



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

## **CLIENT PROTECTION CERTIFICATION**

*Report for Utkarsh Micro Finance Private Limited,  
Varanasi, India  
Certified in June, 2015*

**Mission Conducted by Micro-Credit Ratings International Ltd. (M-CRIL)  
Dr Alok Misra  
Shraddha Jha, Devika Misra & 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 Utkarsh. Utkarsh became client protection certified in June, 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](mailto:contact@m-cril.com)

## Selected Examples of Practices

### Client Protection Principle 1 – Appropriate Product Design and Delivery

- Utkarsh offers both financial (credit, life insurance, pension) and non-financial products to its clients. Life insurance is mandatory and pension is optional. Credit products are offered through the group and individual lending methodology, depending upon the purported use of the loan. Clients have the flexibility to choose a repayment frequency from weekly, fortnightly and monthly options. Group loans range between Rs6,000 and Rs40,000; these are given for income generation purposes only.
- Non-financial services such as capacity building training for making agarbatti, polyclinics, provision for solar lamps and financial literacy trainings are offered through its subsidiary, Samutkarsh Welfare Services.
- Individual loans were introduced in 2012 to cater to the demands of the middle segment (clients who do not fit the criteria of microfinance clients and are also not served by the formal financial sector). Loan size varies between Rs50,000 and Rs300,000. Owners of small and medium enterprises can avail the Samridhhi loan for their working capital requirements. Grihsudhar is a home improvement loan and can also be used as margin money to purchase a new house. A guarantor is mandatory for such loans and collateral is required for all loans exceeding Rs100,000 in the first cycle and Rs125,000 in the subsequent cycles.
- Utkarsh has set up a feedback collection mechanism to actively collate suggestions from clients; the Internal Audit and the grievance team use questionnaires to collect responses. Branch staff collect client feedback informally and discuss these with the senior management. Changes in product terms and conditions have been made based on these feedbacks.
- Utkarsh has enlisted third parties to identify reasons for client dropout. An exit survey is also conducted as part of the feedback collection mechanism.

### Client Protection Principle 2 – Prevention of Over-indebtedness

- Loan appraisal is done rigorously. For group loans, income from all sources is recorded and expenses are classified under various heads for a detailed cash flow analysis; this also includes details of various liabilities from other MFIs, banks and moneylenders.
- The total monthly installment cannot exceed the total monthly surplus. First and second cycle clients can avail a maximum loan up to Rs40,000; this check is in-built in the system. House and business verification is mandatory for all new clients.
- For individual loans, separate teams conduct the sourcing and appraisal. The cash-flows analysis is rigorous; monthly installment cannot exceed 65% of the surplus for non-JLG clients and 85% of surplus for ex-JLG clients.
- Loan approval of repeat clients depends on past repayment behavior and appropriate utilization of the previous loan apart from the cash-flow analysis. Loan amount in subsequent cycle cannot exceed 150% of the previous loan amount.
- Credit Bureau (CB) check is mandatory for all loans irrespective of loan cycle; this is an automated process which happens again if the gap between CB check and disbursement exceeds 14 days.
- Bi-annually the branches are assigned risk scores based on portfolio concentration across various categories, PAR<sub>0</sub> in last 6 months, number of MFIs in branch's operational area, incidence of flood, political/law order situation in the area and other operational factors. This is collated in a report and reviewed by the management and the Board regularly.

## Selected Examples of Practices

- The Board approved rescheduling policy allows for restructuring for clients affected by a natural disaster and who demonstrate a willingness to repay. Additionally, the policy states that Utkarsh will help such clients who have lost their source of income by providing through a supplementary loan to help them rebuild their livelihood.
- In case a client forecloses a loan, depending upon the number of outstanding installments the client might not get another loan, same loan amount or get a jump in the loan size.
- The productivity targets assigned to the field staff are comparable with similar sized peers. Incentive is calculated based on the number of disbursements only and not on the amount disbursed; incentive for new clients is double than that for repeat clients. There is a cap on the number of disbursements in a month.

### Client Protection Principle 3 – Transparency

- The Credit Officers conduct a comprehensive 3-day CGT for all new clients during which all terms and conditions are communicated to the clients. Client awareness campaigns across all branches every quarter; interest rate, product terms, importance of receipts are reiterated.
- Additionally, clients receive a Welcome letter in vernacular at group formation stage, which has details of the various charges and the terms and conditions.
- At the time of disbursement the clients receive individual loan passbooks; all the charges paid by the clients, interest rate, amortization schedule and terms are printed in vernacular in the passbook, which is signed by the client and the Branch Manager. Separate receipt is given for insurance premium amount.
- Sanction letter, repayment schedule, acknowledgement of post-dated cheques and title deed are provided to individual loan clients.
- Clients who subscribe to the pension product receive a passbook.
- During centre meetings, the CO verifies the collection amount and signs in the clients' passbooks.
- A representative of the group makes the repayment for the group in the branches; a receipt is issued for the entire group that is pasted in the centre meeting register.
- Clients can approach the field staff or refer to the amortization to discern the outstanding balance.

### Client Protection Principle 4 – Responsible Pricing

- The interest rates charged by Utkarsh comply with the Reserve Bank of India's (RBI) criteria.
- OER of Utkarsh is in the same range as that of its peers with a similar portfolio size and has been following a declining trend. It reduced from 14.8% in 2011-12 to 7.9% in 2013-14.
- Group loan clients can foreclose their loan at any time during the loan tenure without having to pay any extra charge; this is mentioned in the welcome letter. For individual loans, a foreclosure penalty ranging between 2%-3% on the outstanding is charged; this is contingent upon the time period within which the loan is repaid.

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

- Utkarsh has developed its Fair Practices Code (FPC) drawing from the FPC prescribed by the RBI; Utkarsh adopted the MFIN Code of Conduct in 2010.
- All staff receive training on the FPC during induction, which also includes a session on CPP and

## Selected Examples of Practices

- acceptable collection practices. Staff are oriented on the implications of not abiding with the FPC.
- Supervisors conduct regular field visits to monitor compliance with policies and behavior with clients; the Internal Audit team conducts surprise visits to monitor staff behavior apart from verifying adherence with operational policies and procedures.
  - Incentive of the field staff does not take into account the portfolio quality in order to prevent coercive collection practices.
  - Quality of interaction with clients contributes 15% to the total performance score during appraisal of the field staff.

### Client Protection Principle 6 – Privacy of Client Data

- The privacy policy of Utkarsh clearly delineates the organizations with which Utkarsh will share the clients' information.
- Privacy of client data is stressed in the Code of Conduct, which is part of the HR Manual.
- At the time of joining, staff sign an undertaking to maintain confidentiality of information and are aware that any violation would lead to disciplinary action.
- Written consent from clients is taken mandatorily before sharing their information with Credit Bureau or using their information for marketing purposes.
- Scope of privacy clause includes client data in both physical and electronic form. User access is predefined in the system depending upon the person's role in the organization.

### Client Protection Principle 7 – Mechanisms for Complaint Resolution

- The grievance policy lists the various channels available to clients for registering their complaints. Clients are encouraged to use the complaint box and registers at the branches to communicate their grievances. Clients can also call the toll free number to register their complaint.
- Grievance mechanism is communicated to the clients during the group trainings; it is recapitulated during disbursement and the quarterly awareness campaigns. The toll free number is printed on the individual loan passbook and the welcome letter.
- A dedicated 5-member team based at the HO handles all calls received at the toll free number. Complaints are escalated to concerned personnel in case it is not resolved within the stipulated resolution time.
- The team reports to the management level Grievance Committee, comprising of the Head of Vigilance and Security, Head of Finance (CFO) and the Head of Corporate Social Responsibility.
- Serious complaints including staff misbehavior, negligence during disbursement are highlighted to the Grievance Committee apart from the concerned supervisors.
- For all complaints, the grievance handling team verifies whether the complaint was resolved satisfactorily before closing the complaint.
- Feedback received from clients was instrumental in dropping the requirement of a male guarantor for single clients.