

CUSTOMER DUE-DILIGENCE IN BANK (Corporate Credit)



Presented by,

Abinash kr. Mandilwar
Chief Manager, Bank of India



CUSTOMER DUE DILIGENCE

CDD information comprises the facts about a customer that should enable a bank to assess the extent to which the customer exposes it to a range of risks.

- a) Identifying the customer on the basis of documents, data or information obtained from a reliable and independent source.
- b) Identifying, where applicable, the beneficial owner and taking risk-based and adequate measures to understand the ownership and control structure of the customer.
- c) Obtaining information on the purpose and intended nature of the business relationship and financing of a project.
- d) Conducting ongoing monitoring of the business relationship including ensuring that the transactions being conducted are consistent with the knowledge of the customer, the business and risk profile, including, where necessary, the source of funds and ensuring that documents, data or information held are kept up-to-date.

CUSTOMER ACCEPTANCE POLICY

“Banks should develop clear acceptance policies and procedures, including a description of the types of customer that are likely to pose a higher than average risk to a bank”. In preparing such policy, following factors should be included:

- ❖ Customers’ background;
- ❖ Public or high profile position;
- ❖ Linked accounts;
- ❖ Business activities;
- ❖ Other risk indicators.

OPENING A NEW ACCOUNT

These are the important points to consider and important documents for scrutiny for opening of a new accounts:

- KYC Documents (Check originals, verify online);
- PAN Card, Voters Card, Aadhaar Card, ITR, Driving License, Passport etc;
- Registrations of firms/company, GST Registration, Professional Tax;
- Fill Customer Profile Sheet;
- Thanks/Welcome Letter;
- Monitoring new account transactions;
- Reporting CTR/STR.

LOAN ACCOUNT DUE DILIGENCE

- ▶ **Personal visit to the Unit/ office/residence of the borrower/Guarantor;**
- ▶ **Due Diligence by outside agency;**
- ▶ **CIBIL/CERSAI/ROC Search;**
- ▶ **Input all KYC documents generating CIBIL /Experian/Equifax/Highmark reports;**
- ▶ **For response like “No Hit”, “Delinquency”, “Credit Default”, Low Trade History “borrower /guarantor’s credit history to be evaluated and analyzed in Pre- Sanction and Sanction Proposal - Remarks.**

LOAN ACCOUNT DUE DILIGENCE

- ▶ Status Report from banker/ Scrutiny of account statements;
- ▶ Status report on supplier/dealer in case of term loan;
- ▶ Account Number of the Builder / Dealer (vehicle /SRT0) to be confirmed;
- ▶ Besides status report verify statement of accounts, repayment pattern, personal visit to the existing banker etc.;
- ▶ As far as the disbursement of loan be effected through NEFT/RTGS;
- ▶ If Payment done through DD/PO -indicate on back of PO/DD borrowers details.

IMPORTANT POINTS TO REMEMBER

- ▶ Due Diligence - "Officer conducting property inspection to enquire the relation of the occupants with owner of the property."
- ▶ Valuation report should also include the same.
- ▶ Neighbours/ Society Secretary/ Treasurer/ Office Bearers - comments regarding owners/occupants maybe incorporated in the report.
- ▶ Certified copy of title deeds from Sub-Registrar should be obtained by independent source, and should be compared with original title deeds (page to page basis) Photograph of seller /buyer should be verified.

IMPORTANT POINTS TO REMEMBER

- *To compare sketch map of the plot with certified revenue map. Officers must do independent - Site Inspection (Unit/Office/Factory/Residence premises) and report must contain land mark of the property. Also four boundaries must match with advocate`s Title deed search report and Valuer report,*
- *A panel of senior advocates/Valuers should be maintained for high value advance accounts,*
- *Search report from the Advocate /Valuer must be obtained in the banks prescribed format only with certificate of Genuineness title deeds, title are free from all encumbrance, with valid title, can be mortgage and saleable. It should also accompany with list of documents to be obtained at the time of creation of mortgage,*
- *Branch must obtain chain of title deeds from the first sale deed or at least minimum for 30 year.*

IMPORTANT POINTS TO REMEMBER

- ❖ Demarcated boundaries in respect of vacant plot to be given in valuation report and verified by the inspecting officer. and if possible finance against open plot should be avoided.
- ❖ Original title deeds to be given to advocate by banks and not by borrowers directly.
- ❖ In case of missing of any chain of title deeds, guidelines for creating mortgage should be strictly followed.
- ❖ All search reports must be carried out on the basis of original title deeds and all relevant papers and after search original title deeds must remain in possession of branch.
- ❖ Valuer must certify that the valued property is on the land record of panchayat, Municipal Corporation, sub Registrar office etc. Besides he must comments upon the status of present occupants of the building e.g. self-occupied, vacate, tenant, relative etc.

INFORMATION ABOUT PROJECT

- ▶ Availability of sufficient Power Load (Electricity), Comments on Power consumption and the provision made by the borrower in case of Power Failures etc.
- ▶ Additional precautions to be taken (other than obtaining status report from the bankers) in respect of suppliers of machineries including manufacture co. web site visit in respect of expensive machineries.
- ▶ In all Big ticket Advances for limit Rs. 1 Crore and above Due diligence report of the Borrower/Guarantor must be obtain from Banks approved agencies like M/S Dun & Bradstreet, M/S Mira Inform, M/S Goldrush Capital Services (HOBC 111/88), D&B, SMERA from his banker etc.
- ▶ In case of imported machine branch must verify status of local supplier from exporter, ECGC, D&B, SMERA etc.
- ▶ In few cases it is observed that Borrower himself opens a new firm for import of the machinery. Therefore, proper due diligence of the Supplier be undertaken. Also ensure invoice of the machinery should not be inflated.

INFORMATION ABOUT PROJECT

- ❖ In addition to banker's status report on the suppliers, personal visit to supplier's unit be carried out by using our strong branch network in pan India to ascertain their existence, activities, reputation etc.
- ❖ While accepting margin money contribution by borrower, source of margin money to be verified. It should not be diverted from his any existing firm already having loan limit with our/other bank, and have made temporary arrangement form other sources for margin money.
- ❖ While accepting receipts of advance payment to suppliers, branch must verify the genuineness of the advance paid, it should not route back to/through other account with connivance of supplier/borrower.
- ❖ In case proponent unit/shop/factory/godown proposed to be open in rented premises, branch must verify the genuineness of the ownership of the lessor (by obtaining KYC Documents) and ask for registered Lease Agreement.

INFORMATION ABOUT PROJECT

- ❖ **Extra precaution must be taken care if the borrower's residence/unit/shop/factory/office are on rent.**
- ❖ **While disbursing loan on reimbursement basis, statement of bank account through which the payments were made be scrutinized.**
- ❖ **To know the genuineness of the financial statements of the proprietary concern or partnership firm. A Letter must be sent to Chartered Accountant who has audited the financials and /or given the certificate, seeking his confirmation about the genuineness of financial statements.**
- ❖ **Inspection of Unit/office/factory residence premises by staff officers must be done independently and report must contain land mark of the property, four boundaries must match with advocate's Title Deed search report and Valuer report. Inspecting Officer Must comments on the valuation of the property viz a viz value assessed by valuer. It should also contain comments upon the enquiry made with the officials of society (in case property pertains to a society).**

INFORMATION ABOUT PROJECT

- ❖ Status of Pvt Ltd Co to be ascertained from ROC (MCA portal) relating to address of Registered office, Present Directors, Shareholding and Charges against properties.
- ❖ Cross checking/ verification of companies' Balance Sheet with ROC to be ensured.
- ❖ In case of proprietorship firm, IT returns to be verified from IT website, independent market inquiry to be done especially to ascertain the period of existence of office/factory at given address.
- ❖ In case of company's guarantee/Mortgage of property proposed, it must be ensured that company's Memorandum and Articles of Association have clause permit company to do so.
- ❖ The letter forwarding pay order to the builder must clearly bring out the fact that in case of cancellation of allotment of flat, consideration paid be refunded to the bank and not to the borrower.

INFORMATION ABOUT PROJECT

- ❖ Branches to take “On Line” search of the assets/property to be mortgaged in CERSAI website (www.cersai.org.in) before processing any loan application;
- ❖ Branches to register Bank’s charge with CERSAI along with creation of Equitable Mortgage and before disbursement of loan;
- ❖ Overdependence on BC needs be avoided;
- ❖ Where ever State Government Land Record Available on State Government Web Site, download and verify the same compulsorily. This detail should be made as a part of the proposal;
- ❖ Branch to obtain land record without relying on the proponent/Borrower;
- ❖ To obtain Status report (RBI Format) from Bank’s/ Credit Society operating the area;
- ❖ Due Diligence to be obtained invariably for Retail /SME as per extant guidelines from approved panel agency.

POST SANCTION PRECAUTION TO BE OBSERVED

- ❖ Post Sanction inspection is to be undertaken to ensure end use of funds and creation of assets financed – As per Banks Format – Br Cir 99/135 Ref : CRMD 2005-06/06 dated 12-5-2006.
- ❖ Monitoring of transactions in the account must be taken care that transactions are genuinely pertaining to business for which Limits sanctioned/disbursed.
- ❖ Obtaining original Bill/Receipts
- ❖ Obtaining Insurance of Stocks /Plant and Machinery/Vehicle etc and having Bank's charge noted.
- ❖ All charges related to RTO/ROC/CERSAI/Mortgage/With Sub registrar office must be recorded as soon as possible.

POST SANCTION PRECAUTION TO BE OBSERVED

- ❖ At the time of enhancement of limit ensure to obtain fresh search of the property and should be inspected on each inspection of the unit and ensure to enquire about the ownership of the property from the occupants.
- ❖ Regular inspection of the unit, proper analysis of stock statement /MSOD/QIS be carried out and concurrent auditor should cover the same in his monthly audit report.
- ❖ In case of SRTO/Vehicle finance .Branch must ensure to get the vehicle Registration Certificate direct from dealer/customer and preserve it with post sanction inspection report. In case of doubt get it verified from the concern RTO.
- ❖ Chassis Number Imprint, noting engine from the vehicle and comparing the same with available Bill's /Invoice, Noting present Meter reading
- ❖ Stock auditor comments must cover the sales, status/purchase of stock its valuation, genuineness of Book Debts etc.
- ❖ Reason of delayed realisation of Book debts must be enquired and ensure no book debt limit should be provided against the sister concern sale and all book debts must pertain to the business carried out by the firm/company.

POST SANCTION PRECAUTION TO BE OBSERVED

- ❖ **During inspection purchase order, sale voucher/bills, transport receipt must be verified to check the genuineness of book debts;**
- ❖ **Branch should verify from the Warehouse authority about the genuineness of WH receipts issued;**
- ❖ **Periodical inspection of the ware House must be carried out and assets must be verified/matched as per WHR;**
- ❖ **Capacity of the Ware House must be ascertain before mass financing to the farmers;**
- ❖ **Once in a year panel of advocate/Valuer/ Architect/ Company secretary/ gold smith/ outsourcing agencies/vendors/supplier/ printers etc. must be reviewed by zonal office and opinion of other bankers.**

POST SANCTION PRECAUTION TO BE OBSERVED

- ❖ As far as possible KCC disbursement to be made directly to Suppliers of Fertilizer/ Pesticide etc.
- ❖ To obtain Latest Land record on the date of disbursement;
- ❖ To obtain land record periodically at least during Review /Renewal of account;
- ❖ Loan against TDR (Board Directions – 05-09-2014);
- ❖ While granting Loan against TDR Original Term Deposit Receipt printed on security paper duly discharged by the depositors be obtained;
- ❖ Ensure that the security documents for credit facility should be signed by authorised person/s in the presence of branch official;
- ❖ In case documents are being signed on behalf of Club, Society, Company, Trust, Institution, signatories must be authorised by resolution passed by the competent body as prescribed in the laws by laws of the Institute or in the Memorandum and Article of Association.

THANK YOU



Presented by Abinash Kr. Mandilwar, Chief Manager, Kolkata Zone