

## **MICROFINANCE INSTITUTIONS NETWORK (MFIN)**

### **CODE OF CONDUCT FOR MFIN MEMBERS**

*As all MFIN Member MFIs are regulated by the Reserve Bank of India (RBI), they are already required to follow all prudential norms as well as consumer protection practices laid down by the RBI. This Code of Conduct is designed to ensure that the RBI Guidelines are followed in both letter and spirit, and in some matters, lays down additional requirements.*

#### **A. FAIR PRACTICES WITH BORROWERS**

##### **i. Communication of charges**

All members should clearly convey to the borrowers the following terms of the loan (at the minimum):

- a. All the important terms and conditions of the loan agreement
- b. Declining rate of interest
- c. Processing fee
- d. Any other charges
- e. Security or any other deposit.
- f. Systematic advance collections
- g. Total charges recovered for insurance coverage risks covered
- h. Any other services rendered and charges for the same

##### **ii. The communication should be in writing through any/various of the following ways:**

- a. Individual sanction letter
- b. Loan card
- c. Loan schedule
- d. Passbook
- e. Through Group/Centre meetings (Details can be printed on a paper and all borrowers can sign on the same as acknowledgement of their acceptance)

##### **iii. The communication should be in a medium understood by the borrower**

##### **iv. Nature and amount of charge**

The code of conduct will not specify the nature and quantum of charges to be charged by individual MFIs. However, the transparency of the same should be ensured as covered in Clause A(i).

v. **Recovery mechanism**

- a. Though each MFI tries to ensure on-time recovery of dues, it is imperative that they shall not use any abusive, violent, or unethical methods of collection and recovery efforts should be in line with guidelines issued from RBI from time to time.
- b. A valid receipt (in whatever form as decided by each member) should be provided for each collection from the borrower.

**B. MULTIPLE LENDING & LENDING LIMITS**

- i. The maximum number of MFIs who can lend to one client is three, and the maximum loan outstanding that all the three MFIs together can have to a single client is restricted to Rs. 50,000/- at any point in time.
- ii. This cap will cover only unsecured loans given within the joint liability group mechanism or mutual guarantee of all types.
- iii. Any secured loans or individual business loans will not be covered under this cap.
- iv. The code will not cover the credit norms to be fixed by individual member MFIs.

**C. DATA SHARING/ INCIDENT SHARING**

- i. In addition to the formatted data supplied to the Credit Bureaus CIBIL and High Mark, and hence available to all the members through the bureaus, it should be agreed to participate in a forum to share qualitative credit information.
- ii. Whenever any member comes across Incidents of High Default (IHD), the member should inform the Association of the same so that the other members are made aware of it.
- iii. However whether any other member would further lend to clients in such an area would be the choice of each individual MFI based on their credit policies.
- iv. In connection with sub-clause (iii) above, it is agreed that each member will make his decision transparent to the remaining members.
- v. In case of any Incidents of High Default is faced by one MFI, all members shall cooperate in a recovery drive and restrain lending in that area till things are streamlined.

**D. RECRUITMENT**

- i. The code covers all MFI staff, in particular field staff. Field staff is defined as all branch staff including the branch manager.
- ii. Any member MFI should have at least 50 percent of its net new recruitment in any particular year as people whose immediate previous job has not been with another member MFI.

- iii. As a matter of free and fair recruitment practice, there will be no restriction on hiring of staff from other MFIs by legitimate means in the public domain like general recruitment advertisements in local newspapers, web advertisements on site, walk-in interviews, etc.
- iv. Whenever a member MFI recruits from any other member MFI, it will be mandatory to seek a reference check from the previous employer.
- v. All member MFIs should agree to provide within two weeks the reply to the reference check correspondence from another member MFI.
- vi. All member MFIs also agree not to recruit anybody from the other members without the relieving letter / no due certificate from the previous MFI employer.
- vii. All member MFIs agree to provide such relieving letter / no due certificate to the outgoing employee in case he has given proper notice, handed over the charge and settled all the dues towards the MFI.
- viii. The relieving MFI is within its rights to insist on an actual serving of notice for 30 days, but the rest of the notice period pay may be reimbursed by the recruiting MFI. It is the prerogative of the relieving MFI to waive part/full of the notice period or accept cash consideration in lieu.
- ix. It is also agreed that any staff member who is discovered to have lied about his background of working with any other MFI, will be asked to leave immediately by the recruiting MFI.

#### **E. WHISTLE BLOWING**

- i. Any person or MFIN member is entitled to report an incident of improper conduct an MFIN member to the Code of Conduct Enforcement Committee (CCEC) of MFIN.
- ii. The CCEC shall investigate such instances within 30 calendar days of receiving such report. For this purpose the CCEC may depute its own staff or use the services of outsourced agencies as the CCEC thinks fit.

#### **F. ENFORCEMENT MECHANISM**

- i. If the CCEC finds the charge prima facie correct, it shall give notice to both the parties for a written representation for the charge within 15 days
- ii. If the CCEC finds that the contravening Member admits to the contravention and undertakes not to repeat the same then the CCEC may drop further proceedings
- iii. However if the Member does not admit to contravention or does not undertake to stop further contraventions, the CCEC shall hold a hearing with both the parties present within a further period of 15 days.

- iv. If the action of the member is found to be in contravention to the Code of Conduct, the following escalation will come into effect, with a gap of 15 days at each stage, in case no corrective action has been taken:
  - a. Communication to the errant member's MFIN representative.
  - b. Communication to the Chief Executive of the respective MFI.
  - c. Communication to the Chairman of the Board of Directors of the errant MFI.
  - d. Communication to each member of the Board of Directors of the errant MFI.
  - e. Communication to the institutional investors of the errant MFI.
  - f. Communication to the institutional lenders of the errant MFI.
  - g. Communication to the RBI about the errant MFI.
- v. The errant MFI as well as the complainant can appeal to the Board of MFIN against the decision of the CCEC within 15 days. The appeal will be adjudicated by the Board of the MFIN in its next meeting.
- vi. The escalation mechanism will be kept on hold till such time an appeal is adjudicated upon.
- vii. In case no corrective action is taken by the errant member, within 1 month of the final escalation, the Board of MFIN is entitled to suspend the errant MFI from the membership of MFIN for a period or expel the member from MFIN. While suspension can be approved by the Board with a two-thirds majority, the decision for expulsion would require a two-thirds majority in the Board favouring it and a further approval by the General Body with two-thirds majority either present and voting in person or voting through any written form including e-mail and fax.
- viii. This action under sub-clause (vii) above would then be communicated to all important stakeholders, along with the reasons.

#### **G. OMBUDSPERSON MECHANISM**

- i. MFIN Board will appoint one or two individuals of high professional reputation and integrity, as Ombudspersons, in each of the six RBI regions – East, West, Central, South, North and Northeast, to provide an independent mechanism to individual consumers or staff members to complain against an MFI and seek redressal. They will be given adequate secretarial support by MFIN.
- ii. Any person desiring to complain against an MFIN Member shall write a letter to the Ombudsperson
- iii. The Ombudsperson, on receipt of the complaint will send copies to the Chairman of the CCEC and the Chairman of MFIN Board. The Ombudsperson can cause an initial enquiry to be conducted to determine prima facie if there exists a case for investigation

- iv. If the Ombudsperson does not feel that there exists a case for further investigation, he may accordingly write back to the complaining person with copies marked to the Chairman of MFIN and the Chairman of the CCEC (unless the matter pertains to the Chairman himself in which case it shall be marked to the Vice Chairman)
- v. If the Ombudsperson feels that there exists a *prima facie* case for investigation, then he shall cause an investigation to be made using the services of the Secretariat of the MFIN.
- vi. The Ombudsperson may also require the presence of parties to the dispute in which case, such meetings shall normally be held at the office of the Ombudsmen unless the disputing parties mutually agree to any other place for such meetings
- vii. If after reasonable notice, any party to the dispute fails to be present for such meetings or fails to provide written responses to the queries of the Ombudsperson, then the Ombudsperson shall proceed to give his decision with the materials available with him
- viii. The Ombudsmen will have the power to ask the errant MFI to make good any damages incurred by the consumer, and in addition impose a fine on the MFI, commensurate with the seriousness of the complaint. After investigation and such inter-party meetings as the Ombudsperson determines, the Ombudsperson shall deliver his decision on the dispute in front of him and such decision shall be communicated in writing to all the parties to the dispute as well as to the Chairman of the CCEC and the Chairman of MFIN. Such decisions of the Ombudsperson shall be final and binding on all the parties involved. However if any of the parties to the dispute desire to contest the decision of the Ombudsman, then they may give the same in writing to the Chairman of MFIN who shall place it before the next General Body of the members and 2/3<sup>rd</sup> of the Members may take the final decision on the dispute either by voting in person or through other written forms including e-mails and fax.
- ix. In extreme case, the Ombudsperson may also recommend suspension or expulsion from membership of the errant MFI to the MFIN Board. This will then follow the same process as specified in sub-clauses (vi) and (vii) above.

## **H. AMENDMENTS TO THIS CODE OF CONDUCT**

Any amendments to this Code of Conduct will be adopted through the due process of first, a Board majority approval and thereafter a ratification by a majority of the General Body.