



M-CRIL  **Micro-Credit Ratings International Ltd.**

CLIENT PROTECTION CERTIFICATION

Report for Equitas, Chennai, India

Certified in November, 2013

Mission Conducted by Micro-Credit Ratings International Ltd. (M-CRIL)

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Selected Examples of Practices

“Certified financial institutions have demonstrated their commitment and practice to treat the people they serve fairly. They contribute to a microfinance industry that prioritizes client care.”

- *Isabelle Barrès, Director, the Smart Campaign*

This document was prepared by M-CRIL, a licensed certifier of the Smart Campaign’s Client Protection Certification Program. It contains excerpts of analysis from a certification mission conducted at Equitas. Equitas became client protection certified in November, 2013.

Certification missions entail a streamlined desk review of institutional policies and procedures followed by an on-site due diligence visit that includes extensive staff interviews and focus group discussions with clients. The certifier looks for evidence of adherence to the [Client Protection Principles](#) as evidenced by meeting [standards](#) associated with each principle in institutional policies, procedures, systems, organizational culture and staff behavior. In order to become certified, an institution must meet all of the client protection standards. Only organizations that pass certification will be made public. Certification status is valid for up to two years, after which an institution must undergo a new certification mission.

This summary presents selected excerpts from the certification mission analysis, which in total covers 30 standards of care. The evidence presented is not exhaustive but rather meant to illustrate what the certification standards of care look like in practice and to highlight specific practices by this institution. We encourage readers to reference the [client protection standards](#) when reading this report. For more information about the certification program and a list of certified organizations please visit the Smart Campaign’s website <http://www.smartcampaign.org/certification>.

If you have any questions or concerns about this report please contact:

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Selected Examples of Practices

Client Protection Principle 1 – Appropriate Product Design and Delivery

- Equitas consider clients' needs while designing or modifying credit products.
- Reasons for dropout are investigated as per the business requirement.
- The market research team conducts annual client satisfaction surveys; Equitas has modified products based on feedback from clients.
- Equitas does not use high pressure marketing techniques.

Client Protection Principle 2 – Prevention of Over-indebtedness

- Sufficient emphasis is given to self-selection of members during group formation.
- Credit bureau checks are mandatory for all clients; Equitas has set internal limits on indebtedness over and above the RBI limit of Rs50,000 per client.
- CGT is conducted for clients before every loan regardless of cycle, and concept of joint liability is sufficiently emphasized. Sales Officers visit client's house for verification. The loan size is based on the loan cycle.
- The policies are adequately disseminated through training to staff and through policy circulars and manuals.
- Staff are paid fixed salaries with no incentives to avoid aggressive sales. The performance appraisal considers portfolio quality as one of the parameters for branch staff.
- Performance targets are set in consultation with the branch staff to consider local conditions.
- Customer Friendly Repayment Policy (CFRP) deals with write-off/rescheduling of loans based on the situation of clients; it is tracked and reported separately.
- Equitas has been successful in maintaining a good portfolio quality over the last two years.
- Internal audit verifies branch staff's adherence to the policies.

Client Protection Principle 3 – Transparency

- Equitas discloses all the pricing information during the CGT. It is printed in the loan sanction letter and passbook.
- The company has adopted communication methods suitable to its client base; the concept of declining interest and insurance are explained in detail during the CGT.
- The products are simple and easily understandable for the clients.
- Contact information of field staff and the supervisor is made available to clients
- Receipts are issued in the form of pre-printed stickers for each repayment.

Client Protection Principle 4 – Responsible Pricing

- Equitas has been charging an interest of 25.5% declining per annum since its inception; the company was conscious not to pass over the cost of inefficiency to clients, even during its initial years of operations.
- The interest rate charged compares well with the competitors and is compliant with the RBI margin cap.
- Equitas settles insurance claims with clients within 7 days of receiving the death certificate; it does not wait for the third party insurance company to settle the claim. No part of premium collected is retained by the company.
- Clients can pre-close their loan at no extra cost, any time during the loan tenure.

Selected Examples of Practices

Client Protection Principle 5 - Principle 5 - Fair and Respectful Treatment of Clients

- The code of conduct and internal fair practices code mention the professional behavior expected from staff while dealing with clients.
- The MFI gives adequate emphasis to behaviour and communication aspects during the induction training. All branch staff are certified by the Area Manager on the critical processes, including CGT, once in every six months.
- Staff behavior is monitored by both the Operations team as well as the internal risk team. Disciplinary actions are taken against the staff who breach the code of conduct.
- Client Friendly Repayment Policy allows rescheduling loans/giving moratoriums to clients during difficult times. The policy is communicated to clients during CGT.

Client Protection Principle 6 – Privacy of Client Data

- Equitas has detailed IT and privacy policies for dealing with client data.
- The staff are trained not to share client level data with third-party individual/organisation.
- Staff understands that sharing client information with a third person is considered as violation of code of ethics and actions can be taken against them.
- Equitas explains the privacy policy to clients during CGT and has included a data privacy clause in the loan agreement; client consent is taken during loan application to share information with credit bureaus.
- Equitas takes written consent from clients for using personal information/ photos in promotions and marketing materials.
- It has strong IT systems with strict password protection, which protects confidentiality and security of clients' data.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- Equitas has a grievance policy with well-defined multi-level escalation process.
- Clients can contact the branch office or Head Office grievance cell (printed on the passbook), to register complaints. If unsatisfied with the resolution, clients can escalate it to the level of the business head. Equitas has also shared a contact at RBI, the regulator, to escalate complaints.
- Complaints received at the branches are recorded in the complaints register; the supervisory staff verify the registers periodically.
- Complaints related to staff fraud or misbehavior get escalated to the Operations Risk department, which conducts thorough investigation.
- Equitas has taken actions to improve its product and processes based on feedback from the clients.