



Utkarsh Small Finance Bank

Policy for Due Diligence in Current Account Opening and Periodic Monitoring

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1. Background

The existing process of opening a current account with Utkarsh Small Finance Bank prescribes that, prior to opening a current account, the Bank will obtain declaration from the customers to ascertain whether any fund based or non-fund based credit facilities are being availed by the customer. The Bank shall also verify the Central Repository of Information on Large Credits (CRILC) database maintained by the Reserve Bank of India to ascertain the credit facilities that the customer enjoys from any other bank. The Bank shall seek a No- Objection-Certificate (NOC) from the lender Bank and open the account thereafter in accordance with the prescribed guidelines.

As per RBI's notification on "Opening of Current Accounts by Banks - Need for Discipline", RBI has issued new guidelines to all the banks on opening of current accounts by banks to ensure discipline among borrowers. The new guidelines will be applicable to all existing current, CC/OD and other fund based or non-fund based credit facilities of the customer with various banks.

2. Guidelines and Reference

This policy outlines the framework of due Diligence in Current Account opening and periodic monitoring on the basis of revised RBI circular No. DOR.No.BP.BC/7/21.04.048/2020-21 RBI/2020-21/20 dated August 6, 2020.

3. Current Account Opening Guidelines

On August 6, 2020 RBI has issued new guidelines vide Circular No. DOR.No.BP.BC/7/21.04.048/2020-21 RBI/2020-21/20, where it has mandated changes in due diligence for opening of current account by Banks. The following new guidelines will be applicable for existing current account customers as well as new customers who are on boarded for current account in Utkarsh Small Finance Bank.

A. Customers having CC/OD with Banking System:

- a. The Bank shall not open current accounts for customers who have availed credit facilities in the form of cash credit (CC)/ overdraft (OD) from the banking system.
- b. In case the Bank opens a cash credit (CC)/ overdraft (OD) account of a customer it will ensure that if the Bank's exposure to a borrower is less than 10 per cent of the exposure of the banking system to that borrower, while credits will be freely permitted, debits to the CC/OD account can only be for credit to the CC/OD account of that borrower with a bank that has 10 per cent or more of the exposure of the banking system to that borrower. Funds will be remitted from these accounts to the said transferee CC/OD account at the frequency agreed between the bank and the borrower. Further, the credit balances in such accounts shall not be used as margin

for availing any non-fund based credit facilities. In case there is more than one bank having 10 per cent or more of the exposure of the banking system to that borrower, the bank to which the funds are to be remitted may be decided mutually between the borrower and the banks. However, the Bank, even if its exposure to the borrower is less than 10 per cent of the exposure of the banking system to the borrower, it can offer working capital demand loan (WCDL) / working capital term loan (WCTL) facility to the borrower.

- c. Where the bank has a share of 10 per cent or more of the total exposure of the customer to banking system, it can provide CC/OD facility as hitherto.
- d. In case of borrowers covered under guidelines on loan system for delivery of bank credit issued vide circular DBR.BP.BC.No.12/21.04.048/2018-19 dated December 5, 2018, bifurcation of working capital facility into loan component and cash credit component shall henceforth be maintained at individual bank level in all cases, including consortium lending.

B. Those customers who have not availed CC/OD facility from any bank:

- a. In case of borrowers where exposure of the banking system is ₹50 crore or more banks are required to put in place an escrow mechanism. Accordingly, current accounts of such borrowers can only be opened/maintained by the escrow managing bank. As USFB is not an escrow managing bank, it will not open current account of such customers. However, in case USFB is a lending bank to the customer it can open 'collection account' of the customer with the condition that funds will be remitted from these accounts to the said escrow account at the frequency agreed between the Bank and the borrower. USFB will create a new product category under Liabilities product group termed as "collection account" and the balances in such accounts shall not be used as margin for availing any non-fund based credit facilities. While there will be no prohibition on amount or number of credits in 'collection accounts', debits in these accounts shall be limited to the purpose of remitting the proceeds to the said escrow account. The Bank shall not open any current account for any such borrowers for whom it is a Non-lending bank.
- b. In case of borrowers where exposure of the banking system is ₹5 crore or more but less than ₹50 Crore, USFB will open current accounts of the customer if USFB is a lending bank. However, if USFB is a non-lending bank it will open only "collection accounts" as defined at (a) above.
- c. In case of borrowers where exposure of the banking system is less than ₹5 Crore, USFB will open current accounts of the customer subject to obtaining an undertaking from such customers to the effect that customers shall inform the bank, if and when the credit facilities availed by them from the banking system becomes ₹5 crore or more. The current account of such customers, as and when the exposure of the banking system becomes ₹5 crore or more and ₹50 crore or more, will be governed by the provisions of para (b) and (a) respectively.

4. Current Account Monitoring

Utkarsh Small Finance Bank shall monitor all current accounts and CC/OD accounts regularly and not less than on a half yearly frequency, specifically with respect to the credit exposure of the customer to the banking system, to ensure compliance with the instructions given in the aforementioned circular of RBI. The Bank shall also ensure that at the time of onboarding a customer for a current account with the Bank, a soft search is conducted with a suitable available database to ascertain the credit exposure of the customer to the banking system. However, the bank shall ensure that such soft search will not in any manner adversely impact the credit history of the customer.

5. Current Account Opening and Monitoring Process

The policy empowers the Product and Process Management Committee (PPMC) of the Bank to approve processes for opening and periodic monitoring of Current Account of customers of the Bank.

6. Reporting and Disclosure to Regulatory Authorities

As per the regulatory guidelines, the Bank shall put in place a consistent reporting and monitoring mechanism for all process for compliance to the regulatory guidelines.

7. Review of the Policy

This policy would be reviewed annually and 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.
