

**Arohan Financial Services Limited**  
Kolkata, India

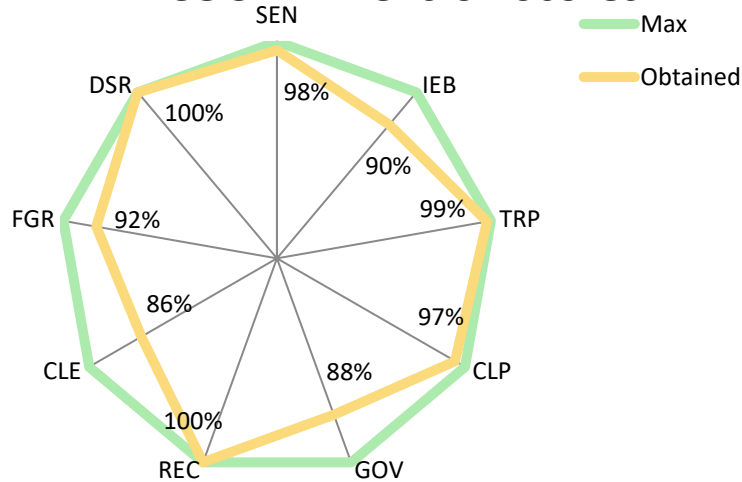
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June 2020

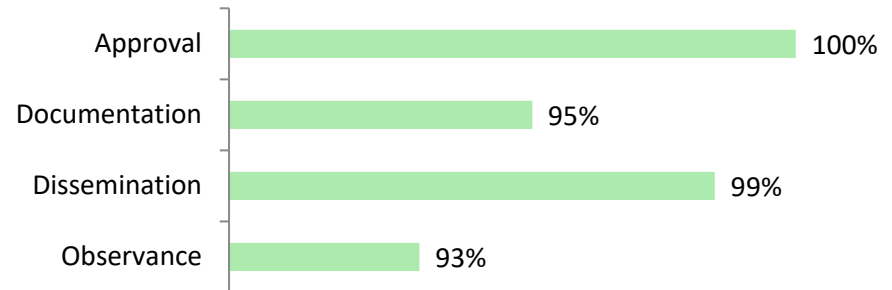
**Code of Conduct Assessment (CoCA)**

Score	95%
Grade	C1

**COCA Dimension Scores**



**ADDO Scores**



**Management Discussions: 25-27 May 2020**  
**Client Interactions: 26-30 June 2020**

**M-CRIL**

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# Disclaimer

- ▶ Our services were performed and this Report was prepared in accordance with the Engagement Letter dated 25 May 2020 subject to the terms and conditions included therein.
- ▶ The information captured in this Report is based on the documentation and information received from time to time from Arohan Financial Services Ltd. (Arohan). The findings contained herein are limited to the extent of the procedures conducted by M-CRIL till July 20, 2020, which are described in this document. Accordingly, changes in circumstances or information newly available after this date could affect the findings outlined in this Report.
- ▶ We have relied upon representations of employees of Arohan that all data and information provided by them are correct to the best of their knowledge. We accept no responsibility for any fact or information that has been intentionally withheld or otherwise omitted which could have had a material bearing on our findings.
- ▶ M-CRIL has relied upon the information supplied in connection with this engagement including management information. M-CRIL did not audit or otherwise verify the information supplied in connection with this engagement, from whatever source obtained, except as may be specified in this report. In no circumstances shall we be liable, for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by any person to whom we make information requests.
- ▶ The findings contained in this Report are limited to the extent of the procedures performed by M-CRIL, which are described in this Report. The findings, which are hearsay in nature, should not be construed as an opinion, legal or otherwise, on the rights and liabilities of the Company or any other third party that may be, directly or indirectly, concerned with findings in this Report.
- ▶ All the information presented in this Report from our market sources/third parties are the personal perceptions of the sources. Wherever possible, we have corroborated the information provided to us with the information that may be available in the public domain or that which has been provided to the client, however, we have not done so independently. The Report will be furnished by us is solely for the information of the Arohan which had requested M-CRIL to undertake the engagement. Hence, the Report should not be used, circulated, quoted or otherwise referred either wholly or in part.
- ▶ Arohan shall be fully and solely responsible for applying independent judgment, with respect to the findings included in this Report, to make appropriate decisions in relation to future course of action, if any. We shall not take responsibility for the consequences resulting from decisions based on information included in the Report.
- ▶ Based on the information provided by Arohan, M-CRIL has undertaken desk and e-interview based analysis for this rating report. M-CRIL will conduct a field visit to Arohan branches in the next couple of months after the lifting of the lockdown of branches owing to the COVID-19 pandemic. The revised rating report will then be issued upon completion of the full rating process. Further, owing to moratorium being implemented by RBI, M-CRIL team was unable to verify all the credit bureau data with loan pass-book of the borrowers.

# Structure

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## Key for bullets:

- ✓ Positive
- ❑ Issue

# Assessment tool and methodology

## Assessment Tool

- ▶ The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sa-Dhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).
- ▶ In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

# ...Assessment tool and methodology

## ...Assessment Tool

<b>Highest Order</b>	
Sensitive Indicators	
<b>Higher Order</b>	
Integrity and Ethical Behaviour	
<b>Building Blocks</b>	
Governance Transparency Client Education	Client Protection, Recruitment Feedback/ Grievance Redressal Data Sharing

Chart: COCA Indicators Framework

## ...Assessment tool and methodology

Number of indicators in each category is presented below:

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	30
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	29
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
<b>Total</b>	<b>250</b>

### Methodology

- ▶ The Code of Conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, twelve to fifteen branches and between 240 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

# ...Assessment tool and methodology

## Sampling Guidelines

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centres).

## ...Assessment tool and methodology –CoCA Requirements

- ▶ Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
- ▶ Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
- ▶ Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
- ▶ Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
- ▶ Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
- ▶ Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.
- ▶ M-CRIL has undertaken desk and e-interview based analysis for this rating report. M-CRIL will conduct a field visit to Arohan branches in the next couple of months after the lifting of the lockdown of branches owing to the COVID-19 pandemic.



## ...Assessment tool and methodology

The CoC tool is required to cover 7 building blocks and 2 higher order indicators as depicted below:

Building Blocks	Max. Score
Transparency	40
Client Protection	123
Governance	21
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6

### Score on Building Blocks

Higher Order Indicators	Max. Score
Integrity and Ethical Behaviour	30
Sensitive Indicators	27

Grading Guidelines		
Grade	Lower Limit	Upper Limit
C1	91%	100%
C2	81%	90%
C3	73%	80%
C4	51%	72%
C5	0%	50%

# Code of Conduct Assessment-Summary

- Arohan scores well in 'Transparency and Client education', considering well documented process and interaction of board directors with senior management. It is further supported by the adoption of core values based on Unified Code of conduct in its operational process.
- Arohan has 4 independent directors among 12 board members. Arohan has 6 board level committees namely, Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, IT Strategy Committee, Corporate Social Responsibility Committee, Share Transfer and Securities Allotment Committee are chaired by board members and meets on periodic basis to support the board in its functioning.
- Scores related to 'feedback and grievance redressal' can be improved by ensuring clients understand the escalation process to SROs.
- The client details are shared with all the four credit bureaus on daily basis since January 2020.
- There was difference of more than 15 days between CB check and loan disbursement in 6% of the sampled cases.



## Strengths

- ✓ The COC and grievance redressal mechanism is prominently displayed at all the branches.
- ✓ Branch staff are adequately trained on COC, product terms and policies.
- ✓ The client details are shared with all four credit bureaus on daily basis.
- ✓ The Internal Audit framework is comprehensive, and all the branches are covered every quarter, either through a regular or a snap audit.
- ✓ All client information is stored centrally, on a secure networks and the policy restricts unauthorized access to the client data, ensuring data privacy.
- ✓ The clients are provided regular trainings on the Client Protection Principles (CPP) by the CSRs with an aim to raise clients' awareness level.

## Area for Improvements

- ❑ A detailed checklist/framework to verify compliance of CoC indicators is yet to be in place.
- ❑ All the moratorium related communication to clients must be in vernacular language and should be transparent.
- ❑ Random verification test on clients after disbursement to be strengthened to check the level of over indebtedness
- ❑ Higher emphasis on Grievance Redressal Mechanism communication of industry association with clients.

# Higher Order Indicators

## Integrity and Ethical Behavior

- ✓ The contact details of the SRO nodal officers are displayed at the branches.
- ✓ The Grievance Redressal committee meets every month to discuss the grievances received and resolved during previous month and later submits the status to board on quarterly basis.
- ❑ Arohan needs to emphasize on communicating the GRM as established by the SROs to the clients and its importance. This would allow the clients to voice their complaints to SROs in case they are unsatisfied by the resolution provided by Arohan. 38% of the clients were found to be not aware about SRO.
- ✓ There are appropriate documentary evidences and policies (HR and operations) which indicate that both clients and employees are to be treated ethically and fairly.
- ❑ The senior management submits a CoC compliance report signed by MD to the board on quarterly basis, however this is only a self-declaration and lags a detailed checklist on various CoC indicators.
- ✓ Internal audit reports of all the branches are consolidated and presented to the committee for review which is further presented to the board on a quarterly basis.
- ✓ The audit remarks are expected to be closed by the branches within 10 days of completion of audit. There is a centralised tracking to ensure compliances and the audit observations are further classified based on the severity of the deviation.



# ...Higher Order Indicators

## Sensitive Indicators

- ✓ Copy of loan agreement is provided to the clients.
- ✓ None of the staff have been reported to have indulged in any kind of abusive or nefarious activities while conducting transactions with clients.
- ✓ Of all the sampled clients, moratorium period was at least equal to the frequency of the repayment. This ensures that clients have sufficient time to utilize their loan amounts in their businesses before paying the first installment.
- ✓ Indebtedness level for all the borrowers was found to be within RBI stipulated guidelines.
- ❑ The cash flow analysis of client is conducted after entering details in MIS, however the loan instalments with other MFIs/Bank are not recorded at the time of onboarding the client, which may challenge the accuracy of the existing client repayment capacity assessment.

# Building Blocks

## Transparency

- ✓ All the terms and conditions (processing fees, insurance charges etc.) of its loan and savings products are disclosed in vernacular prominently in the loan cards as well as in branches. The same is communicated clearly in vernacular to all the clients during the promotion meeting.
- ❑ The recent change of interest rate was found not updated at the display board of the sample branches.
- ✓ No hidden charges/ security deposits are paid by the client to avail loans. Effective loan interest rates are being periodically reviewed during board meetings.
- ✓ The annual reports and financial statements can be accessed from the Arohan's website.
- ✓ The recent CoC compliance report can be accessed from Arohan's website.
- ✓ The reason for rejection of loan are mentioned on top of the loan form and in the MIS as well.
- ❑ The clients who are eligible to avail loan during COVID-19 are required to submit a consent for not accepting the moratorium prescribed by RBI. The document does not provide clarity on which moratorium it is referring to, the standard moratorium based on frequency of repayment or the moratorium till August 2020 announced by RBI during the COVID-19 crisis. M-CRIL has observed cases where the signed consent by the clients was not in vernacular language.

# ...Building Blocks

## Client Protection

- ✓ Various terms and conditions related to over-indebtedness, loan amount, tenure, income, purpose etc. as per RBI guidelines are communicated to the clients.
- ✓ All client information is stored on a secure networks; the core banking system has adequate password protection. Only authorised personnel have access to the loan files and all requests to access loan documents have to be routed through the Central Operations team.
- ✓ Installments are not collected post the death of the client/spouse. The outstanding is deducted, and the remaining amount is transferred to the nominee. The average time taken for settlement of insurance claims after submission of required documents is less than 30 days.
- ✓ Timely reports are presented to the board relating to saturation profile of the areas where the institution is operating in order to avoid over-indebtedness.
- ✓ Arohan's code of conduct and discipline rules are documented in the Code of Conduct policy and clearly states how the staff should behave with the clients. The clients are provided regular trainings on the Client Protection Principles (CPP) by the CSRs with an aim to raise clients' awareness level.



# ...Building Blocks

## ...Client Protection

- ✓ Policies pertaining to KYC is outlined in the operations manual and conducted appropriately. Branch staff are aware of the KYC guidelines. UID is compulsorily collected from all the clients.
- ✓ The Internal Audit team conducts audit of all the branches in every quarter, either through a regular or a snap audit. The branches covered in the regular audits are assigned a grade based on their audit scores and the lower grade branches are kept under strict observation in the subsequent quarters. This ensures operational processes are strictly adhered.
- ✓ The process of delinquency management and client data privacy is well defined in the operation manual. As observed by the M-CRIL team, the staff is provided adequate training for the same during the orientation period.





# ...Building Blocks

## Governance

- ✓ Arohan has 12 members in the board out of which 4 are independent directors. Regular meetings (at least once every quarter) are conducted by the Board as observed through the Board minutes.
- ✓ Arohan has 6 board level sub-committees to assist the board in functions such as – audit, risk management, nomination & remuneration, IT strategy, CSR, share transfer and securities allotment.
- ✓ The Board is actively involved in formulating policies and decision-making process.
- ✓ Arohan has debt restructuring policy in place and the policy is available at internal network as reference for all the staff.
- ✓ Branch audits are conducted and the reports for the same are available across all the sampled branches as observed by the M-CRIL team.
- ❑ There is no structured framework for assessment and monitoring of compliance to CoC.

## Data Sharing

- ❑ There is no defined policy/process for data sharing with credit.
- ✓ All the client documents are stored at central location after loan disbursement.
- ✓ The client data is being shared with all the four credit bureaus on daily basis since January 2020.
- ✓ Arohan discloses the operational and financial information and are in public domain.

# ...Building Blocks

## Recruitment

- ✓ Recruitment policies are reviewed by the board at the beginning of every year.
- ✓ Reference check is mandatory at all the levels of recruitment.
- ✓ Arohan conducts due diligence at the time of recruitment of each staff.
- ✓ Arohan follows all the guidelines of SROs in staff recruitment and does not allow the recruited staff to work in same geography in which he/she was working with previous organization.

## Client Education

- ✓ Arohan has a defined process for training of clients before the loan disbursement and same is verified during GRT by the branch manager. The process remains same for the repeat clients as well.
- ✓ As observed by the M-CRIL team, all the clients have received training on loan terms.
- ✓ IA framework covers the evaluation of the client awareness during branch audits.
- ❑ There is scope of improving the client awareness on loan terms – interest rate and instalments.



# ...Building Blocks

## Feedback and Grievance Redressal

- ✓ Arohan has a dedicated 9-member team for client grievance redressal management which allows registration of grievances in 4 vernacular languages. The clients can register their grievances through email or through toll free number.
- ❑ Only the grievance related to loan product can be registered, whereas in case of any service issue in products sold under cross-selling; the client will have to contact the vendor directly.
- ✓ The grievance redressal committee meets on monthly basis and discusses the status of the grievances received. A weekly review is conducted by the grievance redressal team to address the unresolved grievances.
- ✓ All the staff are provided training on GRM which is clearly displayed in vernacular language across all the branches.
- ✓ The grievance redressal mechanism (GRM) is communicated to the clients during training from the field staff. Clients can call the toll free number printed on the loan cards, directly contact the call centre and record their grievances.
- ✓ The contact details of the SRO official were displayed at the branches in vernacular language.
- ❑ 38% Clients were found not aware of the grievance redressal mechanism of the industry association.





# Annexes

# Profile of the Board

Board Member	Position on Board	Experience	Since
Dinesh Kumar Mittal	Chairman – Independent Director	Management, Banking	2018
Matangi Gowrishankar	Independent Director	Management, HR	2016
Sumantra Banerjee	Independent Director	Management, IT	2014
Rajat Mohan Nag	Independent Director	Banking, Economics	2015
Anurag Agarwal	Promoter Director	Management, Finance	2012
Vineet Rai	Promoter Director	Management, Finance	2013
Shri Ram Meena	Nominee Director-SIDBI	Banking, MSME	2019
Wilhelmus Marthinus Maria Van Der Beek	Nominee Director – AG II	Finance	2016
Paul Robine	Nominee Director – TR Capital III	Finance, Banking	2019
Kasper Svarrer	Nominee Director – Maj Invest	Management, Finance	2017
Piyush Goenka	Nominee Director – Tano	Management, Finance	2015
Manoj Nambiar	Managing Director	Management, Banking	2012

# Methodology

- ▶ **Preliminary analysis of Arohan information, review of available reports and financial statements**
- ▶ Conducted desk and e-interview based analysis with the branches.
  - ▶ Total 16 branches (2-Assam, 3-Bihar, 1-Chhattisgarh, 2-MP, 1-Orissa, 1-Tripura, 3-UP & 3-WB)
- ▶ Discussion with Branch Manager/CSR on different aspects of CoC, MFI's policies and procedures on telephonic call
- ▶ Documentation review – policies and data shared by Arohan
- ▶ Virtual interaction with clients – FGD with 1-4 centers per branch; 25 FGDs were conducted across 16 branches
- ▶ Assess relationship between staff and clients
- ▶ Check for implementation of client protection principles
- ▶ Feedback on products – suitability to client needs, application of terms & conditions
- ▶ Virtual discussions with the Chief Functionary and senior management (Operations, Accounting & Finance, MIS, Human Resources and Internal Audit) to understand MFI's objectives, governance, market strategies, operations, products and services, integration of CoC in policies and procedures and MIS.
- ▶ Collection and review of documents, manuals, Board minutes and associated documents to Code of Conduct.
- ▶ **Data Analysis and Report writing**
- ▶ **Internal Review at M-CRIL**
- ▶ **Report draft sent to Arohan**

# Sampling Plan

As part of this assessment, we visited 16 branches and 257 clients of the MFI. The details of the branches visited are provided below:

Sr No	State	District	Branch	No. of centers	No of clients interviewed
1	Assam	Bongaigaon	Bongaigaon	3	14
2	Assam	Golaghat	Furkating	3	15
3	Bihar	Bhojpur	Arah	3	16
4	Bihar	East Champaran	Chakiya	2	23
5	Bihar	Nalanda	Hilsa	2	19
6	Chattisgarh	Dhamtari	Dhamtari	4	13
7	MP	Indore	Rajendra Nagar	3	20
8	MP	Ratlam	Jaora	2	17
9	Orissa	Ganjam	Berhampur	3	11
10	Tripura	Unakoti	Kumarghat	3	12
11	UP	Hathras	Hathras	1	7
12	UP	Jaunpur	Badlapur	3	20
13	UP	Sultanpur	Sultanpur	4	20
14	WB	Murshidabad	Bhagwangola	2	20
15	WB	South-24 Parganas	Gocharan	1	12
16	WB	West-Midnapore	Belda	2	18

# Abbreviations

AC	Advisory Committee	HR	Human Resources
ADDO	Approval Documentation Dissemination Observation	IT	Information Technology
AGM	Assistant General Manager	JLG	Joint Liability Group
BC	Banking Correspondent	KYC	Know Your Customer
BH	Branch Head	LAF	Loan Application Form
BoD	Board of Directors	CSR	Customer Service Representative
CB	Credit Bureau	LUC	Loan Utilization Check
CEO	Chief Executive Officer	M-CRIL	Micro-Credit Ratings International Ltd
CFO	Chief Finance Officer	MFI	Micro Finance Institution
CGM	Chief General Manager	MIS	Management Information System
CGT	Compulsory Group Training	NBFC	Non Banking Finance Company
CoC/ UCoC	Code of Conduct/ Unified Code of Conduct	PAR	Portfolio at Risk
CPP	Client Protection Principles	RBI	Reserve Bank of India
CSR	Customer Service Representative	SRO	Self Regulatory Organization
GRM	Grievance Redressal Mechanism	TAT	Turn around time
GRT	Group Recognition Test		
HO	Head Office		