



M-CRIL Micro-Credit Ratings International Ltd.

CLIENT PROTECTION CERTIFICATION

*Report for Arohan Financial Services Pvt. Ltd.,
West Bengal, India
Certified in May, 2015*

Mission Conducted by Micro-Credit Ratings International Ltd. (M-CRIL)
Dr Alok Misra
Anindita Chakraborty & Sana Zehra

“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 Arohan. Arohan 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>.

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

Micro-Credit Ratings International Ltd. (M-CRIL)
542, Megapolis
Sohna Road
Gurgaon, India
contact@m-cril.com

Selected Examples of Practices

Client Protection Principle 1 – Appropriate Product Design and Delivery

- Arohan offers range of products including credit, life insurance and pension to meet varying needs of the clients; all products are voluntary. Loans are provided to various client segments – Saral loans to women, Bazaar loans to retailers having shops and Pragati loans to owners of micro-enterprises; different delivery models are adopted depending on the target clients.
- The Internal Audit (IA) team conducts dropout surveys to collate reasons for dropout. Client dropout rate is one of the Key Performance Indicators (KPI) of Customer Service Representative (CSR) and Branch Head (BH) in annual performance appraisal.
- Arohan actively solicits client feedback on products and policies. Changes in the loan size, relaxation in eligibility criteria, streamlining pre-disbursement processes were some of the changes made based on the feedback.
- Market research surveys are conducted to gauge client needs and requirements before launch of a new product and act as inputs for revising existing products.

Client Protection Principle 2 – Prevention of Over-indebtedness

- Repayment capacity analysis is conducted for all loans; the CSR conduct house visits for all new clients to verify the cash flows of the household. The BH also visits 50% of the clients. During Group Recognition Test (GRT) the BH verifies the members' understanding of the product terms and features, willingness and ability to repay. As a best practice, Arohan strives to ensure that the cumulative monthly installment of all loans does not exceed 20% of the household income. Arohan follows a one-loan per household policy.
- For higher size individual loans the cash flow analysis is complemented with a qualitative assessment, which examines if membership and product eligibility criteria are being satisfied and evaluates the risks associated with the loan sanction decision.
- Credit Bureau (CB) check is mandatory for all loans; the validity of a CB check is 15 days. Internal audit monitors violations pertaining to invalid CB checks, which affects the branch audit score.
- For Saral and Bazaar loans, subsequent loans are increased by Rs2,500-Rs5,000 with the possible increment being capped at Rs10,000 for Saral Plus and Bazaar Plus. This is contingent upon clients past repayment behavior and regularity in attending meetings.
- Arohan's Board emphasizes on the need for greater monitoring and capacity building of staff to ensure understanding and compliance with the policies and procedures.
- In order to curtail the risk of aggressive lending and poor quality origination, incentive on number of loans disbursed is capped and targets are set fortnightly ensuring smooth achievement of targets during the month. Negative reinforcement is enforced on all field staff (CSR, BH and AM) for overdue; no payout is made to CSR if the recovery rate falls below 98.5%.
- Arohan has prudent renewal limits in case of foreclosure. To avail a higher cycle loan amount a client with loan < Rs15,000 has to pay at least 10 of 12 installments and a client with loan > Rs15,000 has to pay at least 18 of 24 installments; loans are only offered on a group basis.
- Arohan has recently formulated a rescheduling policy for clients who face repayment issues due to adverse conditions leading to loss of livelihood. In the past, Arohan has rescheduled/written-off loans of clients whose livelihoods were affected by floods and fire in the marketplace.

Selected Examples of Practices

Client Protection Principle 3 – Transparency

- During the Compulsory Group Training (CGT), the CSR communicates the terms and conditions and pricing information to the clients in local language. The BH verifies awareness of this information during the GRT; BH reiterates the terms prior to disbursement.
- At the time of disbursement, clients receive an individual Loan Agreement cum Loan Card printed in vernacular, which contains loan details, terms and conditions, repayment schedule and is signed by the client and the Branch Head.
- Arohan displays the loan pricing information including the interest rate, loan processing fees and the insurance premium in its branches; it also participates in the MFTransparency project.
- Acknowledgement is provided for each repayment in the loan card; clients can refer to the amortization schedule or contact field staff for information on outstanding balance.

Client Protection Principle 4 – Responsible Pricing

- Arohan charges interest ranging between 26.5% (declining) and 27.5% (declining) for its Saral, Bazaar and Plus products; Pragati is priced at 30% (declining).
- Interest rates are revised regularly in order to comply with the RBI guidelines on the margin cap.
- Arohan was able to bring down its OER from 14% in FY 12-13 to 10% in FY 13-14 by consolidating branches, focusing on staff productivity, setting of fortnightly disbursement targets for staff and adopting a monthly collection model.
- Clients can pre-close their loan without paying any penalty. For delayed payments, clients have to pay the accrued interest.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- Arohan's Fair Practices Code and Code of Conduct instructs staff to treat clients with dignity and abstain from coercive collection practices, including rude behavior and approaching clients at inappropriate hours; this code is binding on all staff of Arohan.
- At the time of joining, staff sign an appointment letter agreeing to abide by the policies of Arohan. The HR and Operational Manuals act as guides for all professional conduct; a violation of any of the policies is treated as an act of misconduct.
- A CSR handbook is maintained in vernacular at all the branches. It contains details of all the policies, the code of conduct and Do's and Don'ts. The disciplinary policy contains details of various penalties corresponding to the actions.
- Induction training includes a session on the CoC. Classroom trainings are interspersed with field visits to discuss observations, appropriate behavior, potential violations of the CoC and disciplinary actions that would be taken.
- The Branch Head regularly monitors all activities of the field staff as per the targets laid out in the weekly minimum field Visit Task List (VITAL); 50% of these visits are surprise in nature. The Area Manager also monitors all the field processes at a branch level and record their observations.
- Internal Audit team also monitors all field activities and interacts with a sample of clients during the branch audits; IA team also verifies whether the BH conducts monitoring visits and whether the clients were forced to subscribe to third party products.
- Responsibilities of Arohan towards the clients are also printed in the loan cards, which are - Arohan will treat its clients with respect and dignity, be honest in all transactions, representatives

Selected Examples of Practices

of Arohan will be punctual during collection meetings, they will sign all loan related documents, will answer clients' queries to their satisfaction and the grievance mechanism.

- Arohan has included a clause in the GRT checklist, which will convey to clients about the possibility of rescheduling in case they are faced with adverse conditions beyond their control that affects their livelihood.

Client Protection Principle 6 – Privacy of Client Data

- Privacy of information is one of the nine organizational ethics, which underlines all staff conduct.
- The Code of Conduct emphasizes the importance of keeping client information confidential. Violation is treated as an act of misconduct and leads to disciplinary action.
- During training, staff informs clients that their information will be used only for analysis of their repayment capacity and Arohan will ensure that it is not misused.
- Privacy clause is printed in the individual and group loan application forms where permission to share data is sought from the clients; it is also printed in the loan cards.
- Arohan has adopted adequate safety measures in its systems for safeguarding client information. IT systems are audited twice in a year.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- Clients can register their grievances through various channels such as field staff, and the toll free number. In case the clients are not satisfied with the resolution or do not receive timely resolution, they can contact the Grievance redress officer of Arohan. Lastly, the clients can communicate their complaints to the Nodal Officer of the Reserve Bank of India (RBI).
- Clients are trained on the customer grievance channel by the CSR during the CGT and the BH reiterates the same during the disbursement meeting. The monitoring officer (internal audit) checks whether the clients are aware of the grievance mechanism.
- The details of the toll free number, contact details of the grievance redress officer of Arohan and Nodal Officer of the Reserve Bank of India (RBI) are printed in the individual loan cards. The contact numbers of the CSR and BH is mentioned in the centre attendance register.
- Arohan has appointed dedicated resources to handle customer grievances received at the toll free number and at the branches. Details of all calls are recorded, escalated to relevant authorities and tracked for resolution by the customer care team. Once a complaint is confirmed as resolved by the field staff, the team verifies with the client whether resolution was provided.
- In a recently introduced process, the complaints received at the branch will be recorded in the complaints register. The complaint will be promptly forwarded to the customer care team at the HO, post which they will be resolved as described above.