



CLIENT PROTECTION CERTIFICATION

Report for SKS Microfinance Limited

Hyderabad, India

Certified in December, 2014

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 SKS. SKS became client protection certified in December, 2014.

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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Client Protection Principle 1 – Appropriate Product Design and Delivery

- SKS offers loans for income generation purposes, compulsory credit life insurance and small ticket loans for mobile and solar light products based on the results of customer need surveys. Based on feedback received from existing clients, SKS has started offering a higher ticket size loan for a period of two years. SKS also offers gold loan product to its members and non-members in compliance with the RBI norms for lending against gold jewellery.
- All products and processes are signed off by the member services team which checks compliance with the client protection principles (CPP). Satisfaction surveys are also done every quarter to understand the reception of the product by members. Changes have been made in the terms and tenure of existing products based on feedback from clients.
- Clients self select to form groups and do not feel pressurized. In order to prevent mis-selling of cross sell products, number of loans disbursed per centre is capped for incentive calculation. During CPP audit (especially conducted to check compliance with CPP), clients are asked if they were forced to take any SKS product.
- SKS collects and analyses reasons for dropout for all exit clients.

Client Protection Principle 2 – Prevention of Over-indebtedness

- SKS conducts a housing survey on day 1 of the Compulsory Group Training (CGT) for new clients. Although income and outstanding loan details are collected for all clients, SKS relies on member feedback, Credit Bureau (CB) reports and past history of the member with SKS to approve a loan.
- The Branch Manager (BM) and Sangam Managers (SM or loan officer) review all loan applications, discuss the past credit behaviour of the client and accordingly sanction the loan.
- SKS has zero tolerance policy for violation of RBI limits vis-à-vis the CB reports. BM, ABM as well as internal audit checks for process deviations including regulatory norms on indebtedness.
- SKS has prudent policies pertaining to parallel loan and renewal of loan in case of foreclosure.
- Clients managed is only one of the parameters for incentive; staff is also incentivized on quality of member data.
- The delinquency management policy of SKS details actions to be taken depending on the reason for default. The reasons could be: natural disaster, member migration, unexpected crisis like terminal illness/asset loss due to accident, over-indebtedness of member or willful default.
- The Board considering the risks related to over-indebtedness of clients approved a concentration policy in October, 2012 which entails setting limits for concentration in states. In addition, the risk framework evolved by management classifies each district on a risk quotient based on internal and external risk parameters. This is regularly reviewed by the management.
- Weekly dashboard shared with the senior management includes reporting on deviations with RBI guidelines on indebtedness, rescheduled loans if any, PAR data and CB results.

Client Protection Principle 3 – Transparency

- SKS communicates all terms to the members during the CGT and at the time of disbursement. The SM training module and CGT booklet provides instructions, accompanied with dialogues and pictures for conducting the CGT. Literacy limitations are addressed by using actual money and

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conducting games.

- The details of the various charges and conditions pertaining to the loan are printed in the loan application form, loan passbook (including amortization schedule) and agreement in vernacular.
- SKS participates in MFTransparency projects; discloses pricing information on its website and also shares with the MIX Market.
- Client awareness of product terms is part of CPP audit and is also verified by BM during Group Recognition Test (GRT) and monitoring visits.

Client Protection Principle 4 – Responsible Pricing

- SKS charges an interest rate of 23.5% per annum (since October 2014) on a declining basis for the main income generating loan product. The interest rate for cross-sell products such as the mobile and solar is 21.58% and 22.85% per annum respectively. The cross-sell products are priced in a manner so that the total cost of the product is lower than the maximum retail price (MRP).
- SKS was able to lower its OER to 9.6% in FY 2013-14 from 14.3% in the FY 2012-13. This was achieved by making concerted efforts to increase staff productivity and streamlining operations.
- SKS is developing functionalities in its system so that the Credit Bureau check is automated in the loan application process followed by approval or change in the loan amount based on the report.
- Clients can preclose their loan anytime; no penalty is levied for preclosing the loan.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- The Board approved Code of Conduct (CoC) is binding on all employees of SKS. The offer letter signed by all staff at the time of joining states that the staff is obligated to abide with all the rules of SKS, existing as well as the new ones which come into force during their tenure at SKS.
- SKS trains all field staff on acceptable behaviour towards clients and prohibits abusive recovery practices. The SM manual has clear instructions on the process of conducting the collection centre meetings and arrears collection.
- The BM monitors the behaviour of the SM with the members and adherence with the CoC. Feedback from members on staff behavior and collection practices are part of CPP audit and quarterly satisfaction surveys conducted by Member Helpline (MHL) staff.
- SKS has a policy which allows for rescheduling or writing-off loans. SKS prefers to write-off loans for clients facing genuine repayment issues and no rescheduling has been done till date. Policies allow relending to clients whose loans were rescheduled for genuine reasons.

Client Protection Principle 6 – Privacy of Client Data

- Privacy policy is printed in local language in the loan agreement and passbook. The policy states that SKS does not share its client's information with anyone except RBI approved Credit Bureaus, Self-Regulatory Organizations, Courts, Government agencies and for compliance requirements.
- The policy is part of the Code of Conduct of SKS, which is binding on all its employees. Staff is aware that any violation of the policy will lead to disciplinary action against them.
- The Information Systems Security Policy Statements (ISSPS) has detailed policies and standards pertaining to the storage, use and dissemination of all information in the systems, stored either in physical or virtual form. The password management section sets the rules for password maintenance. All users of the system are assigned a unique user id.

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Client Protection Principle 7 – Mechanisms for Complaint Resolution

- SKS has a three point complaint redress mechanism. Clients can register their complaints with the SM during the collection meetings. Clients can also call the Member Help Line (MHL) toll-free number in case of any complaints. If the clients are not satisfied with the resolution provided or resolution is not provided within the promised TAT, the clients can report to the Ombudsman.
- SKS has a dedicated twenty-five member helpline team conversant in eight Indian languages. The team is well trained on escalating the clients' complaints to the concerned staff, following up for resolution and communicating it to the clients. The MHL agents call the complainant to confirm whether resolution was provided.
- SKS has recently introduced the member complaint module (MCM) book for recording the clients' complaints during the centre meetings and MCM portal.
- The toll-free MHL number, contact number of the Nodal officer of SKS, Ombudsman's toll free number along with the operating hours are printed in the clients' passbooks and the loan agreement. The grievance redress process is communicated to the clients during the CGT.
- Awareness of members about the grievance redress process is checked during the centre monitoring visits by various staff (Unit Manager, BM or Internal audit personnel).
- The BM and Assistant BM are penalised if a client's complaint is not within the prescribed TAT.