



**Utkarsh Small Finance Bank**

**Policy on Due Diligence in opening of Current Accounts and CC/OD  
Accounts and periodic monitoring**

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## Table of Content

1. Introduction.....	3
2. Background .....	3
3. Guidelines and Reference .....	3
4. Definitions.....	3
5. Current Account Opening Guidelines .....	3
6. Current Account Monitoring .....	7
7. Current Account Opening and Monitoring Process .....	8
8. Reporting and Disclosure to Regulatory Authorities .....	8

## 1. Introduction

Utkarsh Small Finance Bank Limited (USFBL) is a subsidiary promoted by Utkarsh Core Invest 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.

## 2. 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 Credit Information Company's (CIC) and/ or Central Repository of Information on Large Credits (CRILC) database to ascertain the credit facilities that the customer enjoys from any other bank.

As per RBI's notification on "Opening of Current Accounts by Banks - Need for Discipline" dated August 06, 2020 (latest amendment on April 19, 2022), RBI has issued new guidelines to all the banks on opening and maintaining current accounts & CCOD by the banks to ensure discipline amongst borrowers. The new guidelines are applicable to all the existing current accounts and CC/OD of the customers held with USFBL.

## 3. Guidelines and Reference

This policy outlines the framework of due Diligence on opening & maintenance of Current Accounts and CC/OD accounts and periodic monitoring of Current Accounts and CC/OD accounts, as guided by revised RBI circular No. DOR.CRE.REC.23/21.08.008/2022-23 RBI/2022-23/27 dated April 19, 2022.

## 4. Definitions

- a. "Exposure" for the purpose of these instructions shall mean sum of sanctioned fund based and non-fund-based credit facilities availed by the borrower. All such credit facilities carried in their Indian books shall be included for the purpose of exposure calculation.
- b. "Banking System" for the purpose of these instructions, shall include Scheduled Commercial Banks and Payments Banks only.

## 5. Current Account Opening Guidelines

On August 06, 2020 RBI has issued new guidelines vide Circular No. DOR.No.BP.BC/7/21.04.048/2020-21 RBI/2020-21/20 (amended on April 19, 2022 vide ref. No. DOR.CRE.REC.23/21.08.008/2022-23), where it has mandated changes in due diligence for opening, maintaining and monitoring of current account and CC/OD accounts by Banks.

The following guidelines will be applicable for our existing current account and CC/OD account customers as well as prospective customers who will be on boarded for current account and/or CC/OD in Utkarsh Small Finance Bank.

**A. Opening Current Accounts for borrowers availing Cash Credit/ Overdraft Facilities from Banking System:**

- a. For borrowers, where the aggregate exposure of the banking system is less than ₹5 crore: The Bank (USFBL) can open the current accounts for customers subject to obtaining an undertaking from such customers that they (the borrowers) shall inform the bank (USFBL), if and when the credit facility availed by them from banking system becomes ₹5 crore or more.
- b. For borrowers, where aggregate exposure of the banking system is ₹ 5 crore or more:
  - i. If USFBL is the lending Bank: (A) The Bank (USFBL) can open current accounts of such borrowers provided the Bank (USFBL) has extended CC/OD facility to that borrower and it has at least 10 per cent of the aggregate exposure (fund based or non-fund based) of the banking system to that borrower. In case, none of the lenders has at least 10 per cent of the aggregate exposure, the Bank (USFBL) can open the current account only if exposure (fund based or non-fund based) of that borrower with USFBL is highest among CC/OD providing banks.  
  
(B) If the above condition of having at least 10 per cent of aggregate exposure / highest exposure (in case none of the Banks is having at least 10 percent exposure) is not applicable then the Bank (USFBL) may open only collection account subject to the condition that funds deposited in such collection account will be remitted within two working days of receiving such funds, to the designated CC/OD account maintained with other bank who is also maintaining current accounts for that borrower. The balances in such collection accounts shall not be used for repayment of any credit facilities provided by the Bank (USFBL), or as collateral/ margin for availing any fund or non-fund based credit facilities. However, bank (USFBL) maintaining collection accounts are permitted to debit fees/ charges from such accounts before transferring funds to CC/OD account.
  - ii. If USFBL is the non-lending bank: The bank (USFBL) is not permitted to open current / collection accounts.

**B. Opening of Current Accounts for borrowers not availing Cash Credit/ Overdraft Facilities from the Banking System:**

- a. In case of borrowers where aggregate exposure of the banking system is ₹50 crore or more:
  - i. Bank (USFBL) shall be required to put in place an escrow mechanism. Borrowers shall be free to choose any lending bank as their escrow managing bank. All lending banks will be part of the escrow agreement. The terms and conditions of the agreement may be decided mutually by lending bank (USFBL) and the borrower.  
  
Current accounts of such borrowers can only be opened/ maintained by the escrow managing bank.
  - ii. If USFBL is the lending bank to the customer but not an escrow managing bank:

The Bank can open only 'collection accounts' subject to the condition that funds will be remitted from the collection accounts to the said escrow account at the frequency agreed between the Bank (USFBL) and the borrower. Further, balances in such collection accounts shall not be used for repayment of any credit facilities provided by the Bank (USFBL), or as collateral/ margin for availing any fund or non-fund-based credit facilities. While there is 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. However, if USFBL is maintaining collection accounts it is permitted to debit applicable fees/ charges from such accounts before transferring funds to the escrow account.

- iii. If USFBL is a non-lending Bank to the customer: The Bank cannot open any current accounts or collection accounts for such borrowers.
- b. In case of borrowers where exposure of the banking system is ₹ 5 crore or more but less than ₹ 50 Crore:
  - i. If USFBL is lending Bank to the customer: The Bank (USFBL) can open current accounts of the customer.
  - ii. If USFBL is a non-lending Bank to the customer: The Bank (USFBL) can open only "collection accounts". Operations with the collection account will be as same as mentioned in para (B.a.ii) above.
- c. In case of borrowers where aggregate exposure of the banking system is less than ₹5 crore:

USFBL may open current accounts subject to obtaining an undertaking from the customer that they shall inform the Bank, if and when the credit facilities availed by them from the banking system and/ or the aggregate exposure to that borrower becomes ₹5 crore or more at any point of time. Operations in such current accounts will be as same as mentioned in para [B.a] and [B.b] above.
- d. USFBL is free to open current accounts of prospective customers who have not availed any credit facilities from the banking system, subject to necessary due diligence as per its Board approved policies.
- e. USFBL is free to open current accounts, without any of the restrictions placed in this Policy, for borrowers having credit facilities only from NBFCs/ FIs/ Co-operative banks/ non-bank institutions, etc. However, if such borrowers avail aggregate credit facilities of ₹5 crore or above from the banks covered under this policy document, the provisions of the policy shall be applicable.

### **C. Opening of Cash Credit/ Overdraft Facilities:**

- a. For borrowers, where the aggregate exposure of the banking system is less than ₹5 crore: The Bank (USFBL) can provide CC/OD facilities without any restrictions placed vide this policy if the aggregate exposure of the banking system to that borrower is less than ₹5 crore. However, the Bank (USFBL) must obtain an undertaking from such borrowers that they (the borrowers) shall inform the Bank (USFBL), if and when the credit facilities availed by them from the banking system becomes ₹5 crore or more.

- b. For borrowers, where the aggregate exposure of the banking system is ₹5 crore or more:
- i. If USFBL has a share of 10 per cent or more in the aggregate exposure of the banking system to such borrower, USFBL can provide CC/OD facility without any restrictions placed vide this policy.
  - ii. In case none of the banks has at least 10 per cent exposure, If USFBL has the highest exposure among CC/OD providing banks, can provide such facility without any restrictions.
  - iii. If USFBL exposure to a borrower is less than 10 per cent of the aggregate exposure of the banking system to that borrower, the USFBL can provide / maintain CC/OD to that borrower whereas credits are freely permitted, debits to that CC/OD account can only be for credit to the CC/OD account of that borrower with a bank (designated bank) that has 10 per cent or more of aggregate 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 collection accounts shall not be used for repayment of any credit facilities provided by the Bank (USFBL), or as collateral/ margin for availing any fund or non-fund based credit facilities. However, Bank (USFBL) can debit applicable interest/ charges pertaining to the said CC/OD account and other fees/ charges before transferring the funds to the CC/OD account of the borrower with bank(s) having 10 per cent or more of the aggregate exposure. Also, if exposure of USFBL to the borrower is less than 10 per cent of the aggregate exposure of the banking system, working capital demand loan (WCDL)/ working capital term loan (WCTL) facility can be offered to the borrower.
  - iv. In case there is more than one bank including USFBL having 10 per cent or more of the aggregate exposure, the bank to which the funds are to be remitted may be decided mutually between the borrower and the USFBL.

**D. Exemptions Regarding Specific Accounts:**

- a. The Bank (USFBL) is permitted to open and operate the following accounts without any of the restrictions placed in terms of paras A, B and C of this Policy:
- 1. Specific accounts which are stipulated under various statutes and specific instructions of other regulators/ regulatory departments/ Central and State Governments. An indicative list of such accounts is given below:
    - i. Accounts for real estate projects mandated under Section 4 (2) l (D) of the Real Estate (Regulation and Development) Act, 2016 for the purpose of maintaining 70 per cent of advance payments collected from the home buyers.
    - ii. Nodal or escrow accounts of payment aggregators/ prepaid payment instrument issuers for specific activities as permitted by Department of Payments and Settlement Systems (DPSS), Reserve Bank of India under Payment and Settlement Systems Act, 2007
    - iii. Accounts for the purpose of IPO/ NFO/ FPO/ share buyback/ dividend payment/ issuance of commercial papers/ allotment of debentures/ gratuity etc. which are mandated by respective statutes or by regulators and are meant for specific/ limited transactions only.
  - 2. Accounts opened as per the provisions of Foreign Exchange Management Act, 1999

(FEMA) and notifications issued thereunder including any other current account if it is mandated for ensuring compliance under the FEMA framework.

3. Accounts for payment of taxes, duties, statutory dues, etc. opened with banks authorized to collect the same, for borrowers of such banks which are not authorized to collect such taxes, duties, statutory dues, etc.
4. Accounts for settlement of dues related to debit card/ ATM card/ credit card issuers/ acquirers.
5. Accounts of White Label ATM Operators and their agents for sourcing of currency
6. Accounts of Cash-in-Transit (CIT) Companies/ Cash Replenishment Agencies (CRAs) for providing cash management services
7. Accounts opened by a Bank funding a specific project for receiving/monitoring cash flows of that specific project, provided the borrower has not availed any CC/OD facility for that project
8. Inter-bank accounts
9. Accounts of All India Financial Institutions (AIFIs), viz., EXIM Bank, NABARD, NHB, and SIDBI
10. Accounts attached by orders of Central or State governments/ regulatory body/ Courts/ investigating agencies etc. wherein the customer cannot undertake any discretionary debits.
11. In case borrower has not availed OD/CC facility from the banking system but the aggregate exposure of the banking system is INR 50 crores or more, Escrow mechanism will not be mandatory for lending banks wherever the exposure to the borrower only in the capacity as financier on a Trade Receivables Discounting System (TReDS) platform.
12. Current Accounts of the Bank's Business Correspondences (BCs) with pre-specified nature of transactions such as: BC Pay-out, BC Collection Fund Parking (Repayment & Pre-payment), BC Death Client O/s, BC FLDG parking and FD Creation for FLDG. The BC team of USFBL shall monitor such Current Accounts of the partners and a report to that effect will be shared with Current Account Review Committee.

- b. USFBL maintaining accounts listed in para D.a. shall ensure that these accounts are used for permitted/ specified transactions only. Further, Bank shall flag these accounts in the CBS for easy monitoring. Lenders to such borrowers may also enter into agreements/ arrangements with the borrowers for monitoring of cash flows/ periodic transfer of funds (if permissible) in these accounts.

## **6. Current Account Monitoring**

Utkarsh Small Finance Bank has set up a Current Account Review Committee chaired by the MD&CEO of the Bank. The Committee shall meet once in every half year and appraise the status of compliance on RBI guidelines on "Opening of Current Accounts and CC/OD account".

The Bank shall monitor all existing current accounts and CC/OD accounts on a half yearly basis on completion of Half Year ended June 30 and December 31 respectively, specifically with respect to the credit exposure of the customers to the banking system, to ensure compliance with the instructions given in the aforementioned circular of RBI in para 5. The review report shall be shared with the Current Account Review Committee along with Operational Risk department. 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 through CRILIC or TransUnion etc. to ascertain the credit exposure position 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(s).

Wherever required, the Bank may ask the prospect customers to provide declaration and/or commercial CIBIL report.

Any account found during or before the Half Yearly review, to be non-compliant shall be treated as exception and the same shall either be made to be compliant or closed as per extinct process.

Bank shall put in place a monitoring mechanism, at appropriate levels to monitor non-disruptive implementation of the circular and to ensure that customers are not put to undue inconvenience during the implementation process.

In case of proprietary firms, the aggregate exposure shall include all the credit facilities availed by him/her, for business purpose or otherwise.

## **7. 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.

Bank shall not route proceeds from term loans through CC/OD/Current accounts to account of the borrower. Since term loans are meant for specific purposes, the funds shall be remitted directly to the supplier of goods and services. Expenses incurred by the borrower for day-to-day operations should be routed through CC/OD account, if the borrower has a CC/OD account, else through a current account following a one-bank-one-customer model as against a one-branch-one-customer model.

In cases where term loans are meant for purposes other than for supply of goods and services and where the payment destination is identifiable, Bank shall ensure that payment is made directly, without routing it through an account of the borrower. However, where the payment destination is unidentifiable, Bank may route such term loans through an account of the borrower opened as per the provisions of the circular. Expenses incurred by the borrower for day-to-day operations may be routed through an account of the borrower.

For borrowers with multiple projects/ multiple business units, Bank may open multiple escrow accounts for monitoring of project-wise / unit-wise cash flows. Bank shall ensure that cash flows coming in the account are from that project/unit only.

The Bank will monitor all Current Accounts and CC/OC Accounts on a half-yearly basis, specifically with respect to the aggregate exposure of the banking system to the borrower, and the Bank's share in that exposure, to ensure compliance with these instructions. If there is a change in exposure of a particular bank or aggregate exposure of the banking system to the borrower which warrants implementation of new banking arrangements, such changes shall be implemented within a period of three months from the date of such monitoring. The status with update of such account shall be shared with Operational Risk department.

## **8. 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 processes for compliance to the regulatory guidelines, as and when required.

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