



CODE OF CONDUCT POLICY

VERSION 1.0

TABLE OF CONTENT

Clause No.	Contents	Page No.
I	Introduction	3
II	Master Direction – Reserve Bank of India Directions, 2022: A Brief Summary (Regulatory Framework for Microfinance Loans)	4
III	Applicability of the Code of Conduct	5
IV	Code	5
IV A	Fair Interaction	5
IV B	Suitability	5
IV C	Education & Transparency	6
IV D	Information & Privacy	7
IV E	Grievance Redressal	8
IV F	Employee Engagement	8
IV G	Others	9

I. INTRODUCTION

The Company

Radhya Micro Finance Pvt Ltd (hereinafter referred to as “The Company” or “NBFC”) is registered as a Non-Banking Financial Company with the Reserve Bank of India (RBI) and engaged in micro-finance activities.

During the course of its operations, the Company will strictly adhere to various directions, guidelines, circulars, instructions, etc. as may be stipulated by RBI from time to time.

NBFC’s policies should always be read in conjunction with RBI guidelines, directives, circulars and instructions. The Company will apply best industry practices so long as such practices do not conflict with or violate RBI guidelines.

THE MFIN

Microfinance Institution Network (MFIN) is a Self-regulatory Organization (SRO) in the financial service sector recognized by the Reserve Bank of India (RBI). MFIN works closely with NBFC–MFIs and plays an active part in the larger financial inclusion dialogue through the medium of microfinance. MFIN was established in 2009 as an Association for NBFC-MFIs. In 2014, MFIN was recognised by the Reserve Bank of India (RBI) as India’s first Self-Regulatory Organization (SRO) for the NBFC-MFIs. MFIN Members are RBI-regulated entities comprising the Non-Banking Financial Companies - Microfinance Institutions (NBFC-MFI), Banks, Small Finance Banks, NBFCs, Banking Correspondents, Credit Bureaus, Fintech companies, among several others.

SA-DHAN

Sa-Dhan has about 220 members working in 33 states/UTs and over 600 districts, which includes both, for Profit and Not for Profit MFIs, SHG promoting institutions, banks, rating agencies, capacity-building institutions etc. Sa-Dhan’s members with diverse legal forms and operating models, reach out to approximately 44 million clients with loans outstanding of more than ₹1,27,801 crores. Sa-Dhan is also recognized as a National Support Organization (NSO) by the National Rural Livelihood Mission (NRLM).

THE CODE OF CONDUCT

The Code of Conduct is a policy of the Company consists of the directions and guidelines of the RBI Master Direction on “Regulatory Framework for Microfinance Loans 2022” and the 4th Edition of the Code of Conduct for Microfinance Industry issued by MFIN on October 2022.

OBJECTIVES OF THE CODE

- Lay down a comprehensive guideline on the code of conduct in order to achieve Organization’s core objectives.
- Ensuring effective dissemination of code of conduct throughout the organization and stake holders.

- Benefiting the clients by Inculcating/Ingraining the values of code of conduct into the fabric of the organization.

II. **MASTER DIRECTION – RESERVE BANK OF INDIA DIRECTIONS, 2022** **(A BRIEF SUMMARY of Regulatory Framework for Microfinance Loans)**

- 1 A microfinance loan is defined as a collateral-free loan given to a household having an annual household income of up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife, and their unmarried children. *(Clause 3.1),*
- 2 Each Regulated Entity (RE) shall put in place a board-approved policy for the assessment of household income. *(Clause 4.1),*
- 3 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 percent of the monthly household income. *(Clause 5.1),*
- 4 Each RE shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. *(Clause 5.4),*
- 5 Each RE shall put in place a board-approved policy regarding pricing of microfinance loans. *(Clause 6.1)*
- 6 Each RE shall disclose pricing-related information to a prospective borrower in a standardized simplified factsheet. *(Clause 6.3)*
- 7 A Fair Practice Code (FPC) based on these directions shall be put in place by all REs with the approval of their boards. *(Clause 7.1.1)*
- 8 Each RE shall have a board-approved policy regarding the conduct of employees and system for their recruitment, training, and monitoring. *(Clause 7.2.1)*
- 9 Outsourcing of any activity by the RE does not diminish its obligations and the onus of compliance with these directions shall rest solely with the RE. *(Clause 7.3.1)*
- 10 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. *(Clause 7.4.1)*
- 11 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. *(Clause 7.4.2)*
- 12 The REs shall have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process. *(Clause 7.5.2)*

III. APPLICABILITY

This code is applicable to the Company as the Company is a microfinance provider and also a member of the MFIN. The main focus of Code of Conduct is 'responsible lending' practices. This code will be applicable on Microfinance loans to be given by the Company from December 1, 2022.

IV. CODE

The Company shall adopt and practice the code of conduct as stated hereunder in letter and spirit.

A. FAIR INTERACTION

1. The Company must ensure that borrower is not unfairly discriminated against on grounds such as religion, caste, gender, marital status, sexual orientation, etc.
2. The Company must ensure that all employees and persons acting on its behalf:
 - a) Undergo training on how to exhibit appropriate behavior towards the borrowers.
 - b) Use respectful language, maintain decorum, and show respect to social and cultural sensitivities.
 - c) Do not use coercion of any sort to make the recovery of loans and take recovery only at a central designated place. An employee can take recovery at the place of residence or work of the borrower only if the borrower fails to appear at the central designated place on two or more successive occasions.
 - d) Do not intimidate or humiliate verbally or physically.
 - e) Do not contact borrowers at odd hours or at inappropriate times such as bereavement, illness, or social occasions such as marriages and births.
 - f) Do not harass relatives, friends, neighbors, or co-workers of the borrower.
3. A Fair Practices Code approved by the board of the Company shall be displayed in vernacular/a language understood by the borrower in all the offices and the website of the Company.
4. The Company must ensure that the engagement of the recovery agents and their interaction with the borrowers is as per the guidelines mentioned in the Harmonized Regulations.

B. SUITABILITY

1. The Company must disburse the loan commensurate with the borrower's ability to repay. The Company shall ensure a limit of a maximum of 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.
2. The Company should 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.

3. The Company should ensure that the household income is properly computed by considering the income of the borrower, spouse, and their unmarried adult children.
4. The Company must 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.
5. The Company shall mandatorily submit timely and accurate information including household income and other parameters to the Credit Information Companies (CICs).

C. Education & Transparency

1. The Company must provide key information to the borrower and include them in the loan documents such as the loan application, loan sanction letter, loan agreement, and loan card. This must include:
 - (i) Identity and address of the Company.
 - (ii) Identity and address of the borrower.
 - (iii) Product details (simplified factsheet on pricing in the format specified in the RBI regulations, including instalments received and the final discharge and other key terms and conditions).
 - (iv) Details of customer grievance redressal system.
2. The Company 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.
3. The Company must communicate with the borrower in vernacular/a language understood by the borrower. The communication could pertain to the terms and conditions of the loan, entries in the loan card, fair practices code, standard form of loan agreement, factsheet on pricing of the microfinance loan, and other such communication pertaining to the loan and non-credit products and their servicing.
4. The Company must take measures (such as training, assessment, and periodic interactions with borrowers) to ensure that borrowers fully understand the products, process, and terms of the contract.
5. The Company must provide a receipt/ acknowledgement for every payment, including the digital payments, received from the borrower.
6. The Company must give emphasis to educating customers on the importance of timely repayment for good credit history with the CICs, benefits, risks and necessary safeguards of digital financial transactions and grievance redressal

mechanism including internal and external escalation mechanism.

7. The Company must educate customers against blind trust on group and center leader and how any default in the fictitious loan (also referred to as ghost lending/pipelining taken by group/ center leader in customer's name) can ruin her credit records and access to credit in the future. This should be a part of the Compulsory Group Training (CGT)/Group Recognition Test (GRT) process. The Company must also strive to ensure customer attendance in the group meetings. Any training offered to customers should be free of cost.
8. The Company must disclose the reason to the customer if her loan is rejected. For this purpose, an easily accessible channel through which the borrower can enquire about the status of her application should be provided.

D. Information & Privacy

1. The Company must obtain copies of KYC documents from borrowers as per the RBI norms.
2. The Company must upload accurate and comprehensive borrower data with all RBI approved Credit Information Companies (CICs) as per Uniform Credit Reporting Format.
3. The Company must take the borrower's consent for checking her CCIR and her acceptance of the terms and conditions of the loan. Consent should also be obtained from the borrower's household members for checking their CCIRs as per the extant regulations and laws.
4. The Company must promptly address any dispute raised by the borrower about her data with CICs.
5. The Company must have systems to safeguard borrower and borrower's household members' data as per the accepted principles of data protection including collection limitation, purpose specification, use limitation, incorporation of access controls etc.
6. The Company must keep the borrower and the borrower's household members' personal information strictly confidential. This information may be disclosed to a third-party subject to any of the following conditions:
 - a. 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)
 - b. Borrower/borrower's household members have been informed about such disclosure and prior permission has been obtained in writing
 - c. The party in question has been authorized by the borrower/borrower's household members with intimation to the RE and any other

E. Grievance Redressal

1. The Company must have a board-approved customer grievance redressal policy covering the process to register, resolve and escalate the complaints, internal and external escalation mechanism, complaint categories and TAT, review/audit of redressal system, and reporting to the board and top management.
2. The Company must provide a robust customer grievance redressal system to address complaints in an effective and timely manner. The Company must provide easy access to redressal system to all its borrowers through a dedicated phone number or a staff-assisted procedure at the branch to register grievances.
3. The Company must clearly communicate the details of customer grievance redressal system in branches, loan documents, and other communication materials.
4. The Company must have a mechanism as part of its grievance redressal framework for redressal of recovery-related grievances, the details of which must be provided to the borrower at the time of loan disbursal. However, this does not imply that RE, and any other microfinance provider should have a separate redress mechanism for recovery related grievances. The Company can re-structure/re-organise the existing redressal system to identify and promptly address recovery related grievances.
5. The Company must at least have one grievance redressal officer to oversee the customer grievance redressal function.
6. The Company must record and analyse individual and aggregate level data for grievance redressal system capturing the nature of complaints, action taken, and turn-around time. Report on grievances received, resolved, and pending along with the nature of complaints should be shared with the board for review.

F. Employee Engagement

1. The Company must recruit a candidate from other Companies based on a satisfactory reference check and should not confirm the employee without a relieving letter from the previous employer.
2. The Company is encouraged to participate in Employee Bureau (EQUIFAX) to submit their employee's data and check candidates' employment records.
3. The Company must give comprehensive induction training to the employees on policies, processes, and regulations of the Company. Emphasis should be given to Code of Conduct related aspects on borrower-interface aspects such as fair treatment, household and income assessment, the privacy of data, service quality, customer grievance redressal system, POSH, relationship

management, dealing with borrower facing difficulty in repayment, etc.

4. The Company must regularly assess employee's understanding of the above elements and conduct refresher training to address the gaps in understanding.
5. The Company must train their employees on understanding and dealing with gender issues including appropriate interaction with women colleagues and customers.
6. The Company must necessarily orient their employees on professional conduct and integrity issues including expected behavior and not indulging in any unlawful and anti-social activities.
7. The Company must engage new employees in branch-level business operations only after completion of their induction training.
8. The Company must ensure that employees directly responsible for the grievance redressal system receive detailed training about the system, processes, and soft skills required for resolving complaints.
9. The Company must set targets for the branch-level employees based on a reasonable-objective criterion including an understanding of microfinance requirements and repayment capacity in an area.
10. The Company must have a well-defined protocol to be followed by employees to handle risks arising from going to difficult areas and cash handling.
11. Compensation matrix for the staff should be designed in a manner to align their behavior with fair interaction practices as mentioned in 'Section IV. A i.e. fair interaction, of this code.
12. The Company, while recruiting an employee, must honor the notice period as mutually agreed between prospective employee and his/her current employer.
13. The Company must respond to request from other Companies/microfinance provider for reference check within 15 calendar days/a reasonable time-period from the receipt of such communication.

G. Others

1. The Company must have a board-approved framework to deal with crises arising from natural disasters, mass defaults, negative media, local-level hostility, etc., which is reviewed periodically.
2. The Company, who have underlying digital (i.e., paper-less) processes for sourcing (loan application), borrower consent, due diligence, contracts, disclosures, payment receipts, grievance redressal, etc. must ensure that these processes are aligned with the applicable regulatory norms and borrower is made fully aware, educated, and comfortable with digital modes of transaction.

3. Any new initiatives encouraging digital transactions should be introduced keeping in mind the borrower's level of knowledge and comfort. During the initial adoption of digital methods, an enhanced focus on grievance redressal systems, and customer handholding should be instituted.
4. The Company must prominently display information about the interest rates charged on microfinance loans in its offices, literature issued by it, and its website.
5. The Company agrees to share updated pricing information to the highest granularity possible with the SROs for publishing as required by the RBI.
6. The Company, if withdrawing operations from an area, must make alternate arrangements to service the existing loans of its borrowers. As an example, an arrangement with an existing RE and any other microfinance provider, in such cases can be worked out to receive loan repayments from borrowers.
7. The Company must ensure that the well-being (For ex: adequate remuneration, working hours, working conditions, etc.) and security of their employees is given due importance.
