Spandana Sphoorty Financial Limited
Policy on Fair Practices Code
Version- 2, Date of Modification: 7th July, 2016

Contents

		Page No.
1.	Introduction	2
2.	Objectives of the policy	2
3.	Core Values	2
4.	Fair Practices Code	3-4
	4.1 Loan Application	3
	4.2 Loan Appraisal	3
	4.3 Loan Terms and Conditions	3
	4.4 Loan Sanction and disbursement	3
	4.5 Disbursement of loans including changes in terms and conditions	4
	4.6 Disclosures in Loan Agreement / Loan Card	4
5.	Fair Practices and Ethical Behaviour	5
6.	Avoiding Over-indebtedness	5
7.	Collection Practices	5
8.	Privacy of Client Information	6
9.	Feedback and Grievance Redressal Mechanism	6-7
9.1	Objective	6
9.2	Client grievances received at field	6
9.3	Registering complaints at branches in the Complaint Register	6
9.4	Client's Calls received at Branches	7
9.5	Client's Calls received at HO	7
10.	Whistle Blower	7
11.	External Complaints	7
12.	Grievance Redressal Process at HO	8
13.	Review and Monitoring	8
14.	Dissemination of FPC and GRM	8
15.	Lending against collateral of gold jewellery	9

1. Introduction

Spandana Sphoorty Financial Limited (Spandana) is a public limited company registered with Reserve Bank of India (RBI) as an NBFC and has been reclassified as NBFC-MFI effective April 13, 2015. It is also classified as systemically important non deposit taking non-banking finance company.

Spandana provides microfinance services to the low income households and individuals to improve their quality of life. Spandana constantly endeavours to deliver quality services to its clients by maintaining highest levels of transparency and integrity.

Spandana ensures that the principles of responsible lending, transparency and core values are followed in letter and spirit. Spandana follows various guidelines issued by **Reserve Bank of India** (RBI) on Fair Practices Code for NBFC-MFIs and has also adopted the unified Industry Code of conduct developed by the SROs Microfinance Institutions Network (**MFIN)** and **Sa-Dhan** (The Association of Community Development Finance Institutions).

Spandana is present across 12 States in India and has plans to expand its operations to more number of States & regions across India. Accordingly, the number of staff have been increasing proportionately and it is considered appropriate to enhance the scope of existing Board approved policy for better understanding of the Fair Practices Code and effective implementation of the policy guidelines.

2. Objectives of the Policy

- To formulate Fair Practices Code (FPC) and lay down the process and guidelines for effective implementation of FPC which is in compliance with the guidelines prescribed by the regulator and Self Regulatory Organizations (SROs) and enhancing the scope of FPC by drawing from the experiences gained by Spandana.
- To protect clients from fraud, misrepresentation, deception and unethical practices.
- To ensure that all practices related to lending and recovery of loans are fair and maintain respect for client's dignity.
- To train all the employees and borrowers on the FPC in an effective manner and to ensure that they follow the FPC at all times.
- To monitor the effective implementation of the FPC and maintain zero tolerance to deviations.
- To constantly review and revise the FPC based on the RBI and SRO guidelines in addition to the experiences gained by Spandana and also

3. Core Values

- **T**ransparency – The clients of Spandana are low income households and have low literacy levels or illiterates. Therefore, it is very important to keep all the communication with the clients in a simple and clear manner. We endeavour to maintain simplicity and clarity in all activities and operations, so that high standards of fairness can be established in all the dealings.
- **R**esponsiveness – Spandana endeavours to be a responsive organization to its clients' needs and requirement. We constantly strive to understand the changing needs of clients and developing suitable products and services to address their requirements.
- **I**ntegrity – Spandana endeavous to maintain highest levels of fairness and integrity in all its dealings with its clients and keep up the commitments made.
- **C**ommitment - Performing all activities and tasks with professionalism and enthusiasm in order to give the highest level of client satisfaction and optimal efficiency.
- Team **S**pirit- Working together as to create synergy that results in exponential growth

4. Fair Practices Code

4.1 Loan Application

a. Loan application shall be in the vernacular language or a language as understood by the borrower.
b. Client shall be provided with acknowledgement for receipt of loan application. The acknowledgement shall be in vernacular language clearly communicating the timeframe within which loan application will be disposed of.
c. Loan application shall contain the effective interest rate, processing fee and insurance premium and the borrower shall be informed of the effective interest rate, processing fee and insurance premium while taking the loan application so that a meaningful comparison with the terms and conditions offered by other lenders can be made and informed decision can be taken by the borrower. The loan application form should indicate the documents required to be submitted with the application form.

4.2 Loan appraisal

a. Every loan has to be appraised to understand the client's business, household income, her current indebtedness and thereby assess her loan requirement and repayment capacity.
b. Loan appraisal has to be done mandatorily by the Branch Manager and the appraisal should be filled.

4.3 Loan Terms and Conditions

a. Clients are given training for 3-4 days to explain them the terms and conditions of the loan.
b. The training also emphasizes on the proper utilization of the loan amount, the perils of over borrowing, misuse of loan amount etc.
c. The training also covers the product features including effective interest rate on annual declining basis, loan processing fee, insurance premium, loan tenor and repayment frequency. Clients are clearly communicated in this training that Spandana does not charge pre-payment or foreclosure charges.
d. Clients are also told that in case of delayed payment, no penal interest or penal charges are charged.
e. Clients are also told that they need not pay anything other than the principal, interest, processing fee and insurance premium.

4.4 Loan sanction and disbursement

a. We shall issue sanction letter in vernacular language for every loan sanctioned.
b. The sanction letter contains the amount of loan sanctioned, rate of interest, processing fee, insurance premium, loan tenor and repayment frequency along with the documents required to be executed.
c. We shall mandatorily take the signature/thumb impression of the borrower accepting the loan sanction.
d. Loan shall be disbursed only in the Branch. Loan shall be disbursed by the concerned Credit Assistant and the Branch Manager in the presence of the clients and her group members. As a policy, client's spouses should also be present at the time of loan disbursement. There shall be a close supervision of the disbursement function.
e. Borrower shall be provided loan repayment schedule in vernacular language. The loan repayment schedule contains all the important terms and conditions of the loan including the annual effective rate of interest, processing fee, insurance premium and the terms and conditions.
f. Borrower shall also be provided a copy of loan agreement in vernacular language along with a copy of each of all enclosures quoted in the loan agreement.

g. We shall give notice to the borrower in the vernacular language any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc.
h. Any change in interest rates and charges are effected only prospectively. The loan agreement shall contain a suitable condition on this.
i. The decision to recall / accelerate payment or performance under the agreement shall be in consonance with the loan agreement.
j. We shall not charge foreclosure charges / pre-payment penalty on all floating rate term loans.
k. We shall release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim the Company may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which we are entitled to retain the securities till the relevant claim is settled / paid.

4.5 **Disbursement of loans including changes in terms and conditions**

a. The procedure for loan application shall be simple and loan shall be disbursed as per pre-determined time.
b. The effective rate of interest charged on each loan product, processing fees and insurance premium shall be prominently displayed in all branches & head office, in the literature issued (in vernacular language) and on the website of the company.
c. A statement shall be made in vernacular language and displayed in Branches, HO and in loan cards articulating our commitment to transparency and fair lending practices.

4.6 Disclosures in Loan Agreement / Loan Card

a. All the terms and conditions of the loan,
b. the annual effective rate of interest charged on declining balance,
c. the pricing of the loan involves only three components viz; the interest rate, the processing fee and the insurance premium (which includes the administrative charges in respect thereof),
d. there will be no penalty charged on delayed payment,
e. no Security Deposit / Margin is being collected from the borrower,
f. the moratorium between the grant of the loan and the due date of the repayment of the first instalment is equal or more than the frequency of repayment,
g. an assurance that the privacy of borrower data will be respected,
h. information which adequately identifies the borrower ,
i. acknowledgements by the field staff of all repayments including instalments received and the final discharge, and
j. the grievance redressal system and the toll-free customer care helpline number printed on the loan card and displayed at branches.
k. Non-credit products issued, if any, shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself.

Note: Spandana has a Board approved, standard form of loan agreement and the same is given to clients in vernacular language.

5. Fair Practices and Ethical Behaviour

a. All dealings of the Company with customers shall be open, fair and ethical.
b. All Employees of Spandana shall treat customers with respect and dignity.
c. We provide micro finance services to all eligible clients as per RBI guidelines.
d. Our rate of interest & charges are in accordance with RBI guidelines.
e. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the loan agreement.

f. The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the Company. The information published in the website shall be updated whenever there is a change in the rates of interest.
g. We will not interfere in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless new information, not earlier disclosed by the borrower, has come to our notice).
h. We will obtain copies of relevant documents from clients, as per standard KYC norms. Additional documents sought must be reasonable and necessary for completing the transaction.
i. In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e. objection of the Company, if any, should be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
j. We will not bundle products. The only exception to bundling may be made with respect to credit life insurance products (if applicable), which are typically offered bundled with loans. The terms of insurance should be transparently conveyed to the client and must comply with RBI & Insurance Regulatory and Development Authority (IRDA) norms. Consent of the client must be taken in all cases.
k. Training offered to the borrowers shall be free of cost. Field staff shall be trained to offer such training and also make the borrowers fully aware of the procedure and systems related to loan / other products.

6. Avoiding Over-indebtedness

a. Branch Managers shall make proper enquiries with regard to current indebtedness of the borrowers before sanctioning of the loan.
b. We will ensure that the loan is provided within the client's capacity and will abide by the 2 MFI rule to avoid over indebtedness and multiple lending.
c. We shall not disburse a loan without credit bureau checks for all loans.
d. If a client has loans from 2 separate MFIs then we shall not be the third lender to that client.
e. We shall not exceed the indebtedness cap as decided by the Industry Associations and the overall prescribed limit set by RBI.
f. Shall educate clients on ill effects of over-borrowing.

7. Collection Practices

a. We will train all employees on the collection policy and to deal with clients in an appropriate manner.
b. We will ensure that the employees use courteous language, maintain decorum, and are respectful of cultural sensitivities during all interaction with clients.
c. In the matter of recovery of loans, we will instruct our employees not to follow coercive collection practices such as collecting at odd/late hours or during bereavement / sickness of customers, behaving rudely / aggressively, or use of muscle power during collection etc.
d. We will not engage recovery agents and only our on-roll employees will do the recovery.

e. We will have strict vigilance to ensure that staff do not misbehave, disrespect the borrowers. We will incorporate this in the loan agreement.
f. Disciplinary action shall be taken against the employees for any misbehavior or deviation against the Fair Practice Code.
g. We will display FPC in all the branch premises, HO and upload on our website.

8. Privacy of Client Information

a. We shall respect customers' privacy and shall treat customer information as private and confidential.
b. We shall incorporate an adequate disclosure in the loan agreement on sharing client data with credit bureaus, statutory organizations, sister concerns and third parties and the acceptance of the borrower shall be obtained for internal records.
c. We will train our staff on fidelity and secrecy of client data . We will incorporate this clause in the appointment letter.

9. Feedback and Grievance Redressal Mechanism

Spandana endeavours to be a client centric organization keeping clients at the center of its policy making and all the policies and procedures are designed to provide efficient and faster services to clients. While we have taken all the steps to ensure that client service is given utmost important, in case there is any feedback or grievance, this grievance redressal mechanism provides for timely redressal of the grievances/hearing of the feedback. Besides, all the grievances and feedback received are reviewed at the highest level of the organization and policies are reviewed and decisions taken to strengthen the delivery mechanism and provide better services.

Company has a Board approved Grievance Redressal Mechanism given below, which provides guidelines for receiving, handling and disposal of customer grievances, documentation, turn-around-time and escalation matrix for unresolved complaints and periodical review mechanism.

9.1Objective

The objective of this policy is immediately address the client grievances by providing efficient services in a fair and transparent manner and to ensure prompt redressal of client grievances and provide a mechanism for review of the implementation of the grievance redressal mechanism at the highest level.

- To provide clients formal and informal channels for feedback and suggestions
- To provide a formal grievance redressal mechanism for clients
- To educate customers on grievance redressal mechanism
- To ensure that clients are protected against fraud, deception or unethical practices
- To handle/resolve complaints speedily and efficiently
- To consistently assess the impact of services in order to provide better services to the clients in timely and efficient manner.

Spandana follows the following multi-tier Customer Feedback & Grievance Redressal Mechanism:

9.2 Client grievances received at field

Clients can submit their written or verbal enquiries / grievances to any staff who meets them at any forum such as center meetings, client trainings, GRTs and exit interviews etc. These enquiries / grievances shall be forwarded to Asst. Manager – CSS and Branch Compliance for further follow up and resolution.

In order to have an un-biased and honest feedback from clients, Spandana has introduced the concept of Client Connect Program (CCP) wherein all the newly joined management trainees are required to meet the clients and the exit borrowers to obtain the feedback. The feedback is reviewed directly by the Senior Management and immediate action is taken based on the feedback.

9.3 Registering complaints at branches in the Complaint Register

- Each branch has a complaint register
- Clients can walk-in to a branch and register their grievance/feedback in the complaint register available in the branch.

- Written Complaints – Customer can write a complaint separately in her own language and submit it in the branch. The Branch shall send these complaints to the Asst. Manager – CSS and Branch Compliance immediately on the same day of receipt of complaint.
- The Asst. Manager – CSS and Branch Compliance shall raise a ticket by entering it in the SIMS (Software) and address the complaint.

9.4 Client's Calls received at Branches:

- Clients can call the Branch Manager or Cluster Manager or Divisional Manager or AVP, whose contact details are displayed in the Branch, for any of their grievance or providing feedback.
- The receiver of the call shall register the grievance in the complaint register available at the branch and also resolve the grievance.
- Branch shall send the complaints registered at the branch level to the Asst. Manager – CSS and Branch compliance.
- The Internal Audit shall verify the complaint register and if there are any unresolved complaints, they shall be escalated to the Asst. Manager – CSS immediately.

9.5 Client's Calls received at HO:

- Each loan card has the Toll Free number of the Customer Service Officer based at Head Office. Customers can contact on that Toll Free number and the grievance will be redressed.

10. Whistle Blower:

- Spandana recognizes that employees are a significant source of whistle blowers as they would be in a position to identify the deviations against the FPC or any other policyof the organization. Any employee can lodge a complaint against his superiors/ subordinates/ colleagues who are allegedly involved in prohibited activities and breaches code of conduct such as fraud, misappropriation of funds, unethical behavior, mistreatment of customers etc by sending a mail to complaints@spandanaindia.com. There is a centralized complaints unit (CU) set up at HO who will intern enquire/do an audit if required, interact or communicate with all the employees concerned and maintain tracker of the complaints received. The CU will present all the complaints with their observations/feedback and audit reports to the Disciplinary Committee (DC) for their review and decisions. The DC meets twice a week i.e. on every Wednesday and Saturday at 6.00 p.m. The DC consists of the Managing Director, VP-HR, VP-PMO, VP-Operations and VP-IA.
- A whistle blower would also be a client who gives complaint against an employee or/and client of Spandana for any of the prohibited activities such as fraud, misappropriation of funds, unethical behavior, mistreatment of customers etc. In this regard, staff or clients of Spandana can call the Toll Free Number and lodge their complaint. The complaint will be investigated and appropriate action will be taken by the DC. (Caller name will be kept anonymous if requested)
- However, the caller should have enough evidence on correctness of the customer grievance and should avoid raising unrealistic complaints. A whistle blower reporting unrealistic complaints shall not be punished if the complaint was raised with good intention and if there enough grounds to suspect a colleague. A staff reporting unrealistic complaints with a bad intention/motivation is liable to receive a disciplinary action i.e. oral warning on first instance and a written warning in case of repetition.

11. External Complaints

- Complaints received from (on behalf of customer or on the basis of public interest) general public & other stake holders such as Govt agencies, RBI, police, lawyers, industry ombudsman (AKMI & MFIN etc) & social activists will also be recorded at HO level and provided with appropriate solutions. Hence, any staff who receive complaints from such agencies should escalate them to Asst. Manager – CSS.

12. Grievance Redressal Process at HO

Step 1: Call received on the Toll Free Number. Calls can be made directly by the client or even staff on behalf of the client. If the employees receive any complaint from the clients during the center meeting, he can also call the Toll Free Number and lodge the grievance.
Step 2: Customer Support Officer (CSO) takes the details as per the script and enters in the SIMS Software.
Step 3: SIMS Generates the ticket number and a mail is sent to the concerned responsible person. For example, if it is related to Operations, then the CSO shall send the mail to the concerned Operations Manager. If it is related to insurance, then the CSO shall send the mail to concerned Insurance Manager. All the mails shall be marked to the Asst Manager / Manager – CSS & Branch Compliance.
Step 4: Concerned responsible person shall revert after providing the resolution with the comfirmatory mail describing the resolution provided, within a Turn around Time (TAT) of 4 days. If the resolution is not received on the 4th day, then the grievance shall be escalated to the Concerned AVP/VP/Sr. VP. If the resolution is not received on the 7th day, then the grievance shall be escalated to the Managing Director.
Step 5: On receiving the confirmation mail of the resolution, the CSO updates the resolution in the database and close the ticket. The CSO should ensure that the resolution is proper and all the grievances is addressed in totality. He should not close the ticket if the grievance is not addressed in totality.
Step 6: CSO Calls the Client and informs her/him about the resolution and seeks feedback.
Step 7: Issue will be closed after ensuring that the grievance is redressed.
Step 8: The Asst. Manager – CSS & Branch Compliance shall verify atleast 25% of the calls recorded from the total recordings on a daily basis to check whether the issues raised are same or if there is any communication gap.

13. Review and Monitoring

- Status of resolutions shall be monitored on a daily basis by the Asst. Manager – CSS and Branch Compliance.
- On a monthly basis, compliance to fair practices code including all the grievances received, resolutions provided, the turn-around time shall be reviewed by the Compliance Officer who in turn presents to the Board of Directors.
- The Board reviews the functioning of the fair practice code including the effectiveness of the grievance redressal mechanism on a quarterly basis.

14. Dissemination of FPC and GRM

a. Our HR policy has criteria for recruitment of all staff, their training and the reporting structure. The criteria covers minimum qualification, skill sets and their social and behavioural aspects. Each employee is trained on FPC, GRM, Code of Conduct, Whistle Blower Mechanism and the appropriate way of dealing with the clients. Guidelines provided in Industry Code of Conduct by MFIN & Sadhan, which was already approved and adopted by Board, shall be implemented effectively.
b. **Employee Training:** Every employee is trained on the FPC including grievance redressal mechanism. Besides, they are also trained on soft skills so as to behave properly and respectfully with borrowers without adopting any abusive or coercive debt collection / recovery practices. Each employee is trained in a way that the client is given due respect and is treated with dignity and self esteem.
c. Utmost importance shall be given to the adherence of the FPC, GRM, Code of Conduct and Whistle Blower Mechanism while awarding the promotions to staff.

d. Disciplinary action shall be taken on staff who do not adhere to the FPC, GRM, Code of Conduct and Whistle Blower Mechanism.
e. All branches & head office of Spandana shall prominently display Fair Practices Code & Grievance Redressal Mechanism, Code of Conduct and Whisle Blower Mechanism in vernacular language for client's information.
f. A copy of this FPC & Grievance Redressal Mechanism shall also be uploaded in the website for the information of various stake holders.
g. Client Education: Clients shall be educated on the Fair Practices Code, grievance redressal mechanism and escalation matrix for their unresolved complaints, options, choices and responsibilities vis-à-vis financial services. Client education shall be made thru group training through interaction in the Branch and Center Meetings.
h. New clients must be informed about the organization's policies and procedures to help them understand their rights as borrowers.

15. Lending against collateral of gold jewellery

While lending to individuals against gold jewellery, we shall adopt the following in addition to the general guidelines as above, as approved by our Board.

(a) We will comply with KYC guidelines of RBI.
(b) The Credit Assistant / Branch Manager shall conduct proper due appraisal (due-diligence) on the client before extending any loan.
(c) The jewellery received shall be properly examined.
(d) The Branch Manager has to satisfy himself that the client is the real owner of the gold.
(e) Each Gold Loan Branch has proper storage system for storing the jewellery in safe custody. The branches were also installed adequate security measures to have a continuous monitoring of the storage and removal of the gold in the storage. Each concerned branch staff shall be trained on the Gold Loan Policy and the Internal Auditors shall conduct the quarterly audit of the branches to ensure that the policy and procedures are strictly adhered to.
(f) Branches will not give loan against the collateral of gold if they do not have proper facility for storage of the jewellery
(g) The jewellery accepted as collateral should be appropriately insured,
(h) We have a Board approved policy with regard to auction of jewellery in case of non-repayment. The auction process shall be completely transparent and adequate prior notice to the borrower should be given before the auction date. The Gold Loan policy clearly lays down the the auction procedure that need to be followed. We will ensure that there is no conflict of interest in the auction process and that that there is an arm’s length relationship in all transactions during the auction including with group companies and related entities,
(i) The auction should be announced to the public by issue of advertisements in at least 2 newspapers, one in vernacular language and another in national daily newspaper.
(j) As a policy we shall not participate in the auctions held,
(k) Gold pledged will be auctioned only through auctioneers approved by the Board.
(l) The Gold Loan policy also covers systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.
(m) The loan agreement contains details regarding auction procedure.