

## **KNOW YOUR CUSTOMER**

### **Introduction:**

KYC (Know Your Customer) is the platform on which the company operates to avoid shortcomings in operational, legal and reputation risks to the institution and the consequential losses by scrupulously following various procedures laid down for opening and conduct of accounts. Money laundering is involvement in any transaction or series of transactions seeking to conceal or disguise the nature or source of proceeds derived from illegal activities including drug trafficking, armed robbery, tax evasion, smuggling, etc. KYC guidelines are accepted internationally as an important anti-money laundering measure.

In compliance with the guidelines issued by RBI from time to time, the following AML & KYC (Master Direction - Know Your Customer (KYC) Direction, 2016(Updated as on May 04, 2023) policy of the Company is approved by the Board of Directors of the Company.

Where applicable laws and regulations prohibit implementation of these RBI guidelines, HLF shall bring it to the notice of the Reserve Bank of India for further necessary action by HLF including application of additional measures to be taken by the HLF to manage the ML/TF risks.

### **Objectives:**

#### **AML Policy**

The primary objective of the policy is to prevent the company from being used intentionally/ unintentionally by criminal elements for money laundering or terrorist financing activities. The policy seeks:

- i) To prevent the criminals from using the company for money laundering activities
- ii) To put in place appropriate controls for detection and reporting of suspicious activities in accordance with the applicable laws and laid down procedures
- iii) To promote compliance with laws pertaining to financial sector
- iv) To eliminate the risk that the company will be used for illicit or illegal activities
- v) To prevent placement/ layering/ integration of proceeds of crime into the company's finances
- vi) To reduce the risk of government seizure and forfeiture of a client's loan collateral when the customer is involved in criminal activity
- vii) To protect the company's reputation
- viii) To check misappropriations
- ix) To weed out undesirable customer
- x) To avoid opening of accounts with fictitious names and addresses
- xi) To monitor transactions of suspicious nature
- xii) To ensure that employees of the company are adequately trained in KYC/ AML/ CFT procedures.

### **Definition of Money Laundering:**

Section 3 of Prevention of Money Laundering Act (PMLA) defines “the offence of moneylaundering” as follows:

“Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering”. The process involves creating a web of financial transactions so as to hide the true nature and origin of funds. For the purpose of this policy, the term money laundering would also cover financial transactions where the end use of funds goes for terrorist financing irrespective of the source of the funds.

### **Obligations under PMLA:**

Section 12 of PMLA requires every financial intermediary –

To maintain a record of prescribed transactions.

To furnish information of prescribed transactions to the specified authority.

To verify and maintain records of the identity of its clients.

To preserve records in respect of the above for a period of ten years from the date of cessation of the transactions with the clients.

“Suspicious transaction” means a transaction 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 have no economic rationale or bonafide purpose; or
- (d) Gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

### **Key Elements of the KYC Policy**

KYC Policy includes the following nine key elements:

1. Customer Acceptance Policy (CAP)
2. Customer Identification Procedures (CIP)
3. Monitoring of Transactions
4. Risk management
5. Training Program
6. Internal Control Systems
7. Record Keeping
8. Assessment and Review
9. Introduction of new technologies
10. Duties / Responsibilities and Accountability – Principal Nodal Officer

## **1. Customer Acceptance Policy:**

It lays down the criteria for acceptance of customers. The guidelines in respect of the customer relationship are as follows:

- i) No account/ contracts are to be opened/ entered in anonymous or fictitious/benami name(s)/entity (ies)
- ii) No account/ contracts are opened/ entered where the company is unable to apply appropriate Customer Due Diligence (CDD) measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer. HLF may consider filing an STR, if necessary, when it is unable to comply with the relevant CDD measures in relation to the customer.
- iii) Accept customers only after verifying their identity, as laid down in Customer identification Procedures.
- iv) Classify customers into various risk categories and, based on risk perception, apply the acceptance criteria for each category of customers. Also, a profile of each customer will be prepared based on risk categorization.
- v) Documentation requirements and other information to be collected, as per PMLA and RBI guidelines/instructions, to be complied with
- vi) Not to open an account or close an existing account (except as provided in this Policy), where identity of the account holder cannot be verified and/or documents/information required could not be obtained/confirmed due to non-cooperation of the customer
- vii) Identity of a new customer to be checked so as to ensure that it does not match with any person with known criminal background or banned entities such as individual terrorists or terrorist organizations available from circulars etc.
- viii) The decision to open an account for Politically Exposed Person (PEP) should be taken at a senior level. It may, however, be necessary to have suitable built-in safeguards to avoid harassment of the customer/ the company. For example, decision to close an account may be taken at a reasonably high level after giving due notice to the customer explaining the reasons for such a decision.
- ix) Circumstances, in which a customer is permitted to act on behalf of another person/entity, should be strictly followed.
- x) Where Permanent Account Number (PAN) is obtained, the same may be verified from the verification facility of the issuing authority.
- xi) Where an equivalent e-document is obtained from the customer, the company may verify the digital

signature as per the provisions of the Information Technology Act, 2000 (21 of 2000).

CAP requirements for various categories of customers:

**A) Trust/Nominee or Fiduciary Accounts:**

Branch/offices should determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, branch/offices may insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place. While opening an account for a trust, branches/offices should take reasonable precautions to verify the identity of the trustees and the settlers of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries should be identified when they are defined. In the case of a 'Foundation', branches should take steps to verify the founder managers/directors and the beneficiaries, if defined. There exists the possibility that trust/nominee or fiduciary accounts can be used to circumvent the customer identification procedures.

**B) Accounts of Companies and Firms**

Branch/office need to be vigilant against business entities being used by individuals as a front for maintaining accounts with the company. Branch/ office may examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception e.g., in the case of a public company it will not be necessary to identify all the shareholders.

**C) Client Accounts Opened by Professional Intermediaries:**

When the Branch/office has knowledge or reason to believe that the client account opened by a professional intermediary is on behalf of a single client, that client must be identified. Branch/office may hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds.

Branch/office also maintains "pooled' accounts managed by lawyers/ chartered accountants for funds held „on deposit' for a range of clients.

Where funds held by the intermediaries are not co-mingled at the Branch/office and there are 'sub-accounts', each of them attributable to beneficial owner, all the beneficial owners must be identified.

Where such funds are co-mingled at the Branch/office, the company should still look through to the beneficial owners. Where the Branch/ office rely on the 'customer due diligence' (CDD) means identifying and verifying the customer and the beneficial owner done by an intermediary, they should satisfy themselves that the intermediary is regulated and supervised and has adequate systems in place to comply with the KYC requirements.

It should be understood that the ultimate responsibility for knowing the customer lies with the Branch/office.

#### **D) Adherence To Foreign Contribution Regulation Act (FCRA), 1976**

Branches/Offices should also adhere to the instructions on the provisions of the Foreign Contribution Regulation Act, 1976 cautioning them to open accounts or collect cheques only in favour of association, which are registered under the Act *ibid* by Government of India. A certificate to the effect that the association is registered with the Government of India should be obtained from the concerned associations at the time of opening of the account or collection of cheques. Branches/offices are advised to exercise due care to ensure compliance and desist from opening accounts in the name of banned organizations and those without requisite registration.

#### **E) Accounts of Politically Exposed Persons (PEPs) Resident Outside India**

Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. Branch/office should gather sufficient information on any person/customer of this category intending to establish a relationship and check all the information available on the person in the public domain. Branch/office should verify the identity of the person and seek information about the sources of funds before accepting the PEP as a customer. The decision to open an account for PEP should be taken at a senior level and should be subjected to monitoring on an ongoing basis. The above norms may also be applied to the accounts of the family members or close relatives of PEPs subject to:

HLF have in place appropriate risk management systems to determine whether the customer or the beneficial owner is a PEP:

1. Reasonable measures shall be taken by HLF for establishing the source of funds / wealth;
2. All such accounts are subjected to enhanced monitoring on an on- going basis;
3. 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;

#### **Category based Customer Profile:**

Branches/offices should prepare a profile for each new customer based on risk categorization. The customer profile may contain information relating to customer's identity, social/financial status, nature of business activity, information about his clients, business and their location etc. For the purpose of risk categorization, individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, may be categorized as low risk.

Illustrative examples of low-risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover, Government departments & Government owned companies, regulators and statutory bodies etc. In such cases, only the basic requirements of verifying the identity and location of the customer are to be met.

Customers that are likely to pose a higher-than-average risk maybe categorized as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc. Enhanced due diligence measures are to be applied based on the risk assessment, thereby requiring intensive due diligence for higher risk customers, especially those for whom the sources of funds are not clear.

The risk assessment of customers by the HLF shall be properly documented and be proportionate to the nature, size, geographical presence, complexity of activities/structure, etc. Further, the periodicity of risk assessment exercise shall be determined by the Board or any committee of the Board of the HLF to which power in this regard has been delegated

## **2. Customer Identification Procedures (CIP) and Identification of Beneficial Owner:**

Obtaining Customer identification requires identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information. Thus, the first requirement of Customer Identification Procedures (CIP) is to be satisfied that a prospective customer is actually who he/she claims to be. The second requirement of CIP is to ensure that sufficient information is obtained on the identity and the purpose of the intended nature of the customer relationship. This would enable risk profiling of the customer and also to determine the expected or predictable pattern of transactions. Identification data that would be required to be obtained for various classes of customers are as below:

### **Natural Person:**

- Address/ location details
- Recent photograph

### **Legal Persons:**

1. Legal status of the legal person/entity through proper and relevant documents.
2. Verification that any person purporting to act on behalf of the legal person/entity is so authorized and identity of that person/entity is established and verified.
3. Understand the ownership and control structure of the customer and determine who are natural persons who, ultimately control the legal person. Wherever applicable, information on the nature of business activity, location, mode of payments, volume of turnover, social and financial status etc. will be collected for completing the profile of the customer.

4. If the branch/office decides to accept such accounts in terms of the Customer Acceptance Policy, the company should take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are.

### **Beneficial Owner**

- a) 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-

- i. "Controlling ownership interest" means ownership of/entitlement to more than 10 percent of the shares or capital or profits of the company.
- ii. "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.

- b) 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 percent~~ 10 percent of capital or profits of the partnership or who exercises control through other means. Explanation - For the purpose of this sub-clause, "control" shall include the right to control the management or policy decision.
- c) 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 percent of the property or capital or profits of the unincorporated association or body of individuals.
- d) 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.
- e) 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 10 percent 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.

Declaration Letter from beneficial owner of Entities:

In case of incorporated bodies such as Company, Limited Liability Company, Partnership Firm, Trust, Society, Associations HLF shall identify the beneficial owner of such entities and also obtain a declaration letter in the prescribed format along with certified copies of acceptable OVD documents duly verified and certified by the inspecting officer of HLF with Name, Signature, Employee code, and Office seal

**New Accounts:**

"Know Your Customer" (KYC) procedure should be the key principle for identification of an individual/corporate for opening an account. The customer identification should entail verification through an employee of the company and on the basis of documents provided by the customer. The objectives of the KYC framework shall be two-fold:

- To ensure appropriate customer identification
- To monitor transactions of a suspicious nature

Branches/offices should obtain all information necessary to establish the identity/legal existence of each new customer, based preferably on disclosures by customers themselves. Easy means of establishing identity would be documents such as passport, driving license, etc. The Company shall also ensure personal verification by the employee of the company.

**Customer Due Diligence (CDD):**

"Customer Due Diligence (CDD)" means identifying and verifying the customer and the beneficial owner using reliable and independent sources of identification.

- a. Identification of the customer, verification of their identity using reliable and independent sources of identification, obtaining information on the purpose and intended nature of the business relationship, where applicable;
- b. Taking reasonable steps to understand the nature of the customer's business, and its ownership and control;
- c. Determining whether a customer is acting on behalf of a beneficial owner, and identifying the beneficial owner and taking all steps to verify the identity of the beneficial owner, using reliable and independent sources of identification.

"On-going Due Diligence" means regular monitoring of transactions in accounts to ensure that those are consistent with RE's knowledge about the customers, customer's business and risk profile, the source of funds / wealth.



Each business process as a part of the credit policy will document and implement appropriate risk-based procedures designed to verify that it can form a reasonable belief that it knows the true identity of its customers. Verification of customer identity should occur before transacting with the customer. Procedures for each business process shall describe acceptable methods of verification of customer identity, which may include verification through documents or non- documentary verification methods that are appropriate given the nature of the business process, the products and services provided and the associated risks.

**i) Verification through documents:**

These documents may include, but are not limited to the list of documents that can be accepted as proof of identity and address from customers across various products offered by the Company. The list such documents are mentioned under the head Acceptable Documents in this policy.

**ii) Verification through non-documentary methods:**

These methods may include, but are not limited to:

- (a) Contacting or visiting a customer;
- (b) Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source;
- (c) Checking references with other financial institutions; or
- (d) Obtaining a financial statement.

**iii) Off-line verification through proof of possession of Aadhaar number:**

The Company may carry out off-line verification of a customer under the Aadhaar (Targeted Delivery of Financial and Other subsidies, Benefits and Services) Act, 2016 (Aadhaar Regulations) if the customer is desirous of undergoing Aadhaar off-line verification for identification purpose. No such off-line verification will be performed without obtaining the written consent of the customer in the manner prescribed in the Aadhaar Regulations.

**iv) Verification of equivalent e-document:**

Where the customer submits an equivalent e-document of any Officially Valid Document (OVD), issued by the issuing authority of such document with its valid digital signature including documents issued to the digital locker account of the customer, the Company shall verify the digital signature as per the provisions of the Information Technology Act, 2000 and take live photo of the customer as specified under digital KYC in RBI regulations.

**v) Verification through digital KYC:**

The Company may carry out verification by capturing live photo of the customer and OVD or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with latitude and longitude of the location where such live photo is being taken by the authorized officer of the Company as prescribed in RBI regulations.

**vi) Video based customer identification process (V-CIP):**

The Company may undertake live V-CIP for establishment of an account-based relationship with an individual customer after obtaining his informed consent and adhering to the procedures prescribed in RBI regulations. This process shall be treated as face-to-face process for the purpose of customer identification.

**vii) Aadhaar based e KYC authentication:**

Where the customer submits Aadhaar number the company may carry out authentication of the customer's Aadhaar number using e KYC authentication facility provided by the Unique Identification Authority of India. Further, in such a case, if the customer wants to provide a current address, different from the address as per the identity information available in the central identities data repository he may give a self-declaration to that effect and the company shall ensure that the mobile number for Aadhaar authentication is same as the one available with them in the customer's profile in order to prevent any fraud

**ACCEPTABLE DOCUMENTS**

***Identity Proof***

**Individual:**

- Valid Passport
- Voter identity card issued by Election Commission of India
- Valid PAN card
- Valid driving license
- Job card issued by NREGA duly signed by an officer of the State Government
- Letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

**Others:**

**Company / LLP:**

- Certification of incorporation
- MOA/AOA
- Resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf
- An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf;
- PAN Card (mandatorily to be submitted)

### **Partnership Firms:**

- Registration certificate
- Partnership deed
- An officially valid document in respect of the person holding an attorney to transact on its behalf.
- PAN Card (mandatorily to be submitted)

### **Trust and Foundations:**

- Registration certificate
- Trust deed
- An officially valid document in respect of the person holding an attorney to transact on its behalf.
- PAN Card (mandatorily to be submitted)

### **Unincorporated association or body of individuals:**

- Resolution of the managing body of such association or body of individuals
- Power of attorney granted to him to transact on its behalf
- An officially valid document in respect of the person holding an attorney to transact on its behalf.
- Such information as may be required by the bank to collectively establish the legal existence of such an association or body of individuals
- PAN Card (mandatorily to be submitted)

### **Address Proof**

#### **Individuals:**

- Valid passport
- Voter identity card issued by Election Commission of India
- Valid driving license,
- Job card issued by NREGA duly signed by an officer of the State Government
- Letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.
- Latest Electricity Bill / Telephone Bill

#### **Others:**

#### **Company / LLP:**

- Certification of incorporation
- MOA/AOA
- Resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf
- An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf
- Return filed with Ministry of Corporate Affairs with respect to Registered Office

- The names of the relevant persons holding senior management position; and
- The Registered office and the principal place of its business, if it is different.
- BEN 2 form for declaration of significant beneficial ownership filed with Ministry of Company Affairs (MCA)

**Partnership Firms:**

- Registration certificate
- Partnership deed
- An officially valid document in respect of the person holding an attorney to transact on its behalf.
- Documents, as specified in Section 16 (Master Directions – Know Your Customer Directions, 2016 of RBI Dt 25 02 2016), relating to beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf
- The names of all the partners and
- Address of the registered office, and the principal place of its business, if it is different.

**Trust and Foundations: -**

- Registration certificate
- Trust deed
- An officially valid document in respect of the person holding an attorney to transact on its behalf.
- Permanent Account Number or Form No.60 of the trust
- Documents, as specified in Section 16 (Master Directions – Know Your Customer Directions, 2016 of RBI Dt 25 02 2016), relating to beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf
- KYC of beneficiaries, trustees, settlor, authors, Protectors of the trust and authors of the trust
- The address of the registered office of the trust; and
- List of trustees and documents, as specified in Section 16 (Master Directions – Know Your Customer Directions, 2016 of RBI Dt 25 02 2016), for those discharging the role as trustee and authorized to transact on behalf of the trust.

HLF shall ensure that trustees disclose their status at the time of commencement of an account-based relationship

**Unincorporated association or body of individuals:**

- Resolution of the managing body of such association or body of individuals
- Power of attorney granted to him to transact on its behalf
- An officially valid document in respect of the person holding an attorney to transact on its behalf.
- Such information as may be required by the bank to collectively establish the legal existence of such an association or body of individual
- Permanent Account Number or Form No. 60 of the unincorporated association or a body of individuals

- Documents, as specified in Section 16 (Master Directions – Know Your Customer Directions, 2016 of RBI Dt 25 02 2016), relating to beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf

### **Proprietary Concerns**

#### **For proprietary concerns, the company should call for and verify any two of the following documents:**

Proof of the name, address and activity of the concern, like registration certificate (in the case of a registered concern) including Udyam Registration Certificate (URC) issued by the Government, certificate/license issued by the Municipal authorities under Shop & Establishment Act, sales and income tax returns, CST / VAT certificate, certificate / registration document issued by Sales Tax / Service Tax / Professional Tax authorities, License issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, etc.

Any registration / licensing document issued in the name of the proprietary concern by the Central Government or State Government Authority / Department. NBFCs/RNBCs may also accept IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document for opening of account.

The 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.

- Utility bills such as electricity, water, and landline telephone bills in the name of the proprietary concern.

#### **A. Customer profile:**

The company while evaluating a prospective customer obtains important information like the customer's source of funds, source of income and assets, etc. through collection of following details:

- (a) Details of employment/ business/ vocation or profession
- (b) Details of income and annual income
- (c) Details of assets owned, such as house, vehicle, etc.
- (d) Other personal details such as qualification, marital status
- (e) Dealings with banks/ other financial institutions and the credit history

Drawing up of customer profile would give an idea as to the nature and volume of transactions/activities to expect in the account as assessed/ envisaged at the time of opening of an account. If the transactions are in variance with the profile of client, the customer should be contacted for further details to the satisfaction of the company.

**B. Reliance on third party due diligence:**

For the purpose of identifying and verifying the identity of customers at the time of commencement of an account-based relationship, the Company may rely on a third party; subject to the condition that:

- i. the Company obtains necessary information of such client due diligence carried out by the third party;
- ii. the Company takes adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the client due diligence requirements will be made available from the third party upon request without delay;
- iii. the Company is satisfied that such third party is regulated, supervised or monitored for, and has measures in place for compliance with client due diligence and record-keeping requirements in line with the requirements and obligations under the Act;
- iv. the third party is not based in a country or jurisdiction assessed as high risk; and
- v. the Company is ultimately responsible for client due diligence and undertaking enhanced due diligence measures, as applicable.
- vi. Records or the information of the customer due diligence carried out by the third party is obtained **immediately** from the third party or from the Central KYC Records Registry.

**C. Resolution of Discrepancies:**

HLF business process shall document and implement procedures to resolve information discrepancies and to decline or cease to do business with a customer when it cannot form a reasonable belief that it knows the true identity of such customer or cannot adequately complete necessary due diligence. These procedures should **include identification of responsible decision makers and escalation paths and detailed standards relating to what actions will be taken if a customer's identity cannot be adequately verified.**

**D. Periodic updation of KYC of Customers**

The Company shall put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures in case of higher risk perception on a customer. Such review of risk categorization of customers will be carried out at a periodicity of not less than once in six months.

The Company shall have a system in place for periodical updating of customer identification data after the account is opened. Full KYC exercise will be done at a periodicity not less than once in ten years in case of low-risk category customers, not less than once in eight years in case of medium risk category customers and not less than once in two years in case of high-risk category customers.

HLF shall adopt a risk-based approach for periodic updation of KYC ensuring that the information or data collected under CDD is kept up-to-date and relevant, particularly where there is high risk.

## **Risk categorization of customers**

- **Low Risk Category:**

Individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, shall be categorized as low risk.

Illustrative examples are:

- a) Salaried employees whose salary structure is well-defined
- b) People belonging to lower economic strata of the society whose accounts show small balances and low turnover
- c) Government departments and Government-owned companies
- d) Statutory bodies & Regulators
- e) Self – employed individuals / Proprietary Firms / Hindu Undivided Families (HUFs)
- f) Limited Companies (Public and Private)
- g) Partnership Firm with registered deed.

- **Medium & High-Risk Category:**

Customers that are likely to pose a higher-than-average risk may be categorized as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc.

Illustrative examples of medium risk category customers are:

- a) Non-Resident customers
- b) Trust, charities, NGO's and Organization receiving donations
- c) Companies having close family shareholding where ultimate beneficial ownership is not identifiable

Examples of high-risk category customers are:

- a) Politically Exposed Persons (PEPs) of Indian/Foreign Origin
- b) Those with dubious reputation as per public information available
- c) Accounts of bullion dealers and jewellers

## **E. Internal Risk Assessment**

In line with the RBI Circular No. RBI/2019-20/221/DOR.AML.BC. No. 66/14.01.001/2019-20 dated 20<sup>th</sup> April, 2020 the Company shall have a Risk Based Approach (RBA) for mitigation and management of the identified risk along with controls and procedures.

## **F. Photographs:**

At the time of evaluating the proposal, two passport size photographs of each borrower and guarantor should

be obtained which are self-attested.<sup>1</sup> Where the borrower and/or guarantor are an artificial person, photographs of directors/ partners/ Karta as the case may be, need to be obtained which are self-attested.<sup>2</sup>

### **G. Field Inspection:**

As part of proposal evaluation process, an employee of the company visits the office and/or residential address of the customer to verify the claims made in the loan application form and meets the borrower to address doubts, if any.

### **H. Enhanced due diligence**

The Company is primarily engaged in retail finance. It does not deal with such category of customers who could pose a potential high risk of money laundering, terrorist financing or political corruption and are determined to warrant enhanced scrutiny. The Company shall conduct Enhanced Due Diligence in connection with all customers or accounts that are determined to pose a potential high risk and are determined to warrant enhanced scrutiny.

EDD includes:

- a. Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source;
- b. Checking references with other financial institutions;
- c. Obtaining a bank statement of Accounts / Financial statement

The Company shall also undertake enhanced due diligence in case of non-face-to-face onboarding facilities (such as CKYCR, Digi Locker, equivalent e-document, etc.) for establishing the relationship with the customer without meeting the customer

Enhanced due diligence may be in the nature of keeping the account monitored closely for a re-categorization of risk, up dation of fresh KYC documents, field investigation or visit of the customer, etc., which shall form part of the credit policies of the businesses.

### **3. Monitoring of Transactions:**

Ongoing monitoring is an essential element of effective KYC procedures. Branches can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the account.

Branches should pay special attention to all complex, unusually large transactions and all unusual patterns, which have no apparent economic or visible lawful purpose. The branch/office may prescribe threshold limits for a particular category of accounts and pay particular attention to the transactions, which exceed these limits. High-risk accounts have to be subjected to intensify monitoring. The company should set key indicators



for such accounts, taking note of the background of the customer, such as the country of origin, sources of funds, the type of transactions involved and other risk factors.

Branches are required to record and report all transactions of suspicious nature in deposit, loan and remittance accounts etc., with full details to their controlling Offices. The principal officer/Officer -in charge, vested with the authority to open the account, is to ensure compliance with the KYC guidelines. The employee/officer, who has interviewed the customers to subscribe his signature for having interviewed the prospective customer and the officer before permitting opening of the account, to satisfy that all aspects of KYC guidelines are complied with.

HLF shall implement a CDD programme, having regard to the ML/TF risks identified and the size of business. HLF shall monitor the implementation of the controls and enhance them if necessary.

### **Reporting of Suspicious Transactions:**

To observe four eyes concept in reporting suspicious transactions at branch level, first dealing officer at the branch will report to the Branch Manager (BM), who will get himself satisfied about existence of a suspicious activity/nature and then report to the controlling office. Further course of action is to be recommended by the controlling officer in consultation with Law Department to H.O. The designated officer at H.O has to take up the matter with appropriate law enforcing authorities designated under the relevant laws governing such activities.

“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;
- b. appears to be made in circumstances of unusual or unjustified complexity;
- 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.
- e. 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.

#### **(i) Cash Transactions**

In line with the Finance Act 2017, the maximum amount of Cash that can be collected from the customer should not exceed an amount of Rs. 1,99, 999. The amount of Rs.1,99,999 will be the total amount that can be collected against all the contracts of a customer put together in a month.

### **Reporting Requirement to Financial Intelligence Unit of India:**

While furnishing information to the Director, FIU-IND, HLF will abide by the time specification as stipulated by FIU and also shall not put any restriction on operations in the accounts merely on the basis of the STR filed.

HLF directors, officers, and all employees shall ensure that the fact of maintenance of records and furnishing of the information to the Director is confidential. However, such confidentiality requirement shall not inhibit sharing of information under Section 4(b) of this Master Direction of any analysis of transactions and activities which appear unusual, if any such analysis has been done

#### **(ii) Terrorist Finance:**

In case the name of any banned organization is noticed as payee/endorsee/applicant, the first dealing officer shall report the same to the Principal Officer. Reporting of such transactions as and when detected is to be done as under:

<b>Reporting by</b>	<b>Reporting to</b>
(i) Branch	(I) Controlling office
(ii) Controlling office	(ii) Principal Officer (PO). / H.O.
(iii) 3 .PO. / H. O	(iii) FIU - IND

All cash transactions, where forged or counterfeit Indian currency notes have been used, shall also be reported immediately by the branches, by way of Counterfeit Currency Reports (CCRs) to the Principal Officer, through proper channel, for onward reporting to FIU-IND.

HLF shall apply enhanced due diligence measures, which are effective and proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries circulated by Reserve Bank of India from time to time, and publicly available information under FATF (Financial Action Task Force)

#### **4. Risk Management**

The company has put in place an effective KYC programmed in place by establishing appropriate procedures and ensuring their effective implementation covering proper management oversight, systems and controls, segregation of duties, training and other related matters

Responsibility has also been explicitly allocated within the company for ensuring that the company's policies and procedures are implemented effectively. The nature and extent of due diligence will depend on the risk perceived by the branch/company. However, while preparing customer profile branches should take care to seek only such information from the customer which is relevant to the risk category and is not intrusive. The customer profile will be a confidential document and details contained therein shall not be divulged for cross selling or any other purposes.

The company's internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. The compliance function should provide an independent evaluation of the company's own policies and procedures, including legal and regulatory requirements. It would be ensured that the audit machinery is staffed adequately with individuals who are well versed in such policies and procedures. Head – Credit is the principal officer for monitoring Anti Money Laundering Issues. A dedicated credit audit team under the direct supervision of Head - Credit checks and confirms compliance with the KYC policies and procedures in respect of all the loan contracts.

#### **5. Training of Employees:**

As part of induction process, employees across the country are trained in KYC guidelines through online training module. Updating and modifications, if any, in the guidelines are also cascaded to the entire team to keep them abreast of the changes.

#### **6. Internal Credit controls and Internal Audit:**

Head Credit is the nodal officer for monitoring Anti Money Laundering issues like review of transactions of suspicious nature and verifying compliance of guidelines in this regard. KYC/AML guidelines are inbuilt into the Standard Operating Procedure by designating a maker checker & reviewer for each activity. The location in charge / executive verifies the original document of the borrower and endorses "Original Seen and Verified" in every document. The Hub Credit Administrator (HCA) checks and confirms if the above documents are in place before the disbursement of the loan. The Credit Quality Compliance team at RMC reviews the entire file.

#### **7. Record Keeping:**

As per the guidelines of Reserve Bank of India, the company is required to prepare and maintain documentation on their customer relationships and transactions to meet the requirements of relevant laws and regulations and to enable any transactions effected through them to be reconstructed.

All financial transactions records, relevant customer identification and KYC records are required to be retained for 10 years after the transaction has taken place and should be available for perusal and scrutiny of audit functionaries as well as regulators as and when required.

The following steps shall be taken regarding maintenance, preservation and reporting of customer information, with reference to provisions of PML Act and Rules. The company shall,

- a. maintain all necessary records of transactions between the company and the customer, both domestic and international, for at least five years from the date of transaction;
- 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 swiftly, 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. evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or 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.

**8. Assessment and review:**

The Company shall also undertake periodic (at least annual) assessment of KYC/AML policies and procedures to ensure that compliance functions continue to function effectively.

**9. Principal / Nodal Officer:**

Head – Credit & Operations

Hinduja Leyland Finance Limited No. 27A, Developed Industrial Estate Guindy,  
Chennai – 600032

Phone: +91 44 22427526

Email: compliance@hindujaleylfinance.com

**Designated Director:**

The Board at its meeting held on 20th September, 2023 had nominated Mr. Sachin Pillai, Managing Director and Chief Executive Officer as the designated director to ensure overall compliance with the obligations imposed by KYC policy and the PML act.

This policy was last reviewed and approved by the Board on 3<sup>rd</sup> November,2023.

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