the MFI will be accountable for preventing inappropriate staff behaviour and timely grievance redressal shall be made in the loan agreement and also in the FPC displayed in its office/branch premises

Loan Card

- the effective rate of interest charged
- all other terms and conditions attached to the loan
- information which adequately identifies the borrower and acknowledgements by the NBFC-MFI of all repayments including instalments received and the final discharge
- the loan card should prominently mention the grievance redressal system set up by the MFI and also the name and contact number of the nodal officer
- non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself
- a statement shall be made in vernacular language and displayed by NBFCMFIs in their premises and in loan cards articulating their commitment to transparency and fair lending practices

RBI Ombudsman Scheme for NBFCs, 2018¹⁴

Website

The NBFCs covered by the Scheme shall ensure that a copy of the Scheme is available with the designated officer of the company for perusal in the office premises, if anyone desires to do so, and notice about the availability of the Scheme with such designated officer shall be displayed along with the notice under Sub-Clause (1) of this Clause and shall place a copy of the Scheme on their websites.

Officers

The NBFCs covered by the Scheme shall ensure that a copy of the Scheme is available with the designated officer of the company for perusal in the office premises, if anyone desires to do so, and notice about the availability of the Scheme with such designated officer shall be displayed along with the notice under Sub-Clause (1) of this Clause and shall place a copy of the Scheme on their websites.

Branches

NBFCs to display salient features of the Scheme for knowledge of public (in English, Hindi and Vernacular Language) 1) The NBFCs covered by the Scheme shall ensure that the purpose of the Scheme and the contact details of the Ombudsman to whom the complaints are to be made by the aggrieved party are displayed prominently in all the offices and branches, in such manner that a person visiting the office or branch has adequate information of the Scheme.

¹⁴ <https://rbidocs.rbi.org.in/rdocs/Content/PDFs/NBFC23022018.pdf>

For any suggestion/clarification/query, please contact sro@mfindex.org