IndusIndBank
Policy On Co-Lending by Bank and NBFC's

Contents

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Background

Earlier in Sep 18, the Reserve Bank of India (RBI) released guidelines permitting co-origination of loans by banks and non-deposit taking Non-Banking Financial Companies (NBFCs) in the priority sector. The move was aimed at helping banks meet their priority sector lending targets, leveraging the reach of NBFCs. However, the above guidelines were restricted to only systemically Important Non Deposit taking NBFCs and also posed various operational /risk alignment challenges. As a result, the scheme didn't take off on expected lines.

Accordingly basis the feedback from stakeholders, RBI vide circular dated FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 Dt. Nov 05, 2020 provided greater operational flexibility vide a revised scheme and rechristened it as "Co-Lending Model" (CLM). The primary focus continues to improve the flow of credit to the unserved/ underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost.

This Policy document presents a brief on the proposed approach to leverage the strengths of adopting Co-Lending Model in collaboration with intermediaries i.e NBFCs/ HFCs engaged in Agriculture, MSMEs, affordable housing, education, gold, social infrastructure, renewable energy etc. and help build "Priority & Non-Priority Sector" portfolio with greater degree of operational control.

1. Salient Features of the Guidelines

1. Banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement, except with an NBFC belonging to the promoter Group.
2. Banks and NBFCs are required to formulate Board approved policies for entering into the CLM and place the approved policies on their websites
3. Co-Lending Banks will take their share of their individual loans on a back to back basis in their books. However, NBFCs shall be required to retain a minimum of 20% share of the individual loans in their books
4. Priority Sector: Bank can claim priority sector status in respect of their share of credit given for loans given for priority sector while engaging in the CLM adhering to the specified conditions.
5. Master Agreement to be entered into between the two partner institutions which shall inter-alia include terms and conditions of the arrangement i.e criteria for selection of partner institutions, the specific product lines and areas of operation, along with the provisions related to segregation of responsibilities as well as customer interface and protection issues.
6. Banks to ensure the arrangement is in compliance with extant guidelines on
    - Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks
    - Know your Customer (KYC) Direction, dated February 25, 2016, which permits regulated entities, at their option, to rely on customer due diligence done by a third party subject to specified conditions.
    - Guidelines on Transactions involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM.

- Exemption of MHP shall be applicable only in cases where prior agreement between Banks and NBFCs contain back to back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

1.1. Customer Related Issues

1. NBFC shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which shall clearly contain the features of arrangement and the Roles and Responsibilities of NBFCs and Banks
2. The ultimate borrower may be charged an all-inclusive rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both
3. Grievance redressal: Suitable arrangement will be put in place by co-lenders to resolve complaint registered by a borrower with the NBFC within 30 days, failing which the borrower would have the option to escalate the same with the Banking Ombudsman or the Customer Education and Protection Cell (CEPC) in RBI

1.2. Other Operational Aspects

1. The co-Lending banks and NBFCs shall maintain each individual borrower's accounts for their respective exposures. However, all transactions (disbursements/ repayments) between the banks/ NBFCs relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid intermingling of funds.
2. The Co-Lenders shall arrange for creation of security and charge as per mutually agreeable terms
3. Each lender shall adhere to asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to credit information companies
4. The loans under the CLM shall be included in the scope of internal/ statutory audit within the banks and NBFCs to ensure adherence to their respective internal guidelines, terms of arrangement and extant regulatory requirements
5. Both the Banks and NBFCs shall implement Business Continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between co-lenders.

2. Rationale for adopting the Co-Lending Model (CLM)

The unserved/ underserved target segment is heterogeneous in terms of their ability to have documented income proofs, ability to offer collateral, business unit registration, banking habits, nature/manner of business conduct, and demonstrated credit performance/delinquency levels. The above attributes vary significantly depending on the size of the enterprise, markets they operate, target segment they cater to and accordingly the nature of credit requirement varies.

The diversity necessitates differentiated business models, opening opportunities under Co-Lending Model with NBFCs/HFCs to tap this opportunity(s). Given below are some of the key advantages from such arrangements.

1. Multiple levels of filtering: tested business models, rich experience of the promoters, team, focussed approach etc. will help in Origination of *good quality, relatively higher yield loans* enhancing the diversity in IBL's loan portfolio apart from giving the bank priority sector loan book.

2. Provides an attractive opportunity for the Bank to originate retail portfolios consistent with their risk appetite while benefitting from the NBFCs/MFIs' who have harnessed the power of digital sourcing, lending and collections expertise.
3. ***Customised product offerings:*** to address unique characteristics of the customer segment. Eg: cluster based financing, POS receivable financing, Value chain financing, machinery financing, unsecured loans, LAP etc Many of them have adopted risk based pricing models for product lines, in-line with the customer profile & other parameters. It also helps overcome the product limitation that the NBFCs would have in offering working capital – CC/ OD facility, which makes it a perfect opportunity to work together.
4. **Ready platter Technology Platform-** which enables the co-lending partner to undertake the scrutiny of the credit files & accord credit decisions, with appropriate technology interface with the CBS of the Bank. The **data analytics, machine learning, artificial intelligence,** credit underwriting models are continuously getting enhanced which helps the Bank in its own portfolio.
5. ***Wider and effective reach:*** This model of lending through would facilitate **greater geographic diversification** as these companies are having immense geographical outreach, even to remote locations through their innovative "Phygital" (Physical+ Digital) methodology. Furthermore, they are also building a connected channel experience, that provides an omni-channel, seamless experience with 24/7 sales and service.
6. Co-Lending Model helps bank keep it light on HR/ Capital and facilitate faster scale up and roll out being modular depending on the number of partnerships and their ability to reach. The arrangement being on a revenue sharing basis, the operations will be revenue accretive from day-1
7. The credit / servicer risk will be mitigated by FLDG/Guarantees structures.
8. Industry Insights – Considering the vast coverage of clients and industries these players work with, there shall be a great deal of experience that gets culminated in their Industry outlook, and this helps Bank appropriately pivot its direction.

More importantly, the above institutions with the help of equity raise and funding from these institutions have helped test out the business model and issues involved in the processes and recovery etc., The models and the algorithms/ Machine learning fine-tuned to address the gaps. More-over this is a continuous process and is part of the due diligence on boarding process to see the ability of the organization to continue to stay nimble and adapt to the changing market conditions and handle crises including the major ones like the ones seen now i.e Covid 19 pandemic.

3. Implementation Approach

The product programs under co-lending model are of varied asset classes ('M'SME, Affordable Housing, Gold Loans, Education Loans, SHG Lending, Farmer Producer Organizations etc.) and distinct from each other and the players within the asset classes have unique business models, products and processes which may make it difficult to have PPAC approvals ab initio. Given that co-Lending is a partnership model, and requires synchronisation of product, processes, IT integrations, appropriation logics etc. for both the co-lending partners which are dynamic in nature initially hence the approach that can be adopted is to do a pilot with a minimal program limit with one co-lending partner in a asset class. The pilot will facilitate understanding of the nitty-gritties and firm-up the product parameters / processes and then scale it up to a full-fledged product through PPAC. The below multi-tier matrix will ensure controls are in place and the program is in compliance with the extant guidelines, before the program reaches to a stage wherein a full-fledged PPAC is obtained.

4. Business model under Co-Lending

The plan is to work with select entities specialized in each of the niche market segments on Co-lending and build granular book. For Co-lending arrangement, following 2 models will be adopted.

Model 1 – Bank and the NBFC can decide on the below aspect based on the loan documents executed,

a) NBFC can sanction and disburse the whole amount and thereafter approach the bank for reimbursement or
b) NBFC can sanction/ disburse its part of the loan and then approach the bank to sanction/ disburse its part.

The bank and the NBFC can decide on the above aspects as per the Master agreement between them. In this model Co-lending partner and Bank will pre-agree on the Terms and conditions basis which the loans shall be originated by the Co-lending partner (NBFC). Bank upon receipt of the details of loans from co-lending partner will scrutinize them and those meeting the prior agreed terms and conditions as contained in the Master Co-Lending agreement / SOP will be taken in to it books by the bank.

Model 2 - Bank may also adopt the model of Akin to direct assignment transaction as per the provision provided in RBI circular on Co-Lending by Banks and NBFCs to Priority Sector (RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21).

4.1. Co-Lending Partner Types

a) Banks
b) NBFCs
c) HFCs

4.1.1. Partnership Modes

a) Manual / Physical
b) Digital (Co-lending arrangement under Digital model shall also be guided by RBI Guidelines on Digital Lending - RBI/2022-23/111 DOR.CRE.REC.66/21.07.001/2022-23 as well as Co-Lending by Banks and NBFCs to Priority Sector (RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21)

4.2. Co-Lending Partner Identification and On-boarding

Identification of the partnering entity and detailed due-diligence would be carried out by the Bank prior to the tie-up. The Relationship Manager of the Business Units would front-end sound business development and administer detailed due-diligence check and thereafter submit recommendations to the Credit Committee (as per the relevant authority). The elements of partner selection would be as below:

a.) Governance
b.) Transparency & Integrity of the promoters
c.) Operational Strength (Business Model, Products, Processes, Internal controls, Risk Management practices etc…)
d.) Fair practices code, Business continuity plan
e.) Financial Strength- Net Worth, Ability to raise capital, Liquidity, Resource profile, Asset quality, Investor Pedigree -While this is an important element, but not the only element for consideration
f.) Management and Systems

It must be noted that, every proposal will be appraised on a case to case basis and a detailed due diligence note covering the above aspects will be put up to the Credit Committee for selection purpose.

Before commencing any new partnership, business unit will conduct Partner evaluation / due-diligence, materiality assessment and Checklist for co-lending (*In line with the The Partnership Policy approved by ITSC*).

Basic steps

1. NDA to be signed between the partner & IndusInd Bank by the respective Business Units
2. Partnership evaluation document will be created by Business teams covering the aspects such as promoter profile, Investor profile, Management credentials, financial assessments and business case. Sign-off will be taken from respective BU Head
3. Post BU head approval, depending upon the nature of partnership, product related aspects like Customer/user journey flow, API mapping to the user flow, Process flow, Information security and other applicable aspects to be initiated & finalized. Depending on partnership type, partner and Bank to commence the technology integrations & respective SDG teams to commence the test-case design
4. ECC (Executive Credit Committee) approval shall be taken for all partnerships wherever credit risk is involved as per the existing process
5. Execution of Agreement: Once ECC approval is received a formal agreement must be executed between the parties involved, detailing the terms and conditions of the partnership
6. Once the agreements & UAT are signed-off then the respective SDG & IT team to raise a change request for CAB, post this approval the production rollout to be done for pilot.
7. Product and Process Approval Committee (PPAC): Post completion of the pilot and understanding the nuances, PPAC approval will be taken. Whenever a new partner is being added to an already approved PPAC, an addendum will be made which will also include partner materiality and partnership specific checklist (*refer Annexure I*)

4.3. Pricing

It shall be as per the pricing policy of the bank

4.4. Processing Fee & Other Charges

Processing fee and Other Charges if any Charged and collected by bank will be in line with banks policy on Schedule of Fees and Charges.

4.5. Product Program

A mutually agreed Product program/ parameters will be developed along with the co-Lender covering targeted coverage, process finalisation, requirements for loan documentation, KYC documentation, and various covenants pertaining to the loans which would form the basis for approval of loans. While the program itself will be approved by Credit committee, loans under the program will be accorded by relevant individuals as per the Delegation of Powers (DoP) approved by relevant committee. Deviations, wherever required can be permitted by approving committee/authority as

per the approved product program. Review/performance of product programme shall be submitted to relevant authority/credit teams at pre agreed periodic intervals.
Product specification and terms will be part of the detailed Product Program which will be approved by the appropriate approving authority within the bank.
The new product approvals and modifications to the existing product approvals from Credit perspective, within the approved product program limit, will be referred to the relevant credit committee for approval. For the product approvals from operations perspective, such as processes and/or systems, ORMC (Operational Risk & Management Committee) approval will be obtained.

4.6. Loans

Loans can be given to both Priority and Non-Priority Sectors

4.7. Process flow

4.8.1. Lending arrangement

The lending arrangement can be described as follows:

Bank	Risk assessment criteria shall be agreed with the NBFC/HFC which shall facilitate in smooth origination and on boarding of borrowers IBL will independently assess the risks and requirements of the borrower
NBFC	NBFC/HFC will recommend to the Bank relevant proposals for collaboration loans
Borrower	Enters into loan agreement, wherein, Bank and NBFC shall be parties as lenders with the borrower

4.8.2. Activities and Responsibilities

<table>
<tr><td rowspan="3">Sourcing and origination</td><td>Sourcing of the eligible borrowers as per mutually agreed eligibility criteria</td><td rowspan="4">NBFC/HFC</td></tr>
<tr><td>Joint Loan Application form, KYC verification and Credit Bureau Enquiry.</td></tr>
<tr><td>Loan appraisal and Recommendation</td></tr>
<tr><td>Information flow</td><td>Flow of information & documents from NBFC/HFC to Bank</td></tr>
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<tr><td>Disbursement as per the model adopted for the product or partner</td></tr>
<tr><td rowspan="3">Post disbursal</td><td>Post disbursal welcome call by Bank (Sample basis as agreed in the specific product program)</td><td>Bank</td></tr>
<tr><td>Physical verification by bank (Sample as agreed in the specific product program)</td><td>Bank</td></tr>
<tr><td>Generation of Repayment schedule for loan</td><td>NBFC/HFC</td></tr>
</table>

	Security creation	NBFC/HFC
	Credit Bureau updation by both entities as per their internal policies applicable for the Product	Bank & NBFC/HFC
	Recovery follow up (in all possible recovery options), Repossession	NBFC/HFC
Loan recovery	Full EMI to flow into an escrow account.	NBFC/HFC
	Principal portion will flow into NBFC/Bank	Bank
	interest portion will flow into NBFC/Bank	Bank
Monitoring & supervision	Supervision, monitoring & control	NBFC/HFC & Bank
	Grievance redressal	
	Audit and inspection Reconciliation of balances & visit report etc. Information exchange between the Bank and NBFCs Balance confirmation from the borrower towards the dues	

4.8.3. KYC Due-diligence

As per RBI circular on Co-Lending by Banks and NBFCs to Priority Sector, Bank shall comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide RBI/DBR/2015-16/18Master Direction DBR.AML.BC. No.81/ 14.01.001/ 2015-16 dated February 25, 2016 and updated from time to time, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.
In line with the guidelines, Co-Lending Partner (CLP) will carry out the due diligence of the customer through modes of due-diligence as mentioned in the Master Direction on KYC guidelines, updated from time to time. Bank, post receiving the KYC details and scan copies from CLP, will complete its part of due-diligence before on-boarding customer into the Bank's system.
For the purpose of verifying the identity of customers, bank will rely on customer due diligence done by CLP (NBFC/HFC).

Under Co-Lending model bank may accept Certified copies of Officially Valid Documents (OVD), Digital KYC, Video KYC, Equivalent e-Document (including documents issued to the digital locker account of the customer) and also may accept Aadhaar in its digital form basis Aadhaar eKYC through biometric / OTP authentication or Aadhaar OKYC (offline KYC) or Central KYC Record (CKYC) Identifier or any other mode of KYC as per banks KYC policy in line with Master Direction on KYC guidelines or as directed by the regulator from time to time.

Sourcing of customers through Co-lending partner (CLP) is allowed and authorised employees of CLP, under co-lending arrangement, can obtain a certified copy of the OVD post verification vis-a vis the original document or adopt any other modes of full KYC as mentioned in the Master Direction on KYC. Customers sourced by CLP relying on the OTP based e-KYC in non-face to face mode will not be on boarded by the Bank.
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4.8.4. Loan Decisioning & Sanction communication

Loan decisioning will be done by both the Bank and co-lending partner as per the model adopted and will be communicated to the co-lending partner.

4.8.5. Loan Documentation

As per the Co-lending guidelines, NBFC shall be the single point of interface for the customers and shall enter into a loan documentation with the borrower as approved by Banks legal team. Bank has delegated the Co-Lending Partner to execute the Finance Documents (Loan documents) with the Borrower on behalf of the Bank. The relevant clauses are available in the co-lending master agreement.

4.8.6. Valuation of asset

Wherever applicable valuation of asset and collateral will be done as mutually agreed between Bank and Co-lending partner.

4.8.7. Loan Disbursement

Model 1 – Bank & Co-Lending Partner will credit their respective shares of loan amount to the Disbursement escrow account from where the total loan amount will be disbursed to the end borrower as per escrow instruction or Co-Lending Partner will disburse the total loan amount to customer and bank later will credit its share of loan amount to the Disbursement Escrow account and such credited amount will be remitted back to Co-Lending Partner.

Model 2 – Co-Lending Partner will disburse the total loan amount to customer and bank later will credit its share of loan amount to the Disbursement Escrow account and such credited amount will be remitted back to Co-Lending Partner.

4.8.8. Loan Documents Storage

Loan Documents pertaining to loans sourced under co-lending arrangement may either be stored with Co-Lending partner or the Bank based on the arrangement between Bank and co-lending partner.

4.8.9. Loan Repayment

Co-Lending Partner (CLP) will follow up with the end borrower for the loans under the Co-lending model and remit all the collection done to repayment escrow account from where the amounts will be remitted back to Banks and CLP as per escrow instruction. These funds should ideally be deposited in escrow account and fund allocation should be done on the same day, since the collections may happen till end of business hours and to complete reconciliations at partner level will take some time, the apportioning date from the date of original collection date in the field by the partner will be mutually agreed between the partners.

4.8.10. Order of Appropriation for Repayment

Under co-lending model, with different partners (NBFCs) and diverse asset classes it's not possible to come up with all the scenarios of appropriation upfront and it will be an ongoing activity as and when the co-lending partners are on-boarded. Hence there might be difference in appropriation logic.

In order to synchronize the order of appropriation followed by co-lending partner (NBFC), the waterfall mechanism for appropriation of repayment in loan account under CLM arrangement will be mutually agreed by Bank and co-lending partner (NBFC). The recovery appropriation order will also be agreed between the bank and customer in the Loan Terms & conditions /agreement explicitly.

4.8.11. Escrow arrangement

Exclusive Escrow accounts for Disbursement & Repayment will be opened for each and every arrangement with a Co-lending Partner and transactions pertaining to disbursement and repayments under the arrangement will be routed through these exclusive accounts. Escrow account shall be operated by the Co-lenders as agreed in the escrow agreement.

4.8.12. Grievance Redressal

For grievance redressal, suitable arrangement will be put in place by Bank and co-lender to resolve any complaint registered by a borrower with the NBFC within 30 days, failing which the borrower would have the option to escalate the same with the Banking Ombudsmans or the Customer Education and Protection Cell (CEPC) in RBI. In line with the guidelines all disputes with customers including litigation will be handled by Co-Lending Institute. Borrower may register a complaint with the NBFC with respect to their loan under Co-Lending arrangement, by way of e-mail to NBFC or by way of a registering a complaint with the call center of NBFC or by way of a written complaint addressed to the Grievance Redressal Officer of NBFC.NBFC shall within 30 days, resolve the complaint, failing which the Borrower can escalate the same with the Banking Ombudsman or the Customer Education and Protection Cell (CEPC) in RBI

4.8.13. Recourse against Co-Lending Partner

Co-lending guidelines allow sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives however *FAQs on Master Directions on Priority Sector Lending Guidelines (09 Nov2021) – Point L - Co-lending by Banks & NBFCs - Query 46 clarifies that* the priority sector assets on the bank's books should at all times be without recourse to the NBFC. In line with it Bank will explore getting performance security in the form of guarantees, FLDG, FDs etc. on best effort basis for Non-PSL loans only.

5. Portfolio Management: Monitoring, Supervision and Control

Apart from the indicators of credit quality such as delinquency, nonaccrual and risk rating trends, we envisage an effective management of the loan portfolio by focusing on the following aspects:

1. Quality of loan originations, appraisal and underwriting process, process improvements and compliances
2. Customer visits
3. Loan performance tracking and management
4. Monitoring at the portfolio level by measuring portfolio against risk tolerance limits
5. Follow up on Loan performance.

5.1. Field monitoring

Co-lending partner would be responsible to monitor its channels of delivery on parameters as agreed. Bank's field team (Risk Control Unit-RCU) will visit the co-lending partner and its branches. This team exclusively focuses on the field level operations and objective is to evaluate the adequacy and effectiveness of internal control system of the co-lender and determine the extent to which assigned responsibilities are actually being carried out.

6. Key Risks and mitigating Factors

6.1. Outsourcing Risks

The Co-Lending model envisages outsourcing of activities w.r.t loan origination, follow up, recovery and associated activities, while retaining the core functions i.e KYC/AML & credit approval, etc within the bank. This approach of "lending through" and not "lending to" has already been practiced by the bank for almost a decade now under the BC arrangement and the initiative has been fairly successful and helped build a high quality portfolio. We have seen the same success for the higher ticket segment (currently Gold loans) in the Co-Lending Model and which helped build a diversified portfolio.

The following section covers the various outsourcing risks likely to arise from co-lending arrangement with the Business Associates/companies and addresses them through various mitigants and controls, as mentioned in the below section:

S. No.	Key Risk(s)	Mitigating Factor(s)
1.	Strategic Risk (The service provider may conduct business on its own behalf)	Appropriate monitoring mechanism in place and feedback loops, both data driven as well as through field level risk would be monitored by the Bank. Vouchers & forms containing the IBL's logo shall be used in all the transactions with the clients by the intermediary partner.
2.	Reputation Risk (Failure of the intermediary in providing a specified service)	IBL to partner with intermediary(s) that, both, as entities, as well as on the promoter level(s), have ensured compliance of business ethics. Incentive structure of the partnering intermediary to be verified and field-level practices monitored, more so, with RBI-mandated grievance redressal intervention by the Bank. The bank will also ensure to conduct regular monitoring mechanism through the Risk team of the dedicated division, to surface such service quality issues are timely manner, thereby helping to take corrective measures.
3.	Compliance Risk (non-compliance with legal and regulatory requirements)	The bank shall be partnering with entities which puts emphasis on compliance with the approved procedures for each and every activity and has various checks in place to ensure that the procedures are duly complied with. The bank shall also have monitoring mechanism for compliance risks which will ensure identifying, measuring, controlling and mitigating such risks.
4	Operational Risk (Inadequate technology, fraud mitigation, and financial capacity to fulfil obligations and/or provide remedies)	Entities having a well-defined organizational and technological infrastructure ensuring smooth running of the business and ensuring staff accountability at various levels, thereby reducing chances of frauds, technological hiccups & ensuring smooth running of banks business. It may also be noted that Bank will have the mirror data of the customers and will have inbuilt data backup system in order to address technological issues/failures at the entity/NBFCs end.

S. No.	Key Risk(s)	Mitigating Factor(s)
		In order to address the fraud risk, it may be noted Bank will be indemnified from the losses emerging out of the employees frauds etc. Also, from the Bank side, there shall be a dedicated person who will be in constant touch with the field staffs to identify such instances proactively. With respect to financial capacity, the eligible entity/NBFC shall be expected to have strong net worth and backing by reputed investors, which will lower the risks of non-fulfilment of obligations etc.
5.	Exit Strategy Risk (contracts entered into wherein speedy exits would be prohibitively expensive)	Here it is important to note that we are proposing to enter into this arrangement with entities which are already in similar businesses & the proposed arrangements will substantiate their existing business. Secondly the risk reward structure shall be designed in way that it synergises the incomes of the intermediary partner by using the existing structure. Thirdly the present arrangement shall provide an assured line of funding for the existing as well as proposed geographies which shall motivate further business for the partner. Also, a detailed BCP document is to be prepared to be able to combat any risks arising out of disruption of business activity due to natural hazards.
6.	Counterparty Risk (due to inappropriate underwriting or credit assessment)	The entities will be thoroughly assessed both from financial capability front and also the intermediation abilities front. We shall supplement our due diligence on the company with rigorous field checks carried out by the process and control team in the arrears where we intend to rollout the arrangement.
7.	Concentration and Systemic Risk (Over-reliance on one partner/ lack of control of bank over a service provider)	Diversification across partners as well as geographic diversity can be envisaged by the bank through the proposed arrangement.
8.	Contractual Risk (Breach of contract issues, claims, warranty problems, termination etc.)	The Agreement between Bank and the NBFCs/MFIs shall have clear performance indicators which are objectively assessed in defined periodicity. Hence, enforceability of contract in case of breach or termination may not pose a concern.

6.2. Credit/ Performance Risk

As it may be noted that the entire process, starting from loan origination till recovery are outsourced by the intermediaries, and therefore to align the interests and to create a sense of ownership, Performance Security will be obtained from the NBFC/HFC towards initial credit losses in the portfolio through one or combination of the measures proposed below on best effort basis for Non-PSL loans only.

Depending on the comfort of the Bank, the level of performance security may vary.

- Corporate Guarantee

- SBLC/Bank Guarantee
- Fixed Deposit with a lien

In case of default the PS shall be invoked after 75 days/45 days of occurrence. The window period will be given to the co-lender in order to put in recovery effort and make good the payment from the field.

7. Master Agreement

Agreement will be entered with the co-Lending partner which shall inter-alia include terms and conditions of the arrangement i.e criteria for selection of partner institutions, the specific product lines and areas of operation, along with the provisions related to segregation of responsibilities as well as customer interface and protection issues**.** The agreement would ensure the arrangement is in compliance with extant guidelines on

- Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks
- Know your Customer (KYC) Direction, dated February 25, 2016, which permits regulated entities, at their option, to rely on customer due diligence done by a third party subject to specified conditions.
- Guidelines on Transactions involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM.
- Exemption of MHP shall be applicable only in cases where prior agreement between Banks and NBFCs contain back to back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

8. Assignment

Any assignment of loans by any of the co-lenders to a third party can be done only with the prior consent of the other lender.

9. Settlement

Any compromise settlement in respect of co-lent loans including own share can be done only with the prior consent of the other lender.

10. Incident Reporting

Fraud and cyber incident reporting will be done in line with the RBI guidelines. On reporting of customer induced frauds, bank will report with respect to its portion of lending.

Bank will be indemnified by the co-lending partner for the losses arising from the process lapses of the co-lender, and if found to be fraud, the same shall be reported by the co-lending partner as per guidelines applicable to it.

11. Outsourcing

All co-lending partners and the details of the co-lending partners will be updated in the banks centralized system managing outsourcing activities of vendors.

As engaging of co-lending partner also involves outsourcing of activities hence review of materiality, performance review and risk assessment will be done for every partner on annual basis as per Banks outsourcing policy.

12. Internal Audit

Co-lending Operations of the bank will be covered under the scope of Internal audit of the bank

13. Business continuity

Both Bank and Co-lending partner will ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders. The Master co-lending agreement will define the same.

14. Termination

Termination clauses are part of the Co-Lending master agreement where both the parties can give adequate prior notice, which safeguard Bank's interests in managing the existing portfolio till it is repaid.

15. Policy Review

This policy shall be reviewed on an annual basis or earlier, in case there is any major change in regulatory guidelines relating to policy. Inclusive Banking Group is responsible to undertake the review of the policy and place it before the competent authority for approval. This policy will be due for review in 12 months from the date of last Board review.

Annexure 1

S.No.	Document Name	Reference
1	Partnership Materiality Assessment	Materiality Mapping.xlsx
4	Checklist for Co-Lending	Checklist for Co-Lending.xlsx