



Utkarsh Small Finance Bank

Third Party Product Policy

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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 to the field of banking. Bank is considered a strong channel to cater customer need of financial self-sufficiency. Reach & low cost distribution model gives opportunity to banks to distribute various investment & alternate financial products as per customer needs and, in turn, earn fee for such services. Such distribution by banks are termed as third party distribution.

USFB proposes to provide various value added products and services to attract its potential customers and increase stickiness to the relationship of its existing customer.

1.1. Background

In view of providing a wholesome banking experience and fulfilling investment/financial planning needs of its customers, the Bank proposes to sell Third Party Products on agency/referral model. The Bank will receive revenue on the sale of these products in form of commissions. The fee based Third Party Products to be offered by Bank and covered under scope of this policy document are Mutual Funds, Demat/Online Trading Accounts, Money Transfer Service Scheme (MTSS), Merchant Acquiring for Point of Sale (POS) Business and National Pension System (NPS)/Atal Pension Yojana (APY) to its customers. The distribution of insurance products (Life & General) is covered under a separate policy as mandated by RBI.

For aforementioned third party arrangements, Reserve Bank of India (RBI)/Ministry of Finance has issued following circulars:

1. RBI/2015-16/30 DBR.No.FSD.BC.19/24.01.001/2015-16 dated 1st July 2015 for Mutual Funds and Demat/Online Trading Account,
2. RBI/2009-10/231 DPSS.CO.PD.No.1102 /02.14.08/ 2009-10 dated 24th November, 2009 for opening and operation of Accounts and settlement for electronic payment transactions involving intermediaries; and

3. RBI/2015-16/88 Master Circular No.1/2015-16 dated 1st July, 2015 for Money Transfer Service Scheme (MTSS).
4. Ministry of Finance notification number 16/1/2015-PR dated 16th October 2015 on Atal Pension Yojana.

In accordance with the guidelines, the Bank is required to set forth a Policy on Selling Third Party Products, duly approved by the Bank's Board.

1.2. Definitions

"Third party product" refers to any product and/or service of third party which is offered by or through the intermediary of the Bank.

"Mutual Fund" refers to a professionally-managed investment scheme, usually run by an Asset Management Company (AMC) that brings together a group of people and invests their money in stocks, bonds and other securities.

"Demat/Online Trading Account" refers to a deposit made at an Indian financial institution that can be used for investing in shares of stocks and other financial assets through branch or online channels(Online Trading Account). Securities are held electronically in a DEMAT Account, thereby eliminating the need for physical paper certificates.

"Merchant Acquiring for Point of Sale (POS)" Refers to accept a transaction payment by businesses through a secure (encrypted) channel using the customer's credit card or debit card or NFC enabled device.

"Money Transfer Service Scheme (MTSS)" refers to a quick and easy way of transferring personal remittances from abroad to beneficiaries in India. Only inward personal remittances into India such as remittances towards family maintenance and remittances favouring foreign tourists visiting India are permissible. No outward remittance from India is permissible.

"National Pension System (NPS)/Atal Pension Yojana (APY)" refers to a voluntary, defined contribution retirement savings scheme.

1.3. Applicability

This policy provides the decision framework for selling Third Party Products (TPP) by the Bank. The contents of this policy will be applicable to all branches and outlets selling Mutual Funds, Demat/Online Trading Account, Money Transfer Service Scheme (MTSS), Merchant Acquiring for Point of Sale (POS) Business and National Pension System (NPS)/Atal Pension Yojana (APY).

1.4. Objective

This policy intends to provide rationale for offering of identified Third Party Products for the Bank and selection of partners in conformity with regulatory and statutory guidelines. Additionally, this policy also prescribes safeguards to avoid mis-selling.

2. Policy for Selling Third Party Products

The below policy document would act as guiding principles for carrying out the distribution of third party products in the Bank.

2.1. Regulatory licenses to be in force from respective regulators

A. Investment Products / Mutual Funds:

The Bank will be the distributor of Mutual Fund Products (AMC product offerings) and will register with SEBI/ AMFI for ARN Code. The Bank has opted for transaction execution format of business, which means there will not be any advisory fee collection as the Bank will only execute MF transactions on behalf of the customer.

B. Demat & Online Trading Account:

The Bank has decided to offer 3 in 1 account to its customers under referral model thereby easing the online trading, by linking savings account of customers with partner's Demat and online trading platform. The Bank will partner only with regulated financial entity in India under Securities and Exchange Board of India (SEBI) & strictly adhere to the relevant RBI guidelines.

C. Money Transfer Service Scheme (MTSS) :

The Bank has decided to offer Money Transfer Service Scheme as a Sub-Agent by entering into agreement with a Reserve Bank of India (RBI) approved Indian Agent. This will provide quick and easy way of transferring personal remittances from abroad to beneficiaries in India. Under Money Transfer Service Scheme the Bank will clearly inform its customer that under this service the remitters and the beneficiaries are individuals only. Donations/contributions to charitable institutions/trusts, trade related remittances, remittance towards purchase of property, investments or credit to NRE Accounts shall not be made through this arrangement.

D. Merchant Acquiring for Point of Sale (POS):

The Bank envisages providing cashless & innovative payment solutions to merchant/other establishments by entering into an agreement with service

providers/aggregators on referral service model. This will help merchant/other establishments to accept payment in electronic form from consumers having cards, ewallets, etc. The Bank will earn interchange fee as well as benefits from the higher floats in the current accounts of the merchants signed up by it. The agreement with service providers/aggregators will ensure that all payment and settlement extant guidelines are followed.

E. National Pension System (NPS)/Atal Pension Yojana (APY):

As a Bank we propose to provide services under NPS/APY and towards this shall be registered with Pension Fund Regulatory and Development Authority (PFRDA). As of now we have 34121 NPS accounts through previous entity (Utkarsh Microfinance Pvt Ltd.) of which 15703 eligible accounts will be migrated to APY once we complete the registration with PFRDA.

2.2. Compliance with extant Regulatory guidelines

A. Business oversight and monitoring

- i. Only employees of the Bank will be involved in supervising the sale of Third Party Products.
- ii. The code of conduct prescribed by regulatory bodies, as applicable and as amended from time to time, will be followed by the Bank for undertaking Third Party activities these activities.

B. Certification of resources

- i. Resources engaged in sale of Mutual Funds would be NISM Certified. In order to sell Mutual Funds, each branch has to ensure that there is at least one AMFI certified resource in the Branch. (i.e. Valid AMFI (Advisors)/NISM (V-A/CPE) certificate required)

C. KYC /AML/CFT Guidelines

To enable a holistic view of a customer's transactions, the Bank would follow requirements as specified by RBI Circular No: DBR.No.FSD.BC.19/24.01.001/2015-16 dated 1st July, 2015, BI/2015-16/88 Master Circular No. 1/2015-16 dated 1st July, 2015, PMLA guidelines and their amendments from time to time and Bank's policies on KYC/AML/CFT.

- I. The Bank should verify the identity and address of the walk-in customer.

- II. The Bank should maintain transaction details with regard to sale of Third Party Products and related records for a specified period in a prescribed manner.
- III. Bank's AML software should be able to capture, generate and analyse alerts for the purpose of filing statutory reports in respect of transactions related to Third Party Products with customers including walk-in customers.
- IV. The requirement of quoting PAN for transactions of Rs. 50,000 and above would be applicable to sale of Third Party Products by the Bank as per extant RBI guidelines.
- V. No third party products would be sold through cash.

D. Guidelines on Sales and Marketing material

All sales support materials such as prospectus, sales brochures, sales illustrations and publicity write ups to be provided by the respective Third Party Product Partners in line with the guidelines issued by their concerned regulators. The same will be vetted by the Business internally.

2.3. Selection of Partners

Based on need identified by the Management or change in regulations, the Bank may need to change the partner or empanel additional companies (as the case maybe). The following are the parameters that would be used to identify and shortlist the partners:

Company Strength	Product Strength/ Service Strength	Commercials
1.Balance Sheet/ Profitability 2.Market Share and Brand strength 3.Indian Promoter Strength 4.Management Team 5.Branch Network 6.Existing relationships	1. Product Range 2. IT Strength/Support 3. Customer Retention Ratios & philosophy 4. Discounting philosophy 5. Manpower support for business	1. Product-wise commercials 2. Non product Commercials 3. Special Offer to the Bank, if any

Mutual Fund Business (AMC)

There are total of 45 asset management companies in India. Preferred partners will be selected basis due-diligence of the AMCs carried out on periodical basis. The due diligence is across quantitative – performance/Fund objective/methodologies and qualitative parameters like AMC size, their associations, fund managers and other decisions makes qualification etc.

Demat & Online Trading Account / Money Transfer Service Scheme / Point of Sales Services

Designated product team(s) will do due diligence of the product provider and based on their recommendations the same will be put up for approval before competent authority.

The companies will be shortlisted based on the ratings on the above mentioned parameters. The final decision on selection of the partners will be made by MD & CEO on the basis of recommendation of Head-Liabilities and Compliance departments internally.

2.4. Suitability of the product(s) to the customer

In line with Bank's overall 'customer centricity' philosophy, products which are suitable to the customer would be offered to that customer. Suitability/ Fitment of the products 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 either opt for a product of a specific investment company or link sale of such products to any banking product. It would be prominently stated in all publicity material distributed by the Bank that the purchase by a Bank's customer of any third party product is purely voluntary, and is not linked to availing of any other facility from the Bank.

2.5. Understanding of the product by the customer

- I. **Investment Products / Mutual Fund:** As the Bank is only a facilitator for customers in undertaking mutual fund investment/transactions, customers will be advised to consult their personal financial advisors or other trusted investment personnel before investing. However, the Bank provides broad understanding of the fund and its underlying investment. All products related information is available in the application form and customers shall be advised to read the offer document carefully before investing. For all investment products, there would be no guarantee by the Bank/Branch. Only performance and the fact sheets would be presented to the customer to choose the right product
- II. **Demat & Online Trading Account / Money Transfer Service Scheme / Point of Sales Services:** The customer shall be explained the complete product details in a transparent manner before signing off the Account Opening Form. A detailed product offering should be made available on the website.

2.6. Disclosure of Fee income and justification

- a. **Investment Products/ Mutual Fund:** The Bank would not charge the customer for investment in mutual fund. However, the bank is entitled to revenue in the form of brokerage paid by the AMCs. The brokerage associated to each scheme is made available at the Bank's Website and Branches.
- b. **Demat & Online Trading Account / Money Transfer Service Scheme / Point of Sales Services:** The customer will be explained fee and charges details associated with the product in a transparent manner. The charge details will be a part of the agreement

and application form signed by the customer with the product provider. The commissions earned by the Bank through sale of Alternate products to be made available on Bank's website.

2.7. Handling exceptions (mis-selling)

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.

2.8. Customer grievance redressal

The Bank's customer grievance redressal mechanism would also involve handling of third party products related grievance/service request. The Bank acting as a distributor would act as a liaison between the respective service providers and the customer and ensure that it is resolved within pre-defined timelines.

2.9. Operational guidelines for conducting business

- a. The operational guidelines for distribution of products through the branches and/or alternate channels (like online sales, ATM, tele-sales, mobile banking etc.) to be approved by Product & Process Management Committee (PPMC) and the product level policies to be reviewed annually.
- b. Any material change in the process to be put forward to the Product & Process Management Committee (PPMC) for necessary approval.

2.10. Role and responsibilities

The detailed roles, responsibilities and segregation of duties involved in the selection, sales, and operations, monitoring and reporting should be put in place for smooth functioning of third party business.

Team	Activity	Function
Product Team Head Office	Product Development & Launch	Propose New Products in coordination with Third Party Partners as per the market requirements and launch the same with relevant approvals.
	Sales & operations process and business quality monitoring	Ensure all sales processes are compliant with the applicable regulations and roll out the process after approvals. The relevant Risk Profilers and product Suitability Matrices are designed and rolled out by the product team. Additionally product team needs to monitor and ensure that overall quality parameters of the products are within approved levels.
	Product & Process Training	Ensure content and required regulatory training of resources for soliciting business.
	Servicing & Complaint redressal	Monitoring all complaints and ensuring revert within pre – defined timelines.
	Business credit	Based on approved “Enterprises wise Cross Sell circular”, ensure business credit to resources is given for referral/ lead generation of third party products.

Team	Activity	Function
Branch	Front Line Staff	Pre -sales process, ensure adherence to Product Suitability Matrix, Risk Profiling and all relevant documentation.
	Customer Servicing	Accepting Customer Service requests and liaison with Third Party Service providers.
Zone	Monitoring Sales & Quality	Monitoring Branches for delivery of budgeted numbers, ensuring adherence to regulatory, compliance and quality parameters. Ensuring branches under purview are customer centric and solicit products as per suitability and risk profiling.
Third Party Product Partner	Application processing	Welcome Calling (if applicable) and Application Processing, servicing and delivery.
	Customer Servicing, complaint & redressal	Delivery on Service Requests and resolution of all complaints within approved TATs.
		Fee/commission calculation.
		Documents’ verification and maintenance.
Compliance	Monitoring of business processes to ensure compliance	Monitoring of exceptional cases based on business triggers to ensure adherence with set processes.

2.11. Reporting & Monitoring

The Bank would put in place a consistent reporting and monitoring mechanism for periodic updates to the Management.

3. 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 regulatory guidelines, necessary changes will be effected as and when required with the approval of the Board.

4. CONFIDENTIALITY CLAUSE

The information in this policy is strictly confidential to the company and should not be disclosed to any other person. It may not be reproduced in whole, or in part, nor may any of the information contained therein be disclosed without the prior consent of the Compliance Department in pdf format. Any form of reproduction, dissemination, copying, disclosure, modifications, distribution and or publication of this material is strictly prohibited.