



AU Small Finance Bank Limited

CUSTOMER COMPENSATION POLICY

Version Control

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1.0	First version	April 2017	Customer Service Department	
2.0	Second Version (In accordance with RBI circular for limiting Customer Liability on Unauthorized Electronic Banking Transactions)	July 2017	Customer Service Department	
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Introduction

This Policy document will lay down clear guidelines on how to compensate the customers for any financial loss they might incur due to deficiency in service on the part of the Bank or any act of omission directly attributable to the Bank or its employees. This Policy will only be applicable for compensation for financial losses incurred due to deficiency in services offered by the Bank which can be measured directly. The commitments mentioned in this Policy will be without any prejudice to any right the Bank shall have in defending its position before any forum constituted to resolve bank- customer disputes or before any court of law. The Policy does not cover and is not applicable in respect of claims made by customers on account of opportunity losses/damages/claims regarding reputation loss.

1. Guiding Principles

The Customer Compensation Policy will be based on the principles of transparency and fairness in the treatment of customers. This Policy will cover the incidents as described in the policy, where the Bank is liable to compensate the customers for any financial loss arising from different types of transactions.

By adopting the Customer Compensation Policy, the Bank will ensure a reduction in the number of complaints to the Banking Ombudsman or to the RBI. This Policy will help ensure that the staff at all levels in the Bank interact uniformly across various branches with all types of customers regarding the compensation process.

2. Unauthorized / Erroneous Debit

2.1. In case the Bank has raised an unauthorized/erroneous direct debit to an account, the entry will be reversed at the earliest on being informed of such debit, after due verification of the transaction.

In such cases, the Bank will compensate the customer for direct financial loss, if any, by way of loss of savings account interest due to reduction in the minimum closing balance applicable for payment of interest on savings bank deposit or payment of additional interest to the Bank in a loan account or any charges levied for balance falling below minimum balance requirement or any charges levied for return of cheques due to shortfall in balance. The customer should approach the Bank within a maximum period of 45 days from the date of erroneous debit

3.2. In case the process of verification of the debit reported to be erroneous by the customer doesn't involve any third party, the Bank will try to complete the process of verification within 7 days from the date of reporting of such erroneous debit.

In case the verification process involves a third party, the Bank will ensure to complete the process of verification within 1 month from the date of reporting of such erroneous debit.

3.3 The Bank reserves its right to debit the account for reversing the amounts in case a wrong credit is posted

to a customer's account without payment of any compensation.

3. ECS Direct Debits / Other Debits to Accounts

3.1. The Bank will undertake to carry any direct debits/ECS direct debit as instructed by the customer in time provided customers have already provided complete and valid mandate to accept any debit received from ECS and the Direct Debit/ECS received is complete and correct.

In the event the Bank fails to carry out such transactions in time for reasons which can be directly attributable to the Bank, the customers will be compensated at the prevailing fixed deposit interest rate for the period between the due date of direct ECS debit and the date of actual debit carried out by the Bank.

In case of ECS Direct Debits/ other debits which are towards payments of Equated Monthly Installments (EMI), the Bank will reimburse the customer, the penal interest and/or late payment charges, if any, after production of necessary proofs and thorough investigation of the same.

3.2. The compensation for such financial losses will, however, be restricted only to reimbursement of actual expenses incurred by the customer e.g. penalty/interest paid by the customer to normalize the repayment schedule which got disturbed on account of delay/failure in carrying out the instruction.

3.3. Electronic payment such as RTGS/EFT/NEFT instruction will be governed by the applicable terms and conditions as communicated to the customer.

3.4. The Bank will debit the customer's account with applicable service charges as mentioned in the tariff schedule. In the event of any additional service charge being charged is not in accordance with the arrangement, the Bank will immediately reverse any such charge after it has been brought to notice by the customer. The charges will be reversed only if it is not in accordance with the agreed terms and conditions. In such cases, the Bank shall compensate the customer for any direct financial loss by way of loss of savings account interest on account of reduction in the daily closing balance applicable for payment of interest on savings bank deposit or payment of additional interest to the Bank in a loan account or any charges levied for balance falling below minimum balance requirement or any charges levied for return of cheques due to shortfall in balance

4. Funds Transfer using NEFT/RTGS

In the event of any delay or loss on account of error, negligence or fraud on the part of an employee of the destination bank in the completion of funds transfer pursuant to receipt of payment instruction by the destination bank leading to delayed payment to the beneficiary, the destination bank shall pay compensation at current RBI LAF repo rate plus 2 per cent for the period of delay. In the event of delay in return of the funds transfer instruction for any reason whatsoever; the destination bank shall refund the amount together with interest at the current RBI LAF repo rate plus two per cent till the date of refund.

5. ATM Failure

In case of disputed/failed ATM transaction, the Bank will verify and convey its decision on accepting or declining the request within 7 working days from the receipt of customer complaints. In case of delay in passing on the credit beyond 7 days from the receipt of customer complaint, compensation of Rs 100 per day from the date of receipt of complaint will be credited to the customer's account automatically, without any claim from the customer. In case the complaint has not been lodged within 30 days of failed transaction, the Customer will not be entitled for any compensation for delay in resolution of complaint.

6. Payment of Cheques after Acknowledgement of Stop Payment Instructions

In case a cheque has been paid after receiving and acknowledging the stop payment instruction, and there have been no subsequent contradictory instructions communicated to the Bank, the Bank will reverse any such transaction and give value dated credit to the customer. Such debits will be reversed within 7 working days from the receipt of complaint from the customer after carrying out the necessary verifications. In such an event, the Bank will compensate the customer to the extent of any direct financial loss, if any, on the account of loss of savings account interest because of reduction in the daily closing balance applicable for interest payment on saving bank deposit or payment of additional interest to in a loan account or any other charges levied for a reason of balance falling below the minimum balance requirement or any charges levied for return of cheques due to shortfall in balance.

7. Foreign Exchange Services

Collection of Foreign Currency Cheques

The Bank will not compensate the customer for delays in collection of cheques designated in foreign currencies sent to foreign countries. Generally, the time for collection of instruments drawn on banks in foreign countries differ from country to country. The time norms regarding the return of instruments cleared provisionally also vary from country to country. Such instruments are accepted for collection on 'best of efforts' basis. However, the Bank will compensate the customer for undue delays in affording credit once proceeds are credited to the Nostro account of the Bank with its correspondent. Such compensation will be given for delays beyond one week from the date of credit to Nostro account/ due date after taking into account stipulated normal cooling period.

The Bank will compensate under such cases as follows:

- Interest for the delay in crediting proceeds as indicated in the Cheque Collection Policy of the Bank.
- Compensation for any possible loss on account of adverse movement in foreign exchange rate as applicable for the transaction.

8. Payment of Interest for Delayed Collection of Local/Outstation Cheques

As part of the Compensation Policy of the Bank, the Bank will pay interest to its customers on the cheque amount in case there is delay in giving credit beyond the time period mentioned. The compensation on account

of delays in collection of instruments will be as indicated in the Bank's Cheque Collection Policy which is reproduced below for convenience:

8.1. *Payment of interest for delayed collection of local cheques*

- The Bank shall pay interest, at the applicable savings account rate, to the customer on the cheque amount in case there is a delay in giving credit beyond the specified time period. Such interest shall be paid without any demand from customers in all types of accounts. There shall be no distinction between instruments drawn on the Bank's own branches or on other banks for this purpose of payment of interest on delayed collection.
- Local cheques are subject to the clearing process of clearing cycle for the respective location. Cheques accepted across counter and collection boxes in the branch premises before the cut-off time will be presented for clearing on the same day. Cheques deposited after the cut-off time and in collection boxes outside the branch premises will be sent for clearing the next day.

8.2. *Payment of interest for delayed collection of outstation cheques*

8.2.1. As part of the Compensation Policy, interest will be paid to the customer on the amount of the cheque in case there is delay in giving credit beyond the specified time period. The interest shall be paid without any demand from the customers.

8.2.2. The following time norms are applicable for Cheques sent for collection to outstation centers within the country:

- Cheques presented at any one of the four major Metro centers (New Delhi, Mumbai, Kolkata and Chennai) and state capitals where the Bank has a branch and payable at one of the other three centers: Maximum period of 7 days.
- Major cities where the Bank has a branch: Maximum period of 10 days.
- All other centers: Maximum period of 14 days
- Cheques drawn on non-branch locations whether the Bank has a tie-up with correspondent bank or not: Maximum period 14 working days.

8.2.3. Interest for the delayed collection shall be paid at the following rates:

- Savings account bank rate for the period of delay beyond 7/10/14 as the case may be in collection of outstation cheques.
- In case the delay is beyond 14 days, interest will be paid at the applicable rate for term deposit for the duration of the delay.
- In case of extraordinary delay, i.e. delays exceeding 90 days, interest will be paid at the rate of 2% above the corresponding term deposit rate for the duration of the delay.
- In the event the proceeds of cheque under collection was to be credited to an overdraft/loan account of the customer, interest will be paid at the rate applicable to the loan account. For extraordinary delays, interest

will be paid at the rate of 2% above the rate applicable to the loan account.

8.2.4. At certain locations where the Bank has no branches, the instrument will be directly sent for collection to the drawee bank or collected through a correspondent bank. On account of any unjustified delays on part of the drawee bank in sending proceeds, the Bank will not be liable to pay any compensation to the customer, beyond 14 working days.

8.2.5. Cash Management Services: For customers availing Cash Management Services (CMS), collection of instruments is carried out as per the terms of the bilateral agreement between the bank and customers. Penalties, if any, will be payable as per the terms of the bilateral agreement.

9. Compensation for Loss of Instrument in Transit

The Bank's Compensation Policy for financial loss suffered by the customers due to loss of instrument after it has been handed over to the Bank for collection by the customer will be as indicated in the Cheque Collection Policy which is reproduced below for convenience:

In the event a cheque or an instrument accepted for collection is lost in transit or in the clearing process or at the paying bank branch, the Bank shall immediately notify the account holder, so that the account holder can inform the drawer to stop payment. This will be applicable only to instruments drawn in INR payable within India.

In case of cheques or instrument lost in transit, the Bank will compensate the account holder in the following way:

- In case the Bank notifies the customer regarding loss of instrument beyond the time limit stipulated for collection (7/10/14 days as the case may be), interest will be paid for the period exceeding the said collection period at the rates specified above (as given in paragraph 9.2.3.).
- In addition, the Bank will pay interest on the amount of the cheque for a further period of 15 days at savings account bank rate to provide for likely further delay in obtaining duplicate cheque/instrument and collection thereof.
- The Bank will also compensate the customers for charges at actuals up to Rs 500/- that they might incur in getting duplicate Cheque /instrument upon production of receipt, in the event the instrument is to be obtained from a Bank/institution who will charge a fee for issue of the duplicate instrument.

10. Transaction of "at par instruments" of Co-Operative Banks by Commercial Banks

In case of payment of "at par instruments" of co-operative banks, the Bank shall not honor cheques drawn on current account maintained by other banks unless arrangements are made for funding cheques issued. The issuing bank will be responsible to compensate the cheque holder for nonpayment/delayed payment of cheques in the absence of adequate funding arrangement.

11. Issue of Duplicate Draft and Compensation for Delays

The Bank will issue duplicate demand draft, in lieu of lost demand draft to the purchaser on the basis of adequate indemnity.

The Bank shall issue duplicate demand draft to the customer within a fortnight from the receipt of such request along with the necessary documents for the issuance of the same.

Further, for any delay beyond the stipulated period the Bank will pay interest at the rate applicable for fixed deposit of the corresponding maturity as compensation to the customer for delay. This will be applicable only in situations where the request for duplicate demand draft is made by the purchaser or the beneficiary and would not be applicable in the case of third party endorsements.

12. Violation of the Code by Bank's Agent

In case the Bank receives any complaint from the customer regarding Bank's employee, representative, official or agent engaging in improper conduct or violating the commitments to Customers as mentioned in the Citizen's Charter adopted by the Bank. The Bank will take appropriate steps to investigate the complaint accordingly and compensate the customer to the extent of any direct financial losses suffered by way of loss of savings account interest on account of reduction in the daily closing balance applicable for payment of interest on savings bank deposit or payment of additional interest to the Bank in a loan account or any charges levied for balance falling below minimum balance requirement or any charges levied for return of cheques due to shortfall in balance.

13. Unauthorized Electronic Banking Transactions

In case a customer attempts electronic transactions, a SMS/ email alert shall be sent to the customer. If the transaction is an unauthorized transaction, the customer should notify the Bank at the earliest through IVR, website, phone banking, email etc. On receipt of report of an unauthorized transaction from the customer, banks must take immediate steps to prevent further unauthorized transactions in the account.

14. Lender Liability; Commitment to Borrowers

The Bank will return to the borrower(s)/guarantor(s) all securities/documents/title deeds to the mortgaged property within 15 working days of repayment of all dues agreed to or contracted. The dues include principal amount, interest, service charge and all other amounts due under any other financial facility availed by the borrower(s)/guarantor(s) from the Bank in capacity as individual, partner, director or guarantor. In case of delay on behalf of the Bank in return of securities/documents/title deeds to mortgaged property beyond 15 days of repayment of all dues agreed to or contracted, the Bank will pay compensation of Rs 100/- per week subject to a maximum of Rs 500. However, the Bank will not pay any compensation to the borrower(s)/guarantor(s) under the following cases:

- Force Majeure events as listed in Section 16.
- Any delay on part of the borrower(s)/guarantor(s). E.g. Unavailability or delay in producing

identity verification proofs by borrower(s)/guarantor(s).

- In case the borrower(s)/guarantor(s) have changed their residential/ mailing address/ phone numbers and have not communicated the same to the Bank, due to which the Bank is unable to contact them for collection of securities/ documents/ title deeds to the mortgaged property.

In case the Bank receives any complaint/claim/demand from the borrower(s)/guarantor(s), legal heirs, executors, successors, joint owners/holders, etc. communicating about inter se disputes and/or not to hand over the title documents or hand over the same to particular person(s), etc., the Bank will direct the parties to resolve their disputes and thereafter approach the Bank with a joint application signed by all concerned for release of such title documents or obtain necessary direction from competent authority/court. Until then the Bank will not be liable to release securities/ documents/ title deeds to the borrower(s)/guarantor(s) and hence will not be liable to pay any compensation to any party in this regard.

15. Compensation in case of Frauds

The following is applicable for all fraud cases

- In case where the Bank is at fault, the Bank shall compensate the customer without any demur.
- In case where neither the Bank is at fault nor the customer is at fault, but the fault lies somewhere in the system, the Bank will compensate the customer up to a limit of Rs. 5000/-. Such compensation will be paid only once for every Customer Identification Number (CIN).

16. Compensation in case of unauthorised electronic banking transactions

17.1 The following is applicable for all electronic banking transactions:

- In case the Bank believes that the unauthorized transaction has happened due to the following reasons, there shall be no/ zero liability of the customer:
 - o contributory fraud/ negligence/ deficiency on the part of the bank (irrespective of whether or not the transaction is reported by the customer).
 - o Third party breach where the deficiency lies neither with the bank nor with the customer but lies elsewhere in the system, and the customer notifies the bank within three working days of receiving the communication from the bank regarding the unauthorised transaction.
- In cases where the loss is due to negligence by a customer, such as where he has shared the payment credentials, the customer will bear the entire loss until he reports the unauthorised transaction to the Bank. Any loss occurring after the reporting of the unauthorised transaction shall be borne by the Bank.
- In case where neither the Bank is at fault nor the customer is at fault, but the fault lies somewhere

in the system and when there is a delay (of four to seven working days after receiving the communication from the bank) on the part of the customer in notifying the bank of such a transaction, the per transaction liability of the customer shall be limited to the transaction value or the amount mentioned below, whichever is lower.

Type of Account	Maximum Liability
BD Accounts	5,000
All other SB accounts Pre-paid Payment Instruments and Gift Cards Current/ Cash Credit/ Overdraft Accounts of MSMEs Current Accounts/ Cash Credit/ Overdraft Accounts of Individuals with annual average balance (during 365 days preceding the incidence of fraud)/ limit up to Rs.25 lakh Credit cards with limit up to Rs.5 lakh	10,000
All other Current/ Cash Credit/ Overdraft Accounts Credit cards with limit above Rs.5 lakh	25,000

Further if the delay in reporting is beyond seven working days, the customer liability shall be determined in accordance with the following factors:

- o Nature of transaction
 - o Time of reporting
 - o Justification given by the customer
 - o The maximum compensation that shall be paid to the customers in such cases shall be up to INR 25, 000 or such value as decided by the business seniors on case to case basis.
- The number of working days shall be counted as per the working schedule of the home branch of the customer excluding the date of receiving the communication.

17.2 Reversal Timeline

- On being notified by the customer, the Bank shall credit the amount involved in the unauthorised electronic transaction to the customer's account within 10 working days from the date of such notification by the customer. The credit shall be value dated to be as of the date of the unauthorized transaction.
- Further, the Bank shall ensure that:

complaint is resolved and liability of the customer is established within 90 days from the date of receipt of the complaint, and the customer is compensated accordingly. o in case of debit card/ bank account, the customer does not suffer loss of interest, and in case of credit card, the customer does not bear any additional burden of interest.

18 Mis-selling 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 shall take appropriate steps to investigate and to handle the complaint. 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.

19 Force Majeure

The Bank shall not be liable to compensate customers for delayed credit/ non-availability of any service in case some unforeseen event (including but not limited to civil commotion, sabotage, lockout, strike or other labor disturbances, accidents, fires, natural disasters or other "Acts of God", war, damage to the Bank's facilities or of its correspondent bank(s), absence of the usual means of communication or all types of transportation, etc.) beyond the control of the Bank which may prevent it from performing its obligation within the specified delivery parameters.

20. Policy Review

The policy will be reviewed annually by the Policy owners in accordance with the relevant regulatory guidelines issued from time to time for the approval of the Board.

21. Policy Amendment Authority

Key owners responsible for Policy amendments.

Policy Owners	Role
Head of Operations Customer Service Head/ Principal Nodal Officer	Responsible for implementation of Policy Responsible for ensuring the policy is reviewed annually

22. Policy Authorization

This Policy has been approved by the Board of Directors of AU Small Finance Bank.

23. References

- RBI Master Circular - Master Circular on Customer Service in Banks (Dated July 1, 2015)
(https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9862#584)
- RBI Circular on **Limiting Liability of Customers in Unauthorized Electronic Banking Transactions** (Dated July 6, 2017)
(<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=11040&Mode=0>)
- IBA Code- Indian Banks' Association Policy on Customer Compensation
(<http://www.iba.org.in/model%20policy/c%20iba%20model%20compensation%20policy.pdf>)

24. Glossary

Term	Definition
ATM	Used as an acronym for "Automatic Teller Machine"
Bank	It refers to AU Small Finance Bank
CIN	Used as an acronym for "Customer Identification Number"
ECS	Used as an acronym for "Electronic Clearing Service"
EMI	Used as an acronym for "Equated Monthly Installment"
LAF	Used as an acronym for "Liquidity Adjustment Facility"
NEFT	Used as an acronym for "National Electronics Fund Transfer"
Nostro Account	It refers to a bank account held in a foreign country by a domestic bank, denominated in the currency of that foreign country. These are primarily used for settlement of foreign exchange & trade transactions
Payable at Par	It refers to cheques that will be treated as local cheques, even if the issuing & drawee bank are located in different cities. The entire amount of the cheque will be credit to customer account, without deduction of outstation cheque charges
RBI	Used as an acronym for "Reserve Bank of India"
RTGS	Used as an acronym for "Real Time Gross Settlement"