

# Fair Practice Code

## Introduction

Arohan Financial Services Private Limited seeks to empower the underserved by offering a range of financial services, in a manner sustainable for all stakeholders. In pursuing its mission, Arohan has been ensuring that principles of “responsible lending, transparency and ethical values” are followed in all its dealings with customers. In keeping with this philosophy, Arohan has drafted its Fair Practice Code (FPC). Arohan’s FPC is also compliant with different guidelines issued as under:

Reserve Bank of India (RBI) on Fair Practices Code for NBFC-MFIs vide RBI circular dated 1st July 2013 (RBI/2013-14/42 DNBS (PD) CC No.340/03.10.042/2013-14) and Revised RBI Circular dated 1st July 2015 (RBI/2015-16/16DNBR (PD)CC.No.054/03.10.119/2015-16).

Industry Code of Conduct developed by MFIN (Microfinance Institutions Network) and Sa-Dhan.

Smart Campaign’s global standards of Customer Protection Principles.

## Objectives of the Policy

- Develop a comprehensive Fair Practices Code (FPC) to adopt guidelines provided by regulator, Self-Regulatory Organization and global standards of customer protection principles.

Comply both in letter and spirit with:

- 7 core values of Microfinance- Integrity, quality of service, transparency, fair practice, privacy of customer information, integrating social values into operations, and feedback and grievance redressal mechanism.
- Code of Conduct that lays down additional requirements to enhance and improve industry practices. These include, Integrity And Ethical Behaviour, Transparency, Customer protection, Governance, Recruitment, Customer education, Data sharing, and Feedback/Grievance redressal mechanism.
- Formulate operating guidelines for implementation of FPC in an effective manner.
- Disseminate the policy guidelines in an effective manner to all stake holders in general and to the customers & employees of Arohan in particular.
- Review & reinforcement mechanism to ensure high level of adherence to FPC.
- Mechanism for continuous upgrading of FPC.

Arohan’s FPC is structured along Smart Campaign’s 7 Customer Protection Principles (CPP). These principles are as follows:

- Principle 1: Appropriate Product Design and Delivery
- Principle 2: Preventing Over-indebtedness

- Principle 3: Transparency
- Principle 4: Responsible Pricing
- Principle 5: Fair and Respectful Treatment of Customers
- Principle 6: Privacy of Customer Data
- Principle 7: Mechanism for Complaint Resolution

Under each section, we present various mechanisms instituted by Arohan to put in place a robust set of fair practices and procedures. Different forms and formats used (like Loan Application form set, and loan card cum loan agreement) have been designed to comply with RBI's FPC guidelines. Arohan's Branch office and premise, websites and other literature also comply with the disclosure requirements mentioned in this document. Refer the Annexure 2 for details.

## Principle 1: Appropriate Product Design and Delivery

### Product Design

1. Arohan has designed a wide range of loan products to match the business needs of its target customers. Further, to align its offerings to the needs of the customers, Arohan is committed to develop new products and refine the existing ones on a regular basis.
2. Arohan provides its customers the option to choose amongst different repayment frequency options- weekly, fortnightly and monthly.
3. No collateral/deposit is collected from the customer.
4. Complete pre-closure of loan is allowed with no pre-closure charges.
5. Moratorium between loan disbursement and due date of repayment of first instalment is between 30 to 59 days, and thus greater than the frequency of repayment.
6. All microfinance loans that are greater than Rs.30,000 have tenure of minimum 24 months.

*(The limit has been raised from Rs. 15,000 Rs. 30,000 w.e.f November 26, 2015 via Notification No: DNBR.CC.PD.No. 071/03.10.038/2015-16)*

7. Arohan has put in place prudent measures to proactively prevent aggressive sales practices. Management, being cognizant of the risk of bundling products has put in place a policy whereby first-time customers can also avail voluntary products following the day of disbursement Internal audit also closely oversees the process to ensure that the products are not forced upon reluctant customers. The incentive paid to staff is contingent upon business sourced (with an upper cap) and portfolio quality while additional incentive is given to branches attaining a good audit grade.
8. Arohan has taken adequate steps to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.

9. All sanctioning and disbursement of loans is done only at central location (center and branch) and more than one individual are involved in the function. Disbursements are done in a controlled environment.
10. Arohan has instituted a dedicated process to raise customers' awareness of the options, choices and responsibilities vis-a-vis financial products and services available
11. Arohan systematically assesses customer satisfaction and investigates reasons for customer drop out on a quarterly basis. Information is used to inform product development and improve existing products.

## Principle 2: Preventing Over-indebtedness

1. Arohan's field officers (designated as CSR or the Customer Service Representatives) are trained to make necessary enquiries with regard to existing debt of the borrowers. This is done to ensure that Arohan is either the 1st lender or at most the 2nd, with the overall indebtedness of borrower household not exceeding Rs. 1,00,000.

*(The overall indebtedness of borrower household has been raised from Rs. 50,000 to Rs.100,000 w.e.f July 1, 2015 via Master Circular)*

2. Arohan shares complete customer data with Equifax, HighMark, and EXPERIAN (all RBI approved Credit Bureaus), four times a month. Once a month it also shares the data with CIBIL for its Pragati customers.
3. For Saral and Bazaar loan customers, the upper cap on 1st cycle loan is Rs.15,000 which is in compliant with RBI's guideline (for 1st cycle loan, Rs.60,000 is the cap).

*(The upper limit of loan amount in the first cycle has been raised from Rs. 35,000 to Rs. 60,000 w.e.f July 1, 2015 via Master Circular)*

4. Arohan conducts a proper due diligence as per the internal credit policy to assess the need and repayment capacity of the customer. Cash flow analysis is conducted for all loans, where business and family expenses, as well as liabilities from other sources are considered. This is augmented by a visit to both customer's house and business place.
5. Policies and practices exist for training CSRs in assessment of repayment capacity.
6. Staff incentive is structured to reward the quality of portfolio at least as highly as growth.
7. The data on indebtedness of a particular region is taken as one of the parameters for choosing a new district, block or a service area. This is done with a view to avoid lending in areas with high degree of indebtedness.

## Principle 3: Transparency

1. Arohan ensures that all communications to its customers are in the language understood by them.
2. The effective rate of interest charged by Arohan is prominently displayed in all offices, literature and on the website.

3. Arohan's loan agreement forms are in the vernacular, contain no fine print and are worded in simple language. In the loan agreement, the following information has been disclosed:
- pricing of loans and its break up (involving only 3 components viz. the interest charge, the processing charge and the insurance premium)
  - no penalty charged on delayed payment
  - no security deposit/margin being collected from the borrower
  - moratorium between grant of loan and due date of repayment of the first instalment is between 30 to 59 days, and thus greater than the frequency of repayment
  - Arohan declares and takes explicit permission from the customers about sharing customer data to outside agencies, if needed, for research and analysis, without impairing the interests of the economically backward people.
  - all other important terms and conditions.
- These have been approved by the Board.
  - All information required by customers before signing the loan agreement is accessible and staff is available to answer questions. Further, customers are given adequate time to review the terms and conditions of the product. Staff deploy both written and verbal methods to communicate various disclosures, including but not limited to the debt collections practices.
  - The loan card is in vernacular language and includes the following details:
    - Effective Interest rate
    - All other terms and conditions attached to the loan
    - Information which adequately identifies the borrower
    - Acknowledgements of all instalments received and final discharge
    - Loan card has a prominent mention of the grievance redressal system set up by Arohan 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.
  - Arohan has ensured full transparency in the maintenance of books of accounts and reporting/ presentation and disclosure of financial statements by qualified auditor(s). Arohan follows the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI)
  - Arohan's CSRs are trained on effective communication using multiple channels like brochures, meetings, and reading contracts out loud
  - Arohan provides credit life insurance- the terms of insurance are conveyed to our customers both before and during disbursement. Further, consent of the customers is taken in all cases.
  - Arohan provides a valid receipt for each and every payment received from the customer
  - Arohan ensures that any change in terms and conditions like change in interest rate, disbursement schedule, service charges, prepayment charges etc. are communicated in written to the borrower. Any change is applied only prospectively.

## Principle 4: Responsible pricing

- Arohan's pricing structures for all its products are well within the RBI mandated margin cap. These prices are market oriented and competitive within India's context, and are not subsidized.
- Arohan charges a processing fee of 1% which is in line with RBI's directions.
- As per the IRDA guidelines, Arohan recovers only the actual cost of insurance for the insurance it offers to its customer segment- i.e. credit life and life.

## Principle 5: Fair and respectful treatment of Customers

- Arohan is accountable for preventing inappropriate staff behaviour and provide timely grievance redress to all its customers. Refer annexure 1 for more details on Arohan's Feedback and grievance redressal mechanism.
- Arohan has put in place a Code of Conduct that is approved by the Board with regard to field staff and systems for their recruitment, training and supervision. Penalties may be imposed on cases of non-compliance of field staff with the Code of Conduct.
- Customers are informed of the main aspects of code of conduct through posters and loan card. This is also conveyed during the loan origination process.
- Arohan's induction and refresher trainings for field staff includes programs to:
  - Inculcate appropriate behaviour towards customers without adopting any abusive or coercive debt collection/recovery practices.
  - Collection practices are covered during initial training of all CSRs and BH.
- Arohan ensures that recoveries are made only at a centrally designated place (the centre). Only if the borrower fails to appear at a centrally designated place on 2 or more successive occasions, is the CSR allowed to make recoveries at the place of residence or work of the defaulting borrower. Further, they have been instructed not to visit customers at inappropriate occasions such as bereavement, sickness etc. to collect dues.
- Arohan desists from resorting to undue harassment. Methods like persistently bothering the borrowers at odd hours and use of muscle power for recovery of loans are not deployed by Arohan. Further, in no case does Arohan outsource the recovery process to a third party.
- Compensation methods for staff put more emphasis on service quality and borrower satisfaction than merely the number of loans mobilized and the rate of recovery. Managers and supervisors review ethical behaviour, professional conduct and the quality of interaction with customers as part of staff performance evaluation.
- Arohan has a) a detailed Board approved process for dealing with customers, at each stage of default; and b) a Board approved debt restructuring program for providing relief to borrowers facing repayment stress.
- Arohan is committed to plough back a share of its profits for the benefit of the communities, it serves both as part of the CSR mandate and its overall social

performance goals. Arohan has a detailed CSR policy to guide its activities in this regard.

### Principle 6: Privacy of customer data

- Arohan complies with KYC Guidelines of RBI and has a detailed KYC-AML policy.
- Arohan also ensures that it keeps personal information of customers strictly confidential. It is disclosed to a third party subject only if: a) permission has been obtained in writing from the customer about such disclosure and b) the party in question has been authorized by the customer to obtain customer information from Arohan. c) it is legally required to do so d) this practice is customary amongst financial institutions and available for a closed group on a reciprocal basis (such as a credit bureau).
- A written privacy policy governs the gathering, processing, use and distribution of customer data. The policy covers current staff and those who leave the organization.
- Arohan's IT systems have password protection systems with access rights clearly defined.

### Principle 7: Mechanism for Complaint Resolution

- Arohan's Board of Directors has laid down a grievance redressal mechanism (GRM) to resolve disputes. Refer annexure 1 for details.
- A periodical review of the functioning of the GRM is undertaken at various levels of management. A consolidated report of such reviews is submitted to the Board every quarter
- A declaration that Arohan is accountable for timely grievance redressal has been made in the loan agreement and in the Fair Practice Code, displayed in the office/branch premises
- Arohan has designated one grievance redressal official to handle complaint, record their suggestions and make his/her contact numbers easily accessible to customers.
- Office staff is trained to inform customers of a) their right to complain and b) how to submit a complaint (both verbally and in writing).
- Arohan uses the information gathered from complaints to correct mistakes, omissions and activities that may be harmful to the customer.
- Internal audit or other monitoring systems check that complaints are resolved satisfactorily.

To ensure compliance with the directions set herewith, the responsibility for compliance has been assigned to the Central Operations department. Further, Arohan's Internal Audit & Control department will bring FPC compliance under the ambit of its audit and inspections.

## Annexure 1: Grievance Redressal Mechanism for Customers at Arohan

### Introduction

Feedback and Grievance Redressal Mechanism, is one of the 7 core values of Microfinance as specified by Sa-Dhan and MFIN, and requires an MFI to provide for:

- Formal and informal channels for feedback and suggestions from its customers
- Assessing the impact of services in order to enhance competencies and serve customers better
- Formal grievance redressal mechanism for customers.

Arohan's Board of Directors has laid down a grievance redressal mechanism (GRM) to ensure that disputes arising out of the decisions of Arohan's functionaries are heard and disposed of at least at the next higher level. The Board of Directors has also provided for periodical review of the compliance of the Fair Practices Code (FPC) and the functioning of the GRM at various levels of management. A summary of customer grievances will be submitted to the Board every quarter.

### Channels for feedback and grievance redress

Following channels of addressing customer grievances have been set-up:

- **Customer Walk-in at branches**
  - Each customer is informed about the location of their Branch and the name of its Branch Head (BH), so that in case they wish to register a complaint in person, they can do so easily. The contact numbers of Customer Service Representative (CSR) and BH are also mentioned on the loan card cum loan agreement. Customer can walk-in at the branches any time and raise their complaint to the BH. BH will be bound to record the complaint in the Complaint Register.
- **Call-centre for Inbound calls**
  - Arohan has implemented a Customer Care Line to ensure that the queries and grievances of customers with the organization's operations or behavior of staff can be systematically routed and addressed. Customers who have concerns call or email our Customer Care line at: 1.800.266.2375 and [customercare@arohan.in](mailto:customercare@arohan.in) between the hours of 10:00 am and 6:00 pm, from Monday to Friday. The Customer Care cell will log the call and route it to relevant staff for resolution. The issue will be tagged for resolution within 3 days of lodging the complaint. The toll-free number is printed on the loan cards, displayed at the branch, other collaterals and also on the company website.
- **Outbound Calls**
  - Arohan's Customer Care cell will make outbound calls as per a pre-fixed schedule. The outbound calls will be made with one or more of the following objectives:
    - Do a sample check to verify the extent of adherence to policies and process esp. with regards to customer protection, for both credit and non-credit products
    - Test specific issues that may arise from time to time. For instance, if cases of rude staff behaviour are being reported from a certain area, randomised calls will be made to customers to test its veracity. In all these calls, certain generic inquiries around customer satisfaction and staff behaviour are also made.

- **Informal feedback**
  - Besides the formal channel mentioned above, customers can submit their written or verbal enquiries / complaints to any Arohan staff (CSR, BH, AM/GM or any HO staff) who meets them at any forum such as center meetings, CGTs, GRTs and exit interviews etc. These enquiries/complaints shall be forwarded to BH/BQR of the branch and who in turn will relay it to the Operations Executive at the RO for further follow up and resolution.
- **Customer Satisfaction Surveys**
  - Arohan will commission annual Loan Verification, Customer Satisfaction(C-SAT, Dropout, Overdue, Cross Sell and other need based surveys by independent agencies. All these surveys will consist of a brief survey questionnaire around feedback on products, processes, service quality, and staff behaviour. The results will be shared with the Board.

## Escalation Matrix

If the complaint routed through any of these channels is not resolved to the satisfaction of the customer, he can escalate the matter as per the escalation matrix shown below

Level	Time lapse since 1 <sup>st</sup> complaint	Contact person's Name/Designation	Contact Details
1	3 days	Customer Service Representative/ Branch Head	Printed on the Loan Card Branch office and premise
2	3 days	Customer Care Help Desk	Tollfree: <b>18002662375</b> Email: <a href="mailto:customercare@arohan.in">customercare@arohan.in</a> Address: PTI Building, 4 <sup>th</sup> Floor, DP-9, DP Block, Sector-5, Salt Lake, Kolkata -700091
3	7 days	Grievance Redressal Officer (GRO) Smita Sahu Asst. Manager, Arohan	Tel: 033 6629 6009 Email: <a href="mailto:smita.sahu@arohan.in">smita.sahu@arohan.in</a> Address: PTI Building, 4 <sup>th</sup> Floor, DP-9, DP Block, Sector-5, Salt Lake, Kolkata -700091
4	15 days	MFIN Toll Free Number	MFIN Toll free: 1800 270 0317
5	30 days	Reserve Bank of India (RBI) Officer-in-Charge, Regional Office, Department of Non-Banking Supervision	PhoneNo-033-2230 7850/ 8331 Email: <a href="mailto:rbicalcutta@rbi.org.in">rbicalcutta@rbi.org.in</a> 5 <sup>th</sup> Floor, 15 N S Road, Kolkata 700001

Arohan displays the call centre number and the details of escalation matrix prominently (in the vernacular) for the benefit of their customers, at all of its branches. The notice serves the purpose of highlighting to the customers, the grievance redressal mechanism followed by the company, together with details of the grievance redressal officer and of the Regional Office of the RBI.

## Internal Processes

To ensure that the data and information gathered from various feedbacks and grievance channel is acted upon, Arohan has put into place following systems and processes:

1. Periodic review and update of Company's Fair Practice Code.
2. Including a module on Arohan's FPC in the induction and refresher trainings.
3. Set-up a Customer Care Cell at the Central Operations Unit, consisting of a team of Customer Care Executive and Manager (Products & Customer Care), who has also been nominated as the GRO.
4. Monthly analysis and reporting of the data gathered from different channels-at branch (complaint register), and Customer Care Help Desk (inbound/outbound calls).
5. Integrating the customer satisfaction parameters in the staff's KPI.
6. At the time of CGT, customers are educated on FPC, grievance redressal mechanism and escalation matrix for their unresolved complaints.

The procedure for complaint resolution is as follows:

1. Complaint is generated via any one of the following sources - Complaint register, Calls (inbound/outbound), informal dialogue with customers during field visits.
2. Irrespective of the source, each complaint is tagged (syntax for tagging: date/branch code/customer ID) and assigned a severity level based on the nature of complaint (as per the Board approved Grievance Redressal Escalation Matrix).
  - a. For complaints generated at the branch, tagging is done by the BH and subsequently the details are shared with the Customer Care Cell.
  - b. For complaints generated via inbound/outbound call, CC Executives do the tagging.
3. Customer Care Help Desk maintains a tracker for each complaint lodged.
4. Based on the level of severity, the complaint is forwarded to the concerned person for resolution by the Customer Care team.
5. Within 3 days of the lodging of complaint, Customer Care team checks with the person assigned for resolution, if the complaint has been resolved.

## Annexure 2: Syncing Arohan's documentation with RBI's Fair Practice Code

### Loan Application (Includes CR, CIF and LAF)

1. Content is printed in vernacular
2. LAF contains all the necessary information to enable customer compare with other NBFCs and take an informed decision
3. The receipt of LAF is acknowledgement and an estimate of disposal time is provided
4. Amount sanctioned, terms and conditions and the rate of interest (annualised), and method of charging are mentioned in vernacular language.
5. Record is kept of borrower's acceptance to these conditions
6. Arohan uses a loan card cum loan agreement that is given to the customer at the time of sanction/disbursement and that stays with the customer

### Loan card cum Loan Agreement

Arohan uses a Loan Card cum Loan agreement that complies with RBI's FPC directives given for these two sets of documents separately.

### Loan Card Loan Agreement

1. Carries a statement articulating Arohan's commitment to transparency and fair lending practices
2. All entries are in vernacular

3. Loan card discloses:
  - a. Effective rate of interest
  - b. T&C attached to loan
  - c. Customer identifiers
  - d. Acknowledgement of all repayments including instalments received and the final discharge.
  - e. Grievance redressal system set up by Arohan and the name and contact number of the nodal officer.
  
1. Carries a declaration that Arohan will be accountable for preventing inappropriate staff behaviour and timely grievance redressal.
2. It is board approved and printed in vernacular language.
3. It makes following disclosures:
  - a. All T&C.
  - b. Pricing of loan involving all components.
  - c. No penalty charged on delayed payment.
  - d. No Security Deposit / Margin is being collected.
  - e. That the borrower cannot be a member of more than one JLG.
  - f. Moratorium between the grant of loan and the due date of the repayment of the first instalment.
  - g. Assurance that the privacy of borrower data will be respected.
4. Loan agreement mentions that any change in T&Cs like change in interest rate, disbursement schedule, service charges, prepayment charges etc. will communicated in written to the borrower, and that the change is applied only prospectively.

#### Branch office and premise

1. FPC is displayed prominently.
2. A statement articulating Arohan's commitment to transparency and fair lending practices is displayed.
3. The effective rate of interest charged is displayed.
4. Declaration that Arohan will be accountable for preventing inappropriate staff behaviour and timely grievance redressal. Further, GRM and RBI Nodal officer details are prominently displayed.

#### Website & other literature

1. The effective rate of interest charged and the GRM set up by the NBFC-MFI is mentioned.