

**SPANDANA SPOORTY FINANCIAL LIMITED**

**POLICY ON FAIR PRACTICES CODE (“FPC”)**

**(Version- 4)**

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## 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 endeavors to deliver quality services to its Borrowers 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, Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 and has also adopted the unified Industry Code of conduct developed by the Self-Regulatory Organizations Microfinance Institutions Network (**MFIN**) and Sa-Dhan (The Association of Community Development Finance Institutions).

Spandana is present across 18 States in India and has plans to expand its operations to more number of States & regions across India. Accordingly, the number of staff has 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 Borrowers 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 Borrower’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

- **Transparency** – The Borrowers 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 Borrowers in a simple and clear manner. We endeavor to maintain simplicity and clarity in all activities and operations, so that high standards of fairness can be established in all the dealings.

- **Responsiveness** – Spandana endeavors to be a responsive organization to its Borrowers’ needs and requirement. We constantly strive to understand the changing needs of Borrowers and developing suitable products and services to address their requirements.
- **Integrity** – Spandana endeavors to maintain highest levels of fairness and integrity in all its dealings with its Borrowers and keep up the commitments made.
- **Commitment** - Performing all activities and tasks with professionalism and enthusiasm in order to give the highest level of Borrower satisfaction and optimal efficiency.
- **Team Spirit**- Working together as to create synergy that results in exponential growth

#### **4. Guidelines on Fair Practices Code**

##### **4.1. Loan Application**

- a. All communication to the borrower should be in the vernacular language or the language understood by the borrower.
- b. Loan application shall be in the vernacular language or a language as understood by the borrower.
- c. Borrower 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.
- d. Loan application shall contain the effective interest rate, processing fee and insurance premium and the borrower shall be informed of the same 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.
- e. 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 Borrower’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. Borrowers are given training for 2 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 the minimum, maximum and average interest rates charged on microfinance loans, loan processing fee, insurance premium, loan tenor

and repayment frequency. Borrowers are clearly communicated in this training that Spandana does not charge pre-payment or foreclosure charges.

- d. Borrowers are also told that in case of delayed payment, no penal interest or penal charges are charged.
- e. Borrowers 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 Borrowers and her group members. As a policy, Borrower'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/document in vernacular language along with a copy of each of all enclosures quoted in the loan agreement/document.
- g. We shall give notice to the borrower in the vernacular language in case of any change in the terms and conditions including disbursement schedule, interest rates, service 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/document shall be in consonance with the loan agreement/document.
- j. We shall not charge foreclosure charges / pre-payment penalty on all floating rate term loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.
- k. We shall release all securities on repayment of all dues or on realization 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 the minimum, maximum and average interest rates charged on microfinance loans 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/Document / Loan Card**

- a. All the terms and conditions of the loan be in a language understood by the borrower,
- b. the annual effective rate of interest charged on declining balance,
- c. the pricing of the loan involves various components viz; the interest rate model (comprising of cost of funds, risk premium and margin) and quantum of each component, the range of spread of each component for given objective parameters and category of the borrowers. The model indicates the ceiling on the interest rate and charges applicable to microfinance loans.,
- 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 installment 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. simplified fact sheet on pricing,
- j. acknowledgements by the field staff of all repayments including installments received and the final discharge, and
- k. the grievance redressal system and the toll-free customer care helpline number printed on the loan card and displayed at branches.
- l. 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/document and the same is given to Borrowers in vernacular language.

#### **5. Fair Practices and Ethical Behavior**

- a. All dealings of the Company with Borrower shall be open, fair and ethical.
- b. All Employees of Spandana shall treat Borrowers with respect and dignity.
- c. We provide micro finance services to all eligible Borrowers 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 in the application form and communicated explicitly in the loan agreement/document.
- f. The rates of interest and the approach for gradation of risks shall also be made available on the website 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/document (unless new information, not earlier disclosed by the borrower, has come to our notice).

- h. We will obtain copies of relevant documents from Borrowers, 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 Borrower and must comply with RBI & Insurance Regulatory and Development Authority (IRDA) norms. Consent of the Borrower must be taken in all cases. The insurance is not mandatory and borrowers can choose to opt out of insurance if they wish.
- 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 basis on the assessment of annual household income of the Borrower considering the broad parameters viz., Household profile, Household income and Household expenses. .
- c. We provide accurate data to credit information companies (CIC's) on level of indebtedness and ascertain by way of obtaining declaration from the borrowers, verification of bank account statements wherever available and local enquiries etc.
- d. We assess the repayment of monthly obligations of household with monthly household income to ascertain the outflow
- e. We shall not exceed the indebtedness cap as decided by the Industry Associations and the overall prescribed limit set by RBI.
- f. We Shall educate Borrowers on ill effects of over-borrowing.

## **7. Collection Practices**

- a. We will train all employees on the collection policy and to deal with Borrowers 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 Borrowers.
- 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 borrowers, behaving rudely / aggressively, or use of muscle power during collection etc.
- d. We will ensure the employees shall not adopt any harsh practices viz., use of threatening or abusive language, persistently calling the borrower and/or calling the borrower before 9:00 AM and after 6:00PM, harassing relatives, friends, co-workers of the borrower, publishing the name of the

borrowers, use or threat of use of violence or other similar means to harm the borrower or borrower's family/assets/reputation, misleading the borrower about the extent of the debt or the consequences of non-repayment.

- e. The Company is responsible/ accountable for any inappropriate behavior of our employees or employees of the outsourced agency towards the borrowers.
- f. We will have strict vigilance to ensure that staff do not misbehave, disrespect the borrowers. We will incorporate this in the loan agreement/document.
- g. Disciplinary action shall be taken against the employees for any misbehavior or deviation against the Fair Practice Code.
- h. We will display FPC in all the branch premises, Head Office/ Registered Office and upload on our website.

## **8. Privacy of Borrower Information**

- a. We shall respect Borrowers' privacy and shall treat Borrower information as private and confidential.
- b. We shall incorporate an adequate disclosure in the loan agreement/document on sharing Borrower 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 Borrower data. We will incorporate this clause in the appointment letter.

## **9. Feedback and Grievance Redressal Mechanism**

Spandana endeavors to be a Borrower centric organization keeping Borrowers at the center of its policy making and all the policies and procedures are designed to provide efficient and faster services to Borrowers. While we have taken all the steps to ensure that Borrower service is given utmost importance, 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 Borrower grievances, documentation, turn-around-time and escalation matrix for unresolved complaints and periodical review mechanism.

The company has appointed a Grievance Redressal officer and displayed his name and number in the company website and all the branches for easy access to Borrower in case of any grievance.

### **Internal Customer Grievance addressable mechanism**

#### **9.1 Objective**

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

- To provide Borrowers formal and informal channels for feedback and suggestions
- To provide a formal grievance redressal mechanism for Borrowers
- To educate customers on grievance redressal mechanism
- To ensure that Borrowers 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 Borrowers in timely and efficient manner.

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

### **9.2 Borrower grievances received at field**

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

### **9.3 Registering complaints at branches in the Complaint Register**

- Each branch has a complaint register
- Borrowers 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 –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 Borrower's Calls received at Branches:**

- Borrowers 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
- The Internal Auditor shall verify the complaint register and if there are any unresolved complaints, they shall be escalated to the Asst. Manager – CSS immediately.

### **9.5 Borrower'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 policy of 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 towards Borrowers etc., by sending a mail to [css@spandanaspooorty.com](mailto:css@spandanaspooorty.com). There is a centralized complaint 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-PMO.
- A whistle blower would also be a Borrower who gives complaint against an employee or/and Borrower of Spandana for any of the prohibited activities such as fraud, misappropriation of funds, unethical behavior, mistreatment of Borrowers' etc. In this regard, staff or Borrowers 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 Borrower 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 Borrower 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 staffs 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 can be made directly by the Borrower or even staff on behalf of the Borrower. If the employees receive any complaint from the Borrowers 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 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.

Step 4: Concerned person shall revert after providing the resolution with the confirmatory mail describing the resolution provided, within a turnaround Time (TAT) of 4 working days. If the resolution is not received on the 4<sup>th</sup> day, then the grievance shall be escalated to the Concerned.

AVP/VP/Sr. VP the next day. If the resolution is not received on the 7<sup>th</sup> 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's the ticket. The CSO should ensure that the resolution is proper and all the grievances is addressed in totality. He / She should not close the ticket if the grievance is not addressed in totality.

Step 6: CSO Calls the Borrower 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 shall verify at least 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.
- 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 cover minimum qualification, skill sets and their social and behavioral aspects. Each employee is trained on FPC, GRM, Code of Conduct, Whistle Blower Mechanism and the appropriate way of dealing with the Borrowers. 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 Borrower is given due respect and is treated with dignity and self-esteem. The employees are trained to make necessary enquiries regarding the income and existing debt of the household of the prospective Borrowers.

- 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 Whistle Blower Mechanism in vernacular language for Borrower'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. Borrower Education: Borrowers 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. Borrower education shall be made thru group training through interaction in the Branch and Center Meetings.
- h. New Borrowers must be informed about the organization's policies and procedures to help them understand their rights as borrowers.

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