



Utkarsh Small Finance Bank

**Policy on Open Architecture for Insurance & empanelment of
Insurance Partners**

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1. INTRODUCTION

Utkarsh Small Finance Bank Limited (USFB) is a wholly owned subsidiary promoted by Utkrash CoreInvest Ltd. (formerly Utkarsh Micro Finance Limited). It aims to provide affordable & accessible banking services which are process centric, technology enabled and people oriented resulting in a reliable, scalable and sustainable institution, facilitating socioeconomic change. The purpose is to provide banking products and services to the unserved and underserved sections of the society, which includes small and marginal farmers, micro and small industries, and other organized sector entities, at an affordable cost. The vision of the Bank is to be the trusted financial service provider to over 10 million customers by 2021.

As the changing era has brought in a new outlook in the field of banking, USFB proposes to provide various value added products and services to attract its potential customers and hence proposes to engage in the business of distribution of Insurance products (Life and General) to its customers in order to cater to their needs of insurance and thereby, provide a more comprehensive range of financial products under the same roof. This also opens up the possibility of cross-sell and consequently fee income for the Bank. Towards this, the Bank proposes to take the route of corporate agency functions departmentally.

2. BACKGROUND AND REFERENCE

RBI vide Circular DBOD.No.FSC.BC.16/24.01.018/2000-2001 dated 9th August, 2000 had permitted banks to set up insurance joint ventures on risk participation basis and also to undertake insurance business as agents of insurance companies on fee basis, without any risk participation. RBI subsequently reviewed its instructions on the conduct of insurance business by banks and issued a Circular DBR.No.FSD.BC.62/24.01.018/2014-15 dated 15th January, 2015.

The key features of this Circular are as under:

1. Banks undertaking corporate agency functions departmentally, need not obtain prior approval of the RBI to act as corporate agents on fee basis, without risk participation, subject to IRDA Regulations, and compliance with the following conditions:
2. A Comprehensive Board approved policy for undertaking insurance distribution is to be formulated and services should be offered to customers in accordance with this policy.
3. Banks need to comply with IRDA licensing guidelines for Corporate Agents and adhere to the prescribed code of conduct in this regard.
4. Employees dealing with insurance agency should possess requisite qualification prescribed by IRDA.
5. Banks should offer products basis customer appropriateness and suitability.
6. Staff engaged in corporate agency services should not be paid any incentive (cash or non-cash).
7. The instructions on KYC/AML/CFT need to be adhered to in respect of customers to whom insurance is being sold.
8. The Bank should not follow any restrictive practices such as forcing a customer to either opt for products of a specific insurance company or link sale of such products to any banking product.

9. Details of fees received by the Bank must be disclosed in the 'Notes to Accounts' to the Balance Sheet.
10. An internal grievance redressal mechanism must be in place along with a Board approved customer compensation policy.

3. GUIDELINES AND REFERENCE

Insurance Regulation and Development Authority of India (IRDAI) has released new guidelines governing corporate agency model of Insurance distribution in India through notification dated 20th August, 2015 (Circular No. IRDAI/Reg/12/102/2015) named IRDAI (Registration of Corporate Agents) Regulations, 2002 ("2002 Guidelines") dated 16th October, 2002 and has come in force from 1st April, 2016. Under the new guidelines, every Corporate Agent needs to apply for a new license to IRDAI, along with a Board-approved policy governing insurance distribution business of the corporate agent. In line with the requirements, a detailed policy is placed in the ensuing paragraph. Key highlights of the new guidelines are as under:

| Theme | New guidelines |
|------------------------------|---|
| Business Model | <ul style="list-style-type: none"> ❑ Upto a maximum of 3 partners across each of Life, Health & General Insurance ❑ Any change in arrangement with Insurance partners to be only done after approval from IRDAI and with suitable arrangements for servicing existing policyholders. ❑ Commercial GI restricted to total sum insured not exceeding Rs. 5 crore per risk. |
| Registration | <ul style="list-style-type: none"> ❑ To replace erstwhile IRDA (Licensing of Corporate Agent) Regulations, 2002 with effect from 1st April, 16. ❑ No regulatory NOC required for agents licensed under 2002 guidelines. ❑ Board approved policy addressing the manner of adopting the philosophy of Open Architecture and Implementation of the same to be filled with IRDAI at the time of registration. |
| Customer disclosure | <ul style="list-style-type: none"> ❑ In case of multiple tie-ups, Agent to disclose to the customers - list of Insurers, scope of coverage, policy term, premium payable, premium terms & scale of commission (if asked by the customer). |
| Reporting and Record-Keeping | <ul style="list-style-type: none"> ❑ Agents whose primary business is not insurance are to maintain segment wise reporting, which shall capture revenues received for insurance business and other income from insurers. ❑ Agent to maintain records of policies sold (policy-wise and specified persons-wise), KYC, proposal Form, List of Customers and SPs, Complaint register and Correspondence with IRDAI. |

| | |
|----------------|---|
| Compliance | <ul style="list-style-type: none"> ❑ Agents to appoint a Principal Officer and manage the Specified Persons (SPs) certification with IRDAI. ❑ Agent shall maintain arms-length relationship in financial matters at all times between their insurance distribution business and other businesses. ❑ Principal Officer & CFO to file with IRDAI a certification confirming there is no forced selling to any customer, on half-yearly basis. |
| | <ul style="list-style-type: none"> ❑ Agents to disclose to IRDAI any proceedings initiated against it by other regulatory or government bodies no later than 30 days. ❑ No director/partner of the agent or the chief executive or the principal officer or a specified person shall hold similar position with another agent. |
| Cyber Security | <ul style="list-style-type: none"> ❑ Bank to ensure that the selected partner has taken appropriate steps for conducting Security Audit for their Information and Computer Technology infrastructures including Vulnerability Assessment and Penetration Tests (VAPT) through Cert-in empaneled Auditors, identify the gaps and ensure that audit findings are rectified swiftly. ❑ Bank to further ensure that selected partner has taken initiative to firm-up their Cyber Crisis Management Plan (CCMP) for handling cyber incidents more effectively. |

1.1. Approach and shortlisting of Partners:

With the objective of increasing insurance penetration, reducing cost of insurance and offering increased choice to customers, the extant guidelines of IRDAI permit corporate agents to implement an Open Architecture model by partnering with a maximum of 3 insurance partners in each insurance category (Life, General & Stand Alone Health). Considering the potential benefits to the Bank customers, overall business strategy and business opportunity, it is recommended that the Bank adopt an **Open Architecture** model for distributing insurance products (Life & General) by tying-up with multiple insurance companies in LI, which is in line with the regulatory requirement.

The Bank therefore, proposes to partner with three Life Insurance companies and one General Insurance company for offering the insurance products to its customers.

The partners would be evaluated on various criterion as under:

| Criteria | Parameters to be considered |
|-----------------|--|
| Market Dynamics | <ul style="list-style-type: none"> ❑ Market Size & Industry Growth Rates ❑ Market Share of existing players ❑ Competitor performance in Bancassurance |

| | |
|----------------------------|--|
| Product Strength | <input type="checkbox"/> Product portfolio; with specific focus on products for the JLG segment <input type="checkbox"/> Product pricing <input type="checkbox"/> Sales capabilities on the Digital platform |
| Service Strength | <input type="checkbox"/> Claim Settlement rates <input type="checkbox"/> Claim settlement process (internal/external) <input type="checkbox"/> Robustness of IT system <input type="checkbox"/> Customer service experience <input type="checkbox"/> Manpower support for business <input type="checkbox"/> Retention ratios & process <input type="checkbox"/> Unique customer Propositions <input type="checkbox"/> Marketing support |
| Partner company strength | <input type="checkbox"/> Balance sheet/Profitability |
| | <input type="checkbox"/> Growth rates <input type="checkbox"/> Existing Market Share <input type="checkbox"/> Brand Strength <input type="checkbox"/> Promoter and Management Team <input type="checkbox"/> Network capabilities with specific focus on presence in our core geogrpby <input type="checkbox"/> Existing Bancassurance tie-ups |
| Proposed Partnership Model | <input type="checkbox"/> Terms of Partnership <input type="checkbox"/> Commercials |

The above criteria would be reviewed from time to time basis market dynamics and partner performance with regard to servicing and product suitability. The customers' interest will be paramount whenever the Bank makes arrangement with Insurance companies. The Bank shall inform IRDAI within 30 days of entering into any arrangement with different insurers for the distribution of Life, General & Health products.

In case of addition of new partners or renewal of terms with an existing partner or termination of existing partners, it is recommended that the MD&CEO be authorized to take such decisions subject to regulatory approvals (if any).

1.1.1. Types of Products Sold

The Bank proposes to distribute the following types of products of its Life Insurance partners through various channels: -

- Traditional (Participating) products
- Traditional (Non-Participating) products
- Unit Linked Insurance Plan (ULIP) products
- Term Products
- Micro Insurance Products (for JLG segment)

The Bank proposes to distribute the following types of products of its General Insurance partner through various channels: - □ Health Insurance Products

- Motor Insurance Products □ Home Insurance Products
- Commercial Insurance Products (Fire Insurance, Marine Insurance etc.) □ Health Insurance Products – Personal Accident, Health Suraksha etc.

The Bank proposes to offer the aforementioned products to its customers as per their requirements and the product suitability.

1.2. Implementation

The following Operating Model is suggested:

1.2.1. Registration with IRDAI

- The bank shall apply for registration as Corporate Agent (Composite) to IRDAI in accordance with the procedure specified by IRDAI in the new Guidelines.
- The registration would be valid for 3 years from the date of issue.

1.2.2. Appointment of Principal Officer and Specified Persons (SP)

- The Bank shall appoint a Principal Officer as per the requisite qualification and training as per new Guidelines.
- The Bank shall appoint adequate SPs and no insurance product shall be sold by a resource who is not a certified SP by IRDAI. The SPs shall apply for registration through the Principal Officer in the prescribed format as per the new Guidelines.
- Bank's Principal Officer and Specified persons shall, at all times, follow the code of Conduct specified in the new Guidelines.
- The Bank shall ensure no violation either of section 10 (1)(ii) of the BR Act, 1949 or the Guidelines issued by IRDAI in payment of commissions/incentives while formulating a suitable performance assessment and incentive structure for staff. The Bank shall ensure that no incentive (cash or non-cash) is paid to the Banks' staff by insurance company directly, for engaging in insurance distribution.
- Bank will ensure that the requisite details, including Aadhar number of Principal Officer and

Specified Persons is uploaded on portal provided by Insurance Information Bureau of India (IIBI)

1.2.3. Adherence to KYC/AML/CFT Guidelines

- a. The Bank would adhere to RBI Master Circular on Know Your Customer (KYC) norms/AntiMoney Laundering (AML) standards/Combating of Financing of Terrorism (CFT) obligation of banks under PMLA, 2002 and any modifications of the same from time to time.
- b. The Bank would maintain transaction details and records of the customer with regard to sale of insurance products and related records for a period and in the manner prescribed in the Master Circular.
- c. The Bank's AML software would capture, generate and analyze alerts for the purpose of filling CTR/STR in respect of transaction relating to third party products with customer, including walk-in customers.
- d. The requirement of quoting PAN for transactions of Rs. 50,000 and above would be applicable to sale of insurance products by Bank as per extant RBI guidelines.

1.2.4. Product Suitability Guidelines

- a. In the line with Bank's overall 'customer centricity' philosophy, only products which are suitable to the customer would be offered. Suitability / Fitment of the product would be defined on the basis of parameters such as life stages, age and needs. The customer would be offered products based on the suitability matrix with separate initiation /transactional and approval processes. The Bank would not follow any restrictive practices of forcing a customer to opt for products of a specific insurance company. It would be prominently stated in all publicity materials distributed by the Bank that the purchase by Bank's customer of any insurance products is purely voluntary.
- b. The methodologies adopted to make the customer understand insurance products and advise suitable product as per need would be simple and compliant with regulations. The risk, terms & conditions associated with insurance products would be made understandable to customer before entering into the contract and the customer consent recorded.
- c. In addition, the customers' understanding for the product will be verified by processes like welcome calling and post issuance service call (either through the insurance partners or by the bank)
- d. The Bank would ensure selling the right product to the customer based on customer suitability. A specific policy 'Code of Right Sell' would be made in due course.

1.2.5. Sales and Marketing materials

- a. All sales support materials (in bilingual and Co-branded), such as prospectus, sales brochures, sales illustration and publicity write up would be provided by respective insurer in line with approval from IRDAI.

1.2.6. Remuneration & Fee Income

- a. The Payment of remuneration to or receipt of remuneration will be governed by regulations notified by IRDAI from time to time.

- b. The Bank shall disclose the fee income as per old contract and new contracts separately in their books of specified new guidelines.
- c. The scale of commission in respect of the insurance product offered would be informed to the prospect / customer, if asked by the prospect / customer.

1.2.7. Compliance to regulations

- a. The Bank shall adhere to IRDAI (Registration of Corporate Agents) Regulations, 2015 issued by IRDAI on 20th August 2015, at all times
- b. The Bank shall comply with the provision of the IRDAI Act, 1938 (as amended from time to time) and all such IRDAI regulations and notifications, directly or indirectly affecting corporate agency business insurance sector in India.
- c. The Bank shall adhere to IRDAI Guidelines on Distance Marketing of Insurance products (circular no. IRDAI / ADMN /GDL /MISC/ 059/ 04/ 2011 dated 5th April 2011) along with New Guidelines, as amended from time to time, with relation to distance marketing activities for distribution for insurance products.

1.2.8. Policy Servicing

- a. The Bank shall service and assist in payment of premium, as required under regulations.
- b. The Bank shall adhere to section 64VB of the IRDA Act, 1938) as amended from time to time) and provide necessary assistance and guidance in the event of a claim and provide all other services and guidance on issues which arise during the course of an insurance contract.
- c. The Bank shall make every attempt to ensure remittance of premiums by the policyholders within stipulated time by giving notice orally and in writing.
- d. The Bank shall provide necessary assistance to the policyholder or claimants or beneficiaries in complying with the requirement for settlement of claims by the insurer.

1.2.9. Operational guidelines for conducting business

- a. Operational guidelines for the distribution of products through the Branches and / or alternate channels (like online Sales, ATM, Tele sales, Mobile Banking, etc) shall be approved by Product & Process Management Committee (PPMC) and the product level policies shall be reviewed annually.
- b. Any material change in the process to be put forward to the Product & Process Management Committee (PPMC) for necessary approval.

1.2.10. Grievance Redressal Mechanism

- a. The Bank's customer grievance redressal mechanism would also involve handling of insurance products related grievances / service request. Bank shall have robust grievance handling system and integrate the same with respective insurance partner's grievance handling mechanism.

- b. The Bank shall take adequate steps for redressal of grievances of its client within 14 days of receipt of such complaint
- c. Bank shall record all complaints through various touch points branch, emails, phone etc. and liaise with respective insurance partners for resolution of all queries.
- d. The records shall be available for audit by IRDAI as per extant regulatory Guidelines.
- e. Bank shall put in place as escalation matrix for satisfactory resolution of grievances.
- f. Bank's existing customer redressal mechanism as well as compensation policy would be applicable for all third party products, including insurance products.

1.2.11. Record Keeping and Internal Auditing Process

- a. The Bank shall maintain records in the format specified by IRDAI, which shall capture policywise and specified person-wise details wherein each policy solicited by the corporate agent is tagged to the specified person, except for those products which are simple, sold over the counter and specifically approved by IRDAI.
- b. The Bank shall put in place systems which allow regular access to such records and details by the authority.
- c. The Bank shall maintain the following records, including in electronic form, and shall be made available as and when required by IRDAI
 - i. Know Your Client (KYC) records of the client, as required under the relevant Authority's guidelines and provision of Prevention of Money laundering Act.
 - ii. Copy of the proposal form duly signed by the client and submitted to the insurer with ACR signed by the Specified Person of Corporate agent.
 - iii. A register containing list of clients, details of policy such as type of policy, premium amount, date, of issue of the policy, charges or fees received.
 - iv. A register containing details of complaints received which include name of the complainant, nature of complaint, details of policy issued /solicited and action taken thereon.
 - v. A register which shall contain the name, address, telephone no, photograph, date of commencement of employment, date of leaving the service , if any monthly remuneration paid to the Specified person.
 - vi. Copies of the correspondence exchanged with IRDAI.
 - vii. Any other record as may be specified by IRDAI from time to time
- d. Internal Audit team shall audit the insurance distribution business as per Bank's Internal Audit Policy.

4. Reporting and Disclosure to Regulatory Authorities

- a. The Bank shall maintain separate books of accounts for their insurance distribution business as per Regulation 31 of New Guidelines.
- b. The Bank shall disclose to IRDAI the details of its offices which distribute insurance products and details of specified persons along with their certificate number issued by IRDAI.
- c. Any opening or closure of an office by the Bank shall be informed to the IRDAI.

- d. The Bank shall disclose to IRDAI proceedings / directions issued or initiated against it by other regulatory of Government bodies within a reasonable time but not later than 30 days from the initiation of such proceedings
- e. As per the regulatory guidelines Bank shall put in place a consistent reporting and monitoring mechanism for all process for compliance to the regulatory guidelines.

5. REVIEW OF THE POLICY

This policy would be reviewed annually taking into account the change in business scenario and market dynamics. However, in the event of a change in the regulatory guidelines, necessary changes will be effected as and when required with the approval of the Board.

6. CONFIDENTIALITY CLAUSE

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