Sa-Dhan
Fostering Inclusive Impact Finance

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Sa-Dhan
Fostering Inclusive Impact Finance

BEST PRACTICES

RISK MANAGEMENT

HR MANAGEMENT

FRAUD MANAGEMENT

COMPLIANCES

Guide to Best Practices
on
Risk Management
HR, Fraud Management and Compliances

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Abbreviations

1	ALCO	Asset-Liabilities Management Committee
2	BC	Business Correspondent
3	BCP	Business Continuity Plan
4	BODs	Board of Directors
5	BHIM	Bharat Interface for Money
6	CAR	Capital Adequacy Ratio
7	CCAFS	Climate Change, Agriculture and Fraud Security
8	CGIR	Consultative Group on Internal Agriculture
9	CCO	Chief Compliance Officer Research
10	CB	Credit Bureau
11	CGAP	Consultative Group to Assist the Poor
12	CP	Commercial Paper
13	CGT	Continuous Group Training
14	CSFI	Centre for the Study of Financial Innovation
15	ECB	External Commercial Borrowing
16	EMI	Equated Monthly Instalment
17	ESI	Employee State Insurance
18	FOIR	Fixed Obligations to Income Ratio
19	GRT	Group Recognition Test
20	HR	Human Resources
21	HRM	Human Resources Management
22	IT	Information Technology
23	IMPS	Immediate Payment Service
24	KYC	Know Your Customer
25	LCP	Liquidity Contingency Plan
26	LCR	Liquidity Coverage Ratio
27	LLP	Loan Loss Provision
28	JLG	Joint Liability Group
29	MFI	Micro Finance Institution
30	NBFC	Non-Banking Finance Company
31	NBFC-MFI	Non-Banking Finance Company-Micro Finance Institution

32	NCD	Non-Convertible Debentures
33	NPA	Non-Performing Asset
34	NACH	National Automated Clearing House
35	OTP	One Time Password
36	PAR	Portfolio at Risk
37	QR Code	Quick Response Code
38	RBI	Reserve Bank of India
39	RMC	Risk Management Committee
40	RTGS	Real Time Gross Settlement
41	SHG	Self-Help Group
42	SDG	Sustainable Development Goal
43	SRO	Self-Regulatory Organization
44	SEBI	Securities and Exchange Board of India
45	UIDAI	Unique Identification Authority of India
46	UPI	Unified Payment Interface

Preface

Microfinance sector is an important component of Indian financial sector landscape, impacting the lives of over 6 crore poor households. Microfinance, which has a history of over 20 years has played a major role in supporting creation of micro enterprises and employment opportunities to millions of people in the country, especially from the poorer segments. As per an NCAER study, microfinance sector contributes nearly 2.05% to the Gross Value Added to the economy.

In the recent past, the sector got impacted by several events like demonetization, liquidity constraints, COVID pandemic, etc. Thankfully, the sector has successfully navigated all these challenges, including, the COVID-19 pandemic and has proved once again that it is a resilient sector.

Microfinance had been growing at a CAGR of nearly 20% till the COVID-19 pandemic. Although the growth got subdued during COVID, it has again show growth path with the sector recording an impressive performance of ₹2,75,750 Crs as of June 2022 as against ₹2,14,528 Crs in June 2021. The active borrowers served went up to 6.73 Cr with 11.84 Cr active loan accounts as of June 2022. Meanwhile, the demand for microfinance has been estimated to be around 16.96 lakh Cr by FY 2026, while only 28.5% of total potential households of 20.32 Cr have been covered under microfinance. So, the Microfinance sector has a huge growth potential, which must be harnessed by all MFIs.

In March 2022, RBI came out with the revised microfinance regulations, which brought all the regulated entities under the new microfinance regulations and made a drastic shift from the "Rule Based Regulations" to "Principle Based Regulations". Under the new regulations, RBI removed many restrictive clauses like 2 lender norms, interest cap and individual credit ceiling and has given a lot of responsibilities to the Boards of the MFIs. It has also given a fresh lease of lives to the MFIs impacted by pandemic. But the responsible lending is the crux.

Sa-Dhan, the first and largest Industry Association and Self-Regulatory Organisation (SRO) for the Microfinance Sector, believes this is an opportune and critical time to build a knowledge base of Best Practices across the Industry. This will help to support and strengthen responsible finance practices, enhance client protection and build organisational excellence for all lenders, irrespective of legal forms. In addition, the smaller lenders and new entrants to the sector can greatly benefit from these learnings, and get up to speed faster with the more established players. Meanwhile, larger organizations are always looking at new ways to innovate and improve and will find this guide and the case studies very useful too.

- Sa-Dhan Quarterly Microfinance Report (QMR), 27th Edition, June 2022.
- Micro Matters: Macro View- Indian Micro Finance Review – FY 2021-22, MFIN, New Delhi, Nov 2022.

Under this context, Sa-Dhan has taken up the initiative of compiling the Best practices in the microfinance sector as well as taking relevant learnings from industry experts. To start with, Sa-Dhan had conducted a series of on-line webinars focusing on 4 key areas viz. Risk management, Human Resources Management, Fraud Management and Compliances. Sa-Dhan also fielded a desk study and the assignment was given to Virutcham Academy for Social Changemakers LLP. We immensely thank its CEO, Dr. N. Jeyaseelan in supporting this study through detailed interviews with key functionaries of MFIs and Microfinance experts and consolidating the webinar key takeaways to write this valuable Guide of Best practices in the microfinance sector.

I would also like to thank my colleagues from the SRO Team in Sa-Dhan, Somesh Dayal, Ardhendu Nandi, Karthick Ramadas, Shyamasree Nandan, and Sunny Koshy who have worked to bring their original idea into reality.

We at Sa-Dhan are committed to come up with updated versions of Best Practices Guide regularly covering even more exhaustive topics, with an objective to promote innovations and Best Practices benefiting the entire Microfinance sector. In the meantime, I trust all players in the Impact Sector will find this extremely useful in navigating the new regulatory environment successfully with enhanced systems and practices.

With Best wishes,

Jiji Mammen
ED & CEO, Sa-Dhan
February 2023

1.1. Risk management:

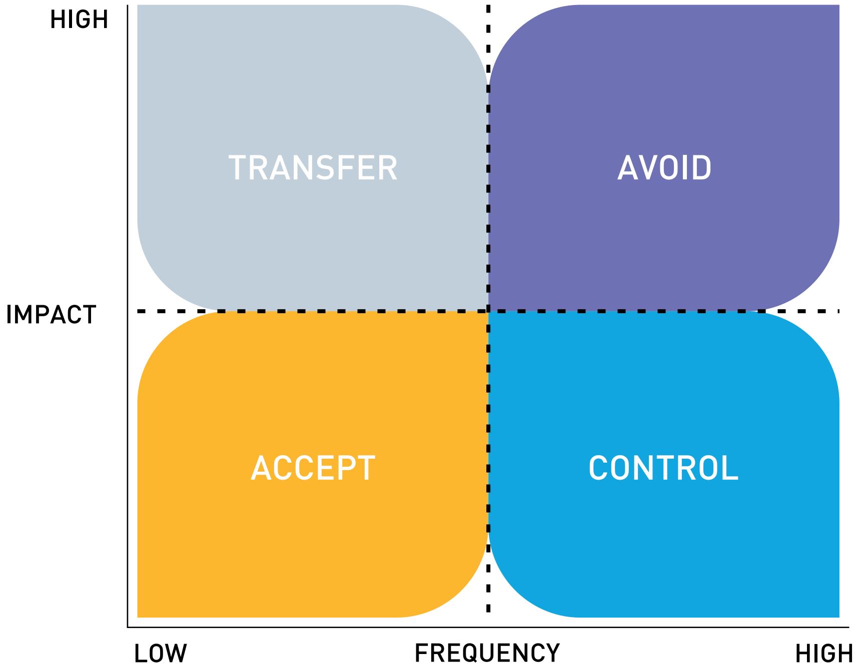
Risk management is inherent in microfinance lending, as loans are given without any security. Risk is the possibility of an undesirable outcome affecting MFIs and the risk event is the event leading to an undesirable outcome. Risk drivers are causal factors responsible for the risk events. Prudent risk management will protect the capital of MFIs and avoid the potential loss in income of MFIs.To ensure a sustained growth of the MFI over a long term, MFIs shall put in place a robust risk management system. As the MFI's regulatory capital requirement is based on the multiple risks, systematic risk management will ensure the optimum level of regulatory capital.

Risk management using the "Risk Management Feedback Loop"[3] is a six steps process of 1.Identifying, assessing & prioritizing the risks (Focusing on key risks based on the Frequency & Impact of risk events), 2. Developing strategies to measure risks (PAR, NPA and Provision for loan loss), 3. Designing policies & processes to mitigate risks, 4.Implementing & assigning responsibility, 5.Testing effectiveness & evaluating results, 6. Revising policies & processes.

3. A Risk Management Framework for Micro Finance Institutions, GTZ, Eschborn, July 2000.

Risk management strategy to be adopted will be based on the frequency and the impact of the risk events.

Risk management Strategy



The risk management strategy has 4 options

Strategy	When to be opted and Example
Avoid	When frequency and impact is high, Avoid. e.g. Avoiding large ticket size loans, Avoiding the problematic areas. i.e. Default areas or Chronic disaster risk areas.
Transfer	When frequency is low and impact is high, Transfer. e.g. Insurance against fire risk or Insurance against cash-in-transit.
Accept	When frequency and impact is low, Accept. e.g. Loan losses in case, where all recovery measures are exhausted.
Control	When frequency is high and impact is low, Control. e.g. Most of the operational risks. Mitigation through Product design, Operational Processes, HR policy & Performance measures (PAR and ratio analysis)

Risk mitigation focuses on preventing or reducing the chances of the risk event happening to MFIs and/or minimizing the negative impacts due to the risks already occurred. Risk mitigation is a part of the risk management framework.

1.2. Best practices in Risk management:

1.2.1. Role of Governance in risk management:

Boards play an important role in ensuring the risk management of MFIs by approving a risk management framework. As the risk scenarios keep on changing in both the internal and external environments, Boards shall keep on collecting the feedback from the field through the senior and middle management and shall continue to revise the risk management policies and shall always have the risk oversight.

Risk management policies shall be revised by the Board when

- The Central Bank announces any new regulations or changes to the existing regulations.
- The lending process undergoes any change due to the emerging competition or any other external factors.
- The MFIs changes its growth plan, business plan and the risk management system.

Risk management Policies shall specify the risk appetite

Risk Management Committee of the Board: Board of Directors (BODs) shall constitute a Risk Management Committee (RMC). Two thirds of RMC shall have Independent Directors. BODs may delegate the monitoring and reviewing of the risk management plan to the RMC.

Role & Responsibilities down the line:

Who is responsible?	Role in Risk management
Board of Directors	- Approve policies, sets tolerance level for risks and prescribes exposure limits. - Put in place an independent internal audit system, - Establish a risk management structure Monitor adherence to them.
Senior Management	- Identifies & prioritizes risks. - Prepares policies, systems, process & guidelines to reduce the risks.
Middle management	- Monitors the risks and adherence to them by branches
Branch Management	- Implements the procedures through field staff - Monitors adherence to the procedures.
Field staff	- Implement the procedures offer feedback on the required changes
Risk management department.	- Implements and monitors the risk management framework. - Defines risk metrics - Provides risk related information at the right time.
Internal Audit team	- Verifies that policies and procedures are implemented properly - Identifies deviations and detects early warnings and frauds.

Risk reporting:

- MFIs shall define the Risk reporting process. Risk management department shall ensure the proper flow of risk information across the MFI.
  - To the Board – Quarterly
  - To the Senior Management – Monthly
  - To the Operational teams – Monthly / weekly
- Risk Management report generation shall be automated so as to enable generation of reports on a real time basis at any time or on demand basis as well as at the end of day.

Risk appetite:

- Risk appetite is the MFI's capacity to bear risk and its attitude towards risk. Some components of the risk appetite can be quantified while others are more subjective and qualitative.
- While setting up the risk appetite, the following needs to be considered.
  - Financial strength of the MFI
  - Regulatory requirement
  - Risk taking capacity of the senior management
  - Proposed business plan.

Metrics and limits for Risk appetite:

Sl. No.	Dimension	Metrics	Rationale	Regulatory Limit, if any	**MFI Benchmark	** Trigger point, if any
1	Capital Adequacy	Capital Adequacy Ratio	Regulatory requirement	15%		
2	Leverage	Debt-Equity Ratio	Regulatory requirement	7 times		
3	Credit risk	Portfolio at Risk	To track the portfolio health	--		
4	Operational risk	Operational losses as % of portfolio.	To track the process/ system level issues	--		
5	Operational risk	Staff attrition rate	To track the people level issues.	–		

** MFIs may decide about their internal benchmarks and trigger points based on their risk appetite levels.

1.2.2. Credit Risk Management Best Practices:

Credit risk is the risk of failure of borrower to repay. This default by the borrower either be wilful default or due to the reasons beyond the control of the borrower. To effectively manage the credit risk, which is a major risk in the microfinance, MFIs continue to evolve the credit delivery procedures as the Microfinance sector grows. The following are some of the Best practices seen in the field.

I. New Area selection:

- Before entering a new area for expanding the business, MFI shall do a due diligence using the pin code and check the credit bureau report to know the existing performance of other MFIs portfolio in that area. This will help MFIs to avoid the known problem areas with a poor repayment track record.
- Apart from the secondary data research, MFIs shall do primary research to know more about the area proposed for expansion as the quantitative data alone will not reveal the full picture, e.g. in many areas of Jharkhand, data may show that microfinance penetration is less, but the area may be having other problems like Naxal-infested regions.
- MFIs shall make use of the Pin code level/district level reports shared monthly with MFIs by Sa-Dhan to understand the trends in different operational areas.

ii. Targeting of clients:

- Targeting women in rural areas.
- Preferring clients with their own houses.
- Avoiding clients who migrate during off-seasons.
- Focusing on clients who are involved in some income generation activities or intend to start the economic activity with the loan.
- Selecting clients with two livelihood income streams e.g. Agriculture + allied activities like dairy or poultry.
- Clients with proper KYC (Know Your Customer) documents viz Aadhaar card and Voter ID, duly verified with UIDAI through OTP. The systems are QR code enabled, so that the Aadhaar card information can be auto-filled in the document without any error during the onboarding process.
- Clients Identity is verified through biometric authentication.

iii. Focus on Basics of Group dynamics:

- After COVID-19 pandemic, many MFIs have still not reverted back to the centre meetings, collections and field staff are making collections at the individual houses, which increases their time commitment in the field. Hence, **MFIs shall start focussing on Basics of Group dynamics.**
- Conduct regular group meetings on specific dates and collections at the group meeting.
- Ensuring participation of all members in the group meetings.
- Proper updating of group records on a real-time basis during the meeting and recording the repayment collections in the group records from the members.
- Ensuring the peer pressure at the group level so that the social collateral i.e. joint and several liabilities can be enforced in case of defaults.
- Adequate Training (CGT-Continuous Group Training) of clients on group dynamics and loan products and processes, especially on pricing of loans and grievance redressal.

iv. **Sourcing of clients:**

- Sourcing of loan applications by women field officers, as most of the MFI clients are women. (In large MFIs, % share of women field officers is very minimal, whereas in small MFIs, % share of women field officers is very high).
- Sourcing of clients within a radius of 15 to 20 kms from the servicing branch.
- Clients are selected after the credit bureau check with any of the credit information companies. Some MFIs do the credit bureau check for the spouse also. But, as the new RBI regulations issued in March 2022 prescribes the maximum monthly repayment obligations at the household level (50% of monthly household income), MFIs need to check with the credit bureau for all the adult members in the household.
- Many MFIs have given Tablets or Mobile apps through which the loan officers do the on-boarding process quickly and check the credit history with the credit bureau on a real time basis and this reduces the turnaround time and reduces the credit risk.
- To arrive at the FOIR by MFIs, Credit Bureaus offer Combined comprehensive credit report on the borrowers by analysing the data at both the Retail assets and the Microfinance assets credit bureaus.
- Some MFIs use the Geo-tagging facility to tag their field staff to ensure that they enter the on-boarding data only from the field and the clients house coordinates are also mapped.
- **Scorecard for Client Selection**: Muthoot Microfin Ltd has developed a Scorecard for clients in association with Credit Bureaus with an objective of enabling the good customer selection and effective sourcing of clients for lending. The data are sourced from two sources viz. Data in application received from the client and the data from the credit bureaus. Customers are segmented into three categories viz. Existing customers with credit track record with Muthoot Microfin Ltd, New Customers with credit track record with other MFIs and New customers without credit track record. In total 12 variables (such as Age, Education, Occupation, Location (Rural or Urban), State, House (Own or Lease), Dependents in the family, Income, Expenses, FOIR, ID cards (Aadhaar and Voter ID), How long as a customer?, Delinquency for various time periods (Last 30, 60, 90 days, 18 months & 24 months) in the past, Performance of Income generation loan Vs total loan outstanding of the borrower, Tenure, and term (Short term or Long term) of loans availed are considered for arriving at the scores for clients and the variables combination varies for each of the 3 segments. Minimum credit score is fixed For example, If the client is new without any credit history, they should have 730 credit score to get a loan, whereas for existing clients with Muthoot Microfin Ltd, a slightly lower credit score of 700 is needed for the client to get loan. When the client score is high, they can be considered for additional loan amounts also. This helps Muthoot Microfin Ltd to source the good clients more effectively.

v. **Product design:**

- Products are designed in such a way so that the first loan borrower starts with a small size loan and the loan size will increase with every loan cycle.
- Some MFIs which practice the cash flow analysis of income of their individual clients (even before the new RBI regulations -March 2022) offer a bigger loan even for the first-time borrowers to match with the economic activity proposed to be undertaken. (e.g. Anik Financial Services Pvt. Ltd, Aurangabad based small MFI offers ₹60,000 for goat farming even for first time borrowers).
- Use of Artificial Intelligence (AI) and Machine Learning (ML)[4]: A tech-savvy MFI is focused on leveraging customer data to improve their experience and minimizing risk exposure. The said MFI leverages AI and ML principles to evaluate each customer profile individually and find out the optimal exposure that can be taken up with them. This also enables the MFI to proactively identify opportunities to give additional loan (upsell) to their existing customers unlike traditional models that wait till the closure of loan cycles. This, has led the MFI to do away with offering a fixed ticket size even for new customers and, instead, aim to give loans to clients based on their needs and actual credit worthiness, which minimizes the credit risk.

vi. **Lending Process:**

- MFIs shall have a written Credit operation manual explaining the step-by-step lending process. When the credit operation manual is bulky, many people do not read it in full. To address this issue, Lahanti Last Mile Services Pvt. Ltd, Thrissur has prepared a one-pager for each process step and made available to the staff. If the staff wants to know about a topic e.g. How to issue a receipt. The staff shall see that particular one-pager and understand the process easily step-by-step.
- MFI shall train the field staff on credit operational processes so that the staff will do the due diligence properly and select the right borrowers.

vii. **Loan appraisal:**

- **New RBI regulations (March 2022) require the MFIs to ensure that the total monthly repayment obligations should not exceed 50% of the monthly household income. MFIs shall capture the household income through the proxy indicators and estimate the FOIR (Fixed Obligations to Income Ratio) and ensure that it is not more than 50%.**
- MFIs may prescribe a range of FOIR to clients from different areas depending upon the risk expected. For example, clients from normal areas – Up to – 50% FOIR, and for clients from Risk prone areas (Flood prone or Drought prone areas), the FOIR may be kept at lower level – may be 40%.
- Separate teams may be created for arriving at the FOIR, using the cash-flow analysis, to comply with the regulatory requirement properly and as the average loan ticket size has increased to ₹39,903** as of March 2022.

4. Rejuvenating Microfinance in India – Embracing Digital, KPMG, March 2021.
**Bharat Microfinance Report 2022, Sa-Dhan, New Delhi, Nov 2022.

viii. **Loan approval:**

- Earlier MFIs had loan committees at the regional level and loan approval was given. Now, most of the MFIs have centralized the loan approval process.
- As the loan approval process is system driven, MFIs have put many filters to keep the portfolio growth within limits in various parameters. For example, Dvara KGFS, Chennai uses many filters like JLG lending should not exceed 80% of the total portfolio, Enterprise loans -15% of total portfolio.
- Some MFIs do not approve the loan to a client, who is already having loans with other institutions. For example, Satya MicroCapital Ltd. is not lending to the clients who have other loans with any other institution as a matter of policy. This enables them to reach out to new clients, thus really serving the unserved people and also reduces the credit risk.

ix. **Portfolio Diversification:**

- In the microfinance sector, mass defaults occur in certain geographies. To avoid concentration of portfolio in certain geographies, MFIs set ceiling for the geographical exposures at the state, District and branch level. For example, Satya MicroCapital Ltd. has set the exposure ceiling for States and districts as – For UP-20%, Bihar-15% and for all other states not to exceed 10% of the total portfolio, and for Districts- Not to exceed 1% of the portfolio.
- It is noted that 82%[5] of the microfinance portfolio is concentrated in just 10 states, which shows that the risk is not diversified over a larger geography and gives scope for triggering credit risk through over indebtedness and multiple borrowing.

x. **Loan documentation:**

- During the loan documentation process, borrowers are briefed about the loan sanction terms and conditions especially loan amount, interest rate, processing fees, insurance amount and repayment term & EMI.
- Borrowers signature is obtained in the loan sanction letter for having accepted and understood the terms of the sanction.

xi. **Loan disbursement:**

- Some MFIs do the tele-call check before the disbursement to ensure that the right borrower gets the loan.

xii. **Portfolio analysis:**

- MFIs analyse the performance of the portfolio according to ticket size, tenure, purpose, branch, sector, scheme-wise, state and so on and if any outlier in the trend is noticed, the case is analysed further and necessary actions are taken. For example, **In a MFI based in Tamil Nadu, the portfolio analysis revealed that the delinquencies are more in enterprise loans (Loans above ₹1.5 lakhs) consistently than in regular microfinance loans. MFI analysed this aspect and took a corrective action of shifting the approval authority for enterprise loans from the State Head to the National Head.**

5. M.Rajeshwar Rao, Deputy Governor, RBI- at the MFIN's launch of– 2nd edition of Micro Matters: Macro View -India Microfinance review FY 2021-22 on 4th Nov 2022 at Mumbai.

xiii. **Differential pricing:**

- MFIs may offer risk-based pricing to retain the existing clients with its fold. For example, When compared with the new clients, the existing clients will get the loan at a cheaper rate for the repeat loans as the risk premium attached to the interest rate will be lower.

xiv. **Insurance:**

- MFIs take the life insurance cover for the loan amount & for the loan term covering both the borrower and spouse.
- Some MFIs take the insurance for the assets created out of bank loan. e.g. Insurance for purchase of dairy animals purchased out of loan.
- MFIs also call nominees and brief them about the loan to the borrower.

xv. **Loan repayment:**

- Close monitoring of loan accounts by the branch team and the immediate supervisors of the branch at frequent intervals.
- Follow up on stressed assets (e.g. For SMA -2 accounts i.e. Overdues more than 60 days and up to 90 days) and NPA a/cs by a special team.

xvi. **Natural Disasters:**

- The occurrence of natural disasters will also induce the credit default risk by the borrowers e.g. Loss of livelihoods due to the cyclone or floods. Loss of crops due to the drought. Loss of properties due to the earthquake.
- MFIs shall not insist on repayment collection on the due dates falling due from the date of the occurrence of the disaster to the date till normalcy is restored.
- During this stressful period, MFIs may extend the moral support to the group members and if possible, they can arrange some relief measures like supply of food, cloth, sanitary requirements, groceries and other basic things themselves or in association with nearby NGOs.

  For example, ESAF Cooperative, BC of ESAF Small Finance Bank for managing the microfinance portfolio has a branch in Sironcha in Maharashtra. During the recent floods in Sironcha in July 2022, ESAF immediately arranged for distribution of 2,000 food kits to people in 35 affected villages and this kind of spontaneous relief work during the difficult hours have built a trust among the people and now the people in those villages reciprocate their gratitude by repaying the loans to ESAF without any default.

- Once the relief stage is over, MFIs may offer some special rehabilitation program by offering some additional loans to clients to reconstruct the livelihoods and MFIs shall opt to reschedule the existing loans.
- This kind of humane approach during the post-disaster period will build the trust among the clients and the community and MFIs will soon see better repayments and can be resilient faster.

- **Natural Disaster Maps: In Annapurna Finance Pvt. Ltd. MFI, their Geographical Information System (GIS) department prepares Disaster maps using the Data analytics, which help in identifying the clients that are vulnerable to disasters and may require some specific intervention by the branch or by the clients. For example, if a cyclone is expected, GIS department projects the cyclone path using the data analytics and alerts the branches within the circle of influence of the cyclone, so that branches will inform the clients in the specific village about specific actions i.e. people to move to a safer area or people to store the essential items and food. Vulnerability analysis and hazard assessment are made for natural disasters like cyclones, earthquakes, and floods by building models or representations of the real world from information in databases.**
- NatCat Insurance cover may be taken by MFIs (a pilot in Odisha).

xvii. **Client Protection principles & Code of Conduct:**

- MFIs shall follow the client protection principles and code of conduct to promote responsible lending so that the borrowers are not overindebted.
- MFIs shall not bundle the "Third party products selling" as compulsory, but it may offer it to clients who opt for it voluntarily.
- MFIs shall not involve in poaching of other MFI's clients as poaching the clients of other MFIs and offering them with bigger loans would lead to issues such as over indebtedness and this will lead to credit defaults.
- MFIs may refer to district level risk scoring reports of Sa-Dhan and check whether their exposure to high-risk scoring districts are within prescribed ceiling for the District exposure.
- MFIs shall put in place a proper grievance redressal mechanism and the contact details of the Grievance Redressal officers shall be made available to the clients and as well as shall be displayed in the branches.
- MFIs offer Toll-free numbers and Missed call facility to the clients so that they can know their loan details (Loan amount, EMI paid, loan outstanding) in vernacular language and as well as voice their complaints to the MFIs.

xviii. **Social performance:**

- When the MFI is mission-aligned and focusing on social performance, it inspires not only the clients but also the community as a whole and a lot of goodwill is built among the community. This motivates the borrower to be prompt in repayment of loans.
- Many MFIs implement credit plus activities and help the clients in accessing other basic services (education, health and sanitation) and also extend non-financial services like Entrepreneurship development programs.
- Vision Fund India Pvt. Ltd., an associate of World Vision India, which is a child focussed organization, takes up a survey every 6 months for measuring the child well-being outcome through specific 8 indicators.
- ESAF Co-operative has formed 140 Children's club (enrolling the children from the age of 8 years and up to 15 years in a group of not exceeding 20 children) in association with ESAF Foundation and focusing on the children development in a holistic way, as the children are the future capital.

- MFIs enter into tie-up with government or development agencies and offer other loan programs to vulnerable communities at a cheaper rate. For example, Anik Financial Services Pvt. Ltd., Aurangabad obtain loans from National SC Finance and Development Corporation at 2% and lend to the ultimate borrowers at a nominal rate of 10% and helps the poorest clients.

xix. **Internal Audit:**

- MFIs shall ensure the Internal audit team's independence by making the Head-Internal Audit not to report to CEO, but to the Board directly.
- Internal audit team members placed at the regional level shall not report to the Regional Manager, but to the Head office Internal Audit team.
- Internal audit teams take up periodical visits to the branch based on risks (Branches are rated using a Risk rating framework periodically i.e. Low risks branch visited once in a quarter and Moderate risk branches visited bi-monthly and High risk branches visited monthly) and they verify whether all the lending process steps have been followed by the branch or any deviations have been made.
- Apart from regular audits, Surprise snap audits shall be conducted by the MFIs to keep a close vigil.

1.2.3. Operational Risk Management Best Practices:

Operational risk is the risk of losses associated with the failure of the internal processes & systems or externalevents, or human failure or IT failure or frauds. The best practices for managing the operational risks are as given below.

I. **Sourcing of clients:**

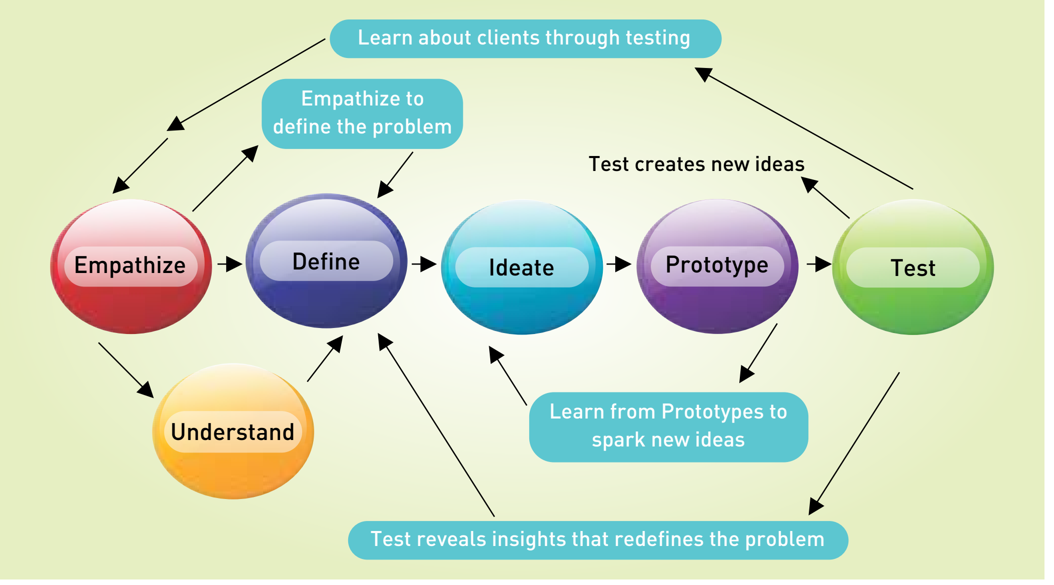
- Clients with proper KYC documents (Aadhaar card and Voter ID card) are selected and verified with UIDAI through OTP.
- Digital verification of KYC documents eliminates the scope for frauds.
- Client's mobile number verification through OTP.

ii. **Product Design:**

- MFIs shall focus on the product design to avoid the borrowers using the loan for some other purpose or borrowers seeking the additional loan from other sources as the loan product they availed has not served their specific needs. Both the situation will lead to delinquencies. MFIs can design the products using the "Design Thinking" principles so as to serve the felt needs of their clients better.
- Design Thinking[6]: CGIAR's (Consultative Group on International Agricultural Research) research program on Climate Change, Agriculture & Food Security (CCAFS) in Philippines has designed innovative Climate Smart Agriculture bundled products of loan and insurance for the benefit of farming communities.

6. Jana Koerner, Joshua Santos, & Godefroy Grosjean, Climate Change, Agriculture & Food Security (CCAFS) Info Note, Dec 2021, Philippines.

Design Thinking in CGIAR's Research program.



Design thinking is a human centred approach. The main principle of design thinking is to empathize with the intended users, to understand what influences their decisions and actions taken. In design thinking, designers try to understand underlying motivations of users, and root causes of problems. Deep insights are gained from interactions with fewer users, rather than from large, systematic surveys that that ask for the 'what' and have no space to iterate on the 'why'. Design thinking is not just linear leading from one step to another. But, it may back and forth, as a highly iterative process, the continuous testing (and discarding) of ideas and prototypes requires from designers the willingness and capability to drop their ideas, which did not work in the prototype or testing phase, making space for new problem framings, understandings, and approaches towards solutions.

It is the right time that MFIs may use the Design thinking principles to evolve new products.

iii. **Loan Appraisal:**

- MFIs have a separate team i.e. Credit team to do the appraisal. Segregation of duties of sourcing and appraisal by different teams. Sourcing -Business team & Appraisal by Credit team ensures the objective appraisal and prevention of the selecting the ghost borrowers.
- House verification is done by the credit team and many MFIs also check the process of house verification through digital means from Head office. (e.g. New Opportunity Consultancy Pvt. Ltd, (NOCPL) Head office team not only checks the house site verification digitally through a video call but also engages with a Personal Discussion with the prospective borrower during the video call). This will also prevent ghost loans.
- Some MFIs have exclusive persons to check the photos of members taken at various points of time like CGT and GRT. Finsigma Inclusive Services Pvt. Ltd. has put two members at Head office exclusively to check the members photos taken not only during the CGT and GRT, but later during the Disbursement and Collections also and this is captured in the field by the field officers using their mobile app “Fingram”. This eliminates the scope for ghost loans.

iv. **Loan documentation:**

- Digital signing of loan documents (e.g. Satya MicroCapital Ltd. follows e-signing of loan documents) prevents ghost loan borrowers and also avoids paper use thus contributing to the SDG 13 (Sustainable Development Goal) of climate action.

v. **Loan disbursement:**

- Loan disbursements are paid direct to the bank account of the borrower.
- Verification of borrowers through tele-call before disbursement. For example, Mitrata Inclusive Financial Services Pvt. Ltd. calls 100% of its borrowers through tele-call to verify that the borrowing person is genuine.
- Many MFIs send the SMS to the mobile of the borrowers immediately after the disbursement.
- Post disbursement, MFIs tele-call team make calls to the borrowers and checks the receipt of the loan amount by the borrower.

vi. **Loan repayment:**

- Loan repayment collections in the group meeting and not in individual borrower's houses.
- MFIs enter into tie up with BC points of Banks and Payment bank's customer service points to deposit the cash collected by the loan officers at the nearest point instead of bringing it to the branch located in a far-off place to reduce the cash transit risk.
- Some MFIs do not accept the partial repayment of EMIs as it will lead to frauds by field officers.
- How demonetization forced MFIs to turn to disbursement through bank account, now COVID-19 pandemic has pushed the digital initiatives and many **MFIs have started the pilots of Non-cash Loan repayment collection options to the clients viz clients paying at the BC points, paying through NACH (National Automated Clearing House), RTGS (Real Time Gross Settlement), IMPS (Immediate Payment Services), QR code, and UPI (Unified Payments Interface) apps like Phonepe, Google pay, BHIM and Paytm.**
- Cashless repayment collections will reduce the stress levels of staff drastically as they need not carry the cash from the centres to their branches and the time saved by the field officers can be optimally used by them for other tasks, resulting in increase of productivity.
- MFIs send SMS to the borrowers once they receive the repayment collections from the borrowers.
- New Opportunity Consulting Pvt. Ltd. – MFI gives two receipts to the clients while they pay the EMIs, first a kutcha receipt by the relationship officers and the second pukka receipt by the branch manager.
- Loan Disbursements are made at the centre meetings itself through the Aadhaar Enabled Payment System from the repayment collections made during the meeting so as to minimize the net cash carrying by the field staff. e.g. Bandhan Bank follows this practice.

vii. **Monitoring:**

- Regular monitoring by operational team at various level i.e. Branch level, Area level, Regional level and Territory level through weekly / monthly reviews.
- Analysis of dash board reports (Indicators like Portfolio at Risk, SMA (Special Mention Accounts) and NPA movements, Provisioning, Write offs) closely and taking immediate action.
- MFIs shall reconcile the Demand, Collection, Overdue and the amount collected Vs amount deposited in the bank on a daily basis and the dash board reports on unreconciled items shall be shared with the field team immediately for their close follow up on the very next day.
- Comparing the Performance of portfolio of the region with the Industry portfolio and with the data of the last year same period to identify any patterns that requires proactive actions by the management.
- When supervisors go to field visits, they shall go at random and without accompanied by the field officers. In Samavesh Finserve Pvt. Ltd., when a Regional manager or Head office representative makes a field visit, they first go to 2 centres at random and then only visit the concerned branch.
- While monitoring the progress or reviewing the performance targets achievement, the supervisors shall not force the field staff to achieve the business targets violating the processes or deviating from the ethics.

viii. **Post disbursement follow-up:**

- MFIs conduct the loan utilization check by visiting the borrower's place.
- In Satya Microcapital Ltd, 50% of loans are checked within 45 days of disbursement and 100% of loans are checked within 60 days and this helps them to find out the operational risks much earlier at the budding stages.
- In Samavesh Finserve Pvt. Ltd., loan utilization check is done for 100% of the disbursed loans by field officer, then 50% of them are checked by Branch managers and then 20% of them re-checked by Unit managers. As the checks by multi-tiered teams, the PAR of the MFI is very low at 0.61%
- MFIs obtain the loan balance confirmation from the borrower every year or every 6 months. (Mitrata Inclusive Financial Services Pvt. Ltd., Gurugram obtains the loan balance confirmation from clients every 6 months).
- Even for regularly repaid loan accounts, random checks have to be done to check the hidden delinquency i.e. groups paying the EMIs instead of the borrower, as this may lead to a potential default in the near future.

ix. **Internal Audit:**

- Internal audit team enters the branch at the opening time of the branchfirst and checks the cash at the branch and tallies with the cash book.
- Internal audit team verifies whether all the process steps including the maker / checker concepts followed by the branch.
- Internal audit team also verifies the borrowers in the field.

x. **Internal Control:**

- Prudent internal control measures shall be put in place by the MFI viz.
- Maker – Checker model for approvals at every level.
- Dual control of keys of the safe at the branch
- Joint signatures for operating bank accounts
- Physical check-up of assets
- Data access on a need-to-know basis with proper log-in and passwords.
- Taking periodic trial balances and reconciliations.

xi. **Insurance:**

- MFIs take the insurance cover for covering cash-in-transit risk.
- MFIs take the special insurance cover for covering the cash snatching risks, which are more seen in Bihar.

xii. **Information Technology:**

- Periodical Data back-up taken and stored in a disaster free zone.
- Disaster recovery plan shall be in place to restart the operations immediately after the occurrence of any disaster event.
- IT audit may be taken up the by the MFI through a third-party agency on annual basis to check that effective control systemsare in place.

xiii. **New Product/Process approval:**

- MFIs shall have a policy for new product/process approval.
- MFI shall ensure that the Product/Process Approval Committee while checking the other aspects of the products before launch, shall have a thorough check of all possibilities for any risk from the new product/process.
- New Product/Process approval shall take care of the availability of IT controls and controls for ensuring the compliances to the statutory and regulatory requirements.

xiv. **Clients Satisfaction Survey:**

- Many MFIs conduct the Clients Satisfaction survey. Vision Fund India Pvt. Ltd. – MFI conduct the Clients Satisfaction survey every 6 months to know how far clients are satisfied with their products and services. From the feedback received from the unsatisfied clients have led the management to make many changes in the product design (For example, Maximum loan increased from ₹50,000 to ₹100,000) and the processes.

xv. **Field officer rotation:**

- As the microfinance business involves close interactions with the clients, when a field officer leaves the MFI, that field officer also takes away the micro-level knowledge about the clients and it takes at least 3 to 6 months for a new staff coming to this position to close this knowledge gap. This transition period of 3 to 6 months is highly risky for the MFI and it opens up opportunities for operational risk. Hence, MFIs may focus on retaining the field staff and as well as practice the staff rotation at the field officer level.

xvi. **Strong second level:**

- In Microfinance operations, people in all functional roles accumulate lot of specific experience related to their context and once they leave the MFI, that wisdom goes with them and creates problems in the transition period as the new person coming in that place takes a reasonable time to rebuild the lost connection between the MFI and the people. So, MFIs can place the second level persons at every management level – Asst Branch manager at the Branch, Asst Area Manager or Asst Regional Manager at area/regional level so that the transition periods can be effectively handled by the MFIs without any risk to the underlying portfolios.

xvii. **Training to Clients:**

- MFIs give training to clients on various products and especially on the interest rates and other fees that they have to pay. As per the recent RBI guidelines (March 2022), the factsheet containing all details regarding the loan should be given to clients to make them understand that they have taken an informed decision.
- MFIs also give training on financial literacy and digital literacy as many MFIs are piloting the digital repayment mode.

xviii. **Group Level Records:**

- MFIs shall insist that the group leaders record the loan repayment collections made in the group meeting in the group records during the meeting itself.
- Loan cards issued to the borrowers shall be properly filled in as and when the borrower repays the monthly instalments.

1.2.4. Liquidity Risk Management Best Practices:

Liquidity risk is the risk of a situation wherein the MFI is not having sufficient cash and liquid funds to pay for the loan repayment obligations and its operational expenses. If Bankers perceive that the MFI is not liquid or if the bankers see a large scale defaults in an area, they stop further funding to the MFI, which results in immediate downgrade of the rating of the MFI, which aggravates the situation and other risks also emerges (due to the shortage of funding, when disbursal is stopped by the MFI, the clients stop the regular repayment forcing the credit risk default).

When MFIs reach an assets size of having ₹100 Cr or above, MFIs shall form the ALCO (Asset-Liabilities Management Committee), which will be responsible for ensuring adherence to the risk tolerance/limits set by the Board and as well as implementing the liquidity risk management strategy. ALCO will decide on the desired maturity profile and mix of incremental assets and liabilities, sale of assets as a source of funding, the structure, responsibilities, and controls for managing liquidity risk, and overseeing the liquidity positions of all branches.

The best practices for managing the liquidity risks are as follows:

I. **Diversification:**

- MFIs shall not depend on a single lender. MFIs shall diversify the borrowing sources – Public sector banks, Private sector banks, NBFCs and other lenders.

ii. **Minimum Liquidity:**

- MFIs shall have cash and liquid funds equal to at least 3 months of loan repayment obligations and operational expenses. Of course, it will have a negative carry cost.
- To reduce the negative carry cost, an amount equal to the amount which carries negative carry cost, may be raised at a comparatively lower rate through the instruments like CP (Commercial Paper).

iii. **Asset-Liability Matching:**

- MFIs shall borrow for long term and lend for short term so that MFI will not face the asset-liabilities mis-match.
- Statement of Structural Liquidity may be prepared by MFIs by placing all cash inflows and outflows in the maturity ladder according to the expected timeline of cash flows so as to find out the liquidity gaps in different time buckets. MFIs shall ensure that there is no short term (30 days) negative mismatches above the prescribed limits of 10%/20%.

iv. **Diversified Instruments:**

- MFIs shall diversify the financial instruments through which they raise equity or debt viz Equity, Subordinated debt, Term loans, Working capital loans, ECB (External Commercial Borrowing), NCD (Non-Convertible Debentures), Impact Bonds, Commercial Paper, Compulsorily Convertible Preference Shares and so on.

v. **Raising fresh Equity Capital:**

- Even though banks are comfortable with giving loans up to 5 to 6 times of the own funds, MFIs shall start planning the equity raise once it reaches the borrowing equal to 4 or 4.5 times of their own funds.
- During the liquidity crisis, when promoters bring in their own funds, it gives the confidence to the lenders and investors and they will also reciprocate by extending their funding to the MFIs and this will enable the MFI to navigate the liquidity crisis soon.

vi. **Covenants of Financing Institutions:**

- MFIs shall closely monitor the funding covenants (Common funding covenants include Portfolio at Risk, Write-off, Capital Adequacy Ratio (CAR), Profitability and non-funding covenants like change in ownership, changes in senior management, mergers & acquisitions, change of business) of financing institutions carefully, as the breach of funding covenants will be treated as "Event of Default" and necessary actions will be triggered by the lenders, including stoppage of lending.
- MFIs see crisis events once in 4 or 5 years cycle and MFI's business is highly vulnerable. To avoid the breach of covenants, MFIs may plan to have more

provisions as a buffer during the good years, which will help them to absorb the unexpected shocks during the bad year.

vii. **Liquidity Contingency Plan (LCP):**

- Liquidity Contingency Plan shall identify the early warning signals to the liquidity risk, fix roles & responsibility to a specific person, keep open the channels of communication with the lenders and investors.
- LCP will also identify the potential contingency funding sources and the amount/ estimated amount which can be availed from these sources, well-structured escalation/ prioritisation procedures detailing when and how each of the actions shall be activated, and the lead time needed to avail the additional funds from each of the contingency sources.

viii. **Liquidity CoverageRatio (LCR):**

- Liquidity Coverage Ratio of MFIs shall be calculated as given below.

$$\text{LCR} = \frac{\text{Stock of High-Quality Liquid Assets}}{\text{Total Net Cash Outflows for the next 30 days.}} \times 100$$

- LCR shall be above 70%

ix. **Postponing the Capital expenses:**

- To manage the liquidity problems, MFIs postpone the expansion plans thereby reducing the capital expenses and conserve the cash.

x. **Stress testing:**

- MFIs shall conduct stress tests on a regular basis for different short-term and protracted NBFC-specific and market-based stress scenarios (individually and in combination).
- While designing liquidity stress scenarios, the nature of the MFI's business, activities and vulnerabilities shall be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the MFI is exposed.

1.2.5. Governance Risk Management Best Practices:

Governance risk is the risk of Boards of MFIs failing to deliver their duty to provide the necessary oversight and strategic direction. The results of governance failure will lead to the collapse of the MFIs, which the Indian Microfinance sector had seen recently in Odisha and Uttar Pradesh, where the frauds by the top management happened.

Corporate governance of MFIs provides the structures and processes by which MFIs are directed and controlled. Good corporate governance helps MFIs operate more efficiently, improve access to capital, mitigate risk, and safeguard against mismanagement. It makes MFIs more accountable and transparent to investors and other stakeholders and offers them the tools to respond to emerging concerns. The best practices for mitigating the governance risks are as given below:

- MFIs shall make their Boards more professional by inducting more no. of Independent Directors.
- Board shall ensure the independence of the audit process and put in place a clearly defined risk management system and monitor the risks closely & mitigate the risks.
- Independent Directors shall keep asking the right questions to the charismatic founders and key managerial persons to avoid the transactions involving conflict of interest.
- Board shall promote the organizational culture by nurturing the values like integrity, transparency, honesty from the top to down the line.
- Board shall evolve a transparent process for decision making and fix accountability to specific roles in the management.
- Board members may take up field visits and keep open the feedback loops, especially the negative feedback loops so that they can detect the early warning signals and take corrective actions at the budding stage of the problems.
- Boards shall keep sufficient internal checks and balances over the executive's decisions on related party transactions and generous compensation practices for senior management.
- Boards shall ensure the balancing of financial and social objectives of MFIs and staff is focused both on "Profit and Purpose-making a difference in the lives of clients and staff and serving all the stakeholders".
- Boards shall make proper disclosures and oversee that the statutory and regulatory compliances are complied with by their MFIs on time.
- MFIs may take the Directors and Officers liability Insurance cover to protect its Directors and Top management members.

1.2.6. Reputation Risk Management Best Practices:

Reputation risk is the risk of loss due to negative perception of the public, authorities on account of unethical practices and lack of transparency in pricing by MFIs. The best practices to mitigate the reputation risks are as follows.

I. **Communication:**

- All terms and conditions of the loan shall be clearly communicated to the borrowers in vernacular language.

ii. **Transparency:**

- As transparency in operations of MFIs will build trust among the stakeholders, MFIs shall be transparent in loan delivery process and especially pricing of loans.
- Loan cards shall be issued which show the loan amount, repayment term, interest rate, processing fees and insurance details.
- Pricing information shall be furnished to the borrowers through a standardized fact sheet.
- MFIs shall prominently display the minimum, average and maximum interest charged by them on the microfinance loans at all its offices, in the pamphlets issued by them and on the website.

iii. **Fair Practice Code:**

- MFIs shall display the Fair Practice Code at all its offices and also on the website.
- MFIs shall follow the client protection principles and shall ensure responsible lending.

iv. **Recovery of loans:**

- MFIs shall ensure that their staff or their agents are not engaged in harsh recovery methods.

v. **Credit Plus activities:**

- MFIs shall involve in credit plus activities and offer non-financial services to the clients to add value to them. For example, MFIs offering Entrepreneurship development training to the clients. This will create a positive image for MFIs in the eyes of public and government authorities.

1.2.7. Cyber Security Risk Management Best Practices:

Cyber security risk is the risk of a possible threat of potential disruption to the business or to a business reputation by a cyber-attack. Cyber crime[7] attackers steal confidential data from the system and disrupt the business operations of the MFIs. The best practices in Cyber security risk management are as given below.

- Boards of MFIs and CEOs shall invest quality time to discuss on the emerging cyber security risks and shall bring in good quality talents for tackling cyber security risks.
- MFIs shall educate their staff not to click the links sent by the third parties through email or SMS.
- MFIs shall ensure that the systems are secured by anti-virus.
- For approving financial transactions,MFIs shall have 2 step authentications.
- Provision of middle ware so that the members cannot reach the backend and front end directly.
- VAPT (Vulnerability Assessment and Penetration Test) shall be done annually through a Third party.
- Emails from unknown sources shall not be opened.
- Creation of strong passwords, keeping the passwords confidential and changing the passwords often.
- Ensure that the web pages visited are secure. When the web page you are browsing start with https:// and have a lock-sign, it means that the web page you visit is secure and encrypted for security.

1.2.8. Role of Governance in Crisis management:

The Indian Microfinance sector faces crisis in one way or other way every 4 to 5 years and every time, the microfinance sector had proved that it is a resilient sector by overcoming those challenges. Recently, it has passed through the tough COVID-19 pandemic challenges and now in cross roads. Each crisis has taught many lessons to the MFIs. The Governance plays a key role in Crisis management. The following are the best practices in crisis management.

7. Cyber crime has been found as the No.1 risk globally by the survey by CSFI (Centre for the Study of Financial Innovation)-"Banking Banana Skins Report 2021-COVID Special", CSFI, UK, March 2021.

Best Practices in Crisis[8] Management:

- Boards of MFIs shall put in place a Business Continuity Plan (BCP), which is a written plan that sets out the processes and systems that are needed to continue or restore the operations of the MFI in the event of a crisis or disruption.
- Board shall take up an initial assessment of the impact of the crisis and shall form a "Crisis Management Committee" to take immediate action.
- Board shall have meetings often – either weekly or bi-weekly and this will enable the Board to give oversight guidance on time.
- Board shall keep the lines of communication open and shall communicate to all the stakeholders – investors, regulator, government, banks, staff, clients and vendors.
- Boards shall be transparent sharing both the good news as well as bad news with the stakeholders, that will build up the trust in MFIs among the stakeholders.
- Boards shall prioritize the management to keep a focus on nurturing good relationship during the crisis with all stakeholders. Good rapport with the stakeholders during the crisis, will enable the MFIs to get their support. Especially this will be crucial for fund raising during the critical time and tough times.
- Boards shall delegate more powers down the line as during the crisis, some situations need faster responses and decisions have to be taken at the field level. Boards shall make the processes so flexible to suit the emerging situation.
- Boards shall think big and wild to spot out the opportunities hidden in the crisis and shall focus on that. COVID-19 crisis made the MFIs to push the digital transformation of operational processes to a greater extent.
- Boards shall enlarge the feedback loop so as to get to know the changing aspirations of the clients and staff and Boards can ensure the revision of the products and processes and add new products & services to deepen their services to the clients.
- Boards shall spread positivity and hope among the stakeholders and this will give confidence to the front-line staff to deliver the services even during the critical times of crisis period.
- Boards shall ensure that the MFIs have a continuous dialogue with the Govt and regulator during the crisis. For example, During Assam crisis, Arohan Financial Services Ltd. has set up a Help Desk to disseminate the needed information to the clients and staff and also engaged with continuous dialogue with the government and regulator, which enabled them to convince the Assam Govt to consider the reward to the regular repayment by the clients, while they were formulating a relief scheme.
- Boards shall give directions to the senior management for the schemes announced by the government and the regulator. For Example, Moratorium announced by the RBI during COVID-19 pandemic.
- Boards shall ensure the liquidity of the MFI and shall take action to improve the liquidity position by availing special lines of credit to boost the liquidity to keep the funds flowing in the business.
- Boards shall keep an eye on the expenses especially defer the capital expenses and not to cut the salaries of staff or benefits of staff to reduce the operational expenses, as this will affect the morale of the staff.
- Boards shall ask the senior management to do a stress testing exercise with different scenarios to plan for the cash flow.
- Boards shall ensure the safety and well-being of the staff and clients during the crisis.

8. Julie Abrams, Crisis Roadmap for Micro Finance Institutions, CGAP, Washington DC, Feb 2021.

Lessons from International MFI crises:

The Weathering the Storm II[9] study throws more light on the major MFI crises across the globe and lot of lessons shall be learnt from it. The Weathering Storm II suggests a hierarchical framework.

Financial Institution's Hierarchy of Needs during Crisis

The financial Institution's Hierarchy of Needs during crisis begins at the bottom and rises upward. Liquidity gets the top priority, then Confidence, Portfolio management and the last Capital. Each category is further sub-divided into key elements and are prioritized from left to right.

Liquidity:

- With regard to Liquidity, MFIs shall focus on 3 elements as priority i.e. Paying for the staff (Operations), Payment to withdrawals of Depositors (when entity is having a deposit taking license from the regulator and taking deposits) and payments to creditors after negotiating for a rescheduling of their debts.

Confidence:

- Maintaining the confidence of clients, staff, investors and regulator is a crucial thing, which MFIs may take up throughout the crisis period. Giving loans to good borrowers even during the crisis and continuous communication with clients hearing their well-being & challenges will build up the confidence of the clients. Frequent communication to staff will avoid uncertainty and related anxiety and timely payment to them will boost their morale and confidence. MFI shall not prefer to lay off staff or effect a salary cut. If the salary cut is inevitable, it shall be for senior and middle management and field staff may be omitted for salary cut. Promotors infusing new equity will build the trust and confidence of the investors. MFIs shall keep sharing the facts of the crisis in a transparent manner with the investors and the regulator, which will improve the confidence of investors and regulator on the MFI.

9. Daniel Rozas, Weathering the Storm II – Tales of Survival from Microfinance Crises Past, Centre for Financial Inclusion, ACCION, Washington DC, & European Microfinance Platform, June 2021.

Portfolio management:

- Portfolio shrinkage is an expected outcome of any crisis in microfinance. Hence, MFIs shall take note of this and slowly balance disbursements and recovery to build back the portfolio as healthy one. MFIs shall segment customers depending upon the impact of the crisis on them and then adopt different collection strategies for different segments.

Capital:

- Even though the Capital Adequacy Ratio (CAR) prescribed by RBI to MFIs is only 15%, MFIs shall strive to keep a higher capital so that they can absorb the losses during the crisis. The Weathering the Storm II study reveals that among the 8 MFIs that survived the crises, 5 of them had a pre-crisis Capital to Assets Ratio of above 25%. Investors instead of waiting for full recovery of MFIs from the crisis, the investors shall come out with a rapid response to the MFI's needs of equity, which will jump-start early recovery of the MFIs from the crises.

Case study: Kashf Foundation:

- When Pakistan's Kashf foundation was aggressively growing, its group leaders started acting like commission agents and multiple lending became widespread. In 2008, a local politician advocated for waiving the loans of groups and it emerged as a "Do not repay" movement, which caused 80% of Kashf foundation's borrowers stop repaying. This wiped out sizeable equity capital of Kashf foundation.
- To overcome this crisis, Kashf foundation followed threes major startegies.
- Negotiated a one year grace period for payments from its largest lender Pakistan Poverty Alleviation Fund, which enabled the Kashf foundation to pay to other creditors on time.
- It revisited the group lending model and started Individual lending methodology.
- Kashf foundation started collecting exhaustive information on each client, to prepare a cash flow based forecast for repayment. On analysis of this data, Kashf foundation understood the needs of the clients better and found the need for offering the credit plus services to clients. It started offering business development, gender empowerment, health and education services to the clients. This helped Kashf foundation not only to survive the crisis and turn around, but also to emerge as a leading socially responsible MFI at the global level with lot of recognitions for its client-centric services.

From the above, it is very obvious that if the MFI is willing to adapt to changing environments, it can survive any crisis.

2.1. Risk management:

Any organization's sustainable development depends upon its quality of human resources and microfinance being a high touch model, with field staff in constant contacts with the clients, the human resources management has to be given a thrust. Now, the human resources exit in the microfinance industry is also at an alarming rate of around 40%.

Human Resources Management (HRM) involves HR Planning, HR Policies, Recruitment & Induction, Staff Salary, Benefits & Incentives, Performance evaluation and Training & Development.

HRM shall help the staff

- To understand the MFI's purpose and vision.
- To know their roles and responsibilities and how it fits in the organization to achieve its purpose.
- To build the capacity and achieve their performance targets
- To get the constructive feedback and encouragement for better performance.

2.2. Best practices in Human Resources Management:

2.2.1. HR Planning:

- MFIs shall plan HR resources taking into account their growth plan and the organization structure.
- MFIs shall ensure that one HR person is in place for every 50 to 75 staff.
- MFIs which face higher staff exits, may have a buffer at regional level so that the vacancies in the field can be filled in immediately.
- During the last quarter of the financial year, Functional Department Heads and HR Head shall prepare a Manpower plan for the coming financial year.
- Once the Manpower need is assessed, a budget approval shall be obtained from the Board of the MFI.
- Manpower plan may be revisited at the end of 6 months and if any changes required due to the developments in the business scenario or environment, necessary corrective actions may be taken in the plan.

2.2.2. HR Policies:

- MFIs shall put in place a proper HR policy coveringrecruitment & selection, work contract terms, working hours, salary, benefits, travel eligibility, incentives, leave facilities, training & development, performance evaluation, disciplinary proceedings procedures, grievance red ressal and termination procedures.
- HR Policies shall be dynamic taking into account the changing aspirations of the staff and the external environment.

- MFIs shall train the staff on HR policies and may make available a HR handbook to them.
- HR policies shall enable flexi hours to staff and promote staff engagement. Offering flexi hours will encourage more women to join the sector.

2.2.3. Recruitment & Induction:
Recruitment:

- MFIs recruit the staff from the local area for the field level jobs.
- Recruitment happens through both walk-in interviews and referrals.
- Many NGO-MFIs recruit mostly women staff for loan officer positions.
- Some MFIs recruit preferably persons with +2 qualification from rural areas as loan officers, as they find this segment stays with the MFIs for long term. (For e.g, Gramalaya Microfin Foundation, Trichy takes the field officers with +2 qualifications and their staff attrition is 6% only).
- It is also a practice in some MFIs that they use the psychometric tests for screening the recruits. In Finsigma Inclusive Services Pvt. Ltd., they use an application called "Sigma Bee" i.e. Emotional Intelligence test to select the staff, as the nature of work requires more of understanding other people emotions and managing their own emotions. After selection of the field staff, Business team and Credit team representatives visit the house of new recruit and have a dialogue with their families explaining them the nature of job and take a photo with the staff and their family. Later, the family cannot disown that they are not aware of their children's working organization and nature of job.
- Before recruiting formally, new joinees are asked to make a field visit to the branch to understand the work environment, nature of job and the staff culture.
- Most of the MFIs do proper due diligence to take the staff for field level jobs. New Opportunities Consultancy Pvt. Ltd. uses a 4-level check viz.

1. CIBIL check
2. Provident Fund history check
3. Checking with Equifax Employment exchange Bureau
4. Police verification

- MFIs also visit campuses of the Business schools and take staff for middle management cadre. Satin Creditcare Network Ltd visits Tier-II and Tier-III B-schools and recruit people for middle management.
- Some MFIs take only freshers and not prefer the persons with prior MFI experience, as they find it difficult to change the experienced persons who bring the previous organization's culture and not easily adapting to the new culture.
- Orientation prior to Interview: Muthoot Microfin Ltd follows this very effective system, which is an Orientation to the prospects before taking up a formal interview. It is a 30 minutes process, during which the prospects are first briefed about the Microfinance nature of business, about the clients and the process of loan delivery. Then they are told inspiring client's stories to explain them how Muthoot Microfin Ltd. is impacting their clients and they explain the career path offered to the field staff and Stories of

successful staff who started as Relationship officer & reached the senior positions as Associate Vice President or Senior Associate Vice-President are shared. At the end of the process, only 40 to 50% of the prospects are expressing their consent to move to the next level of formal interview. This enables the Muthoot Microfin Ltd to take the persons with the right attitude.

Induction:

- No. of days of Induction training varies across MFIs ranging from 2 days to 15 days and most of the MFIs follow 4 to 6 days of training for field officers.
- During the class room training of the Induction program, participants are trained on the MFI's Vision, Mission, Values and operational processes, product specifications, Regulatory changes, Use of IT and on soft skills like Communications, Leadership and problem solving and so on.
- During the Induction training, the senior management leaders shall take some sessions to inculcate the sense of purpose and vision to the new joinees. If a physical session is not possible, an online session may be included which will help the new joinees get the big picture from the senior management.

Support to new staff:

- Some MFIs do not give field targets during the first month. Satin Creditcare Network Ltd do not give the field assignments during the first month.
- Buddies are assigned to new recruits to give them handholding support to enable them to settle down in the new working system.
- Dvara Kshetriya Gramin Financial Services Pvt. Ltd. - MFI celebrates the 100 day of new recruits at the branch with a cake cutting party.

2.2.4. Staff Salary, Benefits & Incentives:

Staff salary:

- Many MFIs offer salary structure matching the market trends to retain the best talents.
- As the field officers are keen to see a higher net take home pay, MFIs plan the salary structure in such a way that the field officers have a higher take home pay with lesser deductions.
- Staff salary hikes are linked with annual performance appraisal and accordingly MFIs offer increments to the staff.
- In Satya MicroCapital Ltd, they pay a retention bonus of ₹6,000 after completion of 4 months by the field staff.
- Salary may be divided as Fixed portion (may be around 70%) and variable (30%) which is payable depending upon the performance during the month. This variable pay amount will be paid in a staggered manner over subsequent months depending upon the performance of the portfolio of the concerned staff.
- Differential Salary grades for Relationship Officers: Muthoot Microfin Ltd has put in place a good system of differential salary grades for Relationship Officers that will

vary with the branch category they are working. Branches have been categorized into 3 categories viz. Branches Up to ₹2 Cr outstanding, Branches between above ₹2 Cr and Up to ₹5 Cr and Branches above ₹5 Cr. This motivates the staff to work more to make their branches to the next category and higher responsibilities are given to the relationship officers who are with the branches with higher loan outstanding.

Benefits:

- MFIs offer different types of leave to the staff viz Casual leave, Earned leave, Sick leave and Maternity leave and so on.
- Dvara Kshetriya Gramin Financial Services Pvt. Ltd. – **MFI has a "LEAVE Bank", wherein interested staff can surrender their leaves (casual leave and earned leave from 1 days to 5 days maximum in a year) to this bank and the staff who are in an emergency and need leave but do not have any leave in their credit, can avail the leave from the Leave Bank. This scheme is very useful to those suffer because of emergencies arising out of personal accidents, medical hospitalization and family medical emergencies.**
- Many MFIs offer several other benefits also to attract the staff. For example, Satya MicroCapital offers field staff helmet, Bed, Stay, Care-taker facility, food, RO water and washing machine at the hostel.
- MFIs extend various advance and loan facilities to staff ranging from 1 to 2 months salary as advance, repayable in 3 to 6 months and 5 to 6 months salary as loan repayable in 2 to 3 years.
- MFIs offer accident insurance to staff and health insurance to staff and their families.
- In case of death of the staff, Some MFIs provide family pension to the legal heirs and take care of 2 children's education till +2.
- Staff are offered Provident fund and gratuity and Employee state Insurance (ESI) facilities (for those who fulfils the income eligibility criteria of ESI).
- MFIs provide conveyance allowances to staff as most of the staff keep moving to be in touch with the clients.
- MFIs offers mobile phone allowances as there will be lot of communication between the branch and the clients through the staff.
- Some MFIs offer tele-medicine facilities to staff.

Incentives:

- MFIs link the incentives with performance of the staff and offer them on achievement of the Key Performance Indicators like Disbursements, Repayment collection efficiency, PAR and new client enrolled and so on.

Retention measures:

- Some MFIs offer Employees Stock Option Schemes to middle and senior management staff to retain them for long term.
- First response call to the staff by HR immediately after the receipt of the resignation letter.
- Some MFIs have put in place policies to insist the desirable behaviour by senior management. In Mitrata Inclusive Financial Services Pvt. Ltd., Zero tolerance for abuses against staff or no shouting at the sub-ordinates by superiors.

Diversity & Inclusion:

- To make the MFI a better work place to work for women, Dvara Kshetriya Gramin Financial Services Pvt. Ltd. has an exclusive forum for all women employees called "SHE" – Safety, Health & Empowerment and this forum will conduct the activities on these 3 focus areas to improve the working conditions of women.

Staff well-being:

- As the field officers' nature of work is stressful with the extended hours of work from the early morning till late nights, they may be offered the facility of flexi hours.
- MFIs shall ensure the work-life balance to the staff by not asking them to come on holidays or during leave period and by not asking them to respond to the office emails during the late nights.
- **Svatantra Microfin Pvt. Ltd. follows a system of giving negative marks to the branches by the internal audit team, when any staff is found to be working after 7 pm.**
- Anxiety among field staff increases adverse impacts on mental health and staff misbehaves with clients. This results in loss of reputation to MFIs and adverse regulatory action is initiated. Hence, staff well-being shall be given adequate focus. Staff are trained on Yoga or Meditation or on any other Mindfulness programs.
- To reduce the staff anxiety, MFIs shall not change the policies frequently, shall have a clear channel of communications to remove the uncertainty and the senior members shall support their team members for problem solving.
- Happiness Index[10]: Annapurna Finance Pvt. Ltd. has introduced a "Happiness Index" tool to monitor the employees happiness in real-time. HR team make calls to employees who filled out the happiness survey in the unsatisfied categories, listens to their concerns and proposes solution. This happiness survey enables the MFI to discover the factors influencing employee happiness at work and to take concrete steps to improve employee happiness and satisfaction.
- MFIs conduct "Family Enrichment programs" to strengthen the bond between the MFI and the staff's family. ESAF Co-operative through its staff welfare trust not only offers other benefits like hospitalization benefits and educational assistance to deserving staff's families, but also organizes Family enrichment program so that they are able to live a better and meaningful life which brings joyfulness and peaceful co-existence.
- MFIs organize celebrations at the national level, regional level and local area level to enable the staff to show off their talents and to enable bonding among the staff.

10. Annual Report 2022, Annapurna Finance Pvt. Ltd.,

Recognition:

- MFIs give milestone awards to the staff who complete 5 years / 10 years / 15 years / 20 years of service with them.
- MFIs give awards and recognition by way of certificates for achieving performance targets and completing training courses.
- MFIs invite the star performers for lunch with the Senior executives of MFIs and honour them by giving a Dining experience and listen to their voices during such meets.
- Achiever's names and their stories are circulated in MFI's Newsletter and uploaded in the website and circulated in their internal social media groups.

Organizational Culture:

- Senior managers shall set an example in communicating the culture of the organization and shall live the culture in daily activities and lead the staff by example.
- MFI shall attach the topmost value to its "Values" and make it as a non-negotiable in day-to-day behaviours.

Staff exits:

- MFIs shall make the staff exit a smooth one.
- Exit interviews may be conducted by the HR team to find out the reasons for exits. This will help the MFIs to take necessary corrective actions.

Attracting Talents:

- Many MFIs have taken the certification as "Great Place to Work". MFIs shall get Great Place to Work certification, which will attract best talents.

2.2.5. Performance evaluation:

- Staff performance appraisal shall be made more objective so that there is no scope for superiors to have any personal bias towards a particular staff.
- Satin Creditcare Network Ltd follows a unique appraisal process every 6 months using a 6-months goals sheet (4 objective parameters are used to measure the monthly performance viz No.of new customers acquired, Total disbursement, Collection efficiency and Overall portfolio quality). If the staff achieves 90% of the target in these 6 months period, they are given Incentives. Incentives vary with the various levels of achievement (e.g. Platinum – those achieve more than 110% of the target and above, Diamond- 101 to 110%, Gold – 95 to 100%)
- Some MFIs follow very unique evaluations processes like Balanced Score cards and 360-degree evaluation for senior management and in that case staff are evaluated by the superiors, peers and sub-ordinates. Satin Creditcare Network Ltd. follows the 360-degree evaluation for the level of Regional managers and above. IIFL Samasta Finance Ltd uses the Balanced Score card tool to evaluate the senior and top management.

- IIFL Samasta Finance Ltd. uses the field officers key result areas data and through machine learning, analyses these data and monthly feedback is given to the field officers on their performance.
- While most of the MFIs are following the annual promotion process, Lahanti Last Mile Solutions Pvt. Ltd. has a system of conducting the promotion process every month, as the employee becomes eligible on the eve of every work anniversary for appearing for the promotion process and increments.
- The employees who are found engaging in unethical practices shall be removed.

2.2.6. Training & Development:

Training:

- MFIs shall continue to offer their staff need based training and make them ready with future ready skills.
- MFIs shall sensitize all staff on Purpose-Centred approach – impacting all stakeholders in a positive way and adding value to clients, staff, society & the environment.
- MFIs may offer both in-person physical and online programs.
- Dvara Kshetriya Gramin Financial Services Pvt. Ltd.- MFI tracks the field staff performance (in terms of Collection efficiency %, Portfolio At Risk, and Disbursement) every month through a tracker and the staff in the bottom quartile are given refresher training.
- Dvara Kshetriya Gramin Financial Services Pvt. Ltd. also has developed a Gurukool- an online Learning Management System (LMS), where in courses are made available for field staff in local languages. The three elements of Simplicity, Accessibility (24 x 7) and Availability of the content in vernacular language have made this LMS very popular among the staff and many are using this to their full advantage to continue learning.
- Some MFIs have more structured programs with Certification. For example, Satin Creditcare Network Ltd have created 6 modules (IT, HR, Operations -2 modules, MIS and Collections) for training the Branch managers. Branch managers are called in batches to head office and trained in-person. Branch managers have to undergo the test and post-training they are evaluated for one month. Once they are certified by the Training and HR Manager, they get ₹35,000 as salary. Many of these Certified Branch Managers got promoted fast and reached the levels of Territory Manager and Deputy Regional Managers.
- **Talent Pool Development:** Muthoot Microfin Ltd has been following an unique system to nurture the talents and prepare a ready pool of trained manpower to fill in the upcoming vacancies. They spot potential Relationship officers, and they undergo a test and an interview by a panel with representatives from different functions like Business, HR, Training and Audit. They are given first class room training. Then they are posted to the Model Ideal branch (Which will be having Healthy portfolio, Satisfied clients without any grievances, good infrastructure, Best performance in all business parameters) for Shadow training with seniors. Then they will be sent to the branch for on the job training. During the entire first month, they will be given handholding support by the training team. This system helps the MFI in two ways, one it prepares the internal staff for upward mobility and as the talented and trained pool is prepared upfront and kept ready, the vacancies are filled in quickly.

Development:

- Most of the MFIs prefer to give first right of refusal to internal candidates for promotion till the middle management cadre.
- MFIs shall offer a well-defined career progression path to the staff, which itself will be a great motivation.
- MFIs shall give continuous feedback to the staff for their all-round development and to realize their full potential for the business development and development of the staff along the growth of the MFI.
- MFIs may support staff to continue learning through distance learning courses or part-time courses or online courses and shall recognize the staff who complete additional courses.
- MFIs shall offer a special fast track channel to staff whose performance is extra-ordinary and who complete additional courses.
- MFIs shall also roll out special women leadership development programs to help the women staff in the middle management to go up the ladder and contribute to the organizational growth at the senior level.
- MFIs shall plan for the succession plan and prepare the leaders in the pipeline for the Key person's positions.
- MFIs shall have a Mentoring program to nurture the talents at different managerial layers.
- MFIs may send the best performing senior management staff to the trainings like Boulder Microfinance training program in Turin, Italy.
- MFIs shall put in place reverse mentoring process also so that seniors can learn the digital skills from the youngsters.

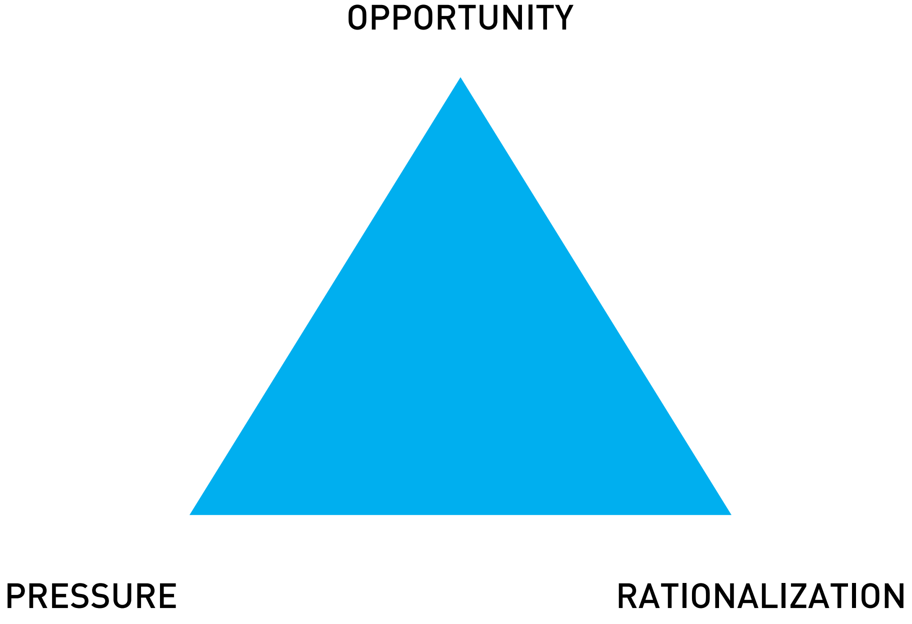
3 Best Practices in Fraud Risks Management

3.1. Fraud Risks Management

Due to the intense competition among the MFIs and other players like banks & NBFCs to capture the microfinance market, the field level staff are focusing on quick growth to achieve the ever-increasing targets, sometimes skipping some of the due diligence steps, which opens opportunities for larger no. of frauds. Lack of monitoring by the immediate supervisors and large-scale staff exits also result in giving opportunities for field staff to commit the frauds. Hence, MFIs need to focus on fraud risks management in a systematic way.

Fraud risk is the risk of losing of earnings or capital as a result of the intentional deception by a staff or client or an external person. Many of the MFI's operations are decentralized over many remote locations and mostly involving cash collections, it gives scope for people to commit frauds.

Fraud Triangle[11]



11. MFI Internal Audit and Controls Trainer's Manual, MEDA (Mennonite Economic Development Associates) and MicroSave, August 2007.

"Fraud Triangle"– the term introduced by a well-known criminologist Dr. Donald Cressey has three dimensions viz Opportunity, Pressure and Rationalization.

I. **Opportunity:**

This is a circumstance which helps a staff to misuse cash or other assets. The opportunity is created by the weaknesses in the internal controls or by the lack of monitoring systems or non-adherence to the processes prescribed by the head office of the MFIs. Some of the examples include the following.

- Lack of supervision and review of data
- Non-segregation of duties
- Close working relationship with the clients, leaders and vendors
- Failure of internal controls.

ii. **Pressure:**

Pressure is the motive or incentive for an employee to commit the fraud. This pressure will be imposed on the staff through various factors such as

- Personal financial problems faced by the staff or group leaders
- Addiction to Bad habits like Drinking, Gambling or drugs.
- Shift to life-style beyond the means e.g. Purchase of Costly watches, cell phones or Luxury Bikes and so on.
- Unrealistic performance targets pressure or short time lines for goals achievement
- Responsibilities emerging out of extended families or social rituals.

iii. **Rationalization:**

Rationalization is the frame of the mind that allows employees to do the misuse intentionally. This frame of mind causes employees to justify their fraudulent actions. Some examples will include

- Staff saying themselves "I will use this money now for my urgent purpose and I will replace this money sooner, before others see this misuse"
- While taking a cut from the loan amount through the group leader, telling something like this – "I am borrowing from the leader temporarily and I will repay it in 6 monthly instalments"

There is finally the issue of Integrity. There are staff who either will deliberately make fraudulent choices at any given opportunity because they lack ethics or personal moral character and cannot manage or control the pressures in their lives and commit frauds. So, Fraud risks management should address all the above 3 aspects.

3.2. Types of frauds:

Even though MFIs follow various preventive measures and put in robust internal control systems, frauds occur in different ways. The various types of frauds that MFIs facing are as given below:

- Ghost loans by Loan officers or group leaders
- Loan officers disbursing loans to the members organized by ring leaders
- Loan officers taking a cut from clients for loans
- Loan officers giving a bigger loan to a client and taking part amount of the loan for their use.
- Loan officers collecting money from the clients and not paying to the MFI
- Loan officers collect from written off accounts and keep themselves
- Loan officers misusing the cash in the safe at the branch.
- Loan officers committing transaction frauds in digital payments
- Frauds by top management by siphoning off funds to other accounts
- Frauds by top management by preparing false financial statements.

3.3. Classification of Frauds[12]:

Frauds have been classified as under mainly based on the provisions of Indian Penal Code.

a. Misappropriation and criminal breach of trust.
b. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.
c. Unauthorised credit facilities extended for reward or for illegal gratification.
d. Negligence and cash shortages
e. Cheating and forgery
f. Irregularities in foreign exchange transactions
g. Any other type of fraud not coming under the specific heads as above.

- Cases of 'negligence and cash shortages' and 'irregularities in foreign exchange transactions' referred to in items (d) and (f) above are to be reported as fraud if the intention to cheat / defraud is suspected / proved.
- However, the following cases where fraudulent intention is not suspected / proved, at the time of detection, will be treated as fraud and reported accordingly: (a) Cases of cash shortages more than ₹10,000 and (b) Cases of cash shortages more than ₹5,000 if detected by management /auditor / inspecting officer and not reported on the occurrence by the persons handling cash

3.4. Best Practices in Fraud Risks Management:

For Preventing Institutional frauds:

- Board shall ensure the independence of the Internal Audit department by making Head-Internal Audit directly reporting to the Audit Committee of the Board.
- Audit Committee of the Board shall have more Independent Directors and it shall also be headed by an Independent Director.
- Board shall keep asking more questions to the management especially to the CEO/Founder.
- Board shall exercise caution while considering the Related Party Transactions proposed by the management.

12. Master Direction DNBS. PPD.01/66.15.001/2016-17 September 29, 2016, RBI, Mumbai.

- Board members shall make a field visit and keep the feedback loop open to receive the complaints.
- Board shall put in place a Whistle-blower policy and it shall ensure that all the staff are aware of the same by giving them training.
- Board shall also ensure that the confidentiality is maintained to protect the person who reported the frauds first.
- Board shall take up audit firm rotation at proper intervals (every 3 years) as prescribed by the RBI from time to time.

For preventing other frauds:
- MFIs shall give adequate training to staff to prevent and detect frauds.
- MFIs shall provide training to clients about the possible frauds in disbursements and loan collections and also sensitize them on involvement of ring leaders.
- Field staff shall educate the clients that borrower whenever paying the cash, they must demand the official receipt duly signed by the authorized person.
- MFIs shall train the clients on the cyber security risk and shall give them financial literacy and digital literacy training.
- Branch staff shall follow the lending process steps as per the head office directions and shall adhere to the risk control systems strictly viz Segregation of duties, Holding of keys separately, Operation of bank accounts jointly, making use of the maker – checker model for approving transactions and so on.
- MFIs to shift to cash-less transactions for both disbursements and collections.
- MFIs may introduce digital documentation as this will eliminate the risk of altering the manually written documents.
- MFIs shall not accept the partial payment of EMIs by the clients.
- MFIs shall follow the code of conduct of SROs
- MFIs shall not give aggressive pressure to the field staff for achieving the short term targets, which increases the pressure on the field staff.
- MFIs shall put in place a whistle blower policy and shall create an awareness on the whistle blower policy, especially on the confidentiality part i.e. the name of the person who is reporting the frauds/misuse will not be disclosed.
- MFIs may organize the staff well-being programs involving the staff family members which will improve the loyalty of staff on the institution.
- MFIs shall inculcate the values like integrity, transparency, honesty among the staff by inspiring them and leaders must live the values in their daily life and shall be a role model for them.
- MFIs shall ensure that the financial transactions happen during the group meeting.
- MFIs shall train leaders in the pipeline and shall ensure the group leadership rotation.
- MFIs shall have a Zero Tolerance Policy for frauds. Staff involved in frauds and charge proved must be sent out of the organization and it shall be reported to Equifax Employment Exchange ASAP.

For detecting the frauds:

- Internal audit team to take up more field visits at random and surprise visits to the branch.
- Branch managers shall keep a close watch over the sudden changes in the behaviour & life style of the field staff. e.g. Purchase of a costly cell phone or a luxury bike, beyond the ordinary means of the staff.
- Regional managers and Area managers during their visits to the groups, they need to talk to the clients without the presence of the group leaders and field officers.

For responding to the frauds:

- Once, the fraud is found out, a detailed report of the fraud shall be sent by the branch to the Regional/State Heads and to the Head office of the MFI.
- MFI shall start the investigation of the fraud immediately.
- MFI shall take the safe custody of all documents related to the fraud.
- MFI shall get back the official tablets/mobile given to the staff who have committed the fraud and they must block the log-in access to them.
- MFIs shall take the written statement from the witnesses to the fraud event.
- Branches shall take the guidance of legal team at the head office for handling the fraud cases.
- When the fraud is more than the threshold level (If the loss estimated due to the fraud involving a staff is exceeding ₹10,000 and if the loss estimated due to the fraud involving an external person is ₹100,000 and above) prescribed by the regulator, MFI shall report to the police to file a FIR (First Information Report).
- When the fraud cases of ₹100,000 and above, such cases shall be reported to, RBI.
- FMR 1 to 3 are reporting formats for frauds reporting by NBFCs to RBI.
  - FMR- 1 : Report on Actual or Suspected Frauds in NBFCs
  - FMR - 2 : Quarterly Report on Frauds Outstanding
  - FMR – 3 : Quarterly Progress Report on Frauds of ₹1.00 lakh & above.
- Fraud reports shall also be submitted in cases where central investigating agencies have initiated criminal proceedings suo moto.
- Where the amount involved in fraud is ₹1 Cr and above, the reports in the prescribed format shall be sent within three weeks from the date of detection of the fraud to:

  Central Fraud Monitoring Cell,
  Department of Banking Supervision,
  Reserve Bank of India,
  10/3/8, Nrupathunga Road, P.B. No. 5467
  Bengaluru – 560001

  and to the Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the Registered Office of the applicable NBFC falls.
- All individual cases involving ₹25 lakh or more shall be continued to be placed before the Audit Committee of applicable NBFC's Board.
- MFI shall ensure that the investigation report on the fraud is ready as soon as possible, charge sheet shall be issued to the person who committed the fraud.
- MFI shall serve the charge sheet in person. If the person is not available, the

charge sheet may be sent through registered post.

- MFI shall give an opportunity to the person who committed the fraud to listen to his/her version of the event.
- MFI shall ensure that the fraud cases are thoroughly investigated by the disciplinary authorities and punitive action taken on the fraudsters.
- MFIs shall not release the final settlement amount to the exiting staff who involved in a fraud case till the loss of the fraud is recovered from the staff.

MFI Fraud Risk Management Exchange:

- **Sa-Dhan, Equifax India, and MFI practitioners have joined hands to introduce a Fraud Risk Management Exchange specifically for the MFI sector. This solution will screen borrowers against known instances of fraud; thereby helping lenders to prevent fraud at the point of entry itself. Built as a consortium model, it will collect known fraud data from the participating MFIs and Equifax will store, host, and manage this exchange. Equifax India has customized the solution to cater to fraud scenarios and data fields which are specific to the MFI industry. Negative location intelligence will also be included along with borrower fraud history. Equifax has completed development of this solution and branded it as 'Luminate Exchange' which will soon become an enabler in the microfinance ecosystem; like how its credit bureau has emerged in supporting MFIs.**
- Equifax India has defined Fraud as 4 categories viz
    - Document and Identity
    - Loan sharing
    - Address instability
    - Negative location.
- Fraud risk management exchange also will be an enabler in the microfinance ecosystem soon, like how the credit bureaus have emerged and supporting the MFIs.

4.1. Best Practices in Compliances:

When organizations do the business and grow over a period of time, they face several challenges both inside and outside the organization and the fast technological developments in the external environment also forces the organizations to meet various challenges. To ensure the sustained growth of the organizations, regulator, government and other statutory bodies put regulations to protect the interests of all stakeholders. Under this context, compliances enable the MFIs to do the business in a lawful manner and minimizes its risk and protects its reputation in the eyes of the stakeholders.

The recent report of the state of compliance survey 2021[13] revealed that there is an increase in the volume of regulatory change over the year, which has driven a reduction in their ability to meet all of the demands placed on them by the business and 61% of respondents have noted that the recent level of regulatory change has had an adverse impact on the Compliance function's ability to perform its role effectively. Hence, MFIs need to focus on compliance function effectively.

4.2. Best Practices in Compliances:

- MFIs shall have a list of all compliances related to the regulators-RBI & SEBI, Governments (Both Govt. of India and State governments), and other statutory bodies.
- MD & CEO shall submit a Compliance report to the Board every quarter stating the list of compliances with due dates and the dates of actual submission during the quarter under review.
- MFIs shall have a compliance cell at the Head office headed by a Compliance Officer or Chief Compliance Officer, who must ensure the compliance by different functional departments.
- Compliance cell shall be the nodal point to coordinate with all other functional departments like HR, Finance, Operations, IT, Legal and Admin for the delivery of compliance reports by the respective departments to the concerned authorities.
- As per the scale based new RBI regulations[14] for the NBFCs, the NBFC which are in the Upper Layer (UL) and Middle Layer (ML) shall have an independent Compliance function and an exclusive Chief Compliance Officer.
- NBFC-UL and NBFC-ML shall put in place a Board approved policy and a Compliance Function, including the appointment of a Chief Compliance Officer (CCO), latest by April 1, 2023 and October 1, 2023, respectively.
- The Senior Management shall:

13. The State of Compliance Survey 2021, Deloitte.
14. Revised Regulatory Framework for NBFCs' issued vide Circular Ref.DOR.CRE. REC.No.60/03.10.001/2021-22 dated October 22, 2021

I) carry out an exercise, at least once a year, to identify and assess the major Compliance risk facing the NBFC and formulate plans to manage it;
ii) submit to the Board / Board Committee a review at the prescribed periodicity and a detailed annual review of Compliance; and
iii) report promptly to the Board / Board Committee on any material Compliance failure while ensuring that appropriate remedial or disciplinary action is taken.

- The Chief Compliance Officer (CCO) shall be a member of the 'new product' committee/s. All new products shall be subjected to intensive monitoring for at least the first six months of introduction to ensure that the indicative parameters of Compliance risk are adequately monitored.
- MFIs shall follow the "Three Lines of Accountability[15]" Model, which is more proactive in monitoring issues as they arise and in actively managing compliance risk by clearly fixing the accountability. The Three Lines of Accountability model provides an effective framework for risk management including:
  - The business (Line 1), which is accountable for managing compliance risk,
  - The risk management (Line 2), which provides oversight and challenge, and
  - The internal audit (Line 3), which performs independent assurance activity.
- MFIs shall start using the Regulatory Technologies for automating compliance functions which will improve the efficiency.
- Larger MFIs shall go for ISO certification as the new global standard ISO37301 replacing ISO 19600 has come which will help for establishing, developing, implementing, evaluating, maintaining and improving an effective Compliance management system.
- Board shall ensure the corporate governance compliance and ensure the following best practices are followed at the Board level.

Corporate governance:

- Board members shall have a proper mix of Promoter Directors, Investor Directors and Independent Directors should be more.
- MFIs shall ensure the Board diversity by bringing in Women Directors.
- Boards shall ensure that the Board committees (Audit committee, Risk Management committee, Nomination & Remuneration committee and ALCO) are functional.
- Boards shall make that the Audit committee consists of maximum no. of Independent Directors and Chair of the Audit committee also an Independent Director.
- Head of Audit committee shall report to the Audit Committee of the Board and not to the CEO.
- If Chairperson of the Board is a promoter, Independent Directors shall be 50% of total Directors in the Board.
- CEO, CFO and Co. Secretary instead of reporting to MD, shall report to the Board.

15. Article titled "How to manage Compliance risk and stay out of the headlines", APRA (Australian Prudential Regulation Authority), 17 February 2022

- Board shall insist the Compliance officer to have a Calendar of Compliances so that Board can take oversight and ensure compliance. (Given in Annexure 3 to 6).
- The due dates of these compliance reports can be fed into software and alerts can be generated to the functional departments and compliance officers to follow up submission of the reports on due dates.
- Whenever any new regulations come into force from any of the regulator or other statutory bodies, CXO level meeting shall be held and ownership of changes to be done be vested with the concerned functional department and CXO concerned, so that needed policy be put in place by the Board and compliance ensured.
- A list of RBI compliances, SEBI compliances, MCA compliances and other statutory compliances are given as separate lists in the Annexures 3 to 6.

5 Recommendations to MFIs

As the MFIs are set on the path of faster growth of their portfolios, now MFIs need to focus on certain actions to cope up with the changes in the environment and in the regulatory space. The following are the recommendations to the MFIs and MFIs may choose to adopt them selectively as per their specific requirements.

At the Board level:

- As Boards have been loaded with lot of responsibilities after the new RBI regulations (March 2022), MFIs shall improve the policy deliberations at the Board level.
- As MFIs push the digitalization agenda of MFI operations and many times, senior members or CEOs are not having the full understanding of the intricacies of technology. Promoters may bring in IT professionals as Independent Director, so that they can give IT oversight to the Board and to the MFI.
- MFIs shall nominate their Board members to the special training programs on corporate governance organized by SROs.
- Boards of MFIs and CEOs shall invest quality time to discuss on the emerging cyber security risks and may bring in good quality talents for tackling cyber security risks.

Operations-related:

- Out of around 213 MFIs, Only 76 MFIs use the services of Employment exchange. So, other MFIs shall share the employee data with the Equifax Employment exchange and shall benefit out of the reference checks for the new recruits.
- As frauds occurrence is on the increase, it is the right time for joint actions by all the MFI to share the frauds data to the Fraud Risk Management Exchange.
- As more natural calamities occur due to climate change impacts, MFIs need to invest in bringing out climate smart agriculture loan products using Design Thinking principles as done in Philippines.
- MFIs shall commit to follow the transparent & responsible lending practices in the field and avoid the aggressive growth leading to multiple borrowing and over indebtedness at the client's level.

Human Resources-related:

- MFIs shall give more training (Both in-person training and online training) to staff on various operational processes as well as on emotional quotient.
- MFIs shall focus on giving handholding support to new staff during the first 100 days.
- MFI shall give training to staff on Design thinking to bring out innovative new products
- MFI shall make the retention of staff as an important KPI (Key Performance Indicator) for every managerial position to reduce the attrition rate.
- Out of total of nearly 2 lakhs staff in the sector, MFIs have only 13% women staff and they shall improve the share of women by recruiting more women and offering some flexibilities.

Annexure: 1

List of Key Persons of MFIs and Microfinance Experts contacted

	Name	Designation	Organization
1.	Mr. Atul	Co-Founder	Prime M2i Consulting Pvt. Ltd.
2.	Mr. Subir Roy Chowdhury	Chief Human Resource Officer	Satin Creditcare Network Ltd.
3.	Mr. Rajesh Sreedharan Pillai	Chief Operating Officer	ESAF Cooperative
4.	Mrs. Beena George	Chief People Officer	ESAF Cooperative
5.	Mr. S.Vijay Kumar	Chief Executive Officer	Finsigma Inclusive Services Pvt. Ltd.
6.	Mr. Prashant Kumar	Chief Risk Officer	Dvara Kshetriya Gramin Financial Services Pvt. Ltd.
7.	Mrs. Huma Tariq	Chief Human Resources Officer	Dvara Kshetriya Gramin Financial Services Pvt. Ltd.
8.	Mr. K.R. Mohanachandran	Managing Director & Chief Executive Officer	Lahanti Last Mile Services Pvt. Ltd.
9.	Ms. Alphina Jos	Chief Executive Officer	BWDA Finance Ltd.
10.	Mr. C.Antonysamy	Chief Operating Officer	Valar Aditi Social Finance Pvt. Ltd.
11.	Mr. E.Sundararajan	General Manager	Valar Aditi Social Finance Pvt. Ltd.
12.	Ms. Suchorita Panickar	Product Lead - Fraud & ID	Equifax India
13.	Ms. Meenakshi Rao	Executive Director & HR Head	New Opportunity Consultancy Pvt. Ltd (NOCPL)
14.	Mr. Ravi K. Tuli	Chief- Audit & Compliance	NOCPL
15.	Mr. T.P. Anoop	Risk Head	Annapurna Finance Pvt. Ltd.

	Name	Designation	Organization
16.	Mr. Lal Paul	Chief Executive Officer	Vision Fund India Pvt. Ltd.
17.	Mr. Augustine Samuel	Chief Finance Officer	Vision Fund India Pvt. Ltd.
18.	Mr. Binu Zachariah	Chief Operations Officer	Vision Fund India Pvt. Ltd.
19.	Mr. Nanaiah Kalengada	Managing Director	Equifax India
20.	Mr. Anshul Sharma	Product Head	Equifax India
21.	Mr. Divya Mirchandani	Product Lead	Equifax India
22.	Mr. Anirudha Mirikar	Chief Executive Officer	Sampada Entrepreneurship & Livelihoods Foundation (SELF)
23.	Mr. Yeshwant Aher	Chief Executive Officer	Anik financial Services Pvt. Ltd.
24.	Mr. ViswanathTodkar	Chairman & Managing Director	Anik financial services Pvt. Ltd.
25.	Mr. Biswajit Das	MD & Chief Executive Officer	WeGrow Financial Services Pvt. Ltd.
26.	Mr. Karuna Moorthi	Director - Microfinance & Gold Financial Institutions Credit Risk & Monitoring.	Northern Arc Capital Ltd.
27.	Mr. Vivek Tiwari	Managing Director & Chief Executive Officer	Satya MicroCapital Ltd.
28.	Mr. Sahil Mehta	Head – Corporate Finance.	Svatantra Microfin Pvt. Ltd.
29.	Mr. Rajesh Mishra	Chief Executive Officer	Samavesh Finserve Pvt. Ltd.
30.	Mr. Vikas Gupta	Company Secretary & Compliance Officer.	Satin Creditcare Network Ltd.
31.	Dr. Aqueel Ahmed Khan	Chief Executive Officer	Mitrata Inclusive Financial Services Pvt. Ltd.
32.	Mr. PVN. Pratap	Managing Director	Jayam Solutions Pvt. Ltd.
33.	Mr. V.A. George	Director & Former Chairman	Belstar Microfinance Ltd FIDC (Financial Institutions Development Council).

	Name	Designation	Organization
34.	Dr. Geetha Jegan	Chief Executive Officer	Gramalaya Microfin Foundation.
35.	Mr. Dipyan	Senior Analyst	Acuite Ratings and Research ltd.
36.	Mr. Abhijit Bera	Founder-Director	STEP (Sampurna Training and Entrepreneurship Program).
37.	Mr. Rohit Kumar Gupta	Deputy Vice President	Satin Creditcare Network Ltd.
38.	Mr. R. Subramanian	Professional Director	Magalir Micro Capital Pvt. Ltd.
39.	Mr. Sadaf Sayeed	Chief Executive Officer	Muthoot Microfin Ltd
40.	Mr. Subhransu Pattnayak	Executive Vice-President-HR	Muthoot Microfin Ltd
41.	Mr. Jinsu Joseph	Chief Risk Officer	Muthoot Microfin Ltd
42.	Mrs. Neethu Ajay	Company Secretary and Head of Compliance.	Muthoot Microfin Ltd

Annexure: 2

List of References.

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4. A Risk Management Framework for Micro Finance Institutions, GTZ, Eschborn, July 2000.
5. Rejuvenating Microfinance in India – Embracing Digital, KPMG, March 2021.
6. M.Rajeshwar Rao, Deputy Governor, RBI- at the MFIN's launch of– 2nd edition of Micro Matters: Macro View - India Microfinance review FY 2021-22 on 4th Nov 2022 at Mumbai.
7. Jana Koerner, Joshua Santos, & Godefroy Grosjean, Climate Change, Agriculture & Food Security (CCAFS) Info Note, Dec 2021, Philippines.
8. Cyber crime has been found as the No.1 risk globally by the survey by CSFI (Centre for the Study of Financial Innovation)-"Banking Banana Skins Report 2021-COVID Special", CSFI, UK, March 2021.
9. Julie Abrams, Crisis Roadmap for Micro Finance Institutions, CGAP, Washington DC, Feb 2021.
10. Daniel Rozas, Weathering the Storm II – Tales of Survival from Microfinance Crises Past, Centre for Financial Inclusion, ACCION, Washington DC, & European Microfinance Platform, June 2021.
11. Annual Report 2022, Annapurna Finance Pvt. Ltd.,Bhubaneswar.
12. MFI Internal Audit and Controls Trainer's Manual, MEDA (Mennonite Economic Development Associates) and MicroSave, August 2007.
13. Master Direction DNBS. PPD.01/66.15.001/2016-17 September 29, 2016, RBI, Mumbai.
14. The State of Compliance Survey 2021, Deloitte.
15. Revised Regulatory Framework for NBFCs' issued vide Circular Ref.DOR.CRE. REC.No.60/03.10.001/2021-22 dated October 22, 2021.
16. Article titled "How to manage Compliance risk and stay out of the headlines", APRA (Australian Prudential Regulation Authority), 17 February 2022.
17. RBI Master circular - RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 March 14, 2022.

List of RBI Compliances

S. No	Name of the Return	Periodicity	Reference Date	Reporting Time	Due on
1.	DNBS01	Quarterly	31st March/ 30th June / 30th Sept./ 31st Dec	15 days	15th April/ 15th July/ 15th Oct./ 15th Jan
2.	DNBS03	Quarterly	31st March/ 30th June / 30th Sept./ 31st Dec	15 days	15th April/ 15th July/ 15th Oct./ 15th Jan
3.	DNBS04A	Quarterly	31st March/ 30th June / 30th Sept./ 31st Dec	15 days	15th April/ 15th July/ 15th Oct./ 15th Jan
4.	DNBS10	Annual	31st March	30 days	One month from the date of finalisation of Balance Sheet. Not later than 31st December. 15th Oct
5.	DNBS04B	Montly	30th/ 31st of every Month	within 10 days	10th of succeeding month
6.	DNBS17- Gap Analysis	Quarterly	31st March/ 30th June / 30th Sept./ 31st Dec.	15 days	15th April/ 15th July/ 15th Oct./ 15th Jan
7.	FMR-1	On occurrence	Event based	Within 21 days from detection of Fraud above Rs. 1Lakh	21days
8.	FMR 2	Quarterly	31st March/ 30th June/ 30th Sept./ 31st Dec	15 days	15th April/ 15th July/ 15th Oct./ 15th Jan
9.	Change in Directors	Quarterly	31st March/ 30th June/ 30th Sept./ 31st Dec	15 days	15th April/ 15th July/ 15th Oct./ 15th Jan
10.	Digital Lending Apps (DLA) return*	Quarterly	31st March/ 30th June/ 30th Sept./ 31st Dec	15 days	15th April/ 15th July/ 15th Oct./ 15th Jan
11.	Customer Complaints	Quarterly	31st March/ 30th June/ 30th Sept./ 31st Dec	15 days	15th April/ 15th July/ 15th Oct./ 15th Jan
12.	Details of Customer complaints handled by Internal Ombudsman	Annual	31st March	Apr-15	Apr-15
13.	Report on Theft/ Dacoity/ Robbery/ Burglary**	Case to case basis	immediately on occurrence	immediately on occurrence	NA
14.	Monthly Certificate on frauds**	Monthly	Every Month	within 7 days	within 7 days of succeeding Month

*For the first-time filing of March 2022 quarter, the timeline of returns filing is fixed as April 30, 2022 as a one-time measure
** Effective from July 01, 2022

Compliances as per the New microfinance regulations[17] issued by RBI in March 2022

S. No	Compliance Requirement under new RBI guidelines (March 2022)	Whether MFI complied with this – Yes or No.
1	MFIs should have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers' requirement.	
2	MFIs should put in place a board-approved policy for assessment of household income.	
3	MFIs should adopt/ modify the framework (common framework developed by SROs for assessing household income) suitably as per their requirements with approval of their Boards	
4	MFIs should have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This should be subject to a limit of maximum 50 per cent of the monthly household income.	
5	MFIs should put in place a board-approved policy regarding pricing of microfinance loans which shall, inter alia, cover the following: (i) A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate; (ii) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters; (iii) The range of spread of each component for a given category of borrowers; and (iv) A ceiling on the interest rate and all other charges applicable to the microfinance loans.	
6	MFIs should ensure that Interest rates and other charges/ fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.	
7	MFIs should disclose pricing related information to a prospective borrower in a standardised simplified factsheet	
8	MFIs should prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website. This information should also be included in the supervisory returns and subjected to supervisory scrutiny.	
9	A fair practices code (FPC) based on these directions should be put in place by all MFIs with the approval of their boards. The FPC should be displayed by the MFIs in all its offices and on its website	

17. RBI Master circular - RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22 March 14, 2022.

S. No	Compliance Requirement under new RBI guidelines (March 2022)	Whether MFI complied with this – Yes or No.
10	MFIs should provide a loan card to the borrower	
11	MFIs should have a board-approved policy regarding the conduct of employees and system for their recruitment, training and monitoring. This policy should inter alia, lay down minimum qualifications for the staff and should provide necessary training tools to deal with the customers. Training to employees should include programs to inculcate appropriate behavior towards customers. Conduct of employees towards customers should also be incorporated appropriately in their compensation matrix.	
12	MFI should put in place a mechanism for identification of the borrowers facing repayment related difficulties, engagement with such borrowers and providing them necessary guidance about the recourse available.	
13	MFIs should have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process	
14	The up-to-date details of the recovery agencies engaged by the MFIs should be hosted on the MFI's website.	
15	The definition of 'qualifying assets' of NBFC-MFIs is now being aligned with the definition of microfinance loans. The minimum requirement of microfinance loans for NBFC-MFIs also stands revised to 75 per cent of the total assets.	
16	Under the earlier guidelines, an NBFC that does not qualify as an NBFC-MFI, cannot extend microfinance loans exceeding 10 per cent of its total assets. now stands revised to 25 per cent of the total assets.	
17	Exemptions from Sections 45-IA3, 45-IB4 and 45-IC5 of the RBI Act, 1934 have been withdrawn for those 'not for profit' companies engaged in microfinance activities that have asset size of ₹100 Cr and above. 'Not for profit' companies that are having assets size of ₹100 Cr or above, are required to register as NBFC-MFIs and adhere to the regulations applicable to NBFC-MFIs. Such MFIs should submit the application for registration as an NBFC-MFI to the Reserve Bank within three months of the issuance of this circular. Those MFIs that currently do not comply with the regulations prescribed for NBFC-MFIs, should submit a board-approved plan, with a roadmap to meet the prescribed regulations, along with their application for registration.	

Recent Amendments by RBI

S. No	Recent changes	Whether MFI complied with this – Yes or No
1	Appointment of Statutory Audit Firms and Statutory Auditors. - One Audit firm can do Statutory Audit in only 8 NBFCs irrespective of the size of NBFCs. - Maximum tenure of the auditors – 3 years - Cooling period for reappointment of Auditors extended to 6 years. - Statutory Audit Policy and the Appointment procedure should be decided by the NBFC.	
2.	Declaration of Dividend by NBFCs (RBI Notification dated 24 June 2021): - Whether the Minimum Prudential requirements are complied for giving the Dividend - Whether the ceilings prescribed are complied for declaring dividend from the profits of the financial year ending March 2022 and onwards.	
3.	Whether the Dividend Payout ratio ceilings (50%) are complied.	
4.	Whether a Report in the specified format has been submitted by the NBFC to RBI within a fortnight after declaration of dividend.	
5.	Ad-hoc dispensation on declaration of dividend not allowed by RBI.	
6.	Adherence to Fair Practices Code and Outsourcing guidelines for Digital Lending Platforms - Names of Digital Lending Platforms engaged as Agents should be disclosed on the websites of NBFCs. - Digital Lending Platforms engaged as Agents should be directed to disclose upfront to the customer, the name of the NBFC on whose behalf they are interacting with them. - Immediately after sanction and before execution of loan agreement, the sanction letter should be issued to the borrower on the letterhead of the NBFC concerned. - A copy of the Loan agreement along with the copy of all enclosures quoted in the loan agreement should be furnished to all the borrowers at the time of sanction/disbursement of loan. - Adequate efforts should be made on creation of awareness on grievances redressal mechanism.	

Annexure: 4

SEBI Compliances
(For Listed Company -MFIs)

Quarterly

Period	Compliances	Regulation/ Provision	Timelines
Quarterly	The listed entity shall file with the recognised stock exchange(s) on a quarterly basis, a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter.	13(3)	Within 21 (twenty-one) days from the end of the quarter
Quarterly	The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s).	27(2)(a)	Within 21 (twenty-one) days of the end of each quarter
Quarterly	The listed entity shall prepare and submit un-audited or audited quarterly and year to date standalone financial results on a quarterly basis in the format as specified by the SEBI to the recognised stock exchange(s): Provided that in case of entities which have listed their debt securities, a copy of the financial results submitted to stock exchanges shall also be provided to debenture trustees on the same day the information is submitted to stock exchanges.	52(1)	Within 45 (forty-five) days from the end of the quarter
Quarterly	The listed entity shall submit to the stock exchange, a statement indicating the utilization of issue proceeds of non-convertible securities, which shall be continued to be given till such time the issue proceeds have been fully utilised or the purpose for which these proceeds were raised has been achieved.	52(7)	Within 45 (forty-five) days of end of quarter.
Quarterly/ Half-Yearly/ Annual	The listed entity shall, publish the financial results and statement referred to in sub-regulation (4), in at least one English national daily newspaper circulating in the whole or substantially the whole of India.	52(8)	Within 2 (two) working days of the conclusion of the meeting of the board of directors.

Period	Compliances	Regulation/ Provision	Timelines
Quarterly/ Half-Yearly/ Annual	The listed entity shall disclose to the stock exchange the extent and nature of security created and maintained with respect to its secured listed non-convertible debt securities.	54(2)	In quarterly, half-yearly, year-to-date and annual financial statements to the stock exchange.
Quarterly	The listed entity shall provide details for all the non-convertible securities for which interest/dividend/principal obligations shall be payable during the quarter.	57(4)	Within 5 (five) working days prior to beginning of the quarter.
Quarterly	The listed entity shall provide: a. a certificate confirming the payment of interest/ dividend/ principal obligations for non-convertible securities which were due in that quarter; and b. the details of all unpaid interest/ dividend/ principal obligations in relation to non-convertible securities at the end of the quarter.	57(5)	within 7 (seven) working days from the end of the quarter.
Quarterly	Companies are required to submit a Quarterly Compliance Certificate certified either by the Compliance officer or a Practicing Company Secretary (PCS) in the format	Reg 3(5) and 3(6) of SEBI (Prohibition of Insider Trading) Regulations, 2015	quarterly
Quarterly	Company is required to file the said details with the Exchange on quarterly basis the details of RTA and Compliance Officer as as per guidance note issued by Exchange, refer the link below: https://www.bseindia.com/downloads1/Guidance_note_debt.pdf	Regulation 6(1) AND 7(1) of SEBI (LODR) Regulations, 2015	within 30 days

Half-Yearly

Period	Compliances	Regulation/ Provision	Timelines
Half-Yearly	Disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website	23(9)	Within 30 (thirty) days from the date of publication of its standalone and consolidated financial results for the half year.
Half-Yearly	Disclosures of related party transactions in the format prescribed under the 'Annex' of Circular No. SEBI/HO/CFD/CMD1/CIR/P/2021/ 662 dated 22 November 2021 ("SEBI Circular")	Regulation 23(9) read with SEBI Circular	Within 30 (thirty) days from the date of publication of its standalone and consolidated financial results for the half year.

Period	Compliances	Regulation/ Provision	Timelines
Half-Yearly	The listed entity shall also submit as part of its standalone or consolidated financial results for the half year, by way of a note, a statement of assets and liabilities and statement of cash flows.	52(2)(f)	Within 60 (sixty) days from the end of the financial year.
Quarterly/ Half-Yearly/ Annual	The listed entity shall, publish the financial results and statement referred to in sub-regulation (4), in at least one English national daily newspaper circulating in the whole or substantially the whole of India.	52(8)	Within 2 (two) working days of the conclusion of the meeting of the board of directors.
Quarterly/ Half-Yearly/ Annual	The listed entity shall disclose to the stock exchange the extent and nature of security created and maintained with respect to its secured listed non-convertible debt securities.	54(2)	In quarterly, half-yearly, year-to-date and annual financial statements to the stock exchange.

Annual

Period	Compliances	Regulation/ Provision	Timelines
Annual	Secretarial Compliance Report: Every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges	24A(2)	Within 60 (sixty) days of the end of the financial year
Annual	The listed entity shall comply with following requirements with respect to preparation, approval, authentication and publication of annual and quarterly financial results: The annual audited standalone and consolidated financial results for the financial year shall be submitted to the stock exchange(s) along with the audit report	52(2)(d)	Within 60 (sixty) days from the end of the financial year
Quarterly/ Half-Yearly/ Annual	The listed entity shall, publish the financial results and statement referred to in sub-regulation (4), in at least one English national daily newspaper circulating in the whole or substantially the whole of India.	52(8)	Within 2 (two) working days of the conclusion of the meeting of the board of directors.
Quarterly/ Half-Yearly/ Annual	The listed entity shall disclose to the stock exchange the extent and nature of security created and maintained with respect to its secured listed non-convertible debt securities.	54(2)	In quarterly, half-yearly, year-to-date and annual financial statements to the stock exchange.

Period	Compliances	Regulation/ Provision	Timelines
Annual	Each rating obtained by the listed entity with respect to non-convertible securities shall be reviewed by a credit rating agency registered by the Board.	55	At least once a year by a credit rating agency registered by the Board.
Annual	Additional Disclosures in Annual Report	53(1)	a. audited financial statements i.e., balance sheets, profit and loss accounts etc. and Statement on Impact of Audit Qualifications as stipulated in regulation 52(3)(a), if applicable. b. cash flow statement presented only under the indirect method as prescribed in Accounting Standard-3/ Indian Accounting Standard 7, mandated under Section 133 of the Companies Act, 2013 read with relevant rules framed thereunder or by the Institute of Chartered Accountants of India, whichever is applicable. c. auditors report. d. directors report. e. name of the debenture trustees with full contact details. f. related party disclosures as specified in Para A of Schedule V of the LODR Regulations.
Annual	The listed entity shall submit to the stock exchange and the debenture trustee and publish on its website copy of the annual report sent to the shareholders along with the notice of the annual general meeting.	53(2)	Not later than the date of commencement of dispatch to its shareholders.

Event Based

Period	Compliances	Regulation/ Provision	Timelines
Event Based	The listed entity shall forward the following to the debenture trustee promptly: a. a copy of the annual report at the same time as it is issued along with a copy of certificate from the listed entity's auditors in respect of utilisation of funds during the implementation period of the project for which the funds have been raised; b. a copy of all notices, resolutions and circulars relating to- (i) new issue of non-convertible debt securities at the same time as they are sent to shareholders/ holders of non-convertible debt securities. (ii) the meetings of holders of non-convertible debt securities at the same time as they are sent to the holders of non-convertible debt securities or advertised in the media including those relating to proceedings of the meetings. c. intimations regarding: (i) any revision in the rating. (ii) any default in timely payment of interest or redemption or both in respect of the non-convertible debt securities. (iii) failure to create charge on the assets. (iv) all covenants of the issue (including side letters, accelerated payment clause, etc.).	56(1)	Promptly
	a half-yearly certificate regarding maintenance of hundred percent asset cover or higher asset cover as per the terms of offer document/ Information Memorandum and/or Debenture Trust Deed, including compliance with all the covenants, in respect of listed non-convertible debt securities, by the statutory auditor, along with the financial results, in the manner and format as specified by SEBI.		

Period	Compliances	Regulation/ Provision	Timelines
Event Based	The listed entity shall also disclose to the Debenture Trustee all material events and/or information as disclosed under Regulation 51 of LODR Regulations in so far as it relates to the interest, principal, issue and terms of non-convertible debt securities, rating, creation of charge on the assets, notices, resolutions and meetings of holders of non-convertible debt securities	56(1A)	At the same time as it has intimated to the stock exchange.
Event Based	The listed entity shall submit a certificate to the stock exchange regarding status of payment in case of non-convertible securities.	57(1)	Within 1 (one) working day of the interest or dividend or principal becoming due to the stock exchange.
Event Based	The listed entity shall send the following documents to the holders of the non-convertible securities:	58(1)	Upon request. No specific timelines provided.
	(a) Soft copies of the full annual reports to all the holders of non-convertible securities who have registered their email address(es) either with the listed entity or with any depository.		
	(b) Hard copy of statement containing the salient features of all the documents, as specified in Section 136 of Companies Act, 2013 and rules made thereunder to those holders of non-convertible securities who have not so registered.		
	(C) Hard copies of full annual reports to those holders of non-convertible securities, who request for the same.		
Event Based	Secretarial Audit Report	24A(1)	Annual report disclosure
	Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity.		

Period	Compliances	Regulation/ Provision	Timelines
Event Based	The listed entity shall give prior intimation to the stock exchange about the SEBI meeting in which any of the following proposals is to be considered:	50(1)	Prior intimation to the stock exchange of at least 2 (two) working days in advance, excluding the date of the intimation and the date of the meeting of the board of directors
	(a) an alteration in the form or nature of non-convertible securities that are listed on the stock exchange or in the rights or privileges of the holders thereof.		
	(b) an alteration in the date of the interest/ dividend/ redemption payment of non-convertible securities.		
	(c) financial results viz. quarterly or annual, as the case may be.		
	(d) fund raising by way of issuance of non-convertible securities. or		
	(e) any matter affecting the rights or interests of holders of non-convertible securities.		
Event Based	The listed entity shall intimate the stock exchange, in case of:	50(2)	Intimate the stock exchange not later than the date of commencement of dispatch of notices.
	(a) any annual general meeting or extraordinary general meeting that is proposed to be held for obtaining shareholder approval for the proposals at clauses (c) and (d) under sub-regulation (1) of Regulation 50.		
	(b) any meeting of the holders of non-convertible securities in relation to the proposal at clause (e) of sub-regulation (1) of Regulation 50.		
Event Based	The listed entity shall promptly inform the stock exchange(s) of all information having bearing on the performance/ operation of the listed entity, price sensitive information or any action that shall affect payment of interest or dividend or redemption of non-convertible securities.	51(1)	Promptly inform i.e., as soon as reasonably possible but not later than twenty-four hours from the date of occurrence of the event or receipt of information) to the stock exchange(s).

Period	Compliances	Regulation/ Provision	Timelines
Event Based	The listed entity which has listed non-convertible securities shall make disclosures as specified in Part B of Schedule III of the LODR Regulations.	51(2)	To the stock exchange(s)- 1. Promptly inform (as soon as reasonably possible but not later than twenty-four hours from the date of occurrence of the event or receipt of information) – Part B of Schedule III. 2. Within thirty minutes of the closure of the meeting: a. the decision with respect to fund raising proposed to be undertaken by way of non-convertible securities; b. financial results 3. As soon as possible but not later than twenty-four hours of receipt of such reasons from the auditor – Resignation of the auditor of the listed entity
Event Based	The listed entity shall disclose on its website, all such events or information which have been disclosed to the stock exchange(s) under the LODR Regulations and such disclosures shall be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website	51(3)	No specific timelines provided.
Event Based	In the event of any changes to the annual report, the listed entity shall submit to the stock exchange and the debenture trustee and publish on its website the revised copy along with the details and explanation for the changes.	53(2)	Not later than 48 (forty-eight) hours after the annual general meeting.

Period		Regulation/ Provision	Timelines
Event Based	The listed entity shall give notice in advance to the recognised stock exchange(s) of the record date or of as many days as the stock exchange(s) may agree to or require specifying the purpose of the record date.	60(2)	At least 7 (seven) working days (excluding the date of intimation and the record date).
Event Based	The listed entity shall update any change in the content of its website.	62(4)	Within 2 (two) working days from the date of such change in content.

Website

Website Disclosures under Regulation 62	
1 (a)	details of its business;
1 (aa)	composition of the Board
1 (b)	financial information including: (i) notice of meeting of the board of directors where financial results shall be discussed (ii) financial results, on the conclusion of the meeting of the board of directors where the financial results were approved (iii) complete copy of the annual report including balance sheet, profit and loss account, directors report, corporate governance report etc
1 (c)	contact information of the designated officials of the listed entity who are responsible for assisting and handling investor grievances
1 (d)	email address for grievance redressal and other relevant details
1 (e)	name of the debenture trustees with full contact details
1 (f)	the information, report, notices, call letters, circulars, proceedings, etc concerning non-convertible redeemable preference shares or non convertible debt securities
1 (g)	all information and reports including compliance reports filed by the listed entity;
1 (h)	information with respect to the following (i) default by issuer to pay interest or redemption amount; (ii) failure to create a charge on the assets
1 (i)	all credit ratings obtained by the entity for all its listed non-convertible securities, updated immediately upon any revision in the ratings
1 (j)	statements of deviation(s) or variation(s) as specified in sub-regulation (7) and sub-regulation (7A) of regulation 52 of these regulations
1 (k)	annual return as provided under section 92 of the Companies Act, 2013 and the rules made thereunder
[(1A) The listed entities to whom regulations 15 to regulation 27 are applicable shall also make the following additional disclosures on their website	
(a)	composition of the various committees of the board of directors
(b)	terms and conditions of appointment of independent directors
(c)	code of conduct of the board of directors and senior management personnel
(d)	details of establishment of vigil mechanism/ whistle blower policy;
(e)	criteria of making payments to non-executive directors, if the same has not been disclosed in the annual report

(f)	secretarial compliance report as per sub-regulation (2) of regulation 24A of these regulations
(g)	policy on dealing with related party transactions
(h)	policy for determining 'material' subsidiaries
(i)	details of familiarization programmes imparted to independent directors including the following details (i) number of programmes attended by the independent directors (during the year and on a cumulative basis till date), (ii) number of hours spent by the independent directors in such programmes (during the year and on cumulative basis till date), and (iii) other relevant details

Annexure: 5

MCA Compliances

S. No	Particular	Section & Rules	Particular of Compliance	
1	Receipt of MBP-1	184(1)	Form MBP-1	Every Director of the Company in First meeting of the Board of Director in each Financial Year will disclose his interest in other entities. Every Director is required to submit with the Company fresh MBP-1 whenever there is change in his interest from the earlier given MBP-1.
2	Receipt of DIR- 8	164(2)	Form DIR-8	Every Director of the Company in each Financial Year will file with the Company disclosure of non-disqualification.
3	Annual Return	92	E-Form MGT-7	Annual Return: file Annual Return within 60 days of holding of Annual General Meeting.
4	Financial Statement	197	E-Form AOC-4 NBFC:	Company is required to file its Balance Sheet along with Statement of Profit and Loss Account, Cash Flow Statement and Directors' Report in this form within 30 days of AGM.
5	Filing of Resolution	179(3)	E-Form MGT-14	MGT-14 along with copy of Resolution within 30 days of Board/ General Meeting
6	PCS Certification	92	MGT-8	Certification of Annual Return: Every Company having paid up share capital of ₹10 Cr or more or turnover of ₹50 Cr or more shall be certified by a Company Secretary in Practice.

S. No	Particular	Section & Rules	Particular of Compliance	
7	Directors Report	134	Directors' Report will be prepared by mention of all the information required under Section 134. It should be signed by the "Chairperson" authorized by the Board, where he is not so authorized by at least 2 Directors; one of them should be Managing Director if any.	
8	Board Meeting	173 & SS-1	Every Company shall hold a minimum number of FOUR meetings of its Board of Directors every year in such a manner that maximum gap between two Meetings should not be more than 120 (One hundred twenty) days. Company should hold at least 1 (one) Board Meeting every quarter of calendar year.	
9	Appointment of Auditor**	139	E-Form ADT-1	Auditor will be appointed for the 5 (Five) year and form ADT-1 will be filed for 5-year appointment (within 15 days). After that every year in AGM shareholder will ratify the Auditor but there is no need to file ADT-1. **It should be noted that as per RBI directions to NBFCs, the appointment of Auditors is for a term of 3 years.
10	Maintenance of Registers	88	Company will maintain the following mandatory Registers: • Register of Director, Director Shareholding, Members. • Register of Loan, Guarantee, Investment made by the Company. • Register of Contract with Related Parties.	
11	KMP appointment	203/196	MR-1	Return of appointment and re-appointment of Managing Director or Whole Time Director or Manager or KMP within 60 days of appointment.
12	Director appointment	149	e-Form DIR-12	within 30 days from the date of allotment of securities
13	Secretarial Audit Report	204	MR-3	report of PCS will be part of Directors' Report
14	Return of Allotment	39 and 42	e-form PAS-3	within 30 days from date of creation of charge
15	Charge Creation	77,78 and 79	e-form CHG-1	within 30 days from date of creation of charge

S. No	Particular	Section & Rules	Particular of Compliance	
16	Secured Debentures	71(3), 77, 78 & 79	e-form CHG-9	within 30 days from date of creation of charge
17	Frequency of Board Meeting	173	Every quarter, time limit not to exceed 120 days.	
18	AGM	96	not more than fifteen months shall elapse between the date of one annual general meeting of a company and that of the next. Every annual general meeting shall be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday and shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated	
19	CSR spending	134	Company is required to spend of 2% of average net profits of the Company for last 3 years towards CSR if they Companies which satisfy at least anyone of the following 3 criteria - Having a net worth of at least ₹500 Cr or - A minimum turnover of ₹1,000 Cror - Net profit of ₹5 Cr or more during the immediately preceding financial year have to spend on CSR activities	
20	Audit Committee	177	not less than 3 directors with independent directors forming majority. Disclose the composition of the Audit Committee in the Annual Report.	
21	Nomination & Remuneration Committee	178	three or more non-executive directors out of which not less than one-half shall be independent directors	
22	Independent Director	149	Every Public Company shall have at least one-third of the total number of directors as independent directors.	

Recent amendments in Companies act 2013

S. No	Recent changes	Whether MFI complied with this – Yes or No
1	**Changes related to Definition of Listed Companies.** - EXCLUSIONS FROM DEFINITION OF LISTED COMPANIES 1. Public companies which have listed their: a) Non-convertible debt securities or/and b) Non-convertible redeemable preference shares c) Equity shares in stock exchanges in permissible foreign jurisdictions 2. Private companies which have listed their Non-convertible debt securities	
2	Additional Disclosure for the following in Schedule III of Financial Statement. - Shareholding of Promoters - Title deeds of immovable properties not held in the name of the company. - Details of Benami property held - Wilful defaulter - Relationship with struck off companies. - Registration of charges or satisfaction with the Registrar of Companies. - Compliance with number of layers of companies. CSR Disclosure	Whether additional disclosure made in the Notes to the Financial statement.
3	Amendments in Companies (accounts) rules 2014 Rule: 3 effective from 1.4.2021. - Applicability - Companies using ACCOUNTING SOFTWARE - Feature of recording audit trail - Creating edit log for every change Ensuring Audit trail is not disabled	
4	Amendments in Companies (accounts) rules 2014 Rule: 4 Effective from 1.4.2021. IBC Proceedings: - Details of application/ proceedings pending under IBC along with the status Valuation of Loans: - Difference between valuation done at one time settlement vis-à-vis while taking loan from Banks - Reasons	

S. No	Recent changes	Whether MFI complied with this – Yes or No
5	Disclosures in Auditor's Report: (Companies (Audit and Auditors) Amendment Rules 2021, Ministry of Corporate Affairs Notification 24th March 2021. - Statement with regard to no funds advanced, loaned or invested in other persons / companies on behalf of the companies than the ones mentioned in Notes to the financial statement. - Statement with regard to no funds have been received by the company from the funding parties with an understanding that it will be invested in others / or entities on behalf of the funding parties, than the ones mentioned in Notes to financial statement.	
6	Changes by Ministry of Corporate Affairs on Companies act 2013 - Companies (Corporate Social Responsibility Policy) Amendment rules 2021 effective from 22 Jan 2021. - CSR can be taken up the company themselves or through the entities registered with the Central government. - CFO of the company is to certify the utilization. - The company has either to spend on the CSR activity or to transfer the amount to a fund specified in Schedule VII. For the CSR activity, the companies need to do the provision at the end of the year. - Companies which have spent the CSR amount in good faith in excess of the required amount (2% of the average net profit), they can set off against future CSR expenditure requirements. - Profits from CSR funds should be used for CSR activity. If not utilized, it should be transferred to a fund specified in Schedule VII within 6 months. - Companies with CSR liability of up to Rs.50 lakhs are exempted from forming a CSR committee. Certain changes in the eligible activities to be covered under CSR.	

Annexure: 6

Other Statutory Compliances

Finance

Income Tax Act, 1961					
S. No	Compliance	Form to be filed	Relevant Law	Reporting time	Due date
1	Payment of TDS for the previous month	Challan No. ITNS – 281	Income Tax Act, 1961	Monthly	7th of Subsequent Month
2	TDS Return for the quarter ended	Form 26 Q, 24 Q & 27 Q	Section 200 (3) read with 194 A, 194 C, 194 H, 194 I & 194 J of the Income Tax Act, 1961	Quarterly	within 30 days end of quarter
3	Payment of Instalment of Advance Tax (15%)	Challan ITNS - 280	Section 208 of Income Tax Act, 1961	Quarterly	15th March/ 15th June/ 15th September/ 15th Dec
4	Payment of Instalment of Advance Tax (45%)	Challan ITNS - 280	Section 208 of Income Tax Act, 1961	Quarterly	15th March/ 15th June/ 15th September/ 15th Dec
5	Payment of Instalment of Advance Tax (75%)	Challan ITNS - 280	Section 208 of Income Tax Act, 1961	Quarterly	15th March/ 15th June/ 15th September/ 15th Dec
6	Income Tax Return and Audit Report filing	ITR 6, Form 3CA-3CD	Section 44AB of Income Tax Act, 1961	Annual	30th Sep

GST				
S. No	Compliance	Form to be filed	Reporting time	Due date
1	State wise	GSTR-3D	Monthly	Within 20 days of subsequent Month
2	State wise	GSTR-1	Monthly	10th day of 2nd successive Month
3	State wise	GSTR-9	Annual	Before 31 Dec of succeeding year.

Human Resources:

S. No	Compliance	Form to be filed	Relevant Law	Due date
1	Quarterly Return	Form H	Shops & Establishments Rules, 1990	10th March/June/ September/ December
2	Application for renewal of registration.	Form – B1	Shops & Establishments Rules, 1988, Rule -3 (4)	Within 30 days from the date of expiry.
3	Notice of loss of registration certificate & application for issue of duplicate certificates	Form - IV	Shops & Establishments Rules, 1988, Rule - 5	Immediately after the loss of certificate
4	Annual Return	Form D	The Payment of Bonus Act, 1965 and the Payment of Bonus Rules 1975, Rule - 5	Within 30 days from the date of disbursement of bonus or before 31st December
5	Deposit Contribution	Challan	Employees' Provident Funds Scheme, 1952	15th of every month
6	Monthly return for employee addition and deletion and monthly contribution remittance	Electronic Challan cum return	Employees' Provident Funds Scheme, 1952, Para 36 (2) (b)	15th of every month
7	Consolidated statement of dues & remittance	Form 12 A	Employees' Provident Funds Scheme, 1952, Para 38 (2)	15th of every month
8	Particulars of all branches, departments, owners, occupiers, partners, manager and any changes in them etc.	Form 5A	Employees' Provident Funds Scheme, 1952, Para 36 (A)	Within 15 days from the date of establishment / change in particulars

S. No	Compliance	Form to be filed	Relevant Law	Due date
9	Member's monthly contribution details.	Online Contribution Card	Employee's Provident Funds Scheme, 1952	Readily available in EPFO portal for all employees.
10	ESI monthly deposit	ESI Challan	Employee State Insurance Act, 1948.	21st of every month
11	Accident Report	Form 12	Employee State Insurance Act, 1948	Online Intimation have to go immediately for fatal/death & within 48 hours in case of minor/major accidents.
12	Employment Exchange Quarterly Returns	ER 1	Employment Exchange (Compulsory Notification of Vacancies) Act, 1959	31st July, 2017
13	Half yearly return	APP - 2	The Apprenticeship Act, 1961	Within 15 days from the end of respective half year
14	Professional Tax Payment & Return.	Prof Tax	As per State Govt rules	30th of following month.

FDI

S. No	Form	Description	Due date
1	FC-GPR	In Form FC-GPR, the transaction being reported is for issue of capital instruments by an Indian Company to a person resident outside India i.e., allotment of Equity shares/Compulsorily Convertible Preference Shares/Compulsorily Convertible Debentures.	not later than thirty days from the date of issue of capital instruments.
2	Foreign Liabilities and Assets (FLA)	it is required to be submitted by all the Indian resident companies which have received FDI and/ or made overseas investment in any of the previous year(s), including the current year.	July 15 every year.