

## **SWADHAAR'S POLICY ON COLLECTION OF OVERDUES FROM DELINQUENT CLIENTS AND OTHER RECOVERY POLICIES**

### **Meet Swadhar FinServe Pvt. Ltd**

Swadhaar FinServe Pvt. Ltd. (SFPL) is an Indian Non Banking Financial Company serving the states of Maharashtra and Gujarat. Based in Mumbai, SFPL serves Western India's urban poor, striving to increase their access to financial services so that they may increase their economic capacity and develop a more secure financial future. SFPL currently offers two loan products: a joint-liability group loan targeting economically active women, and an individual business loan targeting both male and female micro entrepreneurs. In March 2010, SFPL had 27,391 active clients and a portfolio of 195.64 mm Indian Rupees (US\$ 4.34 million).

### **Why SFPL was selected as a winner**

SFPL was selected as a winner for this call for tools because their submission meets the Smart Campaign's evaluation criteria for Principle Three: Appropriate Collection Practices. SFPL's collection policy includes a code of conduct for collection that outlines acceptable and unacceptable behavior for members of staff or any person authorized to represent the MFI in collections. SFPL's policies are compatible with the Smart Campaign's appropriate collection practices and clearly instruct staff and agents involved in collections to treat customers with dignity, even when they fail to meet their contractual obligations. The policies are backed by procedures that include clear, detailed steps and timeframes for collections. Finally, they do not conflict with the other five principles of the Smart Campaign.

### **Tool Organization**

- 1. Pages 2-3 contain SFPL's *Code of Conduct and General Guidelines for Collections***, intended to regulate conduct for all collections, both for group and individual loan clients, undertaken by SFPL or conducted on its behalf. Based on India's Micro Finance Institutions Network (MFIN) code of conduct and the Reserve Bank of India's (RBI) policies and guidelines, the code and the guidelines direct SFPL collection agents to avoid all abusive and unethical treatment of clients.
- 2. Pages 4-5 present SFPL's *Delinquency Quadrant***, which is a matrix that prescribes appropriate recovery strategies based on a client's willingness and capacity to pay, compared with the possible reasons for payment delinquency. This matrix is applicable to both group and individual loan clients and is for use by SFPL staff.
- 3. Pages 6-10 describe SFPL's *Loan Recovery for loans between 1-30 days late for SFPL's Group Loan* product.** These are the specific procedures that group-loan staff is directed to follow for loan recovery. Note: The specific staff positions, timelines and activities presented in the procedures are specific to the loan product, institution and legal framework of the country. They may not be applicable for all products and institutions.

## **1. A Code of Conduct for Collections**

The Micro Finance Institutions Network (MFIN) Code of Conduct states that:

- a. Though each MFI tries to ensure on-time recovery of dues, it is imperative that they shall not use any abusive, violent, or unethical methods of collection and recovery efforts should be in line with guidelines issued from Reserve Bank of India's (RBI) from time to time.
- b. A valid receipt (in whatever form as decided by each member) should be provided for each collection from the borrower.

Hence guidelines on Swadhaar's own policy on recovery and debt collection have been laid down on the lines of the RBI policies and Code of Conduct of MFIN:

The debt collection policy of Swadhaar is built around dignity and respect to its clients. Swadhaar will not follow policies that are unduly coercive in collection of dues. The policy is built on courtesy, fair treatment and persuasion. Swadhaar believes in following fair practices with regard to collection of dues and thereby fostering customer confidence and long-term relationship. All the practices adopted by Swadhaar for follow up and recovery of dues will be in consonance with the Law.

### **General Guidelines:**

All members of staff or any person authorized to represent Swadhaar in collection and recovery would follow the guidelines set out below:

1. The client would be contacted ordinarily at the place of his/her choice and in the absence of any specified place, at the place of his/her residence and if unavailable at his/her residence, at the place of business/occupation.
2. Identity and authority of persons authorized to represent Swadhaar for follow up and recovery of dues would be made known to the borrowers at the first instance. Swadhaar staff or any person authorized to represent Swadhaar in collection of dues will identify himself / herself and display the identity card issued by Swadhaar upon request.
3. Swadhaar would respect privacy of its borrowers.
4. Swadhaar is committed to ensure that all written and verbal communication with its borrowers will be in simple local language and Swadhaar will adopt civil manners for interaction with borrowers.
5. Normally Swadhaar's representatives will contact the borrower between 0700 hrs and 1900 hrs, unless the special circumstance of his/her business or occupation requires Swadhaar to contact at a different time. This should be documented.
6. Borrower's requests to avoid calls at a particular time or at a particular place would be honored as far as possible.
7. Swadhaar will document the efforts made for the recovery of dues and the copies of communication set to clients, if any, will be kept on record.

8. All assistance will be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.
9. Inappropriate occasions such as bereavement in the family or such other calamitous occasions will be avoided for making calls/visits to collect overdue amounts.
10. Swadhaar hires its own recovery officers and hence strictly controls the client visits. However in the event that Swadhaar appoints third party agencies for debt collection, it will ensure that such agents refrain from action that could damage the integrity and reputation of Swadhaar and that they observe strict customer confidentiality. All letters issued by recovery agents will contain the name and address of a responsible Swadhaar senior officer whom the customer can contact at his location.
11. Swadhaar will not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the clients family members and friends, making threatening and anonymous calls or making false and misleading representations.
12. Giving notice to borrowers: While written communications, telephonic reminders or visits by Swadhaar's representatives to the borrowers place or residence will be used as loan follow up measures, Swadhaar will not initiate any legal or other recovery measures without giving due notice in writing.

## 2. Delinquency Quadrant

Quadrant	Explanation (of client willingness and capacity to pay)	Client Type <sup>1</sup>	Possible Reasons (for payment delinquency)	Recovery Strategy
I	Has willingness to pay and capacity to pay	<ul style="list-style-type: none"> <li>• Good client. That particular instalment delayed due to temporary decrease in cash flow of client or household member</li> <li>• Expected to pay back when she gets the money in 1-2 days</li> </ul>	<ul style="list-style-type: none"> <li>• Salary/payment being late</li> <li>• Sudden unplanned expense in the household etc. (one-time incidence)</li> </ul>	<ul style="list-style-type: none"> <li>• Field collections by LO</li> <li>• Encourage part payments</li> <li>• Involve co-signor and guarantor in recovery</li> <li>• Remind about incentives for good client record</li> </ul>
II	Willingness to pay but no capacity to pay	<ul style="list-style-type: none"> <li>• Situation of the client has changed post-appraisal OR</li> <li>• Problems within family that has an effect on client</li> </ul>	<ul style="list-style-type: none"> <li>• Problems with business (Business failure, repair work, shifting, damaged, displaced of business place)</li> <li>• Unexpected and high household expenditure</li> <li>• Possible poor appraisal by LO</li> <li>• Over indebtedness of client and thus is unable to pay on current terms</li> <li>• Death of family member</li> <li>• Client injury- unable /hard to work</li> <li>• Client has health problem</li> <li>• Sickness of family member</li> <li>• Merchandise /client's money has been stolen</li> <li>• Loss of employment</li> <li>• Natural disaster or political unrest (riots, etc) for</li> </ul>	<ul style="list-style-type: none"> <li>• Adjust the repayment terms so that she can continue to pay smaller amounts that she can afford</li> <li>• Recommend for rescheduling</li> <li>• Prove willingness to repay by paying regular smaller instalments</li> </ul>

<sup>1</sup> The categorisation into different client types is to be done by the Loan Officer (LO) and Recovery Officer (RO) for clients who are 1-30 days late and > 30 days late respectively. The LO/RO has to interpret which category the client falls into based on the reason for delay, client's general behaviour/response to the recovery actions, the co-signor and guarantor opinions, the previous experience with the client etc.

Quadrant	Explanation (of client willingness and capacity to pay)	Client Type <sup>1</sup>	Possible Reasons (for payment delinquency)	Recovery Strategy
III	No willingness and no capacity to pay	<ul style="list-style-type: none"> <li>Situation of the client is different from what is given in the appraisal form.</li> </ul>	<p>which rescheduling can be done within 60 days</p> <ul style="list-style-type: none"> <li>Poor appraisal – Over-estimation of income / sales</li> <li>Sanctioning of amount that is higher than the client's capacity</li> <li>Disappearance of client (or client shifts residence without informing MFI or the client has shifted back to village)</li> <li>Given loan to another person</li> </ul>	<ul style="list-style-type: none"> <li>Handover to recovery dept.</li> <li>Leverage pressure on co-signor and guarantor for payment</li> <li>Case to be notified to the Monitors and the Training depts</li> </ul>
IV	No willingness to pay but has capacity to pay/Intentional default	<ul style="list-style-type: none"> <li>Willful defaulter</li> <li>Client does not see any value in continuing with the services of Swadhaar</li> </ul>	<ul style="list-style-type: none"> <li>Improper appraisal of non-financial indicators</li> <li>Loan used for other means than reason provided to MFI</li> <li>Fraud</li> <li>Client refuses to pay</li> <li>Client lied during evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Try to assess the reason</li> <li>Use the help of the Social Initiatives team</li> <li>Employ gentle persuasion tactics moving on to more strict/firm handling</li> <li>Put pressure on co-signor and guarantor</li> <li>If possible, legal action</li> </ul>

### **3. Loan Recovery for loans between 1-30 days late (For Group Loans)**

#### **Introduction**

This section deals with the policies and processes of recovery of a loan which is delinquent. A delinquent loan is a loan in which any payment is past due, i.e. a loan is considered as delinquent if any part of the instalment amount is overdue even for one day past the due date.

The recovery actions involve different departments depending on the required activity to recover the delayed repayments. At the branch level the Loan Officers will lead the process with guidance and support from the **Team Leader (TL)** and assistance by the **Administrative Assistant (AA)**. In addition, there are dedicated sections like the Recovery Department and the Legal Department to carry out specific activities. The process also needs constant support from the MIS and IT systems to provide information so that effective and timely follow-up, management and analysis of the portfolio can be done.

#### **Delinquency Management & Loan Recovery Policies**

##### **Guidelines for Recovery Actions**

The following considerations should be kept in mind when conducting a default visit to a client/group, and when determining the type of action that should be taken:

1. Total number of days late
2. The total amount overdue
3. The number of installments overdue
4. The client's attitude during the visit
5. The group's attitude during the visit
6. Reason given for default
7. Amount of time the person has been a client of Swadhaar
8. The credit history of the client
9. If a loan was given for business purposes, type of business
10. Family circumstances
11. The default rate in the area or zone in which the client lives and/or operates her business

The two most important aspects to be kept in mind while following up a delinquent loan are the Willingness and Capacity of the client to repay the loan on the current terms. The matrix in annex XX (page 8-9) gives direction on the action to be taken based on these two features.

**All the personnel responsible for recovery should always treat the client professionally with respect in course of this recovery process.**

The recovery processes should be followed without fail as given in the manual; **any deviation from the prescribed process to be recorded along with the reason** for the same and proper authorization from the approving authority.

One of the major tasks of the loan officers is to encourage clients to make on-time loan payments. The loan officers should continuously remind clients of the advantages of making on-time payments: a possible increase in the loan size for future loans, access to additional products, preferential client treatment, etc. **Social collateral of group liability should be leveraged as much as possible in the**

**recovery process.** Clients cannot receive a new loan if the previous loan has not been paid off in full first.

### **Preventive Visit Policies**

On or before the due date, the **Group Loan Officer (GLO)** will either call or visit the 'authorized member' to remind them of the upcoming instalment due date.

The following clients should be included for a 'preventive call/visit':

1. Clients who are paying the first instalment of their loan (irrespective of their loan cycle) and
2. Clients whose previous instalment was late.

The GLO will have to make this decision on a case-by-case basis. The objective of the 'reminder visit' is to take preventive measures to minimize potential delinquencies.

GLOs are required to advise the 'authorized member's and the members about the following, with a view to prevent difficulties and delays at the time of payment:

- To be ready with the corresponding amounts of payments and to keep required denominations, change etc. at the time of payments.
- To make payments on the due dates.
- To verify that the transaction receipt amount and the amount paid match.
- To insist on receipts for any payments made.

### **Penalties and Charges**

Penal interest and other charges for late repayments have been placed in the Swahit Product Sheet.

### **Settlement of Delinquent Loans**

Settlement of loans is the last resort by Swadhaar to close the loan taken by a client. Settlements should be done only on a case-by-case basis as it could be detrimental to the repayment culture of an area. Settlement means the negotiation & agreement with client to repay only part of the loan – either part of principal, interest or penalty, in exchange for a closure letter from Swadhaar. Swadhaar should continue to encourage a client to pay off his/her full loan by using the group guarantee or by reminding the client the need to repay full loan amount. It is possible that if a loan is settled, the client(s) might influence other borrowers to hold out until Swadhaar agrees to reduce and settle the outstanding loan. Settlements will take place in branch or with TL/AM present in field, this measure is to prevent misuse or misrepresenting the cash collected from settlements in field.

Criteria for selection of clients to whom we might agree to settle the loan:

- a) Client who shows the willingness to repay part of the loan in a one-time payment as they do not have the capacity to pay the full outstanding loan.
- b) Client who indicates that they are moving out or closing their residence/business and are willing to repay part of the loan.
- c) Clients who have a large outstanding loan but are unwilling to repay the full amount.
- d) Clients whose loans are so small that the cost of recovery is much higher than the amount outstanding.

### **Management and Analysis of Delinquency**

- a) The exchange of information as well as the feedback between different GLOs and RO/Legal Department must be promoted with an objective to maintaining the quality of the branch's portfolio.
- b) It will be the responsibility of TL to undertake a weekly analysis of the branch's portfolio to determine specific causes and to implement preventive strategies of delinquency management.

- c) Details of the delinquent loans are updated automatically on a daily basis in the system in the *Customer Arrears Report* for each GLO.
- d) All loans whose repayments of an instalment has been delayed by a day or more appear in the *Customer Arrears Report*.

**Control**

- a) The TL is responsible to ensure on a daily basis that default management policies and procedures are implemented correctly and fully at the branch.
- b) The TL is responsible to ensure that the tracking sheets of the GLO are filled on a daily basis. The TL can ask to see the tracking sheets of the RO on a daily basis (format of the Delinquency Tracking Sheet is placed in **Annexure XX**).
- c) Recovery Department is responsible to ensure that RO tracking sheets are filled in on a daily basis.
- d) The TL will keep the tracking sheet of each defaulting client in a binder. As long as the client is in default the tracking sheet will remain with the TL and will be filled out each time the client or group was contacted through a visit or by phone. Failed attempts to reach the client and the group should be included. When the client has repaid the loan in full or the file is sent to the RD, the tracking sheet will be filed in the client file.
- e) Similarly, the RO will keep the tracking sheet of each defaulting client in a separate binder until the file is handed over to the Legal Department or the client pays the loan in full; then the tracking sheet will be kept back in the client file.
- f) The GLO and RO involved in the recovery management have to file a report on the steps and actions taken for recovery, particularly of the behaviour of client in order to have a clearer idea of his/her intention and willingness to pay.

**Procedure for delinquency management (for 1-30 days overdue loans)**

The reason for the delinquency should be recorded in the tracking sheets and verified to the extent possible. For all delinquent loans, the concerned GLO continues to visit the respective clients from the due date to collect a possible payment (please refer to Loan Repayment Chapter 5, Section 5.3.3 for additional details). Days are calculated as calendar days NOT working days.

Who?	Step	What?
AA	1	Prints out the daily <b>Customer Arrears Report</b> , makes the appropriate number of copies (one for each loan officer), and provides the aggregate report to the TL in a maximum time of half an hour from start of business hours.
TL	2	Reviews the daily <b>Customer Arrears Report</b> (for TL) & takes note of: <ul style="list-style-type: none"> <li>• New defaulters</li> <li>• Partial and full payments that have been made</li> <li>• Verbal commitments that have been broken</li> </ul>
TL or Senior LO	3	Meets with the loan officers in rotation (minimum twice a week) to discuss and examine: <ul style="list-style-type: none"> <li>• The <b>tracking sheets</b> of each of the delinquent clients</li> <li>• The action plan for each delinquent client/group</li> <li>• The default management activities undertaken by each loan officer the previous day</li> <li>• The default management activities that each loan officer should undertake that day</li> </ul>
LO & TL	4	Conducts tracking activities following the <b>delinquency management action plan</b> elaborated below



Who?	Step	What?
	5	Fills in the <b>tracking sheet</b> at the end of each contact (attempted contacts included) with the client and/or group (contact can be through either a visit or by phone)
TL	6	If the client/group has not paid by day 25, the LO & TL visits the client and group one last time (see <b>Delinquency Management Action Plan: Section 6.4.1</b> ) and asks client to make full payment within Day 30, else account shall be transferred to the Recovery Department. She/he gives the order to prepare the case for
	7	If no payment has been received by day 30, LO transfers file to the Recovery Department.

### Delinquency Management Action Plan at Branch Level

No. Days Late	Who?	What?
1 day late	GLO	<p><b>Visit 1:</b>to the client</p> <ul style="list-style-type: none"> <li>• Determines the reasons for the late payment</li> <li>• Informs the client of the advantages of making on-time payments</li> <li>• Informs the client that penalty interest and fees will be charged effective from the date of default</li> <li>• Asks for a verbal commitment by the client to pay the outstanding amount on a set date</li> <li>• Fills in the tracking sheet</li> </ul>
3-5 days late	GLO	<p><b>Visit 2:</b> to the group members</p> <ul style="list-style-type: none"> <li>• Further investigates the reasons for the late payment</li> <li>• Informs the client and group of the advantages of making on-time payments</li> <li>• Visits the group members</li> <li>• Asks for a verbal commitment by the client and/or group to pay the outstanding amount on a set date</li> <li>• Fills in the tracking sheet</li> </ul>
6-9 days late	GLO	<p><b>Visit 3:</b> in a group meeting</p> <ul style="list-style-type: none"> <li>• Further investigates the reasons for the late payment</li> <li>• Calls a group meeting</li> <li>• Informs the client and group of the disadvantages of not making on-time payments;</li> <li>• Becomes more forceful with the client and group</li> <li>• If the client and/or group do not have the capacity to pay: asks the client/group to at least make small regular payments to show their willingness to pay</li> <li>• Asks for a verbal commitment by the client and/or group to pay the outstanding amount on a set date</li> <li>• Fills in the tracking sheet</li> </ul>

No. Days Late	Who?	What?
10-15 days late	TL & GLO	<p><b>Visit 4:</b> in a group meeting</p> <ul style="list-style-type: none"> <li>• Further investigates the reasons for the late payment</li> <li>• Informs client of the disadvantages of not making on-time payments</li> <li>• Asks for a written commitment by client to pay the outstanding amount on a set date</li> <li>• Fills in the tracking sheet</li> </ul>
16- 24 days late	GLO	<p><b>Continued visits:</b> (regular visits to client and group members)</p> <ul style="list-style-type: none"> <li>• Follows-up on the continued defaulting of the client and group</li> <li>• Asks for a verbal commitment by the client and group to pay the outstanding amount on a set date</li> <li>• Fills in the tracking sheet</li> </ul>
25 to 30 days late	TL, GLO & RO	<p><b>Last Visit:</b> to the client and/or group</p> <ul style="list-style-type: none"> <li>• Informs the client and group members of the actions that Swadhaar can take against the group in case of non-payment</li> <li>• Hand delivers the first letter: Type A (see format in <b>Annexure XX</b>) to the client. The same letter is posted from the office too, to show proof of delivery.</li> <li>• Informs the group that the file will be transferred to the Recovery Department if the full payment is not made by Day 30</li> </ul>
		If the client is not at home/ at place of business, leaves letter at the house/business place

If the GLO determines that the client does not have the willingness to pay then the case must be referred to the TL, who must conduct a visit (see visit 4) and determine the action that should be taken against the client. This action can consist of the continued application of pressure at the branch level OR the immediate transfer to the Recovery Department. The branch must receive the written approval of the next higher authority to transfer a case that is less than 30 days late to the Recovery Department.

#### Accompanying forms for collections and delinquency management

Name of Annexure/Forms	Annexure No.
Willingness & Capacity to Repay	19
Delinquent Client Tracking Sheet	20
Standard Letter of Warning: Letter type A	21
Reschedule 1	22
Reschedule 2	23