

# **BAJAJ FINANCE LIMITED**

## **FAIR PRACTICE CODE**

**October 2023**

**Ver.6.0**

## **COMPLIANCE DEPARTMENT**

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## 1. Introduction

Bajaj Finance Limited, a Non-Banking Finance Deposit Taking Company registered with Reserve Bank of India ("RBI") is presently in the business of providing different types of loans which includes Consumer Durable Loans, Personal Loans, Two-Wheeler loans, Loan against Property, Loan against Shares etc., to its various customers. Such credit facilities are extended to different types of customers, which include Individuals, Partnership Firms, Companies and other Legal entities.

Bajaj Finance Limited ("the Company") has put in place the Fair Practice Code (FPC) as per the RBI directives and it has been duly approved by the Board of Directors. The Fair Practice Code sets out the principles for fair practices/ standards while dealing with its customers.

The Company has adopted this Fair Practices Code ("the Code") and have implemented it. The Code applies to all categories of products and services offered by the Company (currently offered and which may be introduced in future).

## 2. Key Commitments

The Company's key commitments to customers:

- i. Act fairly and reasonably in all their dealings with customers by:
  - Meeting the commitments and standards specified in the Code, for the products and services which the Company offers and, in the procedures and practices its staff follows;
  - Making sure that Company's products and services meet relevant laws and regulations;
  - Company's dealings with customers will rest on ethical principles of integrity and transparency
- ii. Help customers understand how company's product work by:
  - Explaining their financial implications
- iii. Deal quickly and sympathetically with things that go wrong by:
  - Correcting mistakes;
  - Handling customer's complaints;
  - Telling customers' how to take their complaint forward if they are still not satisfied
- iv. Publicize the Code, put it on Company's website and have copies available for customer on request.

## 3. Information

- a) Helping customer choose products and services, which meet their needs and give them clear information explaining the key features of the services and products they are interested in.
- b) Inform customers about the documents and information the Company needs from them to establish customer's true identity and address and, other documents to comply with legal and regulatory requirements.

## 4. Applications for loans and their processing

- a) All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
- b) The Loan application forms of the Company will include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower. The loan application form will indicate the documents required to be submitted with the application form.

- c) The Company will have a system of giving acknowledgement for receipt of loan applications. The time frame within which loan applications will be disposed of will be indicated in the acknowledgement.

## **5. Loan appraisal and terms/conditions**

The Company will convey in writing to the borrower in the vernacular language or a language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record. The Company will mention the penal charge which will be charged for late repayment and / or any other default on the part of the customer, in bold in the loan agreement.

The Company will furnish a copy of the loan agreement preferably in the vernacular language as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/NPA classification dates, etc. shall be communicated to the borrower at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/ loan agreement till full repayment of the loan. In cases of loan facilities with moratorium on payment of principal and / or interest, the exact date of commencement of repayment shall also be communicated to the borrower.

## **6. Penal Charges in Loan Accounts**

- a) Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall be no capitalization of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.
- b) The Company shall not introduce any additional component to the rate of interest and ensure compliance to these guidelines in both letter and spirit.
- c) The Company shall formulate a Board approved policy on penal charges or similar charges on loans, by whatever name called.
- d) The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.
- e) The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
- f) The quantum and reason for penal charges shall be clearly disclosed by the Company to the customers in the loan agreement and most important terms & conditions / Key Fact Statement (KFS) as applicable, in addition to being displayed on the Company's website under Interest rates and Service Charges.
- g) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

A separate Policy on Fair Lending Practice- Penal Charges on Loan accounts has been put in place and duly approved by the Board of Directors in its meeting held on October 17, 2023.

## 7. Disbursement of loans including changes in terms and conditions

- a) The Company will give notice to the borrower in the vernacular language, or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. The Company will also ensure that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard will be incorporated in the loan agreement.
- b) Decision to recall / accelerate payment or performance under the agreement will be in accordance with the loan agreement.
- c) The Company will release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim the Company may have against borrower. If such right of set off is to be exercised, the borrower will be given notice about the same with full particulars about the remaining claims and the conditions under which the Company is entitled to retain the securities till the relevant claim is settled/paid.

## 8. Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans

- a) At the time of sanction of EMI based floating rate personal loans, the company is required to take into account the repayment capacity of borrowers to ensure that adequate headroom/ margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the interest rates during the tenor of the loan. However, in respect of EMI based floating rate personal loans, in the wake of rising interest rates, several consumer grievances related to elongation of loan tenor and/or increase in EMI amount, without proper communication with and/or consent of the borrowers have been received. In order to address these concerns, the NBFs are advised to put in place an appropriate policy framework meeting the following requirements for implementation and compliance:
  - i. At the time of sanction, the Company shall clearly communicate to the borrowers about the possible impact of change in interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.
  - ii. At the time of reset of interest rates, the company shall provide the option to the borrowers to switch over to a fixed rate as per its Board approved policy. The policy, inter alia, specifies the number of times a borrower will be allowed to switch during the tenor of the loan.
  - iii. The borrowers shall also be given the choice to opt for-
    - (a) enhancement in EMI or elongation of tenor or for a combination of both options; and,
    - (b) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to extant instructions.
  - iv. All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs by the Company from time to time.
  - v. The Company shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.
  - vi. The Company shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan. The Company shall ensure that the statements are simple and easily understood by the borrower.

Apart from the equated monthly instalment loans, these instructions would also apply, mutatis mutandis, to all equated instalment based loans of different periodicities.

A separate Policy on Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans has been put in place and duly approved by the Board of Directors in its meeting held on October 17, 2023.

## 9. General

- a) The Company will refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless new information, not earlier disclosed by the borrower, has come to the notice of the Company).
- b) In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e., objection of the Company, if any, will be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
- c) In the matter of recovery of loans, the Company will not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc. To avoid rude behavior from the staff of the Company, the Company shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner.
- d) The Company shall not charge foreclosure charges/ pre-payment penalties on floating rate term loans sanctioned for purposes other than business to individual borrowers, with or without co-obligant(s). (Reference: RBI Circular on Levy of Foreclosure Charges/ Pre-Payment Penalty on Floating Rate Loans by NBFCs DNBR(PD) CC.No.101/03.10.001/2019-20 dated August 2, 2019)

## 10. Grievance Redressal

- a) A periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management. A consolidated report of such reviews will be submitted to the Board at regular intervals.
- b) The following information shall be displayed prominently, for the benefit of the customers, at all branches/ places of the Company, where business is transacted:
  - i. the name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached for resolution of complaints against the Company.
  - ii. If customer's complaint/concern is not redressed within a period of 30 days, customer can lodge a complaint on RBI CMS portal - <https://cms.rbi.org.in>

Or send complaint form to the below mentioned address:

Centralised Receipt and Processing Centre,  
Reserve Bank of India, 4th Floor,  
Sector 17, Chandigarh – 160017  
Tollfree Number- 14448

## **11. Ombudsman Scheme for Non-Banking Financial Companies**

### **(a) Reserve Bank – Integrated Ombudsman Scheme, 2021**

Under the Ombudsman Scheme, the Company has appointed Principal Nodal Officer (PNO) who shall be responsible for representing the Company and furnishing information to the Ombudsman in respect of complaints filed against the Company. The Nodal Officers (NO) appointed by the Company will assist the PNO.

For the benefit of the customers, at the branches/ places where business is transacted, the name and contact details (Telephone/ Mobile number and email) of the PNO along with the details of the complaint lodging portal of the Ombudsman (<https://cms.rbi.org.in>) will be displayed.

The salient features of the Scheme shall be displayed prominently in English, Hindi and Regional languages at all the offices and branches in such a manner that a person visiting the office or branch has adequate information on the Scheme.

The salient features of the Ombudsman Scheme along with the copy of the Scheme and contact details of the Principal Nodal Officer shall be prominently displayed and updated on the website.

(Reference: Reserve Bank - Integrated Ombudsman Scheme, 2021 dated November 12, 2021)

### **(b) Appointment of Internal Ombudsman**

In accordance with the RBI guidelines on 'Appointment of Internal Ombudsman by Non-Banking Financial Companies' dated November 15, 2021, the Company has appointed Internal Ombudsman and shall adhere to the corresponding guidelines.

(Reference: Appointment of Internal Ombudsman by Non-Banking Financial Companies dated November 15, 2021)

## **12. Hosting on Website**

Fair Practices Code, in vernacular languages shall be put up on the website of the Company for the information of various stakeholders.

## **13. Regulation of excessive interest charged**

- a) The Board of Directors has adopted an interest rate model for determining the rate of interest to be charged on loans and advances, processing and other charges taking into account relevant factors such as, cost of funds, margin and risk premium, etc. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.
- b) The rates of interest and the approach for gradation of risks shall also be made available on the website of the company. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest.
- c) The rate of interest shall be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.

#### 14. Repossession of vehicles financed

The Company shall include a built in re-possession clause in the loan agreement with the borrower which will be legally enforceable. To ensure transparency, the terms and conditions of the loan agreement shall also contain provisions regarding: (a) notice period before taking possession; (b) circumstances under which the notice period can be waived; (c) the procedure for taking possession of the security; (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property; (e) the procedure for giving repossession to the borrower, and (f) the procedure for sale / auction of the property. A copy of such terms and conditions shall be made available to the borrowers.

#### 15. Lending against collateral of gold jewellery

In addition to the general guidelines as above, the Company shall, while lending to individuals against gold jewellery, follow the policy, duly approved by the Board of Directors, containing, inter-alia, the following:

- i. Adequate steps to ensure that the KYC guidelines stipulated by RBI are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan.
- ii. Proper assessing procedure for the jewellery received.
- iii. Internal systems to satisfy ownership of the gold jewellery.
- iv. Adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. Loans against the collateral of gold shall not be extended by branches that do not have appropriate facility for storage of the jewellery.
- v. The jewellery accepted as collateral shall be appropriately insured.
- vi. The policy with regard to auction of jewellery in case of non-repayment shall be transparent and adequate. Prior notice to the borrower shall be given before the auction date. It shall also lay down the auction procedure that will be followed. There shall be no conflict of interest and the auction process will ensure that there is arm's length relationship in all transactions during the auction including with group companies and related entities.
- vii. The auction shall be announced to the public by issue of advertisements in at least 2 newspapers, one in vernacular language and another in national daily newspaper.
- viii. The Company shall not participate in the auctions held.
- ix. Gold pledged will be auctioned only through auctioneers approved by the Board.
- x. The policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.
- xi. The loan agreement for lending against gold shall also disclose details regarding auction procedure.

#### 16. Fair Practice Code for Microfinance Loans

Reserve Bank of India (RBI) has issued Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 under reference DoR.FIN.REC.95/03.10.038/2021-22 dated March 14, 2022. These Directions are applicable to all commercial Banks, NBFCs including Microfinance Institutions and Housing Finance Companies. These guidelines will be effective from April 01, 2022.

In addition to the FPC as mentioned in the above sections, the Company shall adopt the following fair practices which are specific to Microfinance Loans:

- (i) General
  - a. The FPC in vernacular language shall be displayed in office and branch premises of the Company, apart from the Company's website.



- b. A statement shall be made in vernacular language and displayed in the premises and in loan cards articulating their commitment to transparency and fair lending practices.
- c. Field staff shall be trained to make necessary enquiries with regard to income and existing debt of the borrowers.
- d. Training, if any, offered to the borrowers shall be free of cost. Field staff shall be trained to offer such training and also make the borrowers fully aware of the procedure and systems related to loan / other products.
- e. The effective rate of interest charged, and the grievance redressal system set up by the Company shall be prominently displayed in all its offices, in the literature issued by it (in vernacular language) and also on its website.
- f. A declaration shall be made in the loan agreement and also in the FPC displayed in office, branch premises and website of the Company that it will be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal.
- g. The KYC Directions of the Reserve Bank of India (RBI) shall be complied with. Due diligence shall be carried out to ensure the repayment capacity of the borrowers.
- h. All sanctions and disbursement of loans shall be done only at a central location and more than one individual shall be involved in this function. In addition, there shall be close supervision of the disbursement function.
- i. Adequate steps shall be taken to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.

(ii) Disclosures in loan agreement / loan card

- a. The Company shall have a Board approved standard form of Microfinance loan agreement. The loan agreement shall preferably be in vernacular language.
- b. In the loan agreement, the Company shall disclose the following:
  - All the terms and conditions of the loan,
  - The pricing of the loan involves only three components viz. the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof),
  - No security deposit / margin is being collected from the borrower,
  - The borrower cannot be a member of more than one SHG / JLG,
  - The moratorium period between the grant of the loan and the due date of the repayment of the first Installment,
  - An assurance that the privacy of borrower data shall be respected.
- c. The loan card shall reflect the following details:
  - Simplified factsheet on pricing including effective rate of interest charged,
  - All other terms and conditions attached to the loan,
  - Information which adequately identifies the borrower,
  - Acknowledgements by the Company of all repayments including instalments received and the final discharge,
  - The loan card shall prominently mention the grievance redressal system set up by the Company and also the name and contact number of the nodal officer,
  - Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself,
  - All entries in the loan card shall be in the vernacular language or the language as understood by the borrower.

(iii) Non-coercive methods of recovery:

- a. Recovery shall normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on two or more successive occasions.
- b. The Company shall ensure that a Board approved policy is in place with regard to Code of Conduct by field staff and systems for their recruitment, training and supervision. The Code shall lay down minimum qualifications necessary for the field staff and shall have necessary training tools identified for them to deal with the customers. Training to field staff shall include programs to inculcate appropriate behaviour towards borrowers without adopting any abusive or coercive debt collection / recovery practices.
- c. Compensation methods for staff shall have more emphasis on areas of service, conduct of employees and borrower satisfaction than merely the number of loans mobilized and the rate of recovery. Penalties may also be imposed in cases of non-compliance by field staff with the Code of conduct. Generally, only employees and not outsourced recovery agents shall be used for recovery in sensitive areas.

## **17. Review of Fair Practice Code**

The Managing Director shall be authorized to review and approve any modifications to the Fair Practice Code from time to time.

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