



CLIENT PROTECTION CERTIFICATION

Report for Swadhaar Finserve Pvt.Ltd, Mumbai, India

Certified in December, 2013

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 Swadhaar. Swadhaar became client protection certified in December, 2013.

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

- Swadhaar is innovating with products and delivery channels for clients' benefit. Third party products are compared with similar offerings in the market to get best deal for the clients.
- Tracks dropout rate; from current year onwards Swadhaar has started conducting dropout analysis and plans to do it on a half yearly basis.
- Swadhaar encourages feedback from clients and has used relevant feedback, largely informally collected to improve products and processes.
- It does not use aggressive sales techniques or forces clients to sign the contract.

Client Protection Principle 2 – Prevention of Over-indebtedness

- Swadhaar has internally scientifically designed a loan matrix based on clients' personal income and household income to facilitate repayment capacity analysis. Monthly household expenses and monthly instalment which client is comfortable paying are also considered while deciding the loan amount at every loan cycle.
- Credit Bureau (CB) check is conducted by an outsourced team and is mandatory for all clients.
- House verification is compulsory for all clients which is conducted by Loan Officers (LO).
- Staff are trained to conduct repayment capacity analysis; use of loan matrix has simplified the process and ensures that repayment capacity analysis is uniformly done for all loans.
- Owing to its unique model for lending (group meeting is not compulsory and monthly instalment is collected from the group leader), Swadhaar has high productivity targets.
- Incentive of LO is based on on-time repayment rate, PAR₀ and number of loans disbursed. However to avoid aggressive sales and collection practices, caseload and repayment rate is graded; staff is eligible for incentive if repayment rate is between 90%-99.5% and PAR₀ not more than 1%. Further overdue of 2 days is ignored while calculating on-time repayment rate.
- Swadhaar has a Rescheduling Policy in place. Information on rescheduled loan is available on the system as well as off the system.
- Swadhaar has been successful in maintaining a good portfolio quality over the last two years.
- Internal Audit team does a quarterly branch audit to verify compliance of policies and processes in branches including over-indebtedness. Additionally, the Risk and Quality Control team regularly monitors CB results data to gauge indebtedness levels of Swadhaar's client base.
- Board reviews portfolio quality as well as CB data (data on clients with loans from no MFI, 1 MFI and 2 or more MFIs) quarterly, to identify the competition as well as risks in the market.

Client Protection Principle 3 – Transparency

- Swadhaar discloses all pricing information of credit and insurance products in both verbal and written form at multiple times – 1st meeting by the LO, TL Crosscheck by the Branch Manager (BM), Financial Education Training (FED) by SFA staff and at the time of disbursement by Business Operations Executive (BOE).
- Both verbal and written communication is done in local language, flipcharts are used to make verbal communication visually appealing and easy to understand.
- Swadhaar provides repayment schedule, terms & conditions sheet (annexure to loan agreement) along with the ID card to each client. However on account of its operating model, the instalment receipts are handed to the group leader and clients are required to later collect their receipt from the leader.
- Contact number of the staff and branch is also available with the clients.

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Client Protection Principle 4 – Responsible Pricing

- In 2008, Swadhaar reduced its interest rate from 30% declining p.a. to 28% declining p.a. and moved to single processing fee from differential processing fees. Interest rate was further reduced in compliance with the RBI ceiling.
- Even though in June 2013 RBI allowed to operate at a margin of 12% till March 2014, the Board suggested to improve the efficiency to keep the margin within 10%.
- No part of insurance premium collected is retained by Swadhaar.
- In accordance with the guidelines there is no foreclosure fee.

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

- Swadhaar has Board approved Fair Practice Code (FPC). FPC compliance report is shared with the Board on a quarterly basis.
- The Code of Conduct (CoC) and internal FPC mention the professional behavior expected from staff while dealing with clients. Any violation of the CoC is dealt with as per the policies.
- Staff is recruited and trained in line with the Code of Conduct. CoC is signed by staff at the time of joining. Revised versions are signed in subsequent years.
- Adequate monitoring by the supervisors and internal audit team is done. Customer Service is one of the parameters in the audit checklist. Any deviation may lead to a 10% deduction in overall score of the LO at the time of performance appraisal.
- Swadhaar allows rescheduling loans; the policy is communicated to staff. Communication of this policy to clients has recently started.

Client Protection Principle 6 – Privacy of Client Data

- Swadhaar has detailed IT policy; CoC includes privacy clause for dealing with client data.
- Privacy policy is part of the CoC training during induction. Staff understands that they will be penalized for any breach of the policy.
- The privacy clause is mentioned in the terms of the loan agreement in local language.
- Swadhaar takes clients' written consent for using photos for e-communication or publishing.
- Swadhaar has moved towards a paperless office by employing the services of an RMS (Records Management Services). It has strong IT systems with strict password protection, which protects confidentiality and security of clients' data.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- Grievance Redress Manual has a well mapped grievance redress process. Policies detail various avenues to register complaints and multiple ways to inform clients about those avenues.
- Swadhaar has a customer care number and suggestion/complaint box at the branch. Customer care number is printed on the acknowledgement slip and client ID card. The RBI Grievance Redressal Officer's number is displayed on the notice board in the branches.
- The internal audit team checks if the complaints are taken up and resolved within a predefined TAT. Customer Service Executive (CSE) does a follow up call to the clients who had complained.
- Based on the recommendation of the SMART Campaign team, complaints received at the branches are now being recorded in 2 branches as part of an ongoing pilot.