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Fair Practice Code (RBI guidelines)- Fusion Finance Limited (Formerly known as Fusion Micro Finance Limited)

Fusion Finance Limited (Formerly known as Fusion Micro Finance Limited) falls under the category of NBFC-MFI as per the RBI directives and commits itself for implementing and adopting fair practices in all its activities and transactions with the stakeholders. The Company has adopted a code of conduct to promote good and fair practices by setting minimum standards in dealing with the clients and increasing transparency so that the clients have a better understanding of the services provided. The Company commits itself for implementing and adopting these fair practices in all its activities and transactions with its members while functioning as an NBFC-MFI.

Methodology of extending microfinance loans to Joint Liability Groups

The methodology of loan delivery is initiated by motivation/Projection meeting organised in the villages where women are briefed on the loan disbursements and procedures. Women are then asked to form into groups of five members of their choice and 3 to 6 such groups form a Center / JLG. The Company does not influence the selection of group members nor the decision regarding the income generation activity nor the loan amount they intend to take. After formation of the Group, the concerned Relationship Officer will collect the ID proof and address proof for processing of client details to the Credit Bureau enquiry. After getting the Credit Bureau results, CGT (Continuous Group Training) will be conducted on procedures, methodology, loan products, insurance, financial literacy etc. Once the CGT is complete, Group Recognition test (GRT) is conducted by the Branch Manager. The members undertake the responsibility of other members repaying the loans. After successful GRT, the loan documents are sent to Head Office for entering in MIS and sanctioning of loan. After sanctioning of loans, the sanctioned loan amount is transferred in the bank account of the branch. The branch manager informs the centre about loan disbursement date and the disbursement is done at the branch. The centre meets weekly/ fortnightly/ monthly in their villages at a place and time convenient to them. The field staff of the Company (Relationship Officer) facilitates the loan utilization, repayments and credit discipline of the groups. At the field level, the Branch manager, Area manager and Regional manager make surprise visits to the centers /villages and verify the operations with the clients. In addition, the senior management from Head Office also undertakes surprise visits of the branches. The clients have access to these higher-level staff to highlight and discuss their issues/grievances if any. The senior staffs at field level have been empowered to take certain actions/decisions to address the needs/issues of the clients immediately. In addition, Fusion has provided direct Head Office phone number on each passbook and clients can call on that number and narrate their grievance. Fusion also has team of telecallers at Head Office who make calls to new clients and seek feedback on services provided during loan origination process by Fusion. The telecallers also call the centre leaders/ centre members during the tenure of loan to seek feedback on functioning of the centre and quality of service provided by Fusion.

A. Fair Practices Code for all lending activities

In accordance with the RBI Regulations the Company has put in place the Fair Practice Code (FPC) with the approval of its board. The FPC is displayed by the Company in all its offices and on its website i.e. www.fusionfin.com The FPC is issued in a language understood by the borrower.

Loan Proposal and their Processing

- a. Primary data would be taken from the borrower along with Know Your Customer (KYC) norms as per the Company guidelines in the prescribed format. The same is checked with the Credit Bureau before further processing.
- b. The authorized staff of the Company shall verify the loan application along with all the sureties and approvals, applicable as per the policies of the Company. The staff should also make sure that the following information is filled completely:
 - ✓ Date of application
 - ✓ Borrower identification particulars
 - ✓ Loan amount and product details
 - ✓ Applicable interest rate
 - ✓ Term of the loan
 - ✓ Repayment particulars
 - ✓ Details of indebtedness
 - ✓ Income details
 - ✓ Purpose of the Loan
- c. All communications by the Company to the borrower shall be in the vernacular language / language understood by the borrower.
- d. Loan application forms provided by the Company should include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower. Borrower has to submit the following documents along with the application to obtain the loan from the Company.
 - ✓ KYC document as prescribed by the RBI (for both ID Proof & Address Proof)
 - ✓ Joint Passport size photograph of the client & the spouse / Guardian.
- e. The Company shall give acknowledgement for receipt of all loan applications. The time frame within which loan applications will be disposed shall also be indicated in the acknowledgement.
- f. All the loan applications shall be disposed of within a period of 10-12 days from the date of receipt of duly completed Loan Application Forms together with the requisite documents and subject to receipt of all documents complying with prevailing rules and regulations by the borrower.
- g. All non-credit products (financial products, insurance products and non-financial products) should be provided only with the explicit consent of the borrower and Employees should ensure that there is no direct or indirect linkage between the loan provided to the borrower and other non-credit products. Further, no non-credit product shall be sold as a pre-condition for the loan product. Branches should prominently display that purchase of any non-credit product by the microfinance borrowers is purely on a voluntary basis.

Loan Appraisal and Terms & Conditions

The designated staff of the Company will convey in writing to the borrower in the vernacular language / language understood by the borrower by means of sanction letter or otherwise the following:

- ✓ The amount of loan sanctioned

- ✓ The terms and conditions of the loan
- ✓ Annualized rate of interest
- ✓ Method of application of the annualized rate of interest
- ✓ Processing Fees
- ✓ Insurance Fees

Disbursement Procedure of loans

- a. The Company should complete the following documentation at the time of disbursement of the loan wherever applicable:
 - ✓ Demand promissory note
 - ✓ Joint Liability Acceptance and loan Agreement
- b. The acceptance of the terms and conditions by the borrower, rate of interest, processing charges, repayment terms and all other terms and conditions if any. The Company shall keep the acceptance of these terms and conditions by the borrower and all the other concerned documents on its record/safe custody by the authorized persons.
- c. The Company shall furnish a copy of the loan agreement containing all the terms and conditions attached to the loan in the vernacular language / language understood by the borrower along with the copies of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.
- d. All disbursement of loans should be done only at branch office and more than one individual should be present at the time of loan disbursement.
- e. Loan passbook will be given to every borrower for each loan. The loan passbook would contain the repayment schedule, effective interest rate and processing charges and Insurance premium and claim procedure details etc.
- f. The Company will take decision to recall / accelerate payment or performance under the loan agreement as agreed with the borrower under intimation.
- g. The Company will not charge any penalty on delayed payments and the same has been mentioned in the Loan agreement in vernacular language / language understood by the borrower.
- h. The Company will give notice to the borrower in the vernacular language / language understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates etc. The Company will also ensure that changes in interest rates and charges are affected only prospectively.
- i. Change in the interest rates and service charges shall be made applicable prospectively. The loan agreement shall contain a specific clause in this regard.

Security/ Collateral

The Company does not charge any security/ guarantee from microfinance borrowers except the social collateral. In case of STVL (used commercial vehicle loan: non-microfinance loan), the vehicle is kept as collateral against the loan.

General

- a. The Company 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 the notice of the Company.
- b. If there is any specific request from the borrower for transfer of borrower account, the consent or otherwise i.e. objection of the Company, if any will 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.
- c. The Company will not resort to undue harassment i.e. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc.
- d. The Company will ensure that its staff is adequately trained to deal with the customers in an appropriate manner without resorting to rude behavior.

Engagement of Recovery Agents

The Company may appoint any agency for recovery of dues from its borrowers.

Responsibilities for outsourcing activities

The Company declares that –

- a. Outsourcing of any activity by the Company does not diminish its obligations and the onus of compliance with these directions shall rest solely with the Company.
- b. The Company shall be held accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal.

Grievance Redressal Mechanism

- a. The Company has adopted a dedicated Grievance Redressal Mechanism for redressal of recovery related grievances. In case a Company's staff is involved in any kind of misbehavior, disciplinary action against such staff shall be taken immediately. Branch Manager's and Relationship officer's contact number is provided in center file customer can contact them or she can go to branch and lodge the complaint in complain register.
- b. If the customer is not satisfied with the action taken by the branch manager of the company, then they can make complaints at toll free number 18001037808 on all working days between 09:30 AM to 5:30 PM
- c. For all the client related grievances, clients can make phone calls to Mrs. Ruchika Behl, Grievance Redressal Officer, between 09:30 AM to 5:30 PM on all working days on the no. 011-46646634 or send email at nodalofficer@fusionfin.com at the time of making calls the clients must provide the information of their client ID and branch name. In case the client has not been provided loan but has submitted the loan application, they can quote the loan application no mentioned on the acknowledgement slip of loan application form.
- d. If your complaint/dispute is not redressed within One month, the borrower / complainant may appeal to General Manager, Regional office of Department of Supervision of Reserve Bank of India (RBI) at 6, Sansad Marg, New Delhi-110001. On the telephone number: 011-23715097 or fax no. 011-23358224.
- e. All the branches shall have a suggestion and complaint register where the clients can make their grievances.
- f. All the clients have access to the higher-level staff (i.e. Branch Manager, Area Manager & Divisional Manager) to highlight and discuss their issues/grievances if any. The senior staffs at field level have been empowered to take certain actions/decisions to address the needs/issues of the clients immediately.
- g. The complete procedure for grievance redressal is available on the website of the Company at www.fusionfin.com

Review of the Compliance of the Fair Practices Code

- a. The CEO/COO of the Company will review the compliance of the Fair Practices Code and the functioning of the grievance redressal mechanism once in a quarter.
- b. A report on the compliance of the Fair Practices Code and the functioning of the grievance redressal mechanism will be placed before the Board of Directors of the Company once in a quarter.
- c. The Board of Directors of the Company shall review the compliance of the Fair Practices Code and the functioning of the grievance redressal mechanism at various levels of management once in quarter.

Measures/ Regulations against Charging of Excessive Interest

- a. Board of Directors of the Company shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges.
- b. The Company will obey the guidelines with regard to transparency of terms & conditions of the loan as mentioned in the Fair Practices Code of the Company.
- c. The Company shall adopt interest rate model with the Board approval by considering the relevant factors such as Cost of Funds, Margins, and Risk Premiums etc.
- d. Charging different rates of interest for different product shall be disclosed in the loan application form and loan sanction letter to the Borrower.

Privacy of Client Information

- a. Shall keep personal client information strictly confidential.
- b. Shall disclose client information to a third party only under the following conditions:
 - Client has been informed about such disclosure and permission has been obtained in writing.
 - The party in question has been authorized by the client to obtain client information from the Company.
 - It is legally required to do so.
 - This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau).

Notice for Setting Off the Overdue Against the Securities

The Company will give Borrower 2-week Notice with full Particulars before setting off the loan outstanding.

Fair Practices Code specifically for microfinance activity

In addition to the general principles as above, as the Company belongs to the category of NBFC-MFI it adopts the following fair practices that are specific to its lending business and regulatory framework.

General Practices

- a) The Fair Practices Code in vernacular language / language understood by the borrower shall be displayed by the Company in its office and branch premises.
- b) A statement shall be made in vernacular language / language understood by the borrower and displayed by the Company in its premises and in loan cards articulating our commitment to transparency and fair lending practices.
- c) The Company's Field staff shall be trained to make necessary enquiries about existing debt of the borrowers.

- d) Training if any, offered to the borrowers shall be free of cost. Field staff shall be trained to offer such training and make the borrowers fully aware of the procedure and systems related to loan / other products.
- e) The effective rate of interest charged and the grievance redressal system set up by the Company shall be prominently displayed in all its offices in the respective vernacular language / language understood by the borrower and on its website.
- f) A declaration that the Company is accountable for preventing inappropriate staff behavior and timely grievance redressal shall be made in the loan agreement and also in the Fair Practice Code displayed in its office/branch premises.
- g) The Company shall comply with the KYC Guidelines of RBI and due diligence shall be carried out to ensure the repayment capacity of the borrowers.
- h) All disbursement of loans shall be done only at the Company's branch office and there shall be close supervision of the disbursement function.
- i) The Company shall not collect any security on any loan provided under the microfinance activity.

Disclosures in loan agreement / loan card

- a. The Company will have a Board approved, standard form of loan agreement which should preferably be in vernacular language / language understood by the borrower.
- b. The loan agreement of the Company shall disclose the following details:
 - All the terms and conditions of the loan
 - Pricing of the loan which involves only three components i.e., the interest charge, the processing charge and the insurance premium
 - No penalty is charged on delayed payment
 - No pre-payment charges will have collected.
 - No Security Deposit / Margin is being collected from the borrower
 - The borrower cannot be a member of more than one SHG / JLG
 - Moratorium between the grant of the loan and the due date of the repayment of the first instalment as provided in the NBFC-MFIs (Reserve Bank) Directions, 2011 and as amended in future.
 - An assurance that the privacy of borrower data will be respected except as agreed with the borrower.
- c. The Loan Card provided by the Company shall reflect the following details:
 - The effective rate of interest charged
 - All other terms and conditions attached to the loan
 - Information which adequately identifies the borrower
 - Simplified factsheet on pricing.
 - Acknowledgements by the Company of all repayments including instalments received and the final discharge.
 - The loan card will prominently mention the grievance redressal system set up by the Company and also the contact number of the Grievance cell.
 - Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself
 - The loan card should be in vernacular language / the language understood by the borrower
- d. The Key facts statement provided by the Company shall reflect the following details:

- Along with the sanction letter Fusion shall issue the Key Fact Sheet (KFS), to all prospective borrowers in vernacular language or language understood by them to help them take an informed view before executing the loan contract/documents.
- The KFS shall be provided with a unique proposal number and shall have a validity of three working days, contents of KFS shall be explained to the borrower and an acknowledgement shall be taken on the understanding of KFS and Sanction letter for further processing/documentation.
- Fusion shall be bound by the terms of the loan indicated in the KFS, if agreed to by the borrower during the validity period. In scenarios where the customer gives consent on KFS post the validity date, then Fusion has the sole right to take the decision on further processing of the loan with the conditions mentioned in KFS or to change conditions by processing a new KFS.
- Part 1 of the KFS shall include computation sheet of annual percentage rate (APR), and the amortisation schedule of the loan over the loan tenor. APR will include all charges which are levied by the Company forming part of the loan arrangement. Part 2 of the KFS shall contain the Other qualitative information (clause concerning recovery agents, clause and details of grievance redressal mechanism, applicability on securitization, etc.in line with the RBI direction).
- Charges recovered from the borrowers by the Company on behalf of third-party service providers on actual basis, such as insurance charges, legal charges etc., shall also form part of the APR and shall be disclosed separately. In all cases wherever Fusion is involved in recovering such charges, the receipts and related documents shall be provided to the borrower for each payment, within a reasonable time.
- Any fees, charges, etc. which are not mentioned in the KFS, cannot be charged by the Company to the borrower at any stage during the term of the loan, without explicit consent of the borrower.
- The KFS shall also be included as a summary box to be exhibited as part of the loan agreement.

Avoiding Over-indebtedness:

- a. Shall conduct proper due diligence to assess the need and repayment capacity of client before making a loan and must only make loans commensurate with the client's ability to repay.
- b. Shall not give loan to a borrower who is a member of more than one SHG/JLG.
- c. Shall not breach the total debt limit for any client, as prescribed by the RBI or Central/State Governments.

Non-Coercive Methods of Recovery

- a. Collections shall be done in the common place where the clients can feel free for paying their instalments.
- b. Do not contact or meet clients at odd hours, as per the RBI guidelines for loan recovery. Loan recoveries should not be made in the field before 09.00 am in morning and after 06.00 pm in the evening.
- c. Staff shall follow client protection guidelines adopted by the Company and should not force the clients for recoveries.
- d. Staff shall not be allowed to harass relatives, friends, or co-workers of the borrowers for recovery of loans.
- e. The staff shall not publish the names of the borrowers for loan recoveries.
- f. The staff shall neither use nor threaten to use violence or other similar means to harm the borrower or borrower's family/assets/reputation.
- g. The staff shall not mislead the borrower about the extent of the debt or the consequences of non-repayment.
- h. Staff shall not threaten or use any abusive language for recovery of loans from the borrowers.
- i. Staff shall be allowed to make recovery at the place of residence or work of the borrower only if the borrower fails to appear at the central designated place on 2 or more successive occasions.
- j. Staff should not use any other persons for collection of recoveries from the clients.

- k. Staff should enter the details in the passbook after the collecting the repayments or the staff should issue the receipt to the client as evidence for repayment.
- l. The Company shall ensure that a Board approved policy is in place with regard to the Code of Conduct by field staff and systems for their recruitment, training and supervision. The Code should necessarily contain the following provisions:
 - Lay down minimum qualifications necessary for the field staff
 - Shall have necessary training tools identified for them to deal with the customers
 - Training to field staff shall include programs to inculcate appropriate behaviour towards borrowers without adopting any abusive or coercive debt collection / recovery practices.
 - Compensation methods for staff shall have more emphasis on areas of service and borrower satisfaction than merely the number of loans mobilized and the rate of recovery.
 - The details of training and supervision of field staff on FPC may be submitted to the Board at every meeting and such reporting may also include a plan for the next quarter in this regard.

Internal control system

The Company shall make necessary organizational arrangements to assign responsibility for compliance to designated individuals within the Company and establish systems of internal control including audit and periodic inspection to ensure the same.

To elaborate, to monitor the implementation of revised fair practices code, the Company shall include this aspect in the scope of the Internal Audit process which will be done on a regular basis across all the branches. Accordingly, an additional check list of the Internal Audit covering the status on the implementation of the revised fair practices code at field level shall be implemented.