



CLIENT PROTECTION CERTIFICATION

*Report for Janalakshmi Financial Services Pvt. Ltd. (JFSPL),
Karnataka, India
Certified in May, 2015*

Mission Conducted by Micro-Credit Ratings International Ltd. (M-CRIL)
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“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 JFSPL. JFSPL became client protection certified in May, 2015.

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>.

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Selected Examples of Practices

Client Protection Principle 1 – Appropriate Product Design and Delivery

- Janalakshmi Financial Services Pvt. Ltd. (JFSPL or JFS) offers a wide range of products and services offered to meet various life-cycle needs of its clients; it offers small sized group loans, education loan, medium small enterprise loan and individual loan, pension as well as compulsory credit insurance. It works on a graduation strategy where clients progress through the different loan types. All loans are payable monthly.
- Products are designed and revised based on clients' needs and suggestions; in-depth interactions are conducted to understand aspirations of clients.
- Satisfaction surveys are conducted monthly for clients across cycles to collect feedback on the processes and policies. Satisfaction on various operational aspects of JFSPL collected from a sample of exit clients is reported to the management and the Board.
- Policies and processes check any aggressive practice in the field; loan origination process is divided amongst 3 different executives: CReM (Customer Relationship executive - Marketing), CReS (CRe Sales) and CReC (CRe Collections) and the incentive on disbursements are capped.
- Collateral is taken for certain individual loans; authorized agents do the valuation.

Client Protection Principle 2 – Prevention of Over-indebtedness

- Most aspects of the credit appraisal are automated and applied uniformly. Loan origination and credit approval functions are segregated and multi-level approval mechanism depending upon the credit score of the loan application is in place.
- Credit score is based on various parameters such as cash flow, number of earning members, per capita income of the household etc. House verification is done for all clients prior to group formation; loan amount is contingent upon the credit score, past repayment behavior and the indebtedness limits set by the RBI (Credit Bureau check).
- In order to prevent aggressive lending practices, the incentive of the CReS and CReM is capped and additional incentive to CReS is given upon achieving 40% of the monthly target prior to 15th of the month; the sourcing targets vary depending upon the branch size.
- CReC is not eligible for collection incentive if the collection rate is less than 99.2% and the OD incentive if the branch PAR exceeds 0.5%; these two components contribute 55% to the total incentive of the CReC. Incentive on other parameters does not get affected by the collection rate.
- Audit findings, fraud cases, PAR data, credit bureau trends and concentration risk are discussed and analysed by the management and the Board; the Board also reviews the risk reports for any deviations.
- Compliance with the policies is verified during the quarterly branch audits; client acquisition accounts for 27% of the branch audit score.
- Rescheduling policy is applicable for clients who have the willingness to pay but are unable to do so due to adverse financial conditions; the management reviews such cases regularly.
- Clients who close their loan with 25% of the loan tenure remaining are required to take approval from the CEO; for such cases no increase in loan amount is allowed in the next loan cycle.

Client Protection Principle 3 – Transparency

- Product features and conditions are communicated to the clients verbally in local language; different field staff communicate the information related to the loan multiple times prior to

Selected Examples of Practices

disbursement.

- During the Branch Verification Report (BVR) conducted by the Area Head (AH), knowledge of clients on product terms and conditions is checked; retraining is done for groups that are found lacking in awareness.
- Awareness on product terms checked for ~15% application during telephonic verification conducted after training.
- Terms & Condition document (in vernacular) containing the terms, conditions and charges are given at the time of disbursement. The sanction letter (in English) also given to clients at the time of disbursement has the amortization schedule as well. Thermal receipts are issued to clients for each repayment; half-yearly and annual statements are provided to the clients for the pension contributions in addition to data entry in the Micro Pension card.
- Clients are given adequate time to consider their loan application and approach staff in case of doubts; loans can be cancelled even after sanction.
- JFSPL displays pricing information on its website; the loan amount, interest rate for various products, information regarding insurance are displayed in the branches.

Client Protection Principle 4 – Responsible Pricing

- Interest rate for all loans was revised from 24.28% to 23.72% in March 2015.
- JFSPL was able to bring down its OER drastically in the past three years, from 36.5% in 2011 to 10.9% in 2014, which is comparable with similarly sized MFIs in the country due to economies of scale and use of technology.
- Pre-closure is allowed anytime during the loan tenure without any penalty.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- All staffs are trained on the MFIN CoC and company values during the induction training. The MFIN CoC and the Fair Practices Code contain acceptable practices to be followed by the staff at all times.
- New recruits sign an acknowledgement of abiding by the rules laid down in the staff rules. Penalties for not complying with the policies are also communicated.
- Disciplinary action is taken as per the penalties prescribed in the HR Manual against the staff found violating the policies.
- Branch supervisors and the internal audit department monitor staff behavior; during interaction with clients the auditor checks client's satisfaction with services. The clients' responses affect the branch audit score.
- Salient features of the MFIN CoC are communicated to the client during the CGT; during BVR the AH verifies checks the awareness of clients on certain aspects of the CoC.
- During training, the clients are informed that they can contact the branch staff for possible assistance in case they face difficulty in fulfilling their repayment obligations due to adverse conditions beyond their control.

Client Protection Principle 6 – Privacy of Client Data

- JFSPL has a confidentiality undertaking that states that the employees will keep the information pertaining to the clients and the company's business confidential.

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- All staff sign the Confidentiality undertaking at the time of joining JFSPL and are informed of the penalties for violating the undertaking.
- The privacy clause is printed in the loan application form, sanction letter and terms and conditions sheet and is communicated to clients during the CoC session of the group training. Authorisation is taken from clients for sharing information with third parties in the sanction letter.
- JFSPL has ISO certified secure backend systems with well-defined user access rights.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- JFSPL has an effective multi-layered grievance redress mechanism. Clients can approach the field staff, call at the branch office, drop in complaints in the complaint box, call on the toll free number or call the Regional Customer Service Officer (CSO).
- The grievance mechanism is communicated to the clients during the group training and pre-disbursement meeting; awareness on the mechanism is checked by the AH during BVR. Additionally, the toll free number is printed on the loan sanction letter and the terms and conditions document.
- JFSPL has appointed a dedicated CSO who can speak multiple languages to handle complaints received at the toll free number; the executive is responsible for recording and escalation of complaints to relevant authorities.
- The Regional CSO opens the complaint box every month and records the complaints in the complaint register; these are consolidated and shared with the regional head every quarter. Additionally branches record all complaints received at the branches in the complaint register and share it with the Regional CSO.
- JFSPL has defined the resolution time for different types of grievances; the CSO at HO follows up for resolution and communicates it to the client. The Regional CSO monitors the resolution time and verifies with the clients whether the staff provided resolution.
- Details of the complaints are shared with the Board every quarter.