



HINDUJA LEYLAND FINANCE

Product Note -Business Correspondent (BC) /Fintech/Co-Origination arrangement

Version 1 - January 2020

Introduction:

HLF currently is serving customers across the spectrum in urban and semi-urban areas, largely self-employed segment, lower income group and largely unorganized segments. The current portfolio of HLF includes vehicle finance, Loan against properties and wholesale lending. In line with our stated mission of “To be among the most preferred financial services provider in India for all our stakeholders (customers, partners, employees, shareholders) we are intending to get into consumer and small business loans as well. Apart from satisfying our vision as stated earlier, this diversification will also satisfy our Corporate Plan’s 3D strategy of Deepen, Diversify and Digitize.

Fintech/Business Correspondent (BC) arrangement:

The company may explore the possibility of a tie-up with other fintech platforms, NBFCs and MFIs who shall source secured and unsecured financing businesses (apart from Vehicle finance and LAP) on behalf of HLF. The company will enter into a Fintech/ Business correspondent (BC)/Revenue sharing arrangement with them. Under this arrangement the sourcing would be the responsibility of the partner. However, the business that is sourced will be strictly in accordance to the underwriting standards provided by HLF. HLF shall take the business in its books directly. The partner- will also be the Servicer of the loans and will have the responsibility of collections from the business sourced by them for which they will be eligible for a service fees (as agreed in the service level agreement with the partner). This fee will be normally the differential of the interest rate between the rate at which the business was sourced and rate at which the business has been booked by HLF.

HLF can draw the strengths from fintech players (BC/Co originating partners) for generating the retail book at low operating cost. HLF’s Fintech/ Business Correspondence (BC) program aims to complement HLF’s originator partners to capture the opportunities.

program objective is to:

- Design Product framework for each specific Fintech/BC Partner -Product combination

Scope of the program

Fintech/Coorgination Business Correspondence - Processes:

1. Allocate risk capital to be deployed for the Fintech/Coorgination/Business Correspondent (BC) based on the below criteria.
 - Asset classes
 - Products
 - Geography

2. Identify the Fintech/BC partners

- Partner- Product matrix to be identified basis credit assessment and market reputation

3. Design Fintech/BC Partner - Product – Process

- To achieve seamless integration of workflows and process

4. Design framework

- Fintech/BC Product (Business and Risk)- Fintech/BC product design and credit risk on going basis.

Intended benefits to HLF from Fintech/BC Product

1. Build retail finance portfolio which will further help to diversify the portfolio.

2. Continuous and steadier revenues

- Fintech/BC Product provides granular revenues in the form of interest income and/or fee income

3. Sharper market intelligence and understanding of the Client – Customer – Product – Market/ Geography

- Access to granular loan information and exposure to granular loans help in our understanding of the underlying customer, product, geography and all other features
- Ability to conduct data analytics better
- Ability to monitor the Client better

Intended benefits to Fintech/BC Partner

1. Ability to capture market share through:

- Identification of New opportunities
- Retain/deepen existing market share
- Continue to provide best experience to the underlying customer

2. Ability to provide efficiently priced product to underlying customer - Leverage HLF's lower cost of funds

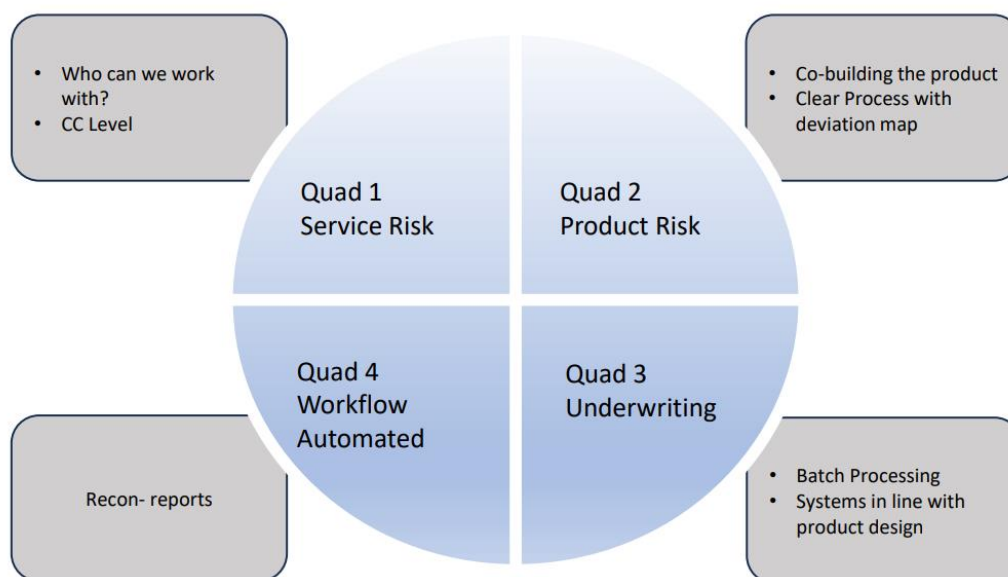
3. Access to debt capital - On tap and continuous access

4. Fintech/BC Product will have better

- PAT, Provisioning resulting in ROEs
- Capital adequacy

5. Seamless integration of systems of workflows, flexible New products and process design will help the Fintech/BC partner to scale up the business volumes.

Fintech/BC Product Design Framework



Fintech/BC Product is designed for HLF considering the following key tenants that determine the success of BC Program:

- Servicer Risk: Ability to select right Fintech/BC Partner
- Product Risk: Partner- Product: Co design the product and process
- On tap funding: Program based approach & ability to let Partner access funds on tap

Quadrant 1: Servicer (BC/Fintech Partner) Risk

BC/Fintech Partner - Eligibility Criteria

- BC Partner (Actual criteria detailed in subsequent sections)
 - o HLF's view of Servicer- reputation, promoter background etc.
 - o Size of the servicer- book size, number of customers, geographical spread etc.
 - o Net worth- capital deployed and ability to raise further capital
- Product offered to the customer will be analyzed based on:
 - o Product type/ specifics
 - o Customer segment

- o Geography
 - o Origination Process: End to end customer servicing and solutions
 - o Customer sourcing to Collections and Recovery
- Fintech Product: Terms of engagement of HLF with the Fintech partner
 - o First loss agreement
 - o Risk sharing arrangement
 - o Commercials and pricing

Scoring Matrix for Fintech Partner Empanelment

Score	Category	Limit on entity AUM	Percentage of Entity Net worth	*% of CC of GNPA%
>7	Superior	15%	15%	1.00x
5.5-7	Good	10%	10%	1.05x
4-5.5	Satisfactory	8%	8%	1.10x
<4	Barely Acceptable	5%	5%	2.00x

* Cash Collateral (CC) will be based on the peak GNPA of last 6 quarters

The above table would be parameters and the matrix basis which we decide our Fintech partner, wherein:

- Score will be used as qualifier to consider a Fintech Partner.
- Scoring will be done based on the Score card used for assessing Wholesale lending loans.
- Disbursement limit per month will lower of "Limit on Entity AUM or % of Net worth".
- ALL limit approvals as per the above grid will be done at corporate office by CH, COO&CEO(COCC3).

Eligibility:

Eligibility of BC Partner shall be decided at COCC3 level basis the existing relationship . In case of new partners, the above score matrix to be followed

Role of Fintech/BC Partner

Fintech/BC Partner provides the following services:

- Customer Sourcing includes:
 - o Survey and market making, market scoping
 - o Marketing and communications
 - o Branch set up
 - o Customer interviews, shortlist, recommendation
 - o Vendor management
 - o Deal Negotiations
- Contracting with the Underlying Borrower
- Disbursement Processing
- Document Storage
- Post disbursement Customer Servicing
- Collections activities includes the following:
 - o Collections- Normal
 - o Collections- OD Recovery
 - o Arbitration/Litigation
- Loan Closure and customer communication

Quadrant 2: Product Risk

Empowered Fintech/BC Partner will offer loans to the customers as per the prescribed credit norms and the approving authority will be with HLF.

- Existing product/ customer
- New product/customer
- Existing geography
- New geography

Basis the market intelligence and data analytics, HLF and Fintech/BC Partner together would co-design/ co-build the Product and the Process which needs to be rolled out. This will also include the process of origination. The Management will approve the Fintech/BC Partner-Product- Process Note.

Quadrant 3: Underwriting Risk

Fintech/BC Partner's ability to turn around impacts the customer experience significantly. Inability to take a decision quickly impacts the brand, ability to attract premiums and loss of

customer and business. The success of Fintech/BC Product hence hinges on HLF's ability to turn around with a decision very quickly. There shall be a commitment on TAT by HLF.

Quadrant 4: Recon- Reports, Collections, Fldg

Finetch/BC Partner and HLF shall maintain the reports pertains to the contracts and reconciliation of the balances in respect of pos, interest shall be done on a monthly basis. The First loss default guarantee shall be effected basis the terms & conditions agreed between the parties.

Risks and Mitigants

All major risks are addressed either through structuring (FLDG by servicer), partner selection criteria clauses available in the Service Level agreement and other operational process.

Various risks and mitigants explained in detail below

A. Credit Risk and Servicer Risk

1. HLF is subjected to the credit risk of the underlying customer not being able to repay as per the schedule
2. Fintech/BC Partner fails to comply to the prescribed norms of HLF.
3. Fintech/BC Partner defaulting or becoming insolvent

Mitigants:

1. HLF relies on Fintech/BC Partner's ability to originate quality loans. HLF has assessed the ability of Fintech/BC Partner at servicer selection stage. HLF also evaluates the BC Partner for its ability to survive the loan tenor. The eligibility criteria require BC Partner to have certain net worth and other key criterion

Key Criteria for fintech partner selection

- Net worth > Rs. 25 Cr
- At least 1-year vintage

In order to further mitigate the risk, the following criteria to be followed

- Ticket size –Basis the product of the partner empaneled.
- Each individual partner will be assessed based on their market potential, market positioning, customer segmentation, type of product and geography, vintage etc.

- Tenor – Basis the product of the partner empaneled
- Ticket sizes and tenor would be aligned accordingly.

B. Data Confidentiality

The service provider will typically be a Platform/NBFC/have an NBFC arm. Hence, they abide strictly by NBFC norms/DLAI (for fintech platforms). Further there will be a specific representation provided by the originator as a part of the Service Level Agreement.

The Service Provider hereby represents and warrants to HLF that the Service Provider:

- has sufficient controls to ensure customer data confidentiality;

In a separate obligation section of the Service Provider, following clause is captured

- The Service Provider undertakes that it shall ensure that confidentiality of customer information shared by HLF during the course of availing the Service shall be maintained even after this agreement expires or gets terminated;

b. Indemnity

The indemnity clause is exhaustive and covers HLF adequately for the same.

C. Regulatory risk

Since the contract will be booked on HLFs books, KYC Compliance, adherence to outsourcing guidelines, reporting to bureaus, Grievance redressal will be as applicable.

The following sections explain that these aspects are already taken care of and hence regulatory risk is mitigated

a. KYC Compliance –

- Each customer offered Fintech/BC Product would be subjected to KYC compliance
- Technology infrastructure would enable storage of KYC documents online after thorough scrutiny independently by HLF system
- Fintech/BC Partner will be facilitating the KYC document collection
- KYC Compliance will be as per the regulatory norms issued by RBI.

a. Adherence to Outsourcing guidelines

Sourcing	Can be outsourced
Collections	Can be outsourced
Credit	Cannot be outsourced. HLF will be providing the approval on the customers originated at its discretion.
Sub-Contractors	SLA will specifically capture that any new sub-contractor appointed by Fintech/BC should need consent from HLF

All other regulatory requirements and statutory compliances wherever applicable will be adhered to.

b. Reporting to Bureau

Reporting to Bureau will be done by HLF (operational support will be provided by Market Place/Originator).

The control will be with HLF to ensure right data is being filed with the Credit Bureau

c. Grievance Redressal shall be covered in the Servicer Level Agreement.

S. No	DESCRIPTION	PARTICULARS
1	Transaction Structure	<ul style="list-style-type: none"> • HLF proposes to collaborate with Fintech/BC Partner in offering loans to identified borrowers via Fintech/BC Program. • Fintech/BC Partner proposes to offer Services to HLF via a Servicing Agreement. • Fintech/BC Partner proposes to offer Credit Enhancement to HLF, details of which are captured in the Business Correspondence Agreement
2	Eligibility Criteria for Loans Comprising the BC Product Agreement	<p>Loans shall be identified based on criteria specified below:</p> <ul style="list-style-type: none"> • Originated from [Approved Location Schedule] • [Product name: Fintech/BC Partner Product] • Maximum tenor of the loan • Minimum tenor of the loan

		<ul style="list-style-type: none"> • Maximum ticket size of the loan • Minimum ticket size of the loan • Any other Criteria as mutually decided by HLF and Partner.
3	Product Agreement: Services	<ul style="list-style-type: none"> • As captured in Role of Partner
4	Business Commitment (INR Cr)	<ul style="list-style-type: none"> • As assessed and approved by HLF
5	a. Agreement: Participation Ratio	HLF and BC Partner will lend to the underlying borrower in the ratio called Participation Ratio. Proceeds of the underlying loan shall be split between HLF and BC Partner in the Participation Ratio
6	Credit Enhancement	Partner agrees to provide HLF, Credit Enhancement (CE) guaranteeing the performance of the underlying loan(s) under this Product Agreement

Distribution:

HLF proposes to originate the partnership directly or through the evolving digital market place platforms. These Platforms will help/support HLF in managing the transaction that emanate from the Fintech/BC partner. It is envisaged that such market places would provide the tech support for real time MIS and analytics on portfolio quality and quantity. Such market places shall have a formal agreement to ensure data confidentiality and other regulatory compliances of HLF.