

# Code of Conduct Assessment

*Uttrayan Financial Services Private Limited*

**Comprehensive Grade Assigned: C3**

**Date assigned: 07 December 2018**

Scale	C1	C2	C3	C4	C5
MF1					
MF2					
MF3			<b>MF3* C3</b>		
MF4					
MF5					
MF6					
MF7					
MF8					

*\*Assigned by Brickwork Rating*

The MFI obtains code of conduct assessment grade of **C3**. This indicates that the MFI has an average performance on code of conduct dimensions.

## Rationale

<b>Code of Conduct Assessment Grade</b>	Uttrayan Financial Services Private Limited obtains “ <b>C3</b> ” as its Code of Conduct Assessment Grade which signifies average performance on COCA dimensions.
---	---

*Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour and Sensitive Indicators**.*

## **Conflict of Interest Declaration**

ICRA has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of ICRA have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading.

## **Disclaimer**

The objective of the Code of Conduct assessment exercise is to assess the extent of adherence to common Code of Conduct by MFIs during the period of assessment. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the graded entity. ICRA however has not conducted any audit of the graded entity or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than grading to the entity graded. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

## **Historical Rating Grades**

<b>Date</b>	<b>Rating Agency</b>	<b>Comprehensive rating grade</b>
March 2018	Brickwork	MF3
November 2016	Access Assist	A
November 2016	CARE	MFI 3+
December 2012	Access Assist	A
November 2015	ICRA	M3+

### Code of Conduct Assessment scale and definitions

<b>C1</b>	MFIs with this grade have <b>excellent</b> performance on Code of Conduct dimensions
<b>C2</b>	MFIs with this grade have <b>good</b> performance on Code of Conduct dimensions
<b>C3</b>	MFIs with this grade have <b>average</b> performance on Code of Conduct dimensions
<b>C4</b>	MFIs with this grade have <b>weak</b> performance on Code of Conduct dimensions
<b>C5</b>	MFIs with this grade have <b>weakest</b> performance on Code of Conduct dimensions

MFI's profile (December 2018)	
Name of the MFI	Uttrayan Financial Services Private Limited
Legal form	NBFC-MFI
Managing Director	Mr. Kartick Biswas
Year of starting microfinance	2008
Branches (October 2018)	86
Active borrowers	1,37,979
Total staff	445
Operational area	West Bengal, Bihar, Sikkim, Assam, Punjab, Odisha, Meghalaya, Uttrakhand
Visit of the Assessment team	West Bengal, Bihar
Correspondence address	CF-32, Sector -1, Saltlake City, Bidhannagar, Kolkata – 700064, West Bengal, India

Details of Loan Products (November 2018)			
Product	Loan size (Rs)	Interest Rate	Processing fees and Insurance Charges
Small	8,000 - 30,000	24%	1% Loan Processing Fee + 18% GST of LPF+ 0.994 % insurance premium of Loan amount
General	31,000 - 50,000	24%	% Loan Processing Fee + 18% GST of LPF + 1.988 % insurance premium of Loan amount
Education	5,000 - 10,000	22%	1 % loan processing fee
Micro Housing	20,000 - 75,000	25%	1% Processing Fee + 18% GST of LPF + 2.982 % insurance premium of loan amount
SME	1,00,000	23%	1% Processing Fee + 18% GST of LPF + 1.988 % insurance premium of loan amount
IDBI Bank BC	Upto 50,000	23%	NIL
LVB BC	Upto 50,000	24%	1% Loan Processing Fee + 18% GST of LPF+ 0.994 % insurance premium of Loan amount (Member & Spouse)

Shareholding Pattern (March 2018)	
Shareholder	% Shareholding
Promoters	100.00%

SIDBI holds 9% Cumulative Optionally Convertible Preference Shares worth Rs. 35,500,000 (Rs. 10 each fully paid up)

<b>Board of Directors (November 2018)</b>			
<b>Sr No</b>	<b>Name</b>	<b>Education</b>	<b>Brief profile</b>
1	Mr. Kartick Biswas – Promoter & MD	B. Sc.	Mr. Kartick Biswas has been associated with microfinance and capacity development related activities for the last 17 years. He is an expert in SHGs, JLGs, rural appraisal, finance, funds, operations and project monitoring. He has attended various programmes and seminars on microfinance, organized by different institutions and has gained training from RMK, NMDFC- New Delhi, Planet Finance, EDA and Care India. He was recently selected to participate in the Harvard Business School - Accion Program on "Strategic Leadership on Inclusive Finance", Boston, USA. Mr. Biswas is a certified participant in IIM-A SIDBI Programme on Challenges of Managing Inclusive Finance in India held at the Indian Institute of Management, Ahmedabad during November 2017. He is also a Board Member of AMFI-WB.
2	Mr. Apu Dhar - Director	B.A.	Mr. Dhar is an experienced professional with over a decade's experience in microfinance. He is well versed with all dimensions of the field - field activity, finance, accounts, operations etc. He has attended various programmes and seminars in microfinance. He is expert in delinquency management also works as a faculty member for in-house training of Utrayan's staff.
3	Mr. Bijon Kanti Choudhury – Non-Executive Director	Graduate in PCM and Post graduate in Physics, CAIIB and CFA (Prelims)	Mr. Choudhury is a Banking and Financial Services Professional with over 35 years of experience with UCO Bank. He led and managed corporate credit, treasury and investment activities of Bank. He was in charge of Industrial Finance Branch as Chief Manager and Assistant General Manager. He spent 14 years as Faculty member in several reputed Colleges and Institutions of India e.g. Bank's Central Staff College and NEIBM, Guwahati. He is a Post-graduate in Physics and done CAIIB from Indian Institute of Bankers.
4	Mr. Anindya Sen – Non-Executive Director	B.Sc. (Chemistry Hons.), B.A. CAIIB	Mr. Sen retired as Sr. Vice President (Eastern Zone) from Axis Bank Ltd. He has vast experience in the Financial & Banking sector especially in Risk Management in modern banking & SME financing system.
5	Mr. Arata Kumar Sahoo – Nominee Director (SIDBI)		Mr. Sahoo has been associated to Small Industries Development Bank of India (SIDBI) for 27 years and has worked in various capacities across the organization. He is in charge of the Kolkata branch office at present and has been appointed as Nominee Director at Utrayan by SIDBI.

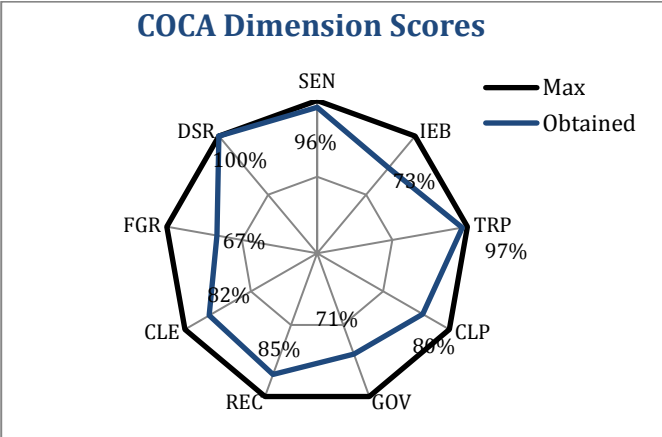
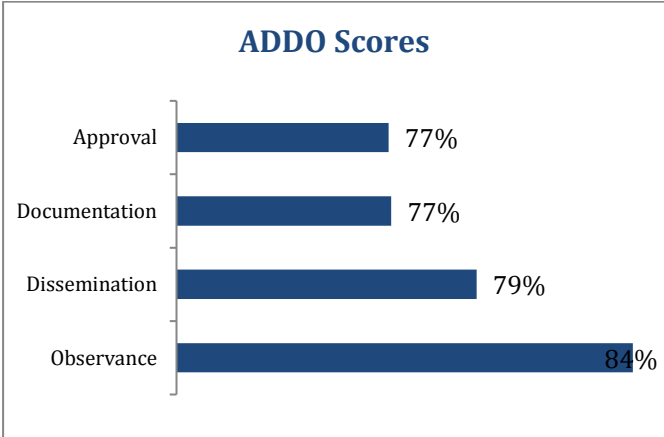
Key Performance Ratios		
	March 2018	September 2018
Portfolio at Risk (>30 days)	0.90%	0.85%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	18%	17.7%
Operating Expense Ratio (OER)	7.09%	6%
Funding Expense Ratio (FER)	14.25%	14%
Write-offs to average portfolio	1.40	0.00
Return on Assets (RoA)	3.81%	4.23%
Return on Equity (RoE)	37.4%	44.4%
Active borrowers per staff	338	295
Active borrowers per branch	1719	1613

### Compliance with RBI's Directions for MFIs

Sr No	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	Complied, as per CA certificate.
2	Net worth to be in excess of Rs 5 Crore	Complied. Uttrayan's net worth stood at Rs. 20.8 crore as on March 31, 2018.
3	Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas*	Complied. CA certificate.
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	Complied. CA certificate.
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excl. medical and education loans) *	Complied. CA certificate.
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	Complied. Uttrayan allows borrowers to prepay their loans without charging any penalty.
7	Pricing guidelines are to be followed	Complied. Interest Rate charged is 24%.
8	Transparency in interest rates to be maintained	Complied.
9	Not more than two MFIs lend to the same client	Complied.

\* For the assets classified as qualifying

### Section 1: Code of Conduct Assessment



SEN: Sensitive Indicators; IEB: Integrity and Ethical Behaviour; TRP=Transparency; CLP=Client Protection; GOV=Governance; REC=Recruitment; CLE=Client Education; FGR=Feedback and Grievance Redressal; DSR=Data Security

#### Code of Conduct Assessment Summary

Uttrayan’s Code of Conduct assessment takes into account its strong performance on Transparency, Client Education, Recruitment and Data Sharing. The overall score is further strengthened by the MFI’s high score on sensitive parameters. There is however scope for improvement across Client Protection, Governance and Feedback & Grievance Redressal parameters. Uttrayan's overall score is impacted by its low scores on Integrity and Ethical Behaviour parameters.

## MFI Strengths and Weaknesses pertaining to the Code of Conduct

<b>Strengths</b>
<ul style="list-style-type: none"><li>• Uttrayan communicates with borrowers in a transparent and professional manner with use of single effective interest rates and receipts issued for all payments. All loan forms and communication are done in vernacular</li><li>• The operational staff is punctual and courteous towards the borrowers with none of the borrowers complaining about the operational staff's behavior.</li><li>• No instances of collateral or security deposit being taken from the borrowers were observed. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines.</li><li>• Uttrayan shares data with all 4 bureaus on a bi-monthly basis. Review of a sample of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases.</li><li>• During the assessment, no case was seen wherein a commission was paid to an agent/field officer to get a loan.</li><li>• During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most loans were taken for income generation.</li><li>• Uttrayan has a clear policy regarding documents to be collected for identity and address proof. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof had not been obtained.</li></ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"><li>• Among the ADDO parameters, the company scores lowest on 'approval' indicating the need to improve on reporting to the board. Sharing more information with the board (or board committees) including recruitment policy, progress made on Aadhaar coverage, credit saturation profile in area of operations and credit bureau checks post disbursement would improve the score. The score for 'dissemination' was also the lowest, same as that on 'approval'.</li><li>• The manuals do not specifically state that collection shortfall will not be recovered from employees (except in proven cases of fraud); however, employees are not compelled to pay for a shortfall in collections.</li><li>• Grievance redressal mechanism established by industry associations is not disseminated to borrowers during Compulsory Group Training. Borrowers were not aware of the same.</li><li>• Uttrayan does not have a structured compliance report on Code of Conduct parameters being presented to the board on a regular basis.</li><li>• Grievances are recorded regularly and number of complaints pending are presented during the Board meetings, however, Uttrayan does not have any policy on preparing monthly reports detailing the nature and resolution of grievances for management's review.</li><li>• Around 85% of the borrowers interacted with were found to be in compliance with respect to economic status. However, the income mentioned in the application forms was in compliance with the norms.</li><li>• Consent for data sharing only mentions data sharing with credit bureau. Borrowers visited lacked awareness on consent for data sharing.</li></ul>



## Significant Observations - Higher Order Indicators

### 1. Integrity and Ethical Behaviour

<b>Strengths</b>
<ul style="list-style-type: none"><li>• Uttrayan has a board approved policy for recovering delinquent loans.</li><li>• A summary of customer complaints is presented to the board regularly, laying out the number of complaints received and the number of complaints pending since the previous Board meeting.</li><li>• Uttrayan has a policy of providing a notice of 30 days in case of retrenchment. Divisional manager and department heads are required to serve 60 days while all others are required to serve a notice period of 30 days in case of resignation.</li><li>• Branch managers and staff members were aware of the need to communicate in a transparent manner with the borrowers.</li><li>• Uttrayan has undergone a code of conduct assessment previously and had taken steps to improve in areas identified as weak.</li><li>• Operational staff confirmed receiving training on the following:<ul style="list-style-type: none"><li>○ Conducting client meetings</li><li>○ Collecting repayments</li><li>○ Recovering overdue loans</li></ul></li><li>• Staff members were aware of the process to be followed with delinquent clients.</li><li>• Uttrayan's incentive policy does not incentivise its loan officers for number of clients managed.</li><li>• The audit committee evaluated the requirement for new members given the geographical expansion.</li></ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"><li>• Uttrayan does not have a structured compliance report on Code of Conduct parameters being presented to the board on a regular basis.</li><li>• The manuals do not specifically state that collection shortfall will not be recovered from employees (except in proven cases of fraud); however, employees are not compelled to pay for a shortfall in collections.</li><li>• The board has not reviewed the MFI's recruitment policies during the past year. The recruitment process is however documented in the HR manuals.</li><li>• Staff satisfaction related to compensation and incentive is not covered by internal audit.</li><li>• Grievance redressal mechanism established by industry associations is not disseminated to borrowers during Compulsory Group Training. Borrowers were not aware of the same.</li><li>• Grievances are recorded regularly and number of complaints pending are presented during the Board meetings, however, Uttrayan does not have any policy on preparing monthly reports detailing the nature and resolution of grievances for management's review.</li><li>• Details of SRO nodal official such as contact number and address was not clearly displayed in most of the branches surveyed.</li></ul>

## 2. Sensitive Indicators

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• Most borrowers were aware of the amount and number of instalments they were required to pay.</li> <li>• No instances were observed of a borrower being made to pay for a service or product as a precondition for loan.</li> <li>• Uttrayan's policy allows borrowers to prepay loans without any change in the effective rate of interest.</li> <li>• No instances of fine or penalty being levied or collected from borrowers were observed. Borrowers also confirmed that no fine was paid by them.</li> <li>• No instances of collateral or security deposit being taken from the borrowers were observed during the field visit.</li> <li>• ICRA did not come across any instances of borrowers being charged processing fee in excess of 1%.</li> <li>• Uttrayan reviews its margins quarterly and tracks the prevailing base rates of five largest banks.</li> <li>• No instances were observed where the loan size or tenure was not in compliance with RBI directions.</li> <li>• During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most loans were taken for income generation.</li> <li>• Uttrayan has a clear policy regarding documents to be collected for identity and address proof. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof had not been obtained.</li> <li>• No instances were observed where clients were charged additionally for insurance, apart from premium payable.</li> <li>• Review of loan files indicated that credit bureau checks were made less than 15 days prior to disbursement in all cases.</li> <li>• Interviews with borrowers revealed that the staff did not indulge in the following: <ul style="list-style-type: none"> <li>○ Abusive language or threats</li> <li>○ Visiting borrowers at odd hours</li> <li>○ Forcible entry into dwelling and forced seizure of property without the legal orders.</li> </ul> </li> <li>• All clients revealed that they receive accurate receipts for all transactions.</li> <li>• There was no evidence to suggest that client data has been shared without consent.</li> <li>• There were no adverse observations in the Auditor's report for the year 2017-2018 regarding accounting standards followed by the MFI.</li> <li>• Uttrayan is a member of all 4 credit bureaus and reports data to each bureau on a bi-monthly basis. Uttrayan has provided data when called for by the RBI or SRO.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Around 85% of the borrowers interacted with were found to be in compliance with respect to economic status. However, the income mentioned in the application forms was in compliance with the norms.</li> <li>• Consent for data sharing only mentions data sharing with credit bureau. Borrowers visited lacked awareness on consent for data sharing.</li> </ul>

## Significant Observations – Building Blocks

### 1. Transparency

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• Uttrayan has adopted the guidelines and directions issued by the RBI with respect to vernacular language being used in communication.</li> <li>• Circulars with the most recent RBI directions were available in the branches visited.</li> <li>• Branch managers and staff members were aware of the need to communicate in a transparent manner with borrowers and were trained on the same.</li> <li>• Borrowers confirmed being informed about all terms and conditions such as interest rates, loan tenure, and processing fee during the group training prior to disbursement.</li> <li>• Around 90% of the field staff interviewed were aware of the terms and conditions to be communicated to borrowers.</li> <li>• The loan card issued to clients provides the complete repayment schedule with interest and principal separately mentioned.</li> <li>• Discussions with clients revealed that they or someone in their families could read and understand the text in loan documents, such as loan cards and loan agreements shared by Uttrayan, except for one borrower.</li> <li>• Interest rate and charges applicable are communicated to clients in writing in the loan card. 90% of the borrowers interviewed were aware of the amount and number of instalments they were required to pay.</li> <li>• Uttrayan disseminates a single, effective annual rate to its borrowers. The processing fees charged is 1%, which is in line with the prescribed guidelines. ICRA did not come across instances of borrowers being charged processing fee in excess of 1%.</li> <li>• No instances of fine or penalty being levied or collected from borrowers were observed. Borrowers also confirmed that no fine has been paid by them.</li> <li>• Uttrayan's policy allows borrowers to prepay loans without any change in the effective rate of interest.</li> <li>• Uttrayan has a board approved policy stating that no security deposit or collateral will be taken for loans meant to qualify under priority sector classification. Interviewed branch managers were aware of the guidelines.</li> <li>• No instances of collateral or security deposit taken from borrowers came to our notice during the field visit.</li> <li>• Any changes in interest rate are documented through formal circulars and branches have access to the same.</li> <li>• Uttrayan undertakes a review of its margin quarterly and tracks the prevailing base rates of five largest banks.</li> <li>• A review of some of the latest loan files revealed that the loans are being disbursed at the current rate of interest.</li> <li>• Uttrayan has standard acknowledgement and acceptance formats. Borrowers confirmed receiving a written acknowledgement when they fill up a loan application form.</li> <li>• The annual report for 2017-2018 along with operational information is available at the company's website.</li> </ul>
<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Uttrayan does not have a system of documenting the reason for a loan not being sanctioned against an accepted loan application.</li> <li>• Uttrayan's board reviews the interest rate annually and not quarterly since it is not a systemically important MFI and is not required to do so.</li> </ul>

## 2. Client Protection

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• The norms regarding loan size, loan tenure, loan end use, borrower income criteria and turnaround times are documented in operating manuals or circulars.</li> <li>• No instances of the following were observed: <ul style="list-style-type: none"> <li>○ Loan size or tenure not complying with RBI directions</li> <li>○ Clients being deliberately made to pre-pay</li> <li>○ First repayment falling due within a month of disbursement</li> <li>○ Uttrayan offering any un-approved product or service</li> <li>○ Anybody other than the MFI staff or client (and her family member), filling up her loan application</li> <li>○ Borrowers made to pay for a service or product as a precondition for a loan</li> <li>○ Clients charged additionally for insurance, apart from the premium payable</li> <li>○ Unauthorised sharing of client data by Uttrayan.</li> </ul> </li> <li>• During interviews with borrowers, loan utilisation was found to be in line with the RBI's directions. Most loans were taken for income generation.</li> <li>• Actual repayment pattern was consistent with the schedule laid out in the loan contract, in the client sample.</li> <li>• Uttrayan has a clear policy regarding documents to be collected for identity and address proof. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained.</li> <li>• Uttrayan gives a 15-day turnaround time on its acknowledgement receipt. However, most borrowers stated that their loans were disbursed within 7 days of application.</li> <li>• Uttrayan provides insurance to its clients through IRDA approved agency, DHFL Pramerica. A review of sample insurance claims settled by the MFI indicates that most claims were settled within a period of 90 days.</li> <li>• In the past year, Uttrayan's board assessed its credit appraisal guidelines with respect to the MFI's credit risk. The internal audit report tracks parameters related to credit policy and risk.</li> <li>• Uttrayan's loan application form allows it to record borrower household income, expenses and indebtedness.</li> <li>• Uttrayan's operational manual lays out the process for assessing the repayment capacity of clients.</li> <li>• Operational staff indicated that they had been trained on assessment of borrower repayment capacity including housing surveys, talking to neighbours and cash flow analysis.</li> <li>• Uttrayan's incentive policy does not incentivise its loan officers for number of clients managed.</li> <li>• Operational staff confirmed being trained on RBI's guidelines regarding maximum indebtedness of clients. However, less than half the staff interviewed recollected the details.</li> <li>• The operational manual specifies guidelines for the following: <ul style="list-style-type: none"> <li>○ Informing the clients about the MFI's products and services, and terms and conditions of lending particularly the interest rates and other costs</li> <li>○ Collecting repayments</li> <li>○ Recovering overdue loans</li> <li>○ Conducting meetings</li> </ul> </li> <li>• The operational staff confirmed being trained on the following: <ul style="list-style-type: none"> <li>○ Informing the clients about the MFI's products and services, and terms and conditions of lending particularly the interest rates and other costs</li> <li>○ Conducting client meetings</li> <li>○ Collecting repayments</li> <li>○ Recovering overdue loans</li> </ul> </li> <li>• Borrowers reported that MFI staff arrive on time for client meetings and conduct themselves professionally. Borrowers do not find the repayment process inconvenient or risky.</li> <li>• The MFI staff confirmed being trained on the policy of not visiting borrowers at odd hours, not forcibly entering into dwellings and seizing client property without legal orders.</li> <li>• The sampled MFI branches had a copy of the employee code of conduct that clearly provides guidelines to prevent unacceptable behaviour.</li> </ul>

### Strengths

- Interviews with borrowers indicate no instances of:
  - Abusive language or threats
  - Visiting borrowers at odd hours
  - Forcible entry into dwellings and forced seizure of property without legal orders.
- All clients indicated that they receive accurate receipts for all transaction.
- Interviews with staff members indicate they were aware of the process to be followed with delinquent clients.

### Weaknesses

- Branch managers' awareness of RBI guidelines was average.
 

<b>Guideline</b>	<b>Awareness</b>
RBI's directions regarding loan sizes	50%
RBI's directions regarding loan tenure	63%
RBI's directions regarding loan purpose	31%
RBI's directions regarding income level of borrowers	60%
RBI's directions regarding KYC norms	0%
- While the incomes mentioned in the application forms are fully in compliance with norms, around 85% of the borrowers interacted with were found to be in compliance with respect to economic status despite their incomes as per the loan forms being in compliance.
- There is no policy on review of the proportion of qualifying assets and their performance with respect to loan size, loan tenure, loan purpose and income of borrowers by the Board on a quarterly basis.
- While the internal audit team is required to record any specific observations or deviations, the compliance of loan purpose and its utilisation and borrower incomes do not form a part of internal audit check.
- 73% of the clients interviewed were satisfied with the repayment frequency of their loans.
- 65% of the staff members interviewed were aware of the turn-around time limits followed by the company.
- Before entering a new state or district, Uttrayan undertakes detailed surveys to determine the micro credit saturation profile of the area. However, the board did not review the saturation profiles of any of the areas that the already MFI operates in, over the past year.
- The internal audit process does not cover checking credit bureau reports or their validity. However, a review of loan files indicates that credit bureau checks were made less than 15 days prior to disbursement in all sample cases.
- With around 85% sample clients, income and expense levels matched with the data in the loan forms. In nearly all cases, the indebtedness levels matched the stated levels.
- The operational manual does not present documented guidelines for overriding or not using credit bureau reports if they are found inaccurate.
- Staff indicate being trained on the RBI's guidelines regarding maximum indebtedness. However, only around 55% of the staff interviewed were aware of the same.
- Uttrayan's board has not reviewed progress made by the company in collecting Aadhaar information of clients in the past year. However, the company has a board approved policy requiring Aadhaar cards of clients.
- The manuals do not articulate that any collection shortfall will not be recovered from employees (except in proven cases of fraud). However, there were no instances of employees being asked to pay for shortfall in collections.
- Client awareness of the fact that their data can only be shared for authorized purposes was negligible.
- Internal audit does not cover confidentiality of client data. However, there was no evidence to suggest that client data has been shared without consent.

### 3. Governance

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• All the policies and procedures of the MFI including any subsequent changes are approved by the board. The board meeting agenda includes the key operational and financial information of the MFI.</li> <li>• The board consists of members who have good and sound reputation and are qualified to provide direction the company.</li> <li>• The audited financials disclose the compensation of key managerial personnel.</li> <li>• The Board has met regularly over the past year and the company maintains the minutes of the Board meetings in proper format</li> <li>• The audit committee is headed by a non-executive director and the audit committee has met regularly over the past year with minutes of meetings maintained in proper format.</li> <li>• There were no adverse observations in the Auditor's report for the year 2017-2018 regarding the accounting standards followed by the MFI.</li> <li>• The latest audit report along with the action taken report was available at each of the branches visited.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Uttrayan's board consists of 5 directors with diverse experience. The board currently is chaired by a non-executive, non-independent director.</li> <li>• Uttrayan does not have a board approved policy for restructuring loans of borrowers facing repayment stress. However, no evidence indicating that loans were restructured was found. 70% of interviewed staff was aware that restructuring of loans is not allowed as per company practice.</li> <li>• Uttrayan has an internal monitoring and compliance team that audits each branch once in every 4 months.</li> <li>• Staff satisfaction related to compensation and incentive is not covered by internal audit.</li> <li>• Uttrayan does not present a structured compliance report on Code of Conduct parameters to the board regularly.</li> </ul>

### 4. Recruitment

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• Uttrayan has a policy of providing a notice of 30 days in case of retrenchment. Divisional manager and department heads are required to serve 60 days while all others are required to serve a notice period of 30 days in case of resignation.</li> <li>• Submission of relieving letter from the previous employer is mandatory for new recruits and documentary evidence was available for the same.</li> <li>• Uttrayan also provides relieving letter to all employees who have given adequate notice before quitting.</li> <li>• The company has a policy for carrying out reference checks in case the new recruit is being hired from another organisation.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• While the recruitment process is documented in the company's HR manuals. the board did not review the MFI's recruitment policies during the past year. The management states that changes, if any, in the recruitment policy are reviewed by the board.</li> <li>• While the company did respond to reference checks and the same was evidenced by email records, it does not have a defined and documented process for addressing the reference check requests.</li> <li>• Uttrayan currently does not have any policy restricting the posting of new recruits in the area of their operations in previous organizations (if recruited from an MFI). Most of the fresh recruits are directly hired from campus.</li> </ul>

## 5. Client Education

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• Uttrayan's manual mandates CGT and GRT for all first cycle borrowers. The training includes informing the borrower about the product, joint liability, meeting process, organisation policy, interest rates, and fees and charges. The training is conducted in three stages.</li> <li>• Borrowers confirmed receiving detailed trainings (CGT and GRT) on the product and organisation policy. The borrower's confirmed that no payment was made for these trainings.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Internal audit checklist does not include assessment of clients' awareness and understanding on aspects like interest rates and other charges, products, choices and responsibilities.</li> <li>• Client awareness of key terms and conditions is as follows: <ul style="list-style-type: none"> <li>○ Annualised interest rate - ~74%</li> <li>○ Loan term - ~84%</li> <li>○ Processing fees - ~66%</li> <li>○ Insurance claim settlement process - ~63%</li> <li>○ Insurance charges - ~58%</li> </ul> </li> </ul>

## 6. Feedback & Grievance Redressal

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• Uttrayan provides a complaint box at all the branches for clients to provide their feedback and grievances. A complaint register is also maintained at each branch to record grievances.</li> <li>• Staff confirmed being trained on the grievance redressal mechanism.</li> <li>• Borrowers were aware of the name of the MFI and the branch location.</li> <li>• The MFIs grievance redressal process is displayed prominently at all its branches.</li> <li>• Uttrayan has designated a grievance redressal official, whose number is provided to all clients on their loan cards.</li> <li>• A summary of customer complaints is presented to the board, laying out the number of addressed and pending complaints.</li> <li>• There was a response when a surprise call was made on the grievance redressal number provided.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• In the branches visited, disclosures stating that the MFI is responsible for the actions of its staff and that the clients will be treated fairly despite grievance being lodged were not found.</li> <li>• The loan agreement does not mention that the MFI is responsible for the behaviour of its staff.</li> <li>• The loan agreement does not mention any grievance redressal mechanism. However, Uttrayan provides contact numbers on the acknowledgement slip and the registers maintained by the group leaders.</li> <li>• Although 70% of the borrowers visited were aware of the grievance redressal mechanism of Uttrayan, none were aware of grievance redressal official.</li> <li>• Grievance redressal mechanism established by industry associations is not disseminated to borrowers through Compulsory Group Training.</li> <li>• While there was a complaint register maintained at each branch, the details of the complaints, resolution and the time taken to resolve was not recorded at each branch.</li> </ul>

**7. Data Sharing**

<b>Strengths</b>
<ul style="list-style-type: none"><li>• Uttrayan is a member of all four credit bureaus and provides data to all the bureau on a monthly basis.</li><li>• Uttrayan discloses operational and financial data on its website. Data for FY2018 is available on its website.</li><li>• Uttrayan has provided data when asked for by the RBI or SRO.</li></ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"><li>• Uttrayan’s IT policy mentions that client data is required to be shared with all CICs on weekly and monthly basis as per requirement. However, interaction with staff revealed that data is shared on a monthly basis.</li></ul>



## Annexure: Methodologies

### COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

Highest Order	
Sensitive Indicators	
Higher Order	
Integrity & Ethical Behavior	
Building Blocks	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

*Chart: COCA Indicators Framework*

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
<b>Total</b>	<b>251</b>

### Methodology

The Code of Conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, eight to fifteen branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

#### Sampling guidelines

The following is taken as the guideline to determine the sample size for a COCA exercise.

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid-size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFIs (Loan portfolio outstanding of Rs500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited 8 branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Bandel	West Bengal	19
2	Kuntighat	West Bengal	37
3	Konnagar	West Bengal	15
4	Badar	West Bengal	13
5	Barasat	West Bengal	22
6	Narayanpur	West Bengal	25
7	Mahua	Bihar	24
8	Lalgunj	Bihar	34
<b>Total</b>			<b>189</b>