

Kotak Mahindra Bank Limited

Board Policy Document

Framework for Microfinance Loans

Version 3.0

July 2024

FAIR PRACTICE CODE - MICROFINANCE LOANS

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I. Customer Engagement

a. Fair Interaction and Recovery of Loans

1. Ensure that customer is not unfairly discriminated against on grounds such as religion, caste, marital status, etc.
2. Ensure employees and persons acting on behalf of the Bank use respectful language, maintain decorum and respectful of social and cultural sensitives.
3. Identify the borrowers facing repayment related difficulties, engage with such borrowers and provide them necessary guidance about the recourse available.
4. Recovery shall be made at a designated/ central designated place decided mutually. However, field staff shall be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/ central designated place on two or more successive occasions.
5. The Bank or its agent shall not engage in any harsh methods towards recovery. The following practices shall be deemed as harsh:
 - i. Use of threatening or abusive language
 - ii. Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m. However, the existing practices of holding center meetings during early hours in the morning, undertaking regular activities/ transactions before 9 AM and 6 PM can continue.
 - iii. Harassing relatives, friends, or co-workers of the borrower
 - iv. Publishing the name of borrowers
 - v. Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation
 - vi. Misleading the borrower about the extent of the debt or the consequences of non-repayment

b. Suitability (avoiding multiple/over-lending)

1. Conduct proper due diligence to assess the need and repayment capacity of customer based on information from the applicant, credit bureau and/or field level intelligence before disbursing a loan.
2. Disburse the loan commensurate with the customer's ability to repay.
3. Use a valid Credit Information Report (CIR) before sanctioning any loan.
4. Repayment of monthly loan obligations of a household as a percentage of the monthly household income shall be subject to a limit of maximum 50 per cent of the monthly household income.
5. The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.
6. The Bank shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Besides, the Bank shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries, to avoid multiple or over-lending.

c. Education & Transparency

1. There shall be a standard form of loan agreement in a language understood by the borrower.
2. Bank shall provide a loan card to the borrower which shall incorporate the following:
 - i. Information which adequately identifies the borrower;
 - ii. Simplified factsheet on pricing;
 - iii. All other terms and conditions attached to the loan;
 - iv. Acknowledgements by the Bank of all repayments including instalments received and the final discharge;
 - v. Details of the grievance redressal system, including the name and contact number of the nodal officer of the Bank.
3. All entries in the loan card should be in a language understood by the borrower.
4. Issuance of non-credit products shall be with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself.
5. Must take measures (such as training, assessment and periodic interactions with customers) to ensure that the customer fully understands the products, process and terms of the contract.
6. Must give emphasis in educating customers on the importance of timely repayment for good credit history with the CICs, benefit, risks and necessary safeguards of digital financial transactions and grievance redressal mechanism.
7. Must educate customers against blind trust on group and centre leader and how defaults in loans standing in her name can adversely impact her credit history and limit her ability to access credit from formal sources. This should be part of the Compulsory Group Training (CGT)/Group Recognition Test (GRT) process.
8. Must ensure customer attendance in group meetings.

d. Information & Privacy

1. Must upload accurate and comprehensive customer data with all RBI approved CICs as per the Uniform Credit Data Format, as per the stipulated frequency.
2. Must promptly address any dispute raised by the customer about her data with CICs.
3. Keep personal customer information strictly confidential. Customer information may be disclosed to a third-party subject to any of the following conditions:
 - Such information is required to be provided under the law or it is provided for a mandated business purpose (for example, to credit information companies)
 - Customer has been informed about such disclosure and prior permission has been obtained in writing
 - The party in question has been authorized by the customer with intimation to the Bank to obtain customer information

e. Grievance Redressal

1. Provide a robust customer grievance redressal system to address customer complaints in an effective and timely manner. Must provide easy access to Customer Grievance Redressal Mechanism (CGRM) to all customers through a dedicated phone-number or a staff assisted procedure at the branch to register grievances.
2. Clearly communicate the details of customer grievance redressal in branches, loan documents and other communication materials.
3. Assure the customer that she will be treated fairly despite the grievance being lodged.

f. **Others**

1. Disclose pricing related information to a prospective borrower in a standardized simplified factsheet.
2. Any fees to be charged to the borrower by the Bank and/ or its partner/ agent shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.
3. The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.
4. There shall be no pre-payment penalty on microfinance loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.
5. Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.
6. While offering any third-party sell (non-micro-credit product) to customer, must clearly disclose all necessary details of such product (pricing, benefits, warranties, and exclusions). Also should ensure that the customer is not forced to buy any such product as a pre- condition to access micro-credit or vice versa.
7. While offering credit-linked life insurance to customer, must clearly disclose all necessary details.
8. In case any activity is outsourced, the Bank shall be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal, a declaration in this regard will be made in the loan agreement.

II. **Employee Engagement**

a. **Recruitment**

1. Do not unfairly discriminate against a candidate for recruitment based on gender, religion, caste, marital status, etc.
2. Select candidates based on merit, ethics and integrity.
3. Can recruit a candidate from other players in the Industry based on satisfactory relieving letter or reference check.
4. Respond to request from other Organizations for reference check within reasonable time.
5. Explore to participate in Employee Bureau to submit the employees' data and check candidate's employment records.
6. While recruiting from others, must honour the notice period as mutually agreed between prospective employee and her/his current employer.

b. **Orientation**

1. Give comprehensive induction training to the employees on policies, processes, regulations, as well as CoC. Emphasis should be given on customer-interface aspect such as fair treatment, credit assessment, privacy of data, service quality, CGRM, relationship management and dealing with customer facing difficulty in repayment etc.
2. Regularly assess employees' understanding of the above elements and conduct refresher training to address the gaps in understanding.
3. Train the employees on understanding and dealing with gender issues including appropriate interaction with other colleagues and customers.
4. Necessarily orient the employees on professional conduct and integrity issues including expected

behaviour and not indulging in any unlawful and anti-social activities.

5. Engage new employees in the branch-level business operations only after completion of the induction training.

c. **Well-being**

1. Ensure the well-being (adequate remuneration, working hours, working conditions, leaves for personal reasons such as family commitments and emergencies) and security of employee is given due importance.
2. Must have well-defined protocol to be followed by employee to handle risks arising from going to difficult area and cash-handling.
3. Should not collect shortfalls in collections from employees unless in proven cases of frauds by employees.
4. Create conducive professional environment for both genders to work and grow.
5. Have an appropriate mechanism to hear and redress the grievances of the employees and provide counselling.
6. Ensure that notice period is not more than 3 months for employees.

III. **Corporate Governance**

a. **Policies, Strategic Directions & Oversight**

1. Must have a procedure to deal with delinquencies at the customer level, who is facing difficulty in repayment of loans on account of loss of business assets, loss of earning members of the family, natural disasters or other emergencies.
2. Develop business plans based on both supply and demand side factors including current supply of micro-credit and need and repayment capacity of customers in an area. Data available from CICs could be used to understand the supply and repayment behaviour of a geography. Geographies which are saturated, should be avoided or approached with utmost caution.