

<b>Board / Name of Committee</b>	<b>Board of Directors</b>		
<b>Purpose :</b>	Approval for amendments made in the Policy for Distribution of Third Party Products at DCB Bank		
<b>Action :</b>	<b>Noting</b>	√	<b>Approval</b>
<b>Unit :</b>	Retail Banking		
<b>Subject :</b>	Amendments made in the Policy for Distribution of Third Party Products at DCB Bank		
<b>Memo Number :</b>	RB/TPD - 2018-19/02	<b>Date :</b>	Jan08, 2019
<b>Prepared by :</b>	Sneha Murkar - Product Manager Insurance	<b>Checked by:</b>	Vishal Soni Product Head - Banking, Insurance & Investments
<b>Highlights / Executive Summary</b>			
<p>With reference to the policy for distribution of third party products at DCB Bank which was approved vide memo number: RB/TPD - 2018-19/01 dated 10<sup>th</sup> July 2018, we have recommended the below amendments in the current policy to align with the Board approval dated 12<sup>th</sup> January 2016 given for Bancassurance Open Architecture, the following line has been added:</p> <p>“We shall solicit and service all types of Insurance products including Group and Individual products, Unit Linked Insurance Plans - ULIP and Non- ULIP products etc. subject to the compliance of IRDAI regulations and in line with the agreements with various Insurers in this regard. Given the nature of volatility in the equity market and complexity of ULIPS, the Bank will not actively promote the distribution of ULIP products. However, based on customer requirements we may offer such products. Respective Business Managers shall appropriately put forth a business report with reference to the Insurance Business to the Business Unit Head (BUH) for review and feedback, if any. Such reviews shall be conducted once in a year going forward.”</p>			
<b>Recommendations</b>			
Recommended for approval by Board members the amendments to the Policy for Distribution of Third Party Products.			
<b>Attachments</b>			
<ol style="list-style-type: none"> <li>1. Annexure -1 : Summary of change proposed to the Policy</li> <li>2. New policy document with changes highlighted</li> <li>3. Board Approval dated 12<sup>th</sup> January 2016</li> </ol>			
Sd/- Signature: Name: Ms. Sneha A. Murkar Designation: Product Manager - Insurance		Signature: Sd/- Name: Mr. Vishal Soni Designation: Product Head - Banking, Insurance & Investments	
Sd/- Signature: Name: Mr. Pankaj Sood Designation: Head Branch Banking - Retail		Sd/- Signature: Name: Mr. Praveen Kutty Designation: Head Retail and SME Banking	

Sd/- Signature: Name: Mr. Aditya Prasad Designation: Chief Compliance Officer		Sd/- Signature: Name: Mr. Murali M. Natrajan Designation: Managing Director and CEO	
<b>Decision :</b>		<b>Noted</b>	<b>Approved</b>
<b>Signature :</b>			
<b>Comments:</b>			

<b>Annexure-1: Summary of changes proposed to the Policy for Distribution of TPP in the Bank</b>			
Sr No	Old Policy Clause	Change (highlighted in bold)	Impact
1	Current Business Structure and Strategy	We shall solicit and service all types of Insurance products including Group and Individual products, Unit Linked Insurance Plans - ULIP and Non- ULIP products etc. subject to the compliance of IRDAI regulations and in line with the agreements with various Insurers in this regard. Given the nature of volatility in the equity market and complexity of ULIPS, the Bank will not actively promote the distribution of ULIP products. However, based on customer requirements we may offer such products. Respective Business Managers shall appropriately put forth a business report with reference to the Insurance Business to the Business Unit Head (BUH) for review and feedback, if any. Such reviews shall be conducted once in a year going forward.	Strengthening the policy



## Policy for Distribution of Third Party Products at DCB Bank

### BACKGROUND:

Third Party Distribution has been an integral part of banking business framework wherein we distribute products and services of other reputed financial services companies. This business includes General Insurance, Life Insurance, Mortgage Redemption Term Assurance (MRTA), and various investment solutions like Mutual Funds, Bonds, e-broking, Portfolio Management Services on Equity, Debt, Real Estate and other Alternate investment products etc.

Nearly every banking company in India is involved in this distribution business. At DCB Bank, currently these products and services are being distributed by various channels namely Branch Banking, Agri Inclusive Business (AIB), Mortgage team, Small and Medium Enterprise (SME), Micro, Small and Medium Enterprises (MSME), other Asset Units and Corporate Banking team.

This business adds value to our customers and helps us in customer retention by value creation for them. For example, MRTA product is a meaningful value addition for the mortgage customer which helps the family to repay the loan in case of unfortunate demise of the customer without impacting their financial health. This also helps Bank to recover the loan which could have resulted into a bad debt in case of death of the borrower. Similarly, a long term savings customer will also need investment and other insurance products.

Since there is a huge demand and requirement of other financial savings products by masses, it is hence pertinent to have a sound business plan to engage widely with our customers and add overall financial value in the life span of our customers. This engagement also helps us to generate a revenue line for the Bank.

Investment services domain stretches itself over various customer segments and covers all types of investment opportunities for Retail customers, HNI customers and Institutional customers. This offering adds substantial value to customer's financial health which in turn helps the Bank in customer retention. For example, a Systematic Investment Plan (SIP) of a Mutual Fund scheme is a very meaningful value addition for customer which helps a customer to accumulate savings over long term to build a wealthy asset. In case a customer wants a short term low risk investment option, then short term debt funds can add value to customer investment. Various tax saving instruments including ELSS are also offered through investment services domain. Many customers also like to invest in long term tax free bonds.

We have tied up with various Asset Management Companies (AMCs) and other partners to help us facilitate extending such investment options to our customers through both offline and online modes.

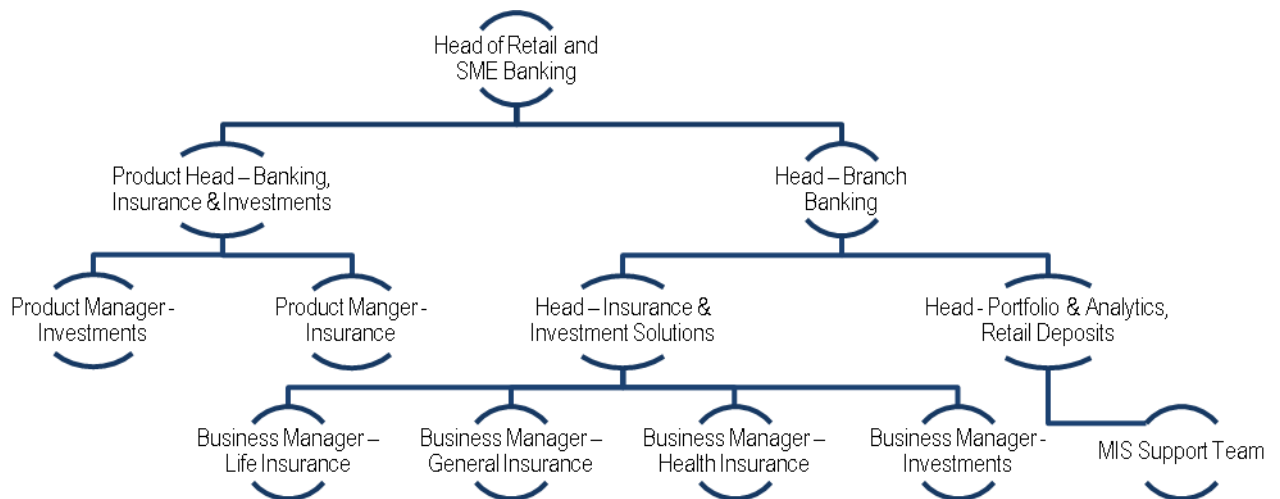
Risk profiling of a customer is the main activity which helps the frontline team to provide investment options to customers based on customer profile and risk appetite.

**THIRD PARTY DISTRIBUTION UNIT'S BUSINESS GOAL AND OBJECTIVE:**

The purpose of Third Party Distribution unit is to assist branches and other channels identify customer needs and fulfil them by providing various Insurance and Investment solutions. These solutions can be broadly defined into such offerings which are not made by the Bank but altogether other financial services companies. These companies are partnered with the Bank to offer such solutions. Customer satisfaction is the most important factor to meet our business objectives.

Key Objective: To be a customer centric Insurance and Investment solution franchise which helps identify and fulfil customer needs of our banking customers with regard to their long-term and short term goals.

**ORGANIZATIONAL STRUCTURE:**



It is also recommended that the MD&CEO of the Bank will be empowered to enter into arrangements with any principal / principals for Distribution of Third Party Products in line with applicable regulatory guidelines (RBI/SEBI/IRDA/others)

**CURRENT BUSINESS STRUCTURE AND STRATEGY:**

Insurance and Investment distribution framework to have the right checks and balances in place to focus on offering suitable good quality and simple products to our customers backed by training and certification of the employees.

We have carried out following changes in the structural distribution framework -

- We shall solicit and service all types of Insurance products including Group and Individual products, Unit Linked Insurance Plans - ULIP and Non- ULIP products etc. subject to the compliance of IRDAI regulations and in line with the agreements with various Insurers in this regard. Given the nature of volatility in the equity market and complexity of ULIPS, the Bank will not actively promote the distribution of ULIP products. However, based on customer requirements we may offer such products. Respective Business Managers shall appropriately put forth a business report with reference to the Insurance Business to the Business Unit Head (BUH) for review and feedback, if any. Such reviews shall be conducted once in a year going forward.
- Certification of employees is not only a compliance requirement but also helps the employee know and explain the product to the customer in a fair and transparent manner. Standard certifications like Insurance Regulatory and Development Authority of India (IRDAI) for Life Insurance and General Insurance distribution, National Institute of Securities Management (NISM) for Mutual Funds distribution and Depository Operations Certification Examination (DOCE) for Demat Operations are important regulatory prescriptions for distributing Third Party Products. We have strictly implemented this structure. No employee is allowed to distribute any Third Party Product unless the prescribed certification is cleared and held on record.

#### CURRENT PRODUCT DISTRIBUTION STRUCTURE

Third Party Products are currently not offered to non-customers or walk-in customers.

Any non-regulatory deviation and day to day management of TPD Business (financial / non-financial) may be approved by Head - Retail and SME Banking.

Head - Retail and SME Banking may further delegate his Authority (if required).

For AIB Business, non-financial and non-regulatory deviations for conducting day to day TPD Business may be approved by Head - Agri Inclusive Banking.

S. No.	Role Name
1	Head - Retail & SME Banking
2	Head - Agri and Inclusive Banking

In view of Aadhaar based KYC access and increasing digital footprint, a new base of young customer's would be attracted by the Bank. Third party products may be offered to non-customers or walk-in customer's basis specific approval from MANCO / RMC for inclusion as a new segment. Also, cash payments may be accepted from customers for Third Party Products as allowed by RBI / AMFI / IRDA subject to the regulations laid down by them.

**Insurance Business:**

Insurance policies are currently extended to existing customers or new to bank customers of the Bank both under Group Policy and Corporate Agency models.

For Asset customers, in Group policy products, sum assured cannot exceed the loan amount and can be extended upto the tenor of the loan.

1. **Life Insurance distribution:** Under Life Insurance distribution, we have Corporate Agency Agreements with Aditya Birla Sunlife Insurance Company Ltd.(ABSLI) and HDFC Standard Life Insurance Company Ltd. where we allow distribution of

- a. Term Products covering the risk of death.
- b. Fully guaranteed plans – these help the customers for covering risk of death and also provide guaranteed benefits during the tenor of the policy and/or at the maturity of the policy.
- c. Insurance cover for mortgages is up to the disbursed Loan amount. Insurance cover cannot be more than the sanctioned amount. The client will sign a declaration incase he opts for an Insurance cover lesser than the loan tenure.

2. **General Insurance distribution:** Under General Insurance distribution, we distribute the following products currently,

- a. Personal Accident (death cover)
- b. Health Insurance
- c. Motor Insurance
- d. Home / Property Insurance
- e. Travel Insurance
- f. Fire, stock, etc. need based general insurance products

Performance linked variable payment programmes may be launched from time to time to encourage distribution of retail insurance

**Mutual Funds Distribution:**

1. **Under Mutual Funds distribution**

- a. The Mutual Fund Investment Committee (MFIC) has been formulated to be the guiding and review committee for Insurance and Investment Business of the Bank. The committee will review overall performance, risk management of the business and overall industry trends. The members of the MFIC are enlisted as under:

S. No.	Role Name
1	Head - Retail & SME Banking
2	Head-Treasury and Correspondent Banking
3	Head - Branch Banking, Retail
4	Product Head - Banking, Investments & Insurance
5	Head - Insurance & Investment Services
6	Product Manager - Investment Solutions

The quorum for the MFIC meetings shall be: Chairman: Head - Retail & SME Banking and in his absence Head - Treasury and Correspondent Banking and 3 out of the remaining 5 members.

With effect from April 01, 2017, Mutual Fund Investment Committee will meet at least once in a year to review the progress under Mutual Fund Distribution.

All new AMCs, Mutual Funds or related investment products can be approved either by MFIC Chairman, Head - Retail & SME Banking or Head - Treasury and Correspondent Banking.

- b. Most of Mutual Fund products allowed for distribution are selected and recommended to for approval with a conservative risk profile investor as an approach strategy by MFIC Chairman and in his absence the Head - Treasury and Correspondent Banking
- c. The performance of approved Mutual Funds is monitored at a regular interval and taken on record.
- d. Any other alternate products may be offered based on approval from MFIC Chairman and in his absence Head - Treasury and Correspondent Banking.
- e. Other products on exception basis if specifically demanded by the customer will be distributed with the approval of MFIC Chairman, Head - Retail & SME Banking or Head - Treasury and Correspondent Banking.
- f. Performance linked reward programmes may be launched from time to time to encourage distribution of Investment Products.
- g. Only associates who are NISM certified are allowed to distribute Mutual Fund products.
- h. Customer Investment Declaration Form (CIDF) is mandatory for all Mutual Fund transactions.

2. **Distribution of Online Trading**: Under online share trading, we have restructured the distribution offering by:

- a. Focusing on identifying the right customers with suitable risk appetite or need like traders / long term investor to have online share trading solution of India Infoline (IIFL).
- b. Equity trading solution is only distributed where a customer can invest / trade by way of stock broker's Internet solution or call centre.
- c. We do not distribute any Commodity and Currency Trading accounts actively. Such accounts are only offered to customers on their written requests. However, there will be no performance linked payout to any employee on brokerage products like online trading.

**CUSTOMER SUITABILITY AND APPROPRIATENESS POLICY**

The products offered will be appropriate to the needs of the customer and based on an assessment of the customer's understanding of financial products, his/her risk appetite, customer profile and financial stability etc.

The Bank will endeavour to make sure that the product or service offered is

(a) Appropriate to the customer's needs

(b) Not inappropriate to the customer's financial standing and understanding, based on the assessment made by it

(c) Such assessment will be suitably documented in the Bank's records by way of Customer Investment Declaration form (CIDF) for Investment products and Life insurance. CIDF document will help in the risk profiling of the customer and basis the risk category, suitable products will be distributed to the customer.

Customer Declaration on understanding on the product, suitability of risk profile and willingness to invest in the same is sought through CIDF in writing

(d) Not compel a customer to subscribe to any Third Party Product

(e) Ensure that the products being sold or service being offered, including Travel Card that is manufactured by Third Party and other Third Party Products, are in accordance with extant rules and regulations

#### **4 PILLARS FOR BUSINESS GROWTH**

**People Knowledge and Certification:**

Key driver of our business will be certifications of our frontline team w.r.t IRDA, NISM, CDSL etc. In order to ensure that we have minimal communication and understanding gap, knowledge and certification is the key to our success.

We work closely with all our business partners to certify our frontline team to equip them with all relevant knowledge for distribution of these products.

Regular training is conducted by business partners with support from our business team to all sales teams across branches. All our products are offered as a distributor with no service charges to our customers.

Learning and development will remain as the most important aspect to meet the overall business objective of the Bank.

#### **Products Portfolio:**

As a Bank, intention is to maintain a conservative or moderately conservative distribution approach. As stated before, complex investments / insurance products will be avoided and focus has to be on simple and unambiguous offerings.

Based on risk profiling of the customer and need based analysis, end products will be chosen for investments. Various mechanisms will be put in place to ensure that we distribute only identified products at the Bank.

#### **Offering Price:**

We will offer all our products as a distributor with no service charges to our customers.

#### **Business Promotion:**

For active engagement with customers, various engagement routes will be chosen. For example customer meets, various micro marketing events, online promotion, email promotion etc.



To drive sales team towards the end business objective, a performance payout structure will be rolled out from time to time to ensure wider enthusiasm and involvement. To broad-base our distribution, we will have a focused strategy on digital expansion, channel expansion eg. Contact centre that is distribution of insurance products through certified employees at contact centre and new customer segments.

### CONTROL MECHANISM FOR THIRD PARTY PRODUCT DISTRIBUTION

We have done the restructuring of Third Party Distribution at product level, we also have implemented process level restructuring which will help us comply with the regulatory requirements as well as control any miscommunication to the customer.

Few of the important control mechanisms are listed below:

1. For Life Insurance distribution, Pre Issuance Verification Call (PIVC) is done by the business partner who helps in controlling the communication gaps, if at all, with the customers. All such PIVC conversations with customers are recorded and held on record with our business partner (Aditya Birla Sun Life Insurance).
2. As described already post specific structural changes, most of the communication gaps in Life Insurance distribution across the industry have been observed in cases where complex structure products were distributed by distributors. Many of these products were categorized as Unit Linked Insurance Plans (ULIPs) linked to the equity market performance. We have consciously stopped distribution of all such complex ULIP and traditional products. Only approved Term Plans or Guaranteed Life Insurance Products are allowed for distribution currently. Any specific product other than Term plan or Guaranteed Life Insurance products are only as per specific customer demand and through exception approval.
3. We have implemented distribution of Insurance "only" to DCB Bank customer w.e.f. 1st Jan 2014. This will help us adhere to KYC related regulations since only DCB Bank account holders can be solicited for Insurance Products from branches.
4. We have already implemented requirement of obtaining Customer Investment Declaration Form (CIDF) from each customer buying any Life Insurance or Mutual Fund / Investment Products. CIDF as implemented has been duly approved by internal legal department. It is important to note that CIDF encompasses recording of information related to the risk profiling and basic undertaking relevant to the understanding of the product by the customer.

Likewise General Insurance products like Group Personal Accident (GPA) and Life Insurance coverage is a very important requirement for the customers and serves the twin purpose of covering the life of the earning member and thereby addressing the future liabilities in case of death, and secondly helping the customers to save money for longer periods of time. Customers need appropriate insurance cover to help them protect their families from the uncertainty of cash flows (regular income) in case of unforeseen circumstances like death of the earning member of the family.

### GRIEVANCE REDRESSAL MECHANISM

We already have a robust mechanism to address any grievances of our customers. These are across the various streams of products, which we offer. We already have processes and systems to address customer grievances to their satisfaction. This is in line with the Reserve Bank of India requirements as well.

The scope of Bank's Customer Grievance Redressal Mechanism (CGRM) also extends to Third Party Products (TPP) offered to the Bank's customers.

The Bank is accountable for the products offered and the customer has a right to have a clear and easy way to have any valid grievances redressed. The Bank will also facilitate redress of grievances stemming from its sale of Third Party Products.

### MISSELLING OF THIRD PARTY PRODUCTS

In the event of Bank receiving of any complaint from the customer regarding mis-selling of the Third Party Products by the Bank, or about having engaged in any improper conduct or about having acted in violation of any Code adopted by the Bank, the Bank will take appropriate steps to address the complaint as soon as possible. In case lapses by the Bank employees are established, the Bank will compensate the customer suitably, based on the facts and circumstances of the case.

To prevent any misselling, the Bank will take necessary precautions and initiatives to educate the frontline staff to ensure that the TPP (Third Party Products) offered to the banks customers are in line with the customer needs and risk appetite and or other considerations.

Wherever insurance product is offered towards coverage for a loan customer, appropriate caution will be exercised to ensure that there is correlation between the quantum of loan and sum assured.

### CONFLICT OF INTEREST

The bank offers Third Party Products to its customers. To avoid conflict of interest in Third Party Products:

1. There is a clear segregation between Product, Marketing and Branch/Sales functions

2. The Bank will ensure that its employees do not receive cash/non-cash incentives directly from Insurance Companies, AMCs and other Third Party Product providers.
3. Any kind of code sharing, sale of TPD product by non-certified employees may lead to fine or disciplinary action or both.