

## **Code of Conduct (Code for Responsible lending)**

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### **Introduction:**

MSM Microfinance Limited (hereinafter referred as “the Company”/”MSM”) aims to promote financial inclusion and women empowerment by extending unsecured micro enterprise loans and credit plus assistance to the clients. The Company is a NBFC- MFI registered with Reserve Bank of India (RBI). The Company follows various guidelines issued by Reserve Bank of India (RBI) and has also adopted Code for Responsible Lending (CRL) developed by MFIN (Microfinance Institutions Network) the SRO (Self-Regulatory Organization) recognized by RBI. The company strives to:

1. Promote and strengthen the Microfinance movement in the country by bringing low-income clients to the mainstream financial sector.
2. Build progressive, sustainable, and client-centric systems and practices to provide a range of financial services (consistent with regulation) to clients.
3. Promote cooperation and coordination among themselves and other agencies in order to achieve higher operating standards and avoid unethical competition in order to serve clients better.

### **Objectives:**

This document defines the elements of Code for Responsible Lending (CRL) which is sector specific and entity agnostic. Building on key regulatory customer-protection measures as described in RBI Master Directions for NBFC-MFIs, RBI Fair Practice Code for Banks and NBFCs, Industry Code of Conduct and RBI Charter of Customer’s Rights in the context of microfinance sector. CRL includes most critical elements which have been adapted by the company to implement while delivering microfinance loans.

### **Applicability:**

This code is applicable to unsecured microfinance loans extended by the company and more specifically in the following activities.

1. Providing credit services to clients, individually or in groups.
2. Recovery of credit provided to clients.
3. Providing insurance and remittance services, or any other related products and services.
4. Formation of joint liability groups and their federations.
5. Business development services including marketing of products or services made or extended by the eligible clients or for any other purpose for the welfare and benefit of clients.

### **The code with five elements:**

1. **Fair Interaction**
2. **Suitability**
3. **Education & Transparency**
4. **Information & Privacy**
5. **Grievance Redressal**

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### **1. Fair Interaction:**

1. The company must ensure that customer is not unfairly discriminated against on grounds such as religion, caste, marital status or sexual orientation etc.
2. The Company must ensure that all employees and persons acting on its behalf:
3. Use respectful language, maintain decorum and are respectful of social and cultural sensitive's
4. Do not use coercion of any sort to make recovery of loans
5. Do not intimidate or humiliate verbally or physically
6. Do not contact customers at odd hours or at inappropriate times such as bereavements, illness, social occasions such as marriages and births
7. The company will ensure that its clients are protected against fraud and misrepresentation, deception or un-ethical practices with an understanding of clients' vulnerable situation
8. The company will not bundle products. The only exceptions to bundling may be made with respect to credit life & life insurance products, which are typically offered bundled with loans. The terms of insurance should be transparently conveyed to the client and must comply with RBI & Insurance Regulatory and Development Authority (IRDA) norms. Consent of the client must be taken in all cases.
9. The company will have a detailed Board approved process for dealing with clients, at each stage of default. The company will not collect shortfalls in collections from employees and company's HR policy will categorically denounce this practice. An exception can however be made in proven cases of frauds by employees.

### **2. Suitability (avoiding multiple/over lending):**

The company will adhere to following while providing its low income clients, women and their families, with access to financial services that are client focused and designed to enhance well-being and are delivered efficiently in a manner that is ethical, dignified, transparent, equitable, convenient, timely and cost effective. The company will ensure the quality of service to its clients and maintain high standards of professionalism based on honesty, non-discrimination and customer centricity

1. The Company must use a valid CIR before sanctioning any loan. It is clarified that valid CIR must be used for all loans including small value top-up loans, second and subsequent cycle loans. CIR is considered as 'valid' for 15 calendar days from the date of extraction of the CIR. This implies the company needs to disburse loan to customer within 15 calendar days from date of extracting her CIR.
2. The Company must disburse the loan commensurate with the customer's ability to repay. Prior to sanctioning of loans, the Company (based on micro-credit loans captured in the microfinance section of the CIR) must ensure that:
  - i. The company ensure a limit of maximum 50 percent on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. The computation of loan repayment obligations shall take into account all outstanding loans of the household.

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- ii. The company ensure that the Interest rates and other charges/fees on microfinance loans are not usurious and there should not be any pre-payment penalty charges.
- iii. The company ensure that the household income is properly computed by considering the income of the borrower, spouse, and their unmarried adult children.
- iv. The company use a valid CCIR (Comprehensive Credit Information Report) for the borrower and all the household members of the borrower before sanctioning any loan. It is clarified that valid CCIR must be used for all loans including small value top-up loans, and second and subsequent cycle loans.
- v. The company mandatorily submit timely (preferably daily) and accurate information including household income and other parameters to the Credit Information Companies (CICs).
- vi. It does not sanction/disburse a loan to customer who has non-performing (delinquency > DPD90 days) accounts with loan amount outstanding > Rs 3,000 with another lender. If applicant contests on her delinquent account status in CIR or share that her delinquent account is attributed to withdrawal/closure of operation of another microfinance provider in her area, the company must support her to resolve the issues by contacting with CICs, relevant Providers or the SROs, as required.

**3. Education & Transparency:**

The company must provide the key information to the customer and include them in the loan documents such as loan application, loan sanction letter/loan agreement and loan card. This must include:

1. Identity and address of the company
2. Identity and address of the customer
3. Product details (loan amount, tenure, repayment frequency, annualized interest rate on reducing balance method, processing fee, any other charges or fees howsoever described, total amount payable, total charges recovered towards premium of credit-linked life insurance cover, coverage amount and risks covered, if applicable and other key terms and conditions)
4. Details of customer grievance redressal system. The company follows the RBI Directions with respect to pricing including interest rate and processing fee

The company must communicate all the terms and conditions to customers in the official regional language or a language understood by them.

The company must provide a receipt for every payment received from the customer

The company must take measures (such as training, assessment and periodic interactions with customers) to ensure that customers fully understand the products, process and terms of the contract

The company shall disclose all terms and conditions to the clients for all services offered. Disclosure must be made prior to disbursement in accordance with the Reserve Bank of India's (RBI) fair practices code, through (a) Individual sanction letter, (b) Loan card/ Loan Schedule, (c) Through Group/Centre meetings. At the minimum, the company will disclose (a) rate of interest on a reducing balance method, (b) processing fee, (c) total charges recovered for insurance coverage and risks covered and (d) any other charges or fees howsoever described

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with prior intimation to the clients. Formal records of all transactions must be maintained in accordance with all regulatory and statutory norms, and borrowers' acknowledgment/acceptance of terms/conditions must form a part of these records.

### **4. Information & Privacy:**

The Company must obtain copies of KYC documents from customers as per RBI norms

The Company must upload accurate and comprehensive customer data with all RBI approved Credit Information Companies' (CICs) as per Uniform Credit Data Format on daily basis.

The Company must promptly address any dispute raised by the customer about her data with CICs.

The Company must keep personal customer information strictly confidential. Customer information may be disclosed to a third-party subject to any of the following conditions:

1. Such information is required to be provided under the law or it is provided for a mandated business purpose (for example, to credit information companies)
2. Customer has been informed about such disclosure and prior permission has been obtained in writing.
3. The party in question has been authorized by the customer with intimation to the company to obtain customer information.

### **5. Grievance Redressal:**

The Company will provide a robust customer grievance redressal system to address customer complaints in an effective and timely manner. A separate policy on Customer Grievance Redressal Mechanism (CGRM) has been approved by the Board which is being implemented. The company inform its clients about the existence and purpose of this mechanism and how to access them. Customer care number is displayed in all Branches of the company for easy accessibility to clients.

The Company must clearly communicate the details of customer grievance redressal in branches, loan documents and other communication materials.

### **Governance & Enforcement:**

MSM shall observe high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body and seek to comply with the best standards stipulated in Companies Act, RBI regulations.

The Company, having adopted the COC, takes the responsibility to incorporate professional governance system to ensure that employees and persons acting on their behalf are oriented and trained to follow the COC into practice. The company will also educate its clients on this COC and its implementation.

MSM shall place before the Board of Directors, a compliance report indicating the extent of compliance with this Code of Conduct and the functioning of the grievance redressal mechanism at various level of management, specifically indicating any deviations and reasons therefore, at regular intervals, as may be prescribed by Board.

### **Review:**

This Code will be placed to the Board for their review annually.