Servitium Micro Finance Private Limited

(formerly Sunflag Merchants Private Limited)

FAIR PRACTICE CODE

Board Meeting Date	Subject	Department	Approved / Reviewed by
25/04/2022	Fair Practice Code	Compliance–as Custodian Operation for implementation	Board of Directors
16/12/2025	Fair Practice Code	Compliance–as Custodian Operation for implementation	Board of Directors

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FAIR PRACTICE CODE

BACKGROUND:

Fair Practice Code (in short FPC) of Sevitium Micro Finance Pvt Ltd (the Company) has been drafted pursuant to RBI Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 including the amendments thereafter and as per Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022. The Code has been further updated in the light of 4th edition of the Industry Code of Conduct 2022 developed by the Sub Regulatory Organizations thereby observing Customer Protection Principles.

Customer Protection Principles:

The Company shall ensure that its employees and persons acting on its behalf:

1. Do not use threatening or abusive language.
2. Does not unfairly discriminate borrowers on the grounds of religion, caste, gender, marital status, sexual orientation, etc.
3. Do not mislead the borrower about the extent of the debt or the consequences of non-repayment.
4. Do not call borrowers at odd hours or at inappropriate times preferably before 9:00 a.m. and after 6:00 p.m., or during illness, social occasions such as marriages and births, bereavements etc.
5. Does not intimidate or humiliate verbally or physically.
6. Do not use coercion of any sort to make recovery of loans and take recovery only at a centrally designated place. An employee can take recovery at the place of residence or work of the customer only if the customer fails to appear at the central designated place on two or more successive occasions.
7. Shall undergo training on how to exhibit appropriate behaviour towards the borrowers.
8. Use respectful language, maintain decorum and are respectful of social and cultural sensitivities.
9. Do not use or give threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation.
10. Do not harass relatives, friends, neighbors or co-workers of the borrower.

I. <u>Applications for loans and their processing</u>

a) The loan documents such as loan application, loan sanction letter, loan agreement and loan card must include:

- Identity and address of the Company;
- Identity and address of the borrower;
- Product details (simplified factsheet on pricing in the format specified in RBI regulations, including instalments received and the final discharge and other key terms and conditions).

b) Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.

c) All communication to the borrowers will be in local / vernacular / language understood by the borrowers related to the terms and conditions of the loan, entries in the loan card, Fair Practice Code, Standard Form of Loan Agreement, factsheet on pricing of the microfinance loan and other communications related to the loan and non-credit products and their servicing.

d) An acknowledgement for receipt of Loan Applications will be given to the borrower.

e) The parameters for Income Assessment of the household as per RBI Directions should be duly filled in the application form.

f) All Loan Application Forms include the necessary information which affects the interest of the borrowers, so that the borrower can make a meaningful comparison with the terms and conditions offered by other MFIs and it will help them to take proper decision.

g) There shall be a standard form of loan agreement in a language understood by the borrower.

h) The required documents to be submitted are written clearly in the Loan Application Form.

i) The Loan Application Form shall include the option for flexibility in repayment obligations by the borrower. The Loan may be repayable in fortnightly or monthly installments at the choice of the borrower/group.

j) The Company must ensure that the issuance of third-party products is

done with full consent of the borrowers, kept voluntary and the fee structure for such products is explicitly communicated to the borrower.

k) Only thereafter, the assessed household income shall be uploaded with respective CICs.

l) Income shall be assessed for every borrower and thereafter compared with the already reported household income determined from CIC report. In case of any divergence, the reasons for the same shall be specifically ascertained from the respective borrower.

II. <u>Loan appraisal and terms/conditions</u>

a) General terms and conditions of the loan products are mentioned below:

i. The Company shall mandatorily submit timely and accurate information including household income and other parameters to RBI approved CICs as per Uniform Credit Reporting Format.

ii. Annual household income of the borrower should not exceed Rs 3,00,000.

iii. Total indebtedness of the borrower should be such that, outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income does not exceed the limit of maximum 50% of the monthly household income.

iv. The borrower must be a member of one JLG.

v. Microfinance Loan is without collateral.

vi. The Company shall use a valid CCIR (Comprehensive Credit Information Report) for the borrower and all the household members of the borrower (individual family unit i.e. husband, wife, and their unmarried children) before sanctioning any loan including small value top up loans and second and subsequent cycle loans with the prior consent of the borrower and her household members as per extant regulation and law. The CCIR shall remain current and valid. The CIR (Credit Information Report) remains valid upto 15 calendar days from the date of its extraction which means the loan shall be disbursed within 15 calendar days from the date of extracting CIR.

vii. There shall be no pre-payment penalty.

viii. The household is covered under insurance.

ix. Total indebtedness of the borrower should be such that, outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income does not exceed the limit of maximum 50% of the monthly household income.

x. Interest Rate to be determined by the Board of the Company. With a ceiling on the interest rate and all other charges / fees as may be decided by the Board from time to time. Interest rates and other charges/ fees should not be usurious.

xi. The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50% of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

xii. Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50%, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50% is complied with.

xiii. The borrower shall be periodically informed about the status of her loan application.

xiv. The Company shall not sanction / disburse loan to a borrower who has non-performing (delinquency > dpd 90 days) accounts with loan amount outstanding > INR 7500 with other institution or any other MFI specifically applicable to microfinance loans applicable from 1st January 2023.

b) The household income of the borrower is properly computed by considering the income of the borrower, spouse and their unmarried adult children.

c) The Company shall furnish a copy of the loan agreement along with the enclosures at the time of sanction / disbursement of loans (a written application of the borrower is required and cost to be borne by the borrower).

d) Every borrower shall be provided with an explicit fact sheet detailing therein any fees to be charged to the borrower by the Company and Detailed Repayment Schedule in the language understood by the borrower. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.

e) The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.

f) The Company will properly communicate to all borrowers about the amount of loan sanctioned along with terms and conditions including annualized rate of interest and method of application.

g) Acceptance of terms and conditions by the borrowers shall be kept on record.

III. <u>Education and Transparency</u>

The Company shall emphasize on education to customers on the importance of timely repayment for good credit history with the credit bureaus, benefits, risks and necessary safeguards of digital financial transactions and grievance redressal mechanism including internal and external escalation mechanism including Ombudsman wherever applicable. The borrowers must be educated against bling trust on group and center leader and how default in the fictitious loan (for e.g. – ghost lending / pipelining taken by group / center leader in customers name) can ruin the credit records and her access to credit in the future which shall be a compulsory part of the Compulsory Group Training (CGT) / Group Recognition Test (GRT) process. The training shall be free of cost for the borrowers, and they shall be encouraged to attend the same.

IV. <u>Minimum Period of Moratorium:</u>

There must be a minimum period of moratorium between the grant of the loan and the due date of the repayment of the first instalment. The moratorium shall not be less than the frequency of repayment e.g. in the case of weekly repayment, the moratorium shall not be less than one

week.

V. Disbursement of loans including changes in terms and conditions

Any change in terms and conditions including disbursement schedule, interest rates, etc. shall be informed to the borrowers well in advance.

VI. General

a) The data shared by the borrowers / her household members shall be protected and kept confidential as per the accepted principles of data protection. The information may be disclosed to a third party subject to any of the following conditions:

-The information is required to be provided under the law or it is provided for a mandated business purpose.

-The Borrower / Borrower's household member has been informed about such disclosure and prior permission has been obtained in writing.

b) The Company shall prominently disclose the pricing information to the customers at the time of application / sanction, in its website, marketing collateral, loan documents, application form, sanction letter, agreement, loan statement/loan card and also to SRO and RBI as and when required by them. The Company shall promptly update the marketing collateral, website and other relevant documents for any change in the rates and charges and inform the same to existing customers through any mode.

c) The KYC Guidelines of RBI shall be complied with. Due diligence shall be carried out to ensure the repayment capacity of the borrowers.

d) The effective rate of interest charged, and the Grievance Redressal System prominently displayed in vernacular language in all its offices and in the literature issued by it and also on its website.

e) The staffs shall be properly trained to deal with the customers in

appropriate manner and to make necessary enquiries about existing debt of the borrowers.

f) The training to the borrowers shall be free of cost. The 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.

g) A declaration that the Company will be 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.

h) The Company shall provide training, indulge in periodic assessment, and interaction with borrowers to make the borrower understand the products, process, and terms of the loan agreement.

i) The Company shall make appropriate alternate arrangements to service existing loan of its borrowers if at all it is withdrawing from operations from an area.

j) All sanctioning and disbursement of loans should be done only at a central location and more than one individual should be involved in this function. The procedure for loan application shall be simplified and loan disbursements will be done as per pre- determined time.

k) A statement shall be made in vernacular language and displayed in their premises and in Passbook articulating the commitment to transparency and fair lending practices.

l) The Company shall promptly address any dispute raised by the borrower about her data with CIC.

m) The Fair Practice Code as approved by the Board shall be in vernacular / language understood by the borrower and displayed in all the offices and website of the Company.

VII. Disclosures in loan agreement / loan card

a) The Loan Card / Passbook reflects the following details:

i) All entries in the Loan Card / Passbook s hall be made in the vernacular language understood by the borrower.

ii) The Insurance facility provided with full consent of the borrowers and the related fee structure communicated in the Loan Card / Passbook.

iii) The Grievance Redressal System and the name and contact number of the nodal officer is clearly mentioned in the Loan Card / Passbook.

iv) The effective rate of interest charged.

v) Acknowledgements by the Company of all repayments including instalments received and the final discharge;

vi) Simplified factsheet on pricing.

vii) Information which adequately identifies the borrower.

viii) All other terms and conditions attached to the loan.

b) In the Loan Agreement the following things are disclosed:

i) A declaration that the Company shall be accountable for inappropriate behavior by its employees or employees of the outsourced agency and shall provide timely grievance redressal. The said declaration shall also be included in FPC displayed in all offices and website.

ii) An assurance that the privacy of borrower data will be respected.

iii) The moratorium between the grant of the loan and the due

date of the repayment of the first instalment;

iv) The borrower cannot be a member of more than one SHG/ JLG in Servitium Micro Finance Pvt Ltd.

v) No security deposit/margin is collected from the borrower;

vi) Penalty shall be charged on the overdue amount for delayed payment only.

vii) The pricing of the loan involves only three components viz; the interest charge, the processing charge and the actual insurance premium;

c) The loan agreement is in vernacular language.

VIII. Employee Engagement

The following should be observed regarding employee engagement in the Company:

a) The Company shall ensure that the wellbeing and security of the employees is given due importance.

b) Compensation matrix shall be designed in a manner to align staff behaviour to the borrowers along with fair interaction practices.

c) The Company shall set targets for the branch level employees based on reasonable objective criterion including understanding of microfinance requirement and repayment capacity in an area.

d) Periodical assessment of employee understanding of the above elements and training to understand the gaps in understanding.

e) Compulsory induction training to the employees on policies, processes, gender issues with appropriate interaction with woman colleagues and customers, professional conduct and integrity, not indulging in any unlawful and anti-social activities and maintaining regulations with specific emphasis on Fair Practice Code and borrower interface aspects such as fair treatment, household and income assessment, privacy of data, service quality, customer grievance redressal system, POSH, relationship management, dealing with borrower facing difficulty in repayment etc.

f) Submission of data with Employee Bureaus and checking of candidate's

records.

g) Recruitment of candidates from other Institution / Micro Financial Institution on the basis of satisfactory reference check and confirmation of the employee subject to receipt of a relieving letter from the previous employer. Reference checks from other Institutions shall be responded within a reasonable time period of 15 days.

IX. Recovery of loans

The Company will treat every customer with respect and dignity. We provide our microfinance services regardless of caste, creed and religion. The Company will maintain a positive bias in favour of the socio-economically vulnerable segments of the society. We always maintain decency and decorum during all customer and employee interactions, are respectful of social and cultural sensitives and avoid behavior which may lead to any form of threat or violence. The Company shall ensure that the engagement of the recovery agents and their interaction with the borrowers is as per guidelines mentioned in the Harmonized Regulations.

The Company does not believe in usage of muscle power, abusive language, persistently bothering borrowers at odd hours or at inappropriate times such as bereavements, illness, social occasions suchas marriages and births for loan recovery purpose. The Company shall periodically visit the borrowers for identification of their repayment related difficulties, if any, engagement with such borrowers and providing them necessary guidance about the recourse available.

The loan recovery is made only at a designated / central designated place decided mutually by the borrower and the Company. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on two or more successive occasions.

The Company or its agent shall not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, following practices shall be deemed as harsh:

i) Misleading the borrower about the extent of the debt or the consequences of non-repayment

ii) Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation

iii) Publishing the name of borrowers

iv) Harassing relatives, friends, or co-workers of the borrower

v) Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.

vi) Use of threatening or abusive language

For appraisal / compensation/ promotion for staffs, the Company gives more emphasis on areas of service and borrower satisfaction than number of loans mobilized and recovery rate.

Engaging Recovery Agents

The Company shall do the necessary due diligence before engagement of any recovery agents including but not limited to due diligence of the employees of the agent / individuals involved in the recovery process. The Company shall ensure that the recovery agents so engaged shall carry out verification of the antecedents of their employees, which shall include police verification. The Company shall also decide on the periodicity at which re-verification of antecedents shall be resorted to.

To ensure due notice and appropriate authorization, The Company shall provide the details of recovery agents to the borrower while initiating the process of recovery. The agent shall also carry a copy of the notice and the authorization letter from The Company along with the identity card issued to him by The Company or the agency. Further, where the recovery agency is changed by the Company during the recovery process, in addition to the Company notifying the borrower of the change, the new agent shall carry the notice and the

authorization letter along with his identity card.

The notice and the authorization letter shall, among other details, also include the contact details of the recovery agency and the Company.

The up-to-date details of the recovery agencies, if any time engaged by the Company, shall also be hosted on the website.

X. Internal Control System

The Board of the Company shall be responsible for necessary implementation and monitoring of Fair Practice Code and Code of Conduct (adopted from sector associations-MFIN and Sa_Dhan). The Board shall look into implementation, monitoring and periodic review 0of Fair Practice Code and Code of Conduct throughout the organization. The Board of Directors should also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievance's redressal mechanism at various levels of management. A consolidated report of such reviews will be submitted to the Board at regular intervals.

XI. Fair Practice Code for Customers:

i) We respect our customers' privacy and will treat customer information as private and confidential.

ii) We will provide customers with a grievance redressal system to register their complaints and resolve it in a timely & fair manner.

iii) We will not engage in any coercive methods to collect repayments.

iv) We will regularly rotate center leaders to restrain the disproportional influence of leaders in the group.

v) We will provide a receipt/ acknowledgement for every payment received from customer.

vi) We will make our best efforts to ensure that the loans we disburse are within our customers' capacity to repay.

vii)We shall explain and disclose the features of our services in a

transparent & understandable manner. Further. our applications and agreements shall clearly include:

a. Interest rate on loans

b. Processing Fee and Insurance Premium and

c. All other terms and conditions

viii) We will not intimidate or humiliate customers verbally or physically.

ix) We will treat all our customers fairly without discriminating on grounds of religion, caste, marital status or sexual orientation etc.

x) All our dealings with customers will be open, fair and ethical.

xi) We will treat all our customers with respect and professionalism.

Digital Lending Platform

Many digital platforms have emerged in the financial sector claiming to offer hassle free loans to retail individuals, small traders, and other borrowers. The Company is, though an RBI registered NBFC but the primarily The Company is engaged in the business of lending to women borrowers under 'Joint Liability Group (JLG) based individual lending' model. The micro finance business of the Company has been beneficial to many poor families by providing them credit, helping them become economically self-sufficient, sensitizing women about empowerment issues, and bringing about a qualitative change in them and their families. If at any time the Company engage digital lending platforms as its agents to source borrowers and/ or to recover dues, the following instruction of RBI need to be followed in a proper manner:

a) Adequate efforts shall be made towards creation of awareness about the grievance redressal mechanism.

b) Effective oversight and monitoring shall be ensured over the digital lending platforms engaged by the Company.

c) A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement shall be furnished to all borrowers at the time of sanction/ disbursement of loans.

d) Immediately after sanction but before execution of the loan agreement, the sanction letter shall be issued to the borrower on the letter head of the Company concerned.

e) Digital lending platforms engaged as agents shall be directed to disclose upfront to the customer, the name of the Company on whose behalf they are interacting with him.

f) Names of digital lending platforms engaged as agents shall be disclosed on the website of the Company.

The Fair Practices Code is subject to revision based on the RBI directions and guidelines and such revisions shall be made on a time-to-time basis.

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