

# FAIR PRACTICE CODE

2<sup>nd</sup> Edition

December-2022

Magent  
Finance Services Private Limited



<b>MAGENTA FINANCE SERVICES PVT LTD</b> <b>POLICY ON FAIR PRACTICES CODE ("FPC")</b> (Version- 2)		
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## 1. Introduction

Magenta Finance Services Pvt Ltd ("**Magenta**") is a private limited Company registered with the Reserve Bank of India (RBI) as an NBFC and has been reclassified as NBFC-MFI effective November 10, 2017. It is also classified as a Non-Systemically Important Non-Deposit Taking Non-Banking Finance Company.

Magenta provides microfinance services to low-income households and individuals to improve their quality of life. Magenta constantly endeavors to deliver quality services to its Borrowers by maintaining the highest levels of transparency and integrity.

Magenta ensures that the principles of responsible lending, transparency, and core values are followed in letter and spirit. Magenta follows various guidelines issued by the Reserve Bank of India ("**RBI**") on the 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).

## 2. Objectives of the Fair Practices Code (FPC)

- To 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).
- 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 Magenta.

## 3. Core Values

- **Responsiveness** – Magenta endeavors to be a responsive organization to its Borrowers' needs and requirements. The Company will constantly strive to understand the changing needs of Borrowers and develop suitable products and services to address their requirements.
- **Integrity** – Magenta endeavors to maintain the 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 to create the synergy that results in exponential growth



**4. Guidelines on Fair Practices Code**

**i) Loan Application**

- a. Loan application shall be in the vernacular language or a language as understood by the borrower.
- b. Borrower shall be provided with acknowledgment for receipt of the loan application. The acknowledgment shall be in vernacular language clearly communicating the timeframe within which the 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 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.
- d. The loan application form shall indicate the documents required to be submitted with the application form.

**ii) Loan appraisal**

- a. Every loan has to be appraised to understand the Borrower's business, household income, and her/his current indebtedness and thereby assess her/his loan requirement and repayment capacity.
- b. Loan appraisal will be done as per the Board-approved Loan Policy.

**iii) Training of Borrowers**

- a. Borrowers will be given training for 2 days to explain to them the terms and conditions of the loan.
- b. The training will emphasize the proper utilization of the loan amount, the perils of over-borrowing, misuse of the loan amount, etc.
- c. The training will cover the product features including the minimum, maximum and average interest rates charged on microfinance loans, loan processing fees, insurance premiums, loan tenor, and repayment frequency. Borrowers will be clearly communicated in this training that Magenta does not charge pre-payment or foreclosure charges.
- d. Borrowers will be told that in case of delayed payment, penalty charges will be charged on the overdue amount, not on the outstanding entire amount.
- e. Borrowers will also be told that they need not pay anything other than the principal, interest, processing fee, and insurance premium.
- f. Training offered to the borrowers shall be free.

**iv) Loan sanction and disbursement**

- a. The sanction letter will contain 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.
- b. The Company shall mandatorily take the signature/thumb impression of the borrower accepting the loan sanction.
- c. Borrower shall be provided loan repayment schedule. The loan repayment schedule will contain 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.



- d. Borrower shall also be provided a copy of the loan document along with a copy of each of all enclosures quoted in the loan document.
- e. The Company shall give notice/information to the borrower in case of any change in the terms and conditions including disbursement schedule, interest rates, service charges, and penalty charges etc.
- f. Any change in interest rates and charges will be effected only prospectively. The loan agreement shall contain a suitable condition on this.
- g. The Company shall not charge foreclosure charges / pre-payment penalties on the loans. Penalty, if any, for delayed payment shall be applied to the overdue amount and not to the entire loan amount.
- h. The loan shall be disbursed as per the pre-determined time.

**v) Disclosures in Loan Documents / Loan Card**

- a. All the terms and conditions of the loan shall be in vernacular/a language understood by the borrower. The following disclosures will be made:
- b. The annual rate of interest charged on a declining balance,
- c. Simplified fact sheet on the pricing of the loan,
- d. The ceiling on the interest rate and charges applicable to microfinance loans,
- e. The penalty charged on the overdue amount,
- f. No Security Deposit / Margin will be collected from the borrower,
- g. The moratorium between the grant of the loan and the due date of the repayment of the first installment (which will be equal to or more than the frequency of repayment),
- h. An assurance that the privacy of borrower data will be respected,
- i. Information that adequately identifies the borrower,
- j. Acknowledgments 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
- i. Non-credit products issued, if any, shall be with the full consent of the borrowers, and fee structure shall be communicated in the loan card itself.

**Note:** Magenta 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 Magenta shall treat Borrowers with respect and dignity.
- c. The Company shall provide microfinance services to all eligible Borrowers as per RBI guidelines.
- d. The rate of interest & charges shall always be in accordance with RBI guidelines. 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.
- e. The information published in the website shall be updated whenever there is a change in the rates of interest.
- f. The Company will obtain copies of relevant documents from Borrowers, as per standard KYC norms. Additional documents sought will be reasonable and necessary for completing the transaction.



- g. The Company 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 shall be transparently conveyed to the Borrower and comply with RBI & Insurance Regulatory and Development Authority (IRDA) norms.
- h. Field staff shall be trained to offer suitable training to the borrowers and also make the borrowers fully aware of the procedures and systems related to loans/other products.

**6. Avoiding Over-indebtedness**

- a. Branch Managers shall make proper inquiries with regard to the current indebtedness of the borrowers before sanctioning the loan.
- b. The Company will ensure that the loan is provided on basis of the assessment of the annual household income of the Borrower considering the broad parameters viz., Household profile, Household income, and Household expenses.
- c. The Company will provide accurate data to credit information companies (CIC's) on level of indebtedness ascertained by way of obtaining declaration from the borrowers, verification of bank account statements wherever available, and local enquiries etc.
- d. The Company will assess the repayment of monthly obligations of households with monthly household income to ascertain the outflow
- e. The Company shall not exceed the indebtedness cap as decided by the Industry Associations and the overall prescribed limit set by RBI.
- f. The Company shall educate Borrowers on the bad effects of over-borrowing.

**7. Collection Practices**

- a. The Company will train all employees on the collection policy to deal with Borrowers in an appropriate manner.
- b. The Company will ensure that the employees use courteous language, maintain decorum, and are respectful of cultural sensitivities during all interactions with Borrowers.
- c. In the matter of recovery of loans, the Company will instruct employees not to follow coercive collection practices such as collecting at odd/late hours or during the bereavement/sickness of borrowers, behaving rudely / aggressively, or use of muscle power during collection etc.
- d. The Company 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 6:00 PM, 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.
- e. The Company will have strict vigilance to ensure that staff do not misbehave or disrespect the borrowers.
- f. Disciplinary action shall be taken against the employees for any misbehavior, or deviation from the FPC.



**8. Privacy of Borrower Information**

- a. The Company shall respect the Borrowers' privacy and shall treat the Borrower information as private and confidential.
- b. The Company shall incorporate an adequate disclosure in the loan document on sharing Borrower data with credit bureaus, statutory organizations, and third parties.
- c. The Company will train the staff on fidelity and secrecy of Borrower data. The Company will incorporate this clause in the appointment letter.

**9. Feedback and Grievance Redressal Mechanism**

Magenta 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 the Company will take 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 will be reviewed at the highest level of the organization, and policies will be reviewed and decisions will be taken to strengthen the delivery mechanism and provide better services.

- i) The company, on its Notice Board has displayed the name, designation, address and telephone numbers of officials' senior in the hierarchy to the Credit Manager as Grievance Redressal Officer who can be approached by the borrowers for resolution of their complaints against the Company.
- ii) After examining the matter, the Company will endeavour to send the customer its response within four weeks and intimate the customer as to how to escalate the complaint to a higher level, if she/he is not satisfied with the response.
- iii) The Company has developed its "Internal Principles and procedures in determining interest and other charges" which are displayed in the Notice Board. It will also be put up in the website of the company.
- iv) Each loan card has the Toll Free number of the Customer Service Officer based at the Head Office. Customers can contact on that Toll Free number and the grievance will be redressed.
- v) The Company shall request the customer to provide feedback on the services rendered. This can be done through direct contact by employees or through specific Customer Satisfaction Surveys that may be conducted from time to time.

**10. Review and Monitoring**

- Status of resolutions shall be monitored on a daily basis by the concerned Employee.
- On a monthly basis, compliance with the FPC including all the grievances received, resolutions provided, and the turn-around time shall be reviewed by the Compliance Officer.
- A periodical review of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management would be undertaken by the



Company and a consolidated report of such reviews shall be submitted to the Board of Directors of the Company Quarterly.

- The Board shall review the functioning of the fair practice code including the effectiveness of the grievance redressal mechanism on a quarterly basis.

#### 11. Dissemination of FPC and GRM

- a. The Company's HR policy has criteria for the recruitment of all staff, their training, and the reporting structure. The criteria cover qualifications, skill sets, and social and behavioral aspects. Each employee will be trained on FPC, GRM, Code of Conduct, Whistle Blower Mechanism, and the appropriate way of dealing with the Borrowers.
- b. Guidelines provided in the Industry Code of Conduct by MFIN & Sadhan, duly approved and adopted by the Board, shall be implemented effectively.

#### c. Employee Training:

- 1) Every employee will be trained on the FPC including the grievance redressal mechanism. Besides, they will also be trained on soft skills so as to behave properly and respectfully with borrowers without adopting any abusive or coercive debt collection/recovery practices.
- 2) Each employee will be trained in a way that the Borrower is given due respect and is treated with dignity and self-esteem.

#### 12. General

- The Company shall not interfere in the affairs of the borrower except for the purposes provided in the Loan Agreement unless new information not earlier disclosed by the borrower has come to the notice of the Company.
- In case of receipt of a request from the borrower for transfer of the borrower account, the consent or otherwise i.e. objection of the Company, if any, shall be conveyed within 21 days from the date of receipt of such request. Such transfer shall be as per transparent contractual terms in consonance with law.
- The Company has drafted its Fair Practice Code (FPC) both in Hindi and English based on the guidelines of RBI and it will be displayed in all the branch premises, Head Office/Registered Office, and put up on the website of the Company.
- Utmost importance shall be given to the adherence to the FPC, GRM, Code of Conduct, and Whistle Blower Mechanism while awarding the promotions to staff.
- Disciplinary action shall be taken against staff who do not adhere to the FPC, GRM, Code of Conduct, and Whistle Blower Mechanism.
- New Borrowers will be informed about the organization's policies and procedures to help them understand their rights as borrowers.
- All communication to the borrower shall be in the vernacular language or the language understood by the borrower.

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