

Policy On “Know Your Customer” (KVC) / Anti Money Laundering (AML) Policy

(Version 1.5)

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1. INTRODUCTION

TVS Credit Services Ltd (TVSCS, hereinafter referred to as Company) has ensured that a proper policy framework on KYC and AML measures is formulated in line with the RBI directions and has been duly approved by the Risk Management Committee. This policy was first adopted by the Board of Directors of the company in the meeting held on 21st April 2010. The policy is subjected to amendment in line with the RBI directions issued from time to time. The policy shall be subjected to be reviewed on an annual basis or as and when required.

2. OBJECTIVES

The KYC policy of the Company has been framed taking into account the following objectives;

- a. To put in place an effective system and procedure for Customer identification and verifying its / his / her identity and residential address.
- b. To prevent the Company from being used, intentionally or unintentionally, by criminal elements for Money Laundering or Terrorist Financing activities.
- c. To enable the Company to know/understand its customers and their financial dealings better, this in turn is expected to help manage the associated risks prudently.
- d. To put in place appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws/laid down procedures.

3. APPLICABILITY

This KYC policy is applicable to all Retail, Commercial & Rural products of TVSCS.

4. DEFINITIONS

- 1) **“Digital KYC”** means the capturing live photo of the customer and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the RE as per the provisions contained in the Act. The operational guidelines have been given in Annex 1
- 2) **“Digital Signature”** shall have the same meaning as assigned to it in clause (p) of subsection (1) of section (2) of the Information Technology Act, 2000 (21 of 2000).

3) **“Equivalent e-document”** means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature including documents issued to the digital locker account of the customer as per rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.

4) **“Officially Valid Document” (OVD)** means;

- i. Passport
- ii. Driving license
- iii. Proof of possession of Aadhaar number.
Where the customer submits his proof of possession of Aadhaar number as an OVD, he may submit it in such form as are issued by the Unique Identification Authority of India.
- iv. Voter's Identity Card issued by the Election Commission of India
- v. Job card issued by NREGA duly signed by an officer of the State Government
- vi. Letter issued by the National Population Register containing details of name and address.

5) **“Offline verification”** shall have the same meaning as assigned to it in clause (pa) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 (18 of 2016).

6) **“Aadhaar number”** shall have the meaning assigned to it in clause (a) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 (18 of 2016).

7) **Beneficial Owner (BO)”**

- i) Where the customer is a **company**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical persons, has/have a controlling ownership interest or who exercise control through other means.

Explanation- For the purpose of this sub-clause-

“Controlling ownership interest” means ownership of/entitlement to more than **25 per cent** of the shares or capital or profits of the company.

“Control” shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

- ii) Where the customer is a **partnership firm**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical

person, has/have ownership of/entitlement to more than 15 per cent of capital or profits of the partnership.

- iii) Where the customer is an **unincorporated association or body of individuals**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 15 per cent of the property or capital or profits of the unincorporated association or body of individuals.

Explanation: Term 'body of individuals' includes societies. Where no natural person is identified under (a), (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official.

- iv) Where the customer is a **trust**, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

- 8) **"Certified Copy"** - Obtaining a certified copy by the Company shall mean comparing the copy of the proof of possession of Aadhaar number where offline verification cannot be carried out or officially valid document so produced by the customer with the original and recording the same on the copy by the authorised officer of the Company as per the provisions contained in the Act.

Provided that in case of Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs), as defined in Foreign Exchange Management (Deposit) Regulations, 2016 {FEMA 5(R)}, alternatively, the original certified copy, certified by any one of the following, may be obtained:

- i. authorised officials of overseas branches of Scheduled Commercial Banks registered in India,
- ii. branches of overseas banks with whom Indian banks have relationships,
 - i. Notary Public abroad,
 - ii. Court Magistrate,
- iii. Judge,
- iv. Indian Embassy/Consulate General in the country where the non-resident customer resides.

- 9) **"Politically Exposed Persons" (PEPs)** are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States/Governments, senior

politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc.

- 10) **“Central KYC Records Registry” (CKYCR)** means an entity defined under Rule 2(1) of the Rules, to receive, store, safeguard and retrieve the KYC records in digital form of a customer.
- 11) **“Act” and “Rules”** means the Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, respectively and amendments thereto
- 12) **Know Your Client (KYC) Identifier”** means the unique number or code assigned to a customer by the Central KYC Records Registry.
- 13) **“Designated Director”** means a person designated by the RE to ensure overall compliance with the obligations imposed under chapter IV of the PML Act and the Rules and shall include:
 - a. the Managing Director or a whole-time Director, duly authorized by the Board of Directors, if the RE is a company,
 - b. the Managing Partner, if the RE is a partnership firm,
 - c. the Proprietor, if the RE is a proprietorship concern,
 - d. the Managing Trustee, if the RE is a trust,
 - e. a person or individual, as the case may be, who controls and manages the affairs of the RE, if the RE is an unincorporated association or a body of individuals, and
 - f. a person who holds the position of senior management or equivalent designated as a 'Designated Director' in respect of Cooperative Banks and Regional Rural Banks.

Explanation - For the purpose of this clause, the terms "Managing Director" and "Whole-time Director" shall have the meaning assigned to them in the Companies Act, 2013.
- 14) **“Principal Officer”** means an officer nominated by the RE, responsible for furnishing information as per rule 8 of the Rules.
- 15) **“Suspicious transaction”** means a “transaction” as defined below, including an attempted transaction, whether or not made in cash, which, to a person acting in good faith:
 - a. gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
 - b. appears to be made in circumstances of unusual or unjustified complexity; or
 - c. appears to not have economic rationale or bona-fide purpose; or
 - d. gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

Explanation: Transaction involving financing of the activities relating to terrorism includes transaction involving funds suspected to be linked or related to, or to be used for terrorism, terrorist acts or by a terrorist, terrorist organization or those who finance or are attempting to finance terrorism.

- 16) **“Transaction”** means a purchase, sale, loan, pledge, gift, transfer, delivery or the arrangement thereof and includes:
- a. opening of an account;
 - b. deposit, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non-physical means;
 - c. the use of a safety deposit box or any other form of safe deposit;
 - d. entering into any fiduciary relationship;
 - e. any payment made or received, in whole or in part, for any contractual or other legal obligation;
or
 - f. establishing or creating a legal person or legal arrangement
- 17) **“Video based Customer Identification Process (V-CIP)”**: a method of customer identification by an official of the RE by undertaking seamless, secure, real-time, consent based audio-visual interaction with the customer to obtain identification information including the documents required for CDD purpose, and to ascertain the veracity of the information furnished by the customer. Such process shall be treated as face-to-face process for the purpose of this Master Direction. The operational guidelines have been given in Annex 1
- 18) **“Common Reporting Standards” (CRS)** means reporting standards set for implementation of multilateral agreement signed to automatically exchange information based on Article 6 of the Convention on Mutual Administrative Assistance in Tax Matters.
- 19) **“Customer”** means a person who is engaged in a financial transaction or activity with a Regulated Entity (RE) and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.
- 20) **“Walk-in Customer”** means a person who does not have an account-based relationship with the RE, but undertakes transactions with the RE.
- 21) **“Customer Due Diligence (CDD)”** means identifying and verifying the customer and the beneficial owner.
- 22) **“Customer identification”** means undertaking the process of CDD.
- 23) **“KYC Templates”** means templates prepared to facilitate collating and reporting the KYC data to the CKYCR, for individuals and legal entities.

- 24) **“Non-face-to-face customers”** means customers who open accounts without visiting the branch/offices of the REs or meeting the officials of REs.
- 25) **“On-going Due Diligence”** means regular monitoring of transactions in accounts to ensure that they are consistent with the customers’ profile and source of funds.
- 26) **“Periodic Updation”** means steps taken to ensure that documents, data or information collected under the CDD process is kept up-to-date and relevant by undertaking reviews of existing records at periodicity prescribed by the Reserve Bank.

27) **“Regulated Entities” (REs)** means

all Scheduled Commercial Banks (SCBs)/ Regional Rural Banks (RRBs)/ Local Area Banks (LABs)/ All Primary (Urban) Co-operative Banks (UCBs) /State and Central Co-operative Banks (StCBs / CCBs) and any other entity which has been licenced under Section 22 of Banking Regulation Act, 1949, which as a group shall be referred as ‘banks’

All India Financial Institutions (AIFIs)

All Non-Banking Finance Companies (NBFCs), Miscellaneous Non-Banking Companies (MNBCs) and Residuary Non-Banking Companies (RNBCs).

All Payment System Providers (PSPs)/ System Participants (SPs) and Prepaid Payment Instrument Issuers (PPI Issuers)

All authorised persons (APs) including those who are agents of Money Transfer Service Scheme (MTSS), regulated by the Regulator.

Note: Other terms not specifically defined herein shall have the meaning as assigned to them under the RBI KYC Master Directions and the Prevention of Money Laundering Act/Rules.

5. DESIGNATED DIRECTOR

The Board of the Company has appointed the Chief Executive Officer, as the Designated Director, to ensure overall compliance with the obligations under Prevention of Money laundering Act and Rules framed thereunder, from time to time. The name, designation and address of the Designated Director have been communicated to the FIU-IND. In no case, the Principal Officer shall be nominated as the 'Designated Director'.

6. PRINCIPAL OFFICER

The Company has appointed the Chief Financial Officer as the Principal Officer. The Principal Officer shall be responsible for ensuring compliance, monitoring transactions, sharing and reporting information as required under the Prevention of Money Laundering Act and Rules. The name, designation and address of the Principal Officer has been communicated to the FIU-IND.

All suspicious transactions shall be reported immediately to the Principal Officer of the company for reporting to FIU- IND.

7. COMPLIANCE OF KYC POLICY

The company has constituted Senior Management for the purpose of the KYC compliance in line with the KYC policy. The Internal Audit team shall on a continuous basis conduct an independent evaluation of adherence to KYC compliance requirements and submits quarterly audit notes on compliance to Audit committee. A Concurrent audit system shall be put in place to verify the compliance with KYC/AML policies and procedures.

The Company ensures that decision-making functions of determining compliance with KYC norms are not outsourced.

8. KEY ELEMENTS OF THE POLICY

The policy includes the following key elements:

- i. Customer Acceptance Policy (CAP)
- ii. Customer Identification Procedures (CIP)
- iii. Monitoring of Transactions
- iv. Risk Management

8.1. CUSTOMER ACCEPTANCE POLICY (CAP)

The Company's CAP lays down criteria for acceptance of customers. While taking decision to grant any loan facilities to the customers as well as during the continuation of any loan facilities the following norms and procedures shall be followed by the company.

- a. No account is opened in anonymous or fictitious/benami name.
- b. No account is opened where the Company is unable to apply appropriate Customer Due Diligence measures (CDD), either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
- c. No transaction or account-based relationship is undertaken without following the CDD procedure as set out in **Para 8.2** of this policy.
- d. The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation is obtained as explained in **Paras 8.2 and 13** respectively of this policy.
- e. 'Optional'/additional information shall be obtained with the explicit consent of the customer after the account is opened.
- f. A Unique Customer Identification Code (UCIC) shall be allotted while entering into new relationships with individual customers as also the existing customers by the Company. The Company shall apply the CDD procedure at the UCIC level. Thus, if an existing KYC compliant

customer of the Company desires to open another account, there shall be no need for a fresh CDD exercise.

- g. CDD Procedure is followed for borrowers, co borrowers and beneficial owners.
- h. The identity of the customer does not match with any person or entity, whose name appears in the sanctions lists or caution advices circulated by Reserve Bank of India.
- i. Where Permanent Account Number (PAN) is obtained, the same shall be verified from the verification facility of the issuing authority.
- j. In the event, the customer is permitted to act on behalf of another person/entity, the Company shall verify that the customer has the necessary authority to do so by scrutinizing the authorizing document/s.

Where an equivalent e-document is obtained from the customer, the company shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000)

Implementation of the Company's CAP should not become too restrictive and result in denial of the Company's services to general public, especially those who are financially or socially disadvantaged.

8.2. CUSTOMER IDENTIFICATION PROCEDURES (CIP)

The Company prepares a profile for each new customer during the credit appraisal based on risk categorization as mentioned in this policy. The customer profile contains the information relating to the customer's identity, social/financial status, nature of business activity, information about his clients' business and their location, etc. The nature and extent of due diligence depends on the risk perceived by the Company. At the time of credit appraisal of the applicant the details are recorded along with his profile based on meeting with the applicant (by the Company's representative) apart from collection of applicable document, this is as per the Credit/ products norms as may be in practice. However, while preparing customer profile, the Company seeks only such information from the customer which is relevant to the risk category and is not intrusive. Any other information from the customer should be sought separately with his/her consent and after opening the account. The customer profile will be a confidential document and details contained therein are not divulged for cross selling or for any other purposes. Further the Company shall allot Unique Customer Identification Number to each of its Customer.

The Company will undertake identification of customers in the following cases:

- a. Commencement of an account-based relationship with the customer.
- b. When there is a doubt about the authenticity or adequacy of the customer identification data it has obtained.

- c. When a Company has reason to believe that a customer (account- based or walk-in) is intentionally structuring a transaction into a series of transactions below the threshold of rupees fifty thousand.
- d. The company will not seek introduction while opening accounts.

8.2.1. CUSTOMER DUE DILIGENCE PROCEDURE (CDD) IN CASE OF INDIVIDUALS

For undertaking CDD, the Company shall obtain the following from an individual while establishing an account-based relationship or while dealing with the individual who is a beneficial owner, authorised signatory or the power of attorney holder related to any legal entity:

- a. the proof of possession of Aadhaar number where offline verification can be carried out;
- b. the proof of possession of Aadhaar where offline verification cannot be carried out or any other OVD or the equivalent e-document thereof containing the details of his identity and address; and
- c. the Permanent Account Number or the equivalent e-document thereof or Form No. 60 as defined in Income-tax Rules, 1962; and
- d. such other documents including in respect of the nature of business and financial status of the customer, or the equivalent e-documents thereof as instructed by the Company from time to time:

Where the customer has submitted,

- i. The proof of possession of Aadhaar under clause (a) above where offline verification can be carried out, the Company shall carry out offline verification.
- ii. An equivalent e-document of any OVD, the Company shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000) and any rules issues thereunder and take a live photo as specified under **Annex 1**.
- iii. any OVD or proof of possession of Aadhaar number under clause (b) above where offline verification cannot be carried out, the company shall carry out verification through digital KYC as specified under Annex I. Where Permanent Account Number (PAN) is obtained, the same shall be verified from the verification facility of the issuing authority.

The Company shall, apart from obtaining the Aadhaar number, perform identification preferably by carrying out offline verification or alternatively by obtaining the certified copy of any other OVD or the equivalent e-document thereof from the customer.

Explanation 1: The Company shall, where its customer submits a proof of possession of Aadhaar Number containing Aadhaar Number, ensure that such customer redacts or blacks out his Aadhaar number through appropriate means.

Explanation 2: The use of Aadhaar, proof of possession of Aadhaar etc., shall be in accordance with the Aadhaar (Targeted Delivery of Financial and Other Subsidies Benefits and Services) Act, 2016 and the regulations made thereunder.

Where the OVD furnished by the customer does not have updated address, the following documents or the equivalent e-documents thereof shall be deemed to be OVDs for the limited purpose of proof of address:-

- i. Utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
- ii. Property or Municipal tax receipt;
- iii. Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- iv. Letter of allotment of accommodation from employer issued by State Government or Central Government Departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and licence agreements with such employers allotting official accommodation;

Where the customer submits the above listed documents as proof of address the Company shall ensure to collect the OVD (as specified in **Para 4.d** of the policy) with current address within a period of three months of submitting the above said documents.

Explanation 3: For the purpose of this clause, a document shall be deemed to be an OVD even if there is a change in the name subsequent to its issuance provided it is supported by a marriage certificate issued by the State Government or Gazette notification, indicating such a change of name.

Explanation 4: In case of existing customers where the Permanent Account Number or equivalent e-document thereof or Form No.60 is not available, the Company shall temporarily cease operations in the account till the time the Permanent Account Number or equivalent e-documents thereof or Form No. 60 is submitted by the customer. Before temporarily ceasing operations for an account, the Company shall give the customer an accessible notice and a reasonable opportunity to be heard. Appropriate relaxations may be granted, on case to case basis, for continued operation of accounts for customers who are unable to provide Permanent Account

Number or Form No. 60 owing to injury, illness or infirmity on account of old age or otherwise, and such like causes. For the purpose of ceasing the operation in the account (loan), only credits shall be allowed.

8.2.2. CDD MEASURES FOR SOLE PROPRIETARY FIRMS

For opening an account in the name of a sole proprietary firm, CDD of the individual (proprietor) shall be carried as explained under **Para 8.2.1** of this policy.

In addition to the above, **any two** of the following documents or the equivalent e-documents there of as a proof of business/ activity in the name of the proprietary firm shall also be obtained:

- a. Registration certificate
- b. Certificate/licence issued by the municipal authorities under Shop and Establishment Act.
- c. Sales and income tax returns.
- d. CST/VAT/ GST certificate (provisional/final).
- e. Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities.
- f. IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT or Licence/certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute.
- g. Complete Income Tax Return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/acknowledged by the Income Tax authorities.
- h. Utility bills such as electricity, water, landline telephone bills, etc.

8.2.3. CDD MEASURES FOR COMPANY

For opening an account of a company, certified copies of each of the following documents or the equivalent e-documents thereof shall be obtained:

- a. Certificate of incorporation
- b. Memorandum and Articles of Association
- c. Permanent Account Number of the company
- d. A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf
- e. CDD of the individual who is a beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on the company's behalf shall be carried as explained under **Para 8.2.1** of this policy.

8.2.4. CDD MEASURES FOR PARTNERSHIP FIRM

For opening an account of a partnership firm, the certified copies of each of the following documents or the equivalent e-documents thereof shall be obtained:

- a. Registration certificate
- b. Partnership deed
- c. Permanent Account Number of the partnership firm
- d. CDD of the individual who is a beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf shall be carried as explained under **Para 8.2.1** of this policy.

8.2.5. CDD MEASURES FOR TRUST

For opening an account of a trust, certified copies of each of the following documents or the equivalent e-documents thereof shall be obtained:

- a. Registration certificate
- b. Trust deed
- c. Permanent Account Number or Form No.60 of the trust
- d. CDD of the individual who is a beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf shall be carried as explained under **Para 8.2.1** of this policy.

8.2.6. CDD MEASURES FOR AN UNINCORPORATED ASSOCIATION OR A BODY OF INDIVIDUALS

For opening an account of an unincorporated association or a body of individuals, certified copies of each of the following documents or the equivalent e-documents thereof shall be obtained:

- a. Resolution of the managing body of such association or body of individuals
- b. Permanent Account Number or Form No. 60 of the unincorporated association or a body of individuals
- c. Power of attorney granted to transact on its behalf
- d. CDD of the individual who is a beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf shall be carried as explained under **Para 8.2.1** of this policy.
- e. Such information as may be required by the Company to collectively establish the legal existence of such an association or body of individuals.

Explanation 1: Unregistered trusts/partnership firms shall be included under the term 'unincorporated association'.

Explanation 2: Term 'body of individuals' includes societies.

8.2.7. CDD MEASURES FOR JUDICIAL PERSONS NOT SPECIFICALLY COVERED IN THE EARLIER PART

For opening accounts of juridical persons not specifically covered in the earlier part, such as societies, universities and local bodies like village panchayats, certified copies of the following documents or the equivalent e-documents thereof shall be obtained:

- a. Document showing name of the person authorised to act on behalf of the entity;
- b. CDD of the individual holding an attorney to transact on its behalf shall be carried as explained under **Para 8.2.1** of this policy and
- c. Such documents as may be required by the company to establish the legal existence of such an entity/juridical person.

Identification of Beneficial Person:

For opening an account of a Legal entity as specified in **Para 8.2.3 to 8.2.7** who is not a natural person, all reasonable measures in terms of sub-rule (3) of Rule 9 of PML (Maintenance Of Records) Rules 2005 shall be undertaken to identify the "beneficial owner" keeping in view of the following :

- i) Where the customer or the owner of the controlling interest is a company listed on a stock exchange, or is a subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.
- ii) In cases of trust/nominee or fiduciary accounts whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary is determined. In such cases, satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also details of the nature of the trust or other arrangements in place shall be obtained.

The Company shall ensure that they do not have any account in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are

periodically circulated by the United Nations Security Council (UNSC). Details of accounts resembling any of the individuals/entities (confirmed with reasonable suspicion) in the lists shall be reported to FIU-IND apart from advising Ministry of Home Affairs as required under Unlawful Activities (Prevention) (UAPA) Act, 1967.

9. RISK MANAGEMENT

The Company shall have a risk based approach which includes the following.

- a. Customers shall be categorised as low, medium and high risk category, based on the assessment, risk perception and previous portfolio behaviour of similar customer personal..
- b. Risk categorisation shall be undertaken based on parameters such as customer's identity, social/financial status, nature of business activity, and information about the clients' business and their location etc. While considering customer's identity, the ability to confirm identity documents through online or other services offered by issuing authorities may also be factored in.

The authorised persons carrying out due diligence and collecting various information based on the perceived risk of the customer shall ensure that the process is non-intrusive.

Explanation: FATF Public Statement, the reports and guidance notes on KYC/AML issued by the Indian Banks Association (IBA), guidance note circulated to all cooperative banks by the RBI etc., may also be used in risk assessment.

10. RISK CATEGORISATION

As per KYC policy, for acceptance and identification, The company categorises its customers based on perceived risk broadly into three categories – A, B & C. Category A includes high risk customers, Category B contain medium risk customers while Category C customers include low risk. The above requirement may be moderated according to the risk perception.

(i) **High Risk – (Category A):** High risk customers typically includes:

- a) Non – resident Customers
- b) High net worth individuals without an occupation track record of more than 3 years
- c) Trust, charitable organizations, non govt. organization (NGO), organizations receiving donations,
- d) Companies having close family shareholding or beneficial ownership.
- e) Firms with sleeping partners
- f) Politically exposed persons (PEPs) of Indian/ foreign origin
- g) Non face to face customers
- h) Person with dubious reputation as per public information available.

(ii) **Medium Risk – (Category B):** Medium risk customers will include:

- a) Salaried applicant with variable income/ unstructured income receiving Salary in cheque
- b) Salaried applicant working with Private Limited Companies,
- c) Self employed professionals other than HNIs
- d) Self employed customers with sound business and profitable track record for a reasonable period, and
- e) High net worth individuals with occupation track record of more than 3 years

(iii) **Low Risk – (Category C):** Low risk individuals (other than high net worth) and entities whose identities and sources of wealth can be easily identified and all other person not covered under above two categories. Customer carrying low risk may include the following:

- a) Salaried employees with well defined salary structures
- b) People working with government owned companies, regulators and statutory bodies, etc.
- c) People belonging to lower economic strata of the society whose accounts show small balances and low turnover
- d) People working with Public Sector Units) People working with reputed Public Limited Companies and Multinational Companies In the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, the Company obtains senior management approval in such cases to continue the business relationship with such person, and also undertake enhanced monitoring .

Note :

The Company periodically updates Customer Identification data after the transaction is entered. The periodicity of updation of Customer Identification data shall be once in ten years for low risk category customers, at least every eight years for medium risk customers and at least two years in case of high risk category customers.

Fresh photographs shall be obtained in case of minor customer on becoming major

11. CUSTOMER DUE DILIGENCE BY THIRD PARTY

The Company may engage a third party to do Customer Due Diligence and verifying the identity of customers at the time of commencement of an account-based relationship, subject to the following conditions:

- a. Records or the information of the customer due diligence carried out by the third party is obtained within two days from the third party or from the Central KYC Records Registry.

- b. Adequate steps are taken by the Company to satisfy that copies of identification data and other relevant documentation relating to the customer due diligence requirements are made available from the third party upon request without delay.
- c. The third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the PML Act.
- d. The third party shall not be based in a country or jurisdiction assessed as high risk.
- e. The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the Company.

12. MONEY LAUNDERING AND TERRORIST FINANCING RISK ASSESSMENT

- a. The Company shall carry out 'Money Laundering (ML) and Terrorist Financing (TF) Risk Assessment' exercise periodically to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc.
- b. The assessment process shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. While preparing the internal risk assessment, the Company shall take cognizance of the overall sector-specific vulnerabilities, if any, that the regulator/supervisor may share from time to time.
- c. The risk assessment by the Company shall be properly documented and be proportionate to the nature, size, geographical presence, complexity of activities/structure, etc. of the Company.
- d. The outcome of the exercise shall be put up to the Risk Management Committee on a quarterly basis and will be available to competent authorities and self-regulating bodies.
- e. The Company shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have Board approved policies, controls and procedures in this regard. Further, the Company shall monitor the implementation of the controls and enhance them if necessary.

13. ONGOING DUE DILIGENCE/MONITORING OF TRANSACTIONS

The Company shall undertake on going due diligence of customers to ensure that their transactions are consistent with their knowledge about the customers, customers' business and risk profile; and source of funds.

Without prejudice to the generality of factors that call for close monitoring following types of transactions shall necessarily be monitored:

- a. Large and complex transactions including RTGS transactions, and those with unusual patterns, inconsistent with the normal and expected activity of the customer, which have no apparent economic rationale or legitimate purpose.
- b. Transactions which exceed the thresholds prescribed for specific categories of accounts.

The extent of monitoring shall be aligned with the risk category of the customer. High risk accounts have to be subjected to more intensified monitoring. A system of periodic review of risk categorisation of accounts, with such periodicity being at least once in six months, and the need for applying enhanced due diligence measures shall be put in place. The transactions in accounts of marketing firms, especially accounts of Multi-level Marketing (MLM) Companies shall be closely monitored.

14. PERIODIC UPDATION

Periodic updation shall be carried out at least once in every two years for high risk customers, once in every eight years for medium risk customers and once in every ten years for low risk customers.

(a) The Company shall carry out

- i. CDD, as specified in para 8.2., at the time of periodic updation. However, in case of low risk customers when there is no change in status with respect to their identities and addresses, a self-certification to that effect shall be obtained.
- ii. In case of Legal entities, the company shall review the documents sought at the time of opening of account and obtain fresh certified copies. Provided, the Company shall ensure that KYC documents, as per extant requirements of the Master Direction, are available with them.

(b) The company shall not insist on the physical presence of the customer for the purpose of furnishing OVD or furnishing consent for Aadhaar Offline Verification unless there are sufficient reasons that physical presence of the account holder/holders is required to establish their bona-fides. Normally, OVD/Consent forwarded by the customer through mail/post, etc., shall be acceptable.

(c) The Company shall ensure to provide acknowledgment with date of having performed KYC updation.

(d) The time limits prescribed above would apply from the date of opening of the account/ last verification of KYC.

KYC verification once done by one office of the company, shall be valid for transfer of the account to any other branch/office of the same company, provided full KYC verification has already been done for the concerned account and the same is not due for periodic updation.

15. ENHANCED DUE DILIGENCE

15.1. Accounts of Non-Face-To-Face Customers: The Company shall ensure that the first payment is to be effected through the customer's KYC-complied account with another Regulated Entity, for enhanced due diligence of non-face-to-face customers.

15.2. Accounts of Politically Exposed Persons (PEPS):

The Company shall have the option of establishing a relationship with PEPs provided that:

- a. sufficient information including information about the sources of funds accounts of family members and close relatives is gathered on the PEP;
- b. the identity of the person shall have been verified before accepting the PEP as a customer;
- c. the decision to open an account for a PEP is taken at a senior level in accordance with the REs' Customer Acceptance Policy;
- d. all such accounts are subjected to enhanced monitoring on an on-going basis;
- e. in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, senior management's approval is obtained to continue the business relationship;
- f. the CDD measures as applicable to PEPs including enhanced monitoring on an on-going basis are applicable.

These instructions shall also be applicable to accounts where a PEP is the beneficial owner

15.3. Client Accounts Opened By Professional Intermediaries:

The Company shall ensure while opening client accounts through professional intermediaries, that:

- a. Clients shall be identified when client account is opened by a professional intermediary on behalf of a single client.
- b. The Company shall not open accounts of such professional intermediaries who are bound by any client
- c. The Company shall, at their discretion, rely on the 'customer due diligence' (CDD) done by an intermediary, provided that the intermediary is a regulated and supervised entity and has adequate systems in place to comply with the KYC requirements of the customers.
- d. The ultimate responsibility for knowing the customer lies with the Company.

16. MAINTENANCE OF RECORDS OF TRANSACTIONS

The Company shall maintain proper records of the transactions as required under the provisions of PML Act and Rules. The Company shall;

- a. Maintain all necessary records of transactions between the Company and the customer, for at least five years from the date of transaction or any other higher periods specified in any other law
- b. Preserve the records pertaining to the identification of the customers and their addresses obtained while opening the account and during the course of business relationship, for at least five years after the business relationship is ended.
- c. make available the identification records and transaction data to the competent authorities upon request;
- d. Introduce a system of maintaining proper record of transactions prescribed under Rule 3 of Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PML Rules, 2005)
- e. Maintain all necessary information in respect of transactions prescribed under PML Rule 3 so as to permit reconstruction of individual transaction, including the following:
 - (i) the nature of the transactions;
 - (ii) the amount of the transaction and the currency in which it was denominated;
 - (iii) the date on which the transaction was conducted; and
 - (iv) the parties to the transaction.
- f. Have a system for proper maintenance and preservation of information in a manner (in hard and/or soft copies) that allows data to be retrieved easily and quickly whenever required or as/ when requested by the competent authorities.
- g. maintain records of the identity and address of their customer, and records in respect of transactions referred to in Rule 3 in hard or soft format.
- h. The company has framed a document retention policy in order to ensure that the above requirements are adhered.

17. REPORTING REQUIREMENTS TO FINANCIAL INTELLIGENCE UNIT - INDIA (FIU-IND)

The Company shall furnish the following reports to the Financial Intelligence Unit-India (FIU-IND), with regard to information referred to in Rule 3 of the PML (Maintenance of Records) Rules, 2005 in terms of Rule 7 thereof, in the manner so specified and within the timelines prescribed therein;

- a. Cash Transactions Report (CTR)
- b. Suspicious Transactions Report (STR)

The company is registered with FIU-IND with a registration number of FINBF12885 .The company submits Cash transaction report (CTR) monthly and Suspicious Transaction Report (STR) on identification of such transaction with FIU-IND.

The company has implemented a system not to accept any cash of more than Rs. 2 lakhs from its borrowers. Hence, it normally does not and would not have large cash transactions. However, if and when cash transactions of Rs.10 lakhs and above are undertaken, the company will keep proper record of all such cash transactions in a separate register maintained at its office.

The company monitors transactions of a suspicious nature on an ongoing basis for the purpose of reporting it to the appropriate authorities. The extent of monitoring by the Company depends on the risk sensitivity of the account and special attention is given to all complex unusually large transactions, which have no apparent economic or lawful purpose.

The company shall promptly report such high value cash transactions or transactions of a suspicious nature to the appropriate regulatory and investigating authorities.The company has the system of throwing alerts on inconsistent transactions and profile of the customers is updated for effective identification and reporting of suspicious transactions.

18. CONFIDENTIALITY OF INFORMATION

Information collected from customers for the purpose of opening of account shall be treated as confidential and in accordance with the agreement/terms and conditions signed by the customers. The information collected from customers shall not be divulged for the purpose of cross selling, or for any other purpose without the express permission of the customer. While considering the requests for data/information from Government and other agencies, banks shall satisfy themselves that the information being sought is not of such a nature as will violate the provisions of the laws relating to secrecy in the banking transactions..

The exceptions to the said rule shall be as under:

- a. Where disclosure is under compulsion of law
- b. Where there is a duty to the public to disclose,
- c. the interest of bank requires disclosure and
- d. Where the disclosure is made with the express or implied consent of the customer.

19. CENTRAL KYC RECORDS REGISTRY (CKYCR)

The Company shall capture the KYC information for sharing with the CKYCR in the manner as specified for individuals and legal entities. As per the directions NBFCs shall upload the KYC data pertaining to all new individual accounts opened on or after from April 1, 2017 with CERSAI in terms of the provisions of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.

20. REPORTING REQUIREMENT UNDER FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARDS (CRS)

The Taxation Dept of the Company shall ensure adherence to the provisions of Income Tax Rules 114F, 114G and 114H and comply with the reporting requirements as prescribed under the FATCA and CRS norms, including, developing of Information Technology (IT) framework for carrying out due diligence procedure and developing a system of audit for the IT framework and compliance with Rules 114F, 114G and 114H of Income Tax Rules.

A “High Level Monitoring Committee” under the Designated Director or any other equivalent functionary shall be constituted to ensure compliance.

21. REQUIREMENTS / OBLIGATIONS UNDER INTERNATIONAL AGREEMENTS / COMMUNICATIONS FROM INTERNAL AGENCIES

a) The company ensures that in terms of Section 51A of the Unlawful Activities (Prevention) (UAPA) Act, 1967 and amendments thereto, it does not have any account in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC)..

b) Details of accounts resembling any of the individuals/entities in the lists shall be reported to FIU-IND apart from advising Ministry of Home Affairs as required under UAPA notification dated March 14, 2019.

c) In addition to the above, other UNSCRs circulated by the Reserve Bank in respect of any other jurisdictions/ entities from time to time shall also be taken note of.

Adequate attention shall be paid by the Company to any money-laundering and financing of terrorism threats that may arise from new or developing technologies and it shall be ensured that appropriate KYC procedures issued from time to time are duly applied before introducing new products/services/technologies.

22. HIRING OF EMPLOYEES AND EMPLOYEE TRAINING

The Company shall have adequate screening mechanism as an integral part of personnel recruitment / hiring process and also should have an ongoing employee training programs so that members of the staff are adequately trained in KYC/AML/CFT procedures. Training requirements shall have different focuses for front line staff, compliance staff and officer/staff dealing with new customers so that all concerned fully understand the rationale behind the KYC policies and implement them consistently.

Annex 1

Digital KYC Process

- A. The Company shall develop an application for digital KYC process which shall be made available at customer touch points for undertaking KYC of customers and the KYC process shall be undertaken only through this authenticated application of the Company.
- B. The access of the Application shall be controlled by the Company and it should be ensured that the same is not used by unauthorized persons. The Application shall be accessed only through login-id and password or Live OTP or Time OTP controlled mechanism given by the Company to its authorized officials.
- C. The customer, for the purpose of KYC, shall visit the location of the authorized official of the Company or vice-versa. The original OVD shall be in possession of the customer.
- D. The Company must ensure that the Live photograph of the customer is taken by the authorized officer and the same photograph is embedded in the Customer Application Form (CAF). Further, the system Application of the Company shall put a water-mark in readable form having CAF number, GPS coordinates, authorized official's name, unique employee Code (assigned by the Company) and Date (DD:MM:YYYY) and time stamp (HH:MM:SS) on the captured live photograph of the customer.
- E. The Application of the Company shall have the feature that only live photograph of the customer is captured and no printed or video-graphed photograph of the customer is captured. The background behind the customer while capturing live photograph should be of white colour and no other person shall come into the frame while capturing the live photograph of the customer.
- F. Similarly, the live photograph of the original OVD or proof of possession of Aadhaar where offline verification cannot be carried out (placed horizontally), shall be captured vertically from above and water-marking in readable form as mentioned above shall be done. No skew or tilt in the mobile device shall be there while capturing the live photograph of the original documents.
- G. The live photograph of the customer and his original documents shall be captured in proper light so that they are clearly readable and identifiable.
- H. Thereafter, all the entries in the CAF shall be filled as per the documents and information furnished by the customer. In those documents where Quick Response (QR) code is available,

such details can be auto-populated by scanning the QR code instead of manual filing the details. For example, in case of physical Aadhaar/e-Aadhaar downloaded from UIDAI where QR code is available, the details like name, gender, date of birth and address can be auto-populated by scanning the QR available on Aadhaar/e-Aadhaar.

- I. Once the above mentioned process is completed, a One Time Password (OTP) message containing the text that 'Please verify the details filled in form before sharing OTP' shall be sent to customer's own mobile number. Upon successful validation of the OTP, it will be treated as customer signature on CAF. However, if the customer does not have his/her own mobile number, then mobile number of his/her family/relatives/known persons may be used for this purpose and be clearly mentioned in CAF. In any case, the mobile number of authorized officer registered with the Company shall not be used for customer signature. The Company must check that the mobile number used in customer signature shall not be the mobile number of the authorized officer.
- J. The authorized officer shall provide a declaration about the capturing of the live photograph of customer and the original document. For this purpose, the authorized official shall be verified with One Time Password (OTP) which will be sent to his mobile number registered with the Company. Upon successful OTP validation, it shall be treated as authorized officer's signature on the declaration. The live photograph of the authorized official shall also be captured in this authorized officer's declaration.
- K. Subsequent to all these activities, the Application shall give information about the completion of the process and submission of activation request to activation officer of the Company, and also generate the transaction-id/reference-id number of the process. The authorized officer shall intimate the details regarding transaction-id/reference-id number to customer for future reference.
- L. The authorized officer of the Company shall check and verify that:- (i) information available in the picture of document is matching with the information entered by authorized officer in CAF. (ii) live photograph of the customer matches with the photo available in the document.; and (iii) all of the necessary details in CAF including mandatory field are filled properly.;
- M. On Successful verification, the CAF shall be digitally signed by authorized officer of the Company who will take a print of CAF, get signatures/thumb-impression of customer at appropriate place, then scan and upload the same in system. Original hard copy may be returned to the customer.

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Annex 2

Video based Customer Identification Process (V-CIP)

The Company may undertake live V-CIP, to be carried out by an official of the Company, for establishment of an account based relationship with an individual customer, after obtaining his **informed consent** and shall adhere to the following stipulations:

- i. The official of the Company performing the V-CIP shall record video as well as capture photograph of the customer present for identification and obtain the identification information as below:
The Company can only carry out Offline Verification of Aadhaar for identification.
- ii. The Company shall capture a clear image of PAN card to be displayed by the customer during the process, except in cases where e-PAN is provided by the customer. The PAN details shall be verified from the database of the issuing authority.
- iii. Live location of the customer (Geotagging) shall be captured to ensure that customer is physically present in India
- iv. The official of the Company shall ensure that photograph of the customer in the Aadhaar/PAN details matches with the customer undertaking the V-CIP and the identification details in Aadhaar/PAN shall match with the details provided by the customer.
- v. The official of the Company shall ensure that the sequence and/or type of questions during video interactions are varied in order to establish that the interactions are real-time and not pre-recorded.
- vi. In case of offline verification of Aadhaar using XML file or Aadhaar Secure QR Code, it shall be ensured that the XML file or QR code generation date is not older than 3 days from the date of carrying out V-CIP.
- vii. All accounts opened through V-CIP shall be made operational only after being subject to concurrent audit, to ensure the integrity of process.
- viii. The Company shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. The Company shall carry out the liveness check in order to guard against spoofing and such other fraudulent manipulations.

- ix. To ensure security, robustness and end to end encryption, the Company shall carry out software and security audit and validation of the V-CIP application before rolling it out.
- x. The audiovisual interaction shall be triggered from the domain of the Company itself, and not from third party service provider, if any. The V-CIP process shall be operated by officials specifically trained for this purpose. The activity log along with the credentials of the official performing the V-CIP shall be preserved.
- xi. The Company shall ensure that the video recording is stored in a safe and secure manner and bears the date and time stamp.
- xii. RBI encourages Regulated Entities (RE's) to take assistance of the latest available technology, including Artificial Intelligence (AI) and face matching technologies, to ensure the integrity of the process as well as the information furnished by the customer. However, the responsibility of customer identification shall rest with the Company.
- xiii. The Company shall ensure to redact or blackout the Aadhaar number in terms of Section 16 of the RBI KYC Master Directions.

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