



CLIENT PROTECTION CERTIFICATION

*Report for Sonata Finance Private. Ltd.,
Lucknow, Uttar Pradesh, India
Certified in May, 2015*

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 Sonata. Sonata 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:

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Selected Examples of Practices

Client Protection Principle 1 – Appropriate Product Design and Delivery

- Sonata offers group (JLG) and individual loans (IL) to support income generation as well as utility loans (UL), which are offered to enhance the economic well-being of their clients. Additionally, compulsory credit life insurance is offered to JLG and IL clients and their spouses. All products are designed in accordance to clients' requirements.
- Products are reviewed and revised based on client feedback as evinced by the increase in loan sizes and launch of individual and utility loans. A client satisfaction survey was conducted to gauge clients' perception on Sonata's product offerings and service delivery mechanism.
- Credit products offered by Sonata are unsecured. While JLG loans are bound by group guarantee, a guarantor is required to take responsibility for individual loan clients in case of overdue.
- Sonata incentivizes staff for net client acquisition and staff handling over 500 clients are only eligible for incentive on interest income; however, emphasis on self-selection, policy of allowing individual members to be added in an existing group and capping the incentive on interest income are some prudent measures incorporated to preclude the risk of aggressive sales.
- Sonata proactively collects and investigates reasons behind voluntary client exit. The findings are regularly shared with the management and Board. The audit scores of the branches are affected if the voluntary exit rate rises above 1.5%.

Client Protection Principle 2 – Prevention of Over-indebtedness

- Sonata has put in place multiple checks including staggered disbursements, compulsory credit bureau (CB) verification and a comprehensive repayment capacity assessment process for group as well as individual loans. Cash flow analysis for group loans was introduced in April 2014.
- The repayment capacity analysis is uniformly implemented throughout the organization for all cycle loans. House verification is done only for first cycle clients.
- Sonata is a member of Highmark, Experian and Equifax and shares data with them on both weekly and monthly basis. In January 2014, a Risk Department, accountable for ensuring adherence to regulatory guidelines and managing and mitigating identified risks, was setup to ensure that no loans are disbursed without undergoing the CB check.
- Adherence to the repayment capacity assessment process is verified by the operations supervisors; a clear performance linked monitoring matrix for operations supervisors has been defined and is monitored by the Planning and Monitoring department.
- Audit verifies the documents of all new clients to ensure compliance with the stipulated processes.
- Since inception, Sonata has maintained a healthy portfolio. Reports on portfolio quality can be generated from the MIS on a real time basis and shared with the management daily.
- Loan Officers (BE) are incentivized for client acquisition and interest income recovered, while negative reinforcement is applied if a dip in the recovery rate is noted. Staff productivity targets are commensurate with the industry benchmarks. The incentive for interest income recovered has been capped, as part of Sonata's endeavor to curtail the risk of aggressive collection and sales.
- Clients are allowed to avail either JLG or IL. Small ticket utility loans can be taken in conjunction with a higher sized loan.

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- Prudent limits have been set that allow clients to foreclose their existing loans after completing at least 30 of 53 installments and avail enhanced credit on individual basis. The enhanced loan amount in case of renewal is decided by the Branch Manager/ Hub in Charge who assess the client's past attendance, credit discipline as well as the average group size.
- A Board approved restructuring policy is in place to aid clients who were willing but unable to pay on account of severe financial stress. No loans have been rescheduled till date.

Client Protection Principle 3 – Transparency

- Sonata endorses transparent operations and communicates pricing details and pertinent terms and conditions to clients verbally as well as in writing in vernacular multiple times commencing from group formation, training, disbursement as well as center meetings and monitoring visits by supervisory staff.
- Sonata's loan origination process is designed in a manner that ensures staff interact with clients multiple times prior to disbursement. Additionally, staff contact details are provided and clients are informed during Compulsory Group Training (CGT) that they can call branch staff or visit the branch anytime during working hours with their queries. Moreover, clients regularly visit the branch for repayments, so most queries are resolved at the branch level.
- The loan application form as well as loan card contain all relevant information. Sonata has recently started giving clients a signed copy of the loan agreement form for their perusal.
- Sonata participates in the MF Transparency Project and also shares pricing information with MFIN. It also participates regularly in the online Responsible Business Index Survey.

Client Protection Principle 4 – Responsible Pricing

- Sonata's efficiency ratios are at par with peers. Interest rates have undergone several revisions and were reduced from 36% at inception to 24% (declining balance) March 2015 onwards, in order to comply with the regulatory guidelines on margin. Sonata adopts a non-discriminatory pricing policy.
- No penalty is imposed on clients for early or delayed payments.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- Sonata has defined its own Code of Conduct (CoC) which draws from the industry guidelines and clearly prescribes the non-negotiable values that must be adhered to at all times, failing which staff would face stringent action.
- Staff are oriented on the CoC and appropriate collection practices during induction training. During appointment staff are required to sign an agreement pledging to abide by the CoC.
- Although Sonata strives to build a healthy loan portfolio and incentivizes staff for the same, it does not endorse a zero tolerance policy for PAR. Caseload wise slabs have been defined to calculate penalty in case of poor portfolio quality.
- Staff are trained on the delinquency policy and are advised to refrain from coercive recovery practices. Staff conduct is diligently monitored by operations supervisors as well as internal audit and is considered during promotions.
- Sonata takes strict action against erring staff. It has clearly defined acts construed as misconduct and a disciplinary policy with the possible punitive measures that can be taken depending upon the gravity of the offence in the HR manual which are communicated to staff during induction training.

Selected Examples of Practices

- Sonata has very recently started disseminating the rescheduling policy to its staff, who in turn are responsible for communicating the same to clients.

Client Protection Principle 6 – Privacy of Client Data

- Sonata has espoused the confidentiality clause in its CoC. Accordingly, the organization has defined acts which would be treated as fraud; one of them being sharing confidential data with unauthorized third parties.
- Sonata has drafted its privacy policy that asserts that client data will be protected and also explains the circumstances in which client data will be shared with third parties.
- The data privacy clause incorporated in the loan application form mentions that the KYC details will be shared with the Credit Bureau and authorized financial institutions in case of securitization deals. It is also communicated to clients verbally during group formation and training.
- Sonata has set up IT systems which are secure from external threats and also password protected to prevent unauthorized use. However, a password policy is yet to be defined formally. BMs are entrusted with the responsibility of the physical files, which are stored securely in the branches.
- Sonata has introduced a Board approved consent form, which needs to be signed by the clients prior to sharing their data or photographs in public forum. Prior to this, client consent was verbally obtained.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- Sonata has devised a two-pronged grievance channel, which is disseminated to staff during induction training. Clients can register their complaints at the toll-free helpline, place them in the branch based complaint boxes or approach the supervisors/internal auditors during their surprise/field visits.
- Clients are informed about their right to complain and the complaint registration process, both verbally (during Compulsory Group Training and Group Recognition Test) and in writing (Loan Card).
- A Grievance Officer has been appointed who attends calls received at the toll free helpline and ensures that issues are resolved with the stipulated fortnight's TAT. Issues are classified based on their severity-queries, requests, grievances and urgent grievances. Post resolution, the Grievance Officer calls clients to verify whether the complaint was effectively addressed. The same is verified by the internal audit team on a random basis.
- Branch Managers are responsible for recording the complaints received at the branches in a pre-defined spreadsheet and forwarding the same to the Grievance Officer.
- Client's familiarity and use of the grievance channel is verified by the operations supervisors during monitoring visits and by the internal audit
- Sonata has also constituted a Grievance Committee for investigating and resolving serious issues.