



FINO Payments Bank

Policy on Customer Suitability and
Appropriateness

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A. Policy usage guide

This section explains the structure of the policy document and the purpose of the same is to enable easy navigation and understanding of the contents of the document by various stakeholders. The Policy is organized in the following sections:

Regulatory reference

This section outlines the list of applicable regulations to the current policy document. The name of regulation issued by various regulators along with the date and reference number will be listed under this section.

The purpose of the same is to enable various stakeholders in identification of applicable regulations for the policy and act as a ready reference for the regulations.

Key stakeholders and roles

Under this section, a list of all the key stakeholders involved in the design, review, approval and implementation of the policy are identified and the major roles to be performed by them are listed. This section enables various stakeholders in understanding their respective roles with regard to the current policy document.

Frequently asked questions

This section lists down the frequently asked questions with respect to the current policy document from the perspective of various stakeholders and gives a reference to the relevant section of the policy to aid in clear understanding of the question.

Policy content

This section contains various aspects of the policy design and implementation as per the applicable regulatory guidelines. This section outlines the action required by various stakeholders of the Bank in ensuring implementation of the policy.

Glossary

This sections contains the definition of key terms used in the policy as per the applicable regulatory guidelines and industry standards.

B. Regulatory reference

The following key regulations are applicable to the current policy document

Regulator	Regulation name	Regulation date	Regulation code
RBI	Master Circular – Para-banking Activities	July 1, 2015	DBR.No.FSD.BC.19/24.01.001/2015-16
SEBI	Master Circular for Mutual Funds	July 10, 2018	SEBI/HO/IMD/DF5/CIR/P/2018/109
BCSBI	Code of Bank's Commitment to Customers	January 2018	NA
IRDAI	IRDAI (Registration of Corporate Agents) Regulations, 2015	September 15,2015	IRDAI/Reg/12/102/2015

C. Key stakeholders and roles

Compliance and Risk Management Department

Compliance and risk management functions of the Bank will review defined management processes for:

- The criteria to be used in review of products and the periodicity of such review.
- The factors to be included in determining the risk appetite of the customer and the investment categorization and periodicity of such review.
- Review of transactions, exceptions identification, escalation and resolution process by internal audit.
- Recruitment, training, certification and performance review of all personnel engaged in this business.
- Customer on boarding and relationship management process, servicing standards, enquiry / grievance handling mechanism.
- Internal/ external audit processes, their comments / observations as it relates to MF distribution business.
- Findings of ongoing review from sample survey of investors.

D. Frequently Asked Questions

NA

E. Policy content

1. Referral Services

Bank will offer referral services to their customers for financial products subject to the following conditions:

- Bank will strictly adhere to the Know Your Customer (KYC)/Anti-Money Laundering (AML) guidelines in respect of the customers who are being referred to the third party issuers of the products.
- Bank will ensure that the selection of third party issuers of the financial products is done in such a manner so as to take care of the reputational risks to which the Bank may be exposed to in dealing with the third party issuers of the products.
- Bank will make it explicitly clear upfront to the customer that it is providing purely a referral service strictly on a non-risk participation basis.
- Bank will adhere to the relevant regulatory guidelines applicable to them.
- While offering referral services, Bank will strictly adhere to the relevant RBI guidelines.

2. Third Party Products

The bank may distribute third party products like pension funds, mutual funds and insurance etc. under corporate agency arrangements in terms of Certificate of Registration issued by respective regulators viz SEBI (mutual fund) and IRDAI (insurance products). The Bank shall have a Board approved policy for sale of insurance products in line with IRDAI (Registration of Corporate Agents) Regulations 2015. The bank will sell a product to a customer only if it believes that the product is suitable and appropriate for the customer.

3. Suitability Test

The main objective of performing the suitability test is to obtain such information as is necessary for the Bank to assess:

- The investment objectives of the client,
- The client's financial capacity to bear any investment-related risks consistent with his/her/its investment objectives,
- Whether the client has the necessary experience and knowledge in order to understand the risks involved in the transaction or in the management of his/her/its portfolio.

The suitability test will be performed upon completion of the questionnaires, which are at the disposal of the Bank's Personnel and will be applicable to all:

- Retail Clients,
- Professional Clients (including those clients who have selected a lower/higher level of protection by changing their categorization to Professional Clients) and

- Eligible Counterparties.

In the cases where the Bank has not obtained the required information from the client's suitability test, Bank will not be obliged to provide investment advice or portfolio management services to that particular client.

The following information will be used in determining suitability:

- Customer's age,
- Other investments,
- Financial situation and needs,
- Tax status,
- Investment objectives,
- Investment experience,
- Investment time horizon,
- Liquidity needs,
- Risk tolerance, and
- Any other information the customer may disclose.

4. Appropriateness Test

The main objective of performing the appropriateness test is to obtain such information, needed by the Bank to assess whether the client has the needed experience and knowledge in order to understand the risks, involved in the investment product or in the investment service

5. Insurance agency or Broking Business

Bank will undertake insurance agency or broking business departmentally, subject to the following stipulations:

A Comprehensive Board approved policy regarding undertaking insurance distribution, whether under the agency or the broking model will be formulated and services will be offered to customers in accordance with this policy. The policy will also encompass issues of customer appropriateness and suitability as well as grievance redressal.

While undertaking insurance distribution business, Bank will ensure to the following:

- All employees dealing with insurance agency/ broking business will possess the requisite qualification prescribed by IRDA.
- There will be a system of assessment of the suitability of products for customers. Pure risk term products with no investment or growth components that are simple and easy for the customer to understand will be deemed universally suitable products. More complex products with investment components will require the Bank to necessarily undertake a customer need assessment prior to sale. It will be ensured that there is a

standardized system of assessing the needs of the customer and that initiation/transactional and approval processes are segregated.

- Bank will treat their customers fairly, honestly and transparently, with regard to suitability and appropriateness of the insurance product sold.
- Bank will ensure that no incentive (cash or non-cash) will be paid to the staff engaged in insurance broking/ corporate agency services by the insurance company. There will be no violation either of Section 10(1) (ii) of the BR Act, 1949 or the guidelines issued by IRDA in payment of commissions/brokerage/ incentives which will be ensured while formulating a suitable performance assessment and incentive structure for staff.
- The instructions/ guidelines on KYC/AML/CFT applicable to Banks, issued by RBI from time to time, will be adhered to, in respect of customers (both existing and walk-in) to whom the services of insurance broking/agency are being provided.

Transparency and Disclosures

- The Bank will not follow any restrictive practices of forcing a customer to either opt for products of a specific insurance company or link sale of such products to any banking product. It will be prominently stated in all publicity material distributed by the Bank that the purchase by a Bank's customer of any insurance products is purely voluntary, and is not linked to availment of any other facility from the Bank.
- Further, the details of fee/ brokerage received in respect of insurance broking/agency business undertaken will be disclosed in the 'Notes to Accounts' in the Balance Sheet.

Customer Grievance Redressal Mechanism

- A robust internal grievance redressal mechanism will be put in place along with a Board approved customer compensation policy for resolving issues related to services offered.
- Bank will ensure that the insurance companies whose products are being sold have robust customer grievance redressal arrangements in place.
- Further, the Bank will facilitate the redressal of grievances.

Compliance with IRDA guidelines

- The IRDA (Licensing of Corporate Agents) Regulations, 2015 and the code of conduct prescribed by IRDA, as amended from time to time, as applicable, will be complied with by the bank while undertaking these activities.

6. Mutual Fund Business

a. Customer relationship and transactions Categorization

Customer relationship and transactions shall be categorized as:

Advisory

Where bank represents to offer advice while distributing the product, it will be subject to the principle of 'appropriateness' of products to that customer category.

Execution only

In case of transactions that are not booked as 'advisory', it shall still require:

- The bank has information to believe that the transaction is not appropriate for the customer, a written communication be made to the investor regarding the unsuitability of the product. The communication shall have to be duly acknowledged and accepted by investor.
- A customer confirmation to the effect that the transaction is 'execution only notwithstanding the advice of inappropriateness from that distributor be obtained prior to the execution of the transaction.
- That on all such 'execution only' transactions, the customer is not required to pay the distributor anything other than the standard flat transaction charge.

There shall be no third categorization of customer relationship / transaction.

While selling Mutual Fund products bank should ensure make disclosure to the customer regarding the conflict of interest arising from selling of such products.

b. Bank may enter into agreements with mutual funds for marketing the mutual fund units subject to the following terms and conditions:

- Bank will only act as an agent of the customers, forwarding the investors' applications for purchase/sale of MF units to the mutual funds/Registrars/transfer agents. The purchase of units will be at the customers' risk and without the bank guaranteeing any assured return.
- Bank will not acquire units of mutual funds from the secondary market.
- Bank will not buy back units of mutual funds from their customers.
- If the Bank proposes to extend any credit facility to individuals against the security of units of Mutual Funds, Bank will ensure that the sanction of such facility will be in accordance with the extant instructions of RBI on advances against shares/debentures and units of mutual funds.
- If the Bank is holding a custody of MF units on behalf of their customers, it will ensure that their own investments and investments made by/belonging to their customers are kept distinct from each other.
- Bank will put in place adequate and effective control mechanisms in this regard. Besides, with a view to ensuring better control, retailing of units of mutual funds may be confined to certain select branches of a Bank.
- Bank will appoint only AMPI qualified people who have valid NISM certificates.
- The instructions/ guidelines on KYC/AML/CFT applicable to Banks, issued by RBI from time to time, will be adhered to, in respect of customers (both existing and walk-in) while undertaking mutual fund business.

F. Glossary

- **IRDA** - Insurance Regulatory and Development Authority
- **KYC** - Know Your Customer
- **AML** - Anti Money laundering guidelines
- **Banking Ombudsman** - An independent dispute resolution authority set up by the Reserve Bank to deal with disputes that individuals and small businesses have with their Banks.
- **Customer** - A person who has an account [including a joint account with another person or an account held as an executor or trustee or as a Karta of an HUF, but not including the accounts of sole traders/proprietorships, partnerships, companies, clubs and societies] or who avails of other products/ services from a Bank.
- **Mutual funds** - A mutual fund is a professionally managed investment fund that pools money from many investors to purchase securities
- **Insurance** - Insurance is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss.