

ITI Housing Finance Limited
(Formerly known as Fasttrack Housing Finance Limited)
Regd office : ITI House 36, Dr. R. K. Shirodkar Marg,
Parel, Mumbai 400 012



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KNOW YOUR CUSTOMER (KYC)
&
ANTI MONEY LAUNDERING (AML) POLICY

(Version 1.1)

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ITI HOUSING FINANCE LIMITED (“ IHFL or Company”)

KNOW YOUR CUSTOMER (KYC) & ANTI MONEY LAUNDERING (AML) POLICY

1. Introduction

KYC and AML policy had initially been prepared keeping in view circulars issued by National Housing Bank (“NHB”) from time to time. Now, this policy has been amended on the basis of RBI Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 on Master Direction - Know Your Customer (KYC) Direction, 2016 last updated upto April 20, 2020 which is made applicable to Housing Finance Companies (“HFCs”) as per RBI circular no. DOR.NBFC (HFC).CC.No.111/03.10.136/2019-20 on Extending Master Direction – Know Your Customer (KYC) Direction, 2016 to Housing Finance Companies dated May 19, 2020 (“RBI Guidelines”) and in terms of the provisions of Prevention of Money-Laundering Act, 2002 (“PMLA Act”) and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005.(“PMLA Rules”)

According to above, IHFL is required to follow certain customer identification procedures while undertaking a transaction either by establishing an account-based relationship or otherwise and monitoring of transactions. In light of same, IHFL shall take steps to implement the provisions of the aforementioned Act and Rules, including operational instructions issued in pursuance of such amendment

This would help the Company to manage the risk while conducting day to day transactions with the customer and prevent from money laundering activities.

This policy shall come into effect from the date of approval by the Board of Directors of the Company or any committee of the Board to which power has been delegated.

2. Definitions

- a. **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);
- b. **“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.
- c. **“Authentication”**, in the context of Aadhaar authentication, means the process as defined under sub-section (c) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016

- d. **“Beneficial Owner (BO)”**

- 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 per cent of capital or profits of the partnership.

- 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 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.

d. 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% 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.

e. **Certified Copy** - Obtaining a certified copy 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 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:

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

e. **"Cash Transactions"** means "Cash Transactions" as defined under rule 3 of the Rules.

f. **"Central KYC Records Registry" (CKYCR)** means an entity defined under Rule 2(1) of the PMLA Rules, to receive, store, safeguard and retrieve the KYC records in digital form of a customer.

- g. **“Customer”** means a person who is engaged in a financial transaction or activity with a IHFL and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.
- h. **Customer Due Diligence (CDD)”** means identifying and verifying the customer and the beneficial owner.
- i. **“Customer identification”** means undertaking the process of CDD.
- j. **“Designated Director”** means a person as defined under rule 2(ba) of the Rules.
- k. **“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 IHFL as per the provisions contained in the Act.
- l. **“FATCA”** means Foreign Account Tax Compliance Act of the United States of America (USA) which, inter alia, requires foreign financial institutions to report about financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a substantial ownership interest.
- m. **“IGA”** means Inter Governmental Agreement between the Governments of India and the USA to improve international tax compliance and to implement FATCA of the USA.
- n. **Know Your Client (KYC) Identifier”** means the unique number or code assigned to a customer by the Central KYC Records Registry.
- o. **“KYC Templates”** means templates prepared to facilitate collating and reporting the KYC data to the CKYCR, for individuals and legal entities.
- p. **“Non-face-to-face customers”** means customers who open accounts without visiting the branch/offices of the IHFL or meeting the officials of IHFL.
- q. **“Non-profit organisations” (NPO)** means any entity or organisation, constituted for religious or charitable purposes referred to in clause (15) of section 2 of the Income-tax Act, 1961 (43 of 1961), that is registered as a trust or a society under the Societies Registration Act, 1860 or any similar State legislation or a company registered under Section 8 of the Companies Act, 2013 (18 of 2013)
- r. **“Officially Valid Document” (OVD)** means the passport, the driving licence, proof of possession of Aadhaar number, the Voter's Identity Card issued by the Election Commission of India, job card issued by NREGA duly signed by an officer

of the State Government and letter issued by the National Population Register containing details of name and address.

Provided that,

a. 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.

b. 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;

c. the customer shall submit OVD with current address within a period of three months of submitting the documents specified at 'b' above

d. where the OVD presented by a foreign national does not contain the details of address, in such case the documents issued by the Government departments of foreign jurisdictions and letter issued by the Foreign Embassy or Mission in India shall be accepted as proof of address.

Explanation: 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.

s. **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)

t. **“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.

u. **“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.

v. **“Person”** has the same meaning assigned in the Act and includes:

- a. an individual,
- b. a Hindu undivided family,
- c. a company,
- d. a firm,
- e. an association of persons or a body of individuals, whether incorporated or not,
- f. every artificial juridical person, not falling within any one of the above persons (a to e), and
- g. any agency, office or branch owned or controlled by any of the above persons (a to f).

w. **“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.

x. **“Principal Officer”** means an officer nominated by the IHFL, responsible for furnishing information as per rule 8 of the Rules.

y. **“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.

z. **“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.

Za. Group – The term “group” shall have the same meaning assigned to it in clause (e) of sub-section (9) of section 286 of the Income-tax Act, 1961 (43 of 1961)

Zb. 8 “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).

Zc. “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.

All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, 1949, the Reserve Bank of India Act, 1935, the Prevention of Money Laundering Act, 2002, the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, the 14Aadhaar (Targeted

Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 and regulations made thereunder, any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

3. 'Know Your Customer' Standards

IHFL has framed this KYC policy incorporating the following four key elements:

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

4. Money Laundering and Terrorist Financing Risk Assessment by IHFL

IHFL 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.

Outcome of risk assessment shall be properly documented, put up to the Board and reviewed at least annually by the Board.

IHFL shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and will have Board approved policies, controls and procedures. Further, IHFL shall also monitor the implementation of the controls and enhance them if necessary.

5. Designated Director:

(a) A "Designated Director" means a person designated by the IHFL to ensure overall compliance with the obligations imposed under Chapter IV of the PML Act and the Rules and shall be nominated by the Board.

(b) The name, designation and address of the Designated Director shall be communicated to the FIU-IND, RBI and NHB

(c) In no case, the Principal Officer shall be nominated as the 'Designated Director'

6. Principal Officer:

(a) The Principal Officer shall be responsible for ensuring compliance, monitoring transactions, and sharing and reporting information as required under the law/regulations.

(b) The name, designation and address of the Principal Officer shall be communicated to the FIU-IND, RBI and NHB.

7. Compliance of KYC policy

(a) IHFL shall ensure compliance with KYC Policy through:

- (i) Specifying as to who constitute 'Senior Management' for the purpose of KYC compliance.
- (ii) Allocation of responsibility for effective implementation of policies and procedures.
- (iii) Independent evaluation of the compliance functions of IHFL policies and procedures, including legal and regulatory requirements
- (iv) Concurrent/internal audit system to verify the compliance with KYC/AML policies and procedures.
- (v) Submission of quarterly audit notes and compliance to the Audit Committee.

IHFL shall ensure that decision-making functions of determining compliance with KYC norms are not outsourced.

Customer Acceptance Policy (CAP)

IHFL Customer Acceptance Policy, which lays down explicit criteria for acceptance of customers, will ensure the following aspects:

- (i) No account is opened in anonymous or fictitious/benami name(s);
- (ii) No account is opened where the IHFL is unable to apply appropriate CDD measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
- (iii) No transaction or account-based relationship is undertaken without following the CDD procedure.
- (iv) The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified
- (v) 'Optional'/additional information, is obtained with the explicit consent of the customer after the account is opened.

- (vi) If an existing KYC compliant customer of a IHFL desires to open another account with IHFL, there shall be no need for a fresh CDD exercise.
- (vii) CDD Procedure is followed for all the joint account holders, while opening a joint account.
- (viii) Circumstances in which, a customer is permitted to act on behalf of another person/entity, is clearly spelt out.
- (ix) Suitable system is put in place to ensure that the identity of the customer does not match with any person or entity, whose name appears in the sanctions lists circulated by Reserve Bank of India.
- (x) Where Permanent Account Number (PAN) is obtained, the same shall be verified from the verification facility of the issuing authority.
- (xi) IHFL shall ensure that Customer Acceptance Policy shall not result in denial of banking/financial facility to members of the general public, especially those, who are financially or socially disadvantaged.
- (xii) Where Goods and Services Tax (GST) details are available, the GST number shall be verified from the search/verification facility of the issuing authority

Risk Management

IHFL shall have risk based approach which includes the following

- (i) Customers will be categorised as low, medium and high risk category, based on the assessment and risk perception of the IHFL
- (ii) Broad principles may be laid down by the REs for risk-categorisation of customers.
- (iii) Risk categorisation shall be undertaken based on parameters such as customer's identity, social/financial status, nature of business activity, and information about the customer's business and their location, geographical risk covering customers as well as transactions, type of products/services offered, delivery channel used for delivery of products/services, types of transaction undertaken – cash, cheque/monetary instruments, wire transfers, forex transactions, 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.
- (iv) The risk categorisation of a customer and the specific reasons for such categorisation shall be kept confidential and shall not be revealed to the customer to avoid tipping off the customer.

Provided that various other information collected from different categories of customers relating to the perceived risk, is non-intrusive and the same is specified in the KYC policy.

Explanation: FATF Public Statement, the reports and guidance notes on KYC/AML issued by the Indian Banks Association (IBA), and other agencies, etc., may also be used in risk assessment.

Customer Identification Procedure (CIP)

IHFL shall 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) Selling third party products as agents, selling their own products, payment of dues of credit cards/sale and reloading of prepaid/travel cards and any other product for more than rupees fifty thousand.
- (d) When a IHFL has reason to believe that a customer is intentionally structuring a transaction into a series of transactions below the threshold of rupees fifty thousand.

For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, IHFL may rely on third party subject to certain conditions which may include carrying out due diligence of customer on behalf of IHFL, obtaining due diligence findings, information and supportive documents from third party/ies, third party is regulated, supervised and monitored by appropriate authority and has adequate system to carry out activities of due diligence.

Customer Due Diligence (CDD) Procedure

Part I - Customer Due Diligence (CDD) Procedure in case of Individuals

IHFL shall obtain following documents 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. Aadhaar number where he is desirous of receiving any benefit or subsidy under any scheme notified under section 7 of the Aadhaar (Targeted Delivery of Financial and Other subsidies, Benefits and Services) Act, 2016 or certified copy of an OVD containing details of identity and address, and one recent photograph; and

- b. the Permanent Account Number or the equivalent e-document thereof or Form No. 60 as defined in Income-tax Rules, 1962; and
- c. such other documents including in respect of the nature of business and financial status of the customer, or the equivalent e-documents thereof as may be required by the IHFL

Where customer has submitted Aadhaar as per clause a above, IHFL shall carry out authentication of the customer's Aadhaar number using e-KYC authentication facility provided by the Unique Identification Authority of India.

IHFL may also carry out offline verification of Aadhaar.

Where offline verification cannot be carried out, the IHFL shall carry out verification through digital KYC as per process mentioned as Annexure –I.

if customer wants to provide a current address which is different from the address as per the identity information available in the Central Identities Data Repository, he need to give a self-declaration to that effect to the IHFL.

Provided further that in case e-KYC authentication cannot be performed for an individual desirous of receiving any benefit or subsidy under any scheme notified under section 7 of the Aadhaar (Targeted Delivery of Financial and Other subsidies, Benefits and Services) Act, 2016 owing to injury, illness or infirmity on account of old age or otherwise, and similar causes, IHFL 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 document thereof from the customer

The CDD done in this manner shall be documented with all requisite details and shall be available for supervisory review.

Where the OVD presented by a foreign national does not contain the details of address, in such case the documents issued by the Government departments of foreign jurisdictions and letter issued by the Foreign Embassy or Mission in India shall be accepted as proof of address.

For the purpose of change of name post submission of OVD, marriage certificate issued by the State Government or Gazette notification should be obtained containing with changed name.

IHFL shall follow due process as specified by RBI Guidelines from to time in case accounts are opened using OTP based e-KYC, in non-face-to-face mode.

IHFL may also undertake V-CIP process if required for establishment of an account based relationship with an individual customer by strictly following RBI Guidelines from to time.

Part II - CDD Measures for Sole Proprietary firms

For opening an account in the name of **Sole Proprietary firms** CDD of the individual (proprietor) shall be carried out.

For Individual documents listed in Part I shall be obtained. In addition to same, any two of the following documents or the equivalent 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). Company should verify the GST number through the search/verification facility provided by the GSTN Portal as part of strengthening the Customer Acceptance Policy.

(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.

(i) Registration certificate including Udyam Registration Certificate (URC) issued by the Government.

In cases where the IHFL is satisfied that it is not possible to furnish two such documents, it may, at their discretion, accept only one of those documents as proof of business/activity.

IHFL shall undertake contact point verification and collect such other information and clarification as would be required to establish the existence of such firm and shall

confirm and satisfy itself that the business activity has been verified from the address of the proprietary concern.

Part III- CDD Measures for Legal Entities

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

(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) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers or Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

➤ 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 by IHFL:

(a) Registration certificate

(b) Partnership deed

(c) Permanent Account Number of the partnership firm

(d) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers or Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

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) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers or Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

➤ For opening an account of an **unincorporated association or a body of individuals**, certified copies of each of the following documents or the equivalent 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) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers or Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

Such information as may be required by the IHFL to collectively establish the legal existence of such an association or body of individuals.

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

Explanation: Term 'body of individuals' includes societies.

➤ 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) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers or Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf and
- (c) Such documents as may be required by the IHFL to establish the legal existence of such an entity/juridical person.

Part IV - Identification of Beneficial Owner

For opening an account of a Legal Person who is not a natural person, the beneficial owner(s) shall be identified and all reasonable steps to verify his/her identity shall be undertaken keeping in view the following:

(a) 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.

(b) 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 can be obtained.

Part V – On-going Due Diligence

IHFL 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 the source of funds.

Following types of transactions shall necessarily be monitored

- (a) Large and complex 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.

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, the policy may require that 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 to the Company 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. the Company may apply enhanced due diligence measures 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.

Examples of customers requiring higher due diligence may include-

- non-resident customers,
- high net worth individuals,
- trusts, charities, NGOs and organizations receiving foreign donations,
- companies having close family shareholding or beneficial ownership,
- firms with 'sleeping partners',
- politically exposed persons (PEPs) of foreign origin,
- non-face to face customers, and
- those with dubious reputation as per public information available, etc.

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.

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.

In case of Legal entities, IHFL shall review the documents sought at the time of opening of account and obtain fresh certified copies.

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

IHFL shall ensure that KYC documents, as per extant requirements of the RBI Guidelines are available with them.

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

IHFL will provide acknowledgment with date of having performed KYC updation.

In case of existing customers, IHFL shall obtain the Permanent Account Number or equivalent e-document thereof or Form No.60, by such date as may be notified by the Central Government, failing which IHFL will 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.

Provided that before temporarily ceasing operations for an account, the IHFL shall give the customer an accessible notice and a reasonable opportunity to be heard.

Explanation – For the purpose of this Section, “temporary ceasing of operations” in relation an account shall mean the temporary suspension of all transactions or activities in relation to that account by the IHFL till such time the customer complies with the provisions of this Section. In case of asset accounts such as loan accounts, for the purpose of ceasing the operation in the account, only credits shall be allowed.

IHFL shall be guided by extant provisions of RBI guidelines in case of receipt of request for opening account based relationship made in case of following

- (a) Accounts of Politically Exposed Persons (PEPs)
- (b) Accounts of non-face-to-face customers (other than Aadhaar OTP based on-boarding)
- (c) Client accounts opened by professional intermediaries

Monitoring of Transaction

IHFL shall take following steps regarding maintenance, preservation and reporting of customer account information, with reference to provisions of PML Act and Rules.

- (a) maintain all necessary records of transactions between the IHFL 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 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;
 - (v) the date on which the transaction was conducted; and

(vi) 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. Reporting Requirements to Financial Intelligence Unit – India

IHFL shall furnish to the Director, Financial Intelligence Unit-India (FIU-IND), information referred to in Rule 3 of the PML (Maintenance of Records) Rules, 2005 in terms of Rule 7 thereof. A copy of such information shall be retained by the Principal Officer for the purposes of official record.

IHFL has taken note of the reporting formats and comprehensive reporting format guide, prescribed/ released by FIU-IND and Report Generation Utility and Report Validation Utility developed to assist reporting entities in the preparation of prescribed reports.

The editable electronic utilities to file electronic Cash Transaction Reports (CTR) / Suspicious Transaction Reports (STR) which FIU-IND has placed on its website shall be made use of by IHFL which are yet to install/adopt suitable technological tools for extracting CTR/STR from their live transaction data.

The Principal Officers of IHFL shall have suitable arrangement to cull out the transaction details from branches which are not yet computerized and to feed the data into an electronic file with the help of the editable electronic utilities of CTR/STR which are available on FIU-IND website <http://fiuindia.gov.in>

As per Rule 3 of the Rules Prevention of Money-Laundering (Maintenance of Records) Rules 2005, IHFL shall maintain a record of all transactions

As per Rule 8 of the Prevention of Money-Laundering (Maintenance of Records) Rules 2005 following are the prescribes time limit for furnishing information to the Director, FIU-IND which are as follows.

For CTR - Montly (if applicable) - 15th day of the succeeding month.

For STR (as and when applicable) - not later than seven working days on being satisfied that the transaction is suspicious.

IHFL shall not put any restriction on operations in the accounts where an STR has been filed. IHFL shall keep the fact of furnishing of STR strictly confidential. It shall be ensured that there is no tipping off to the customer at any level.

Robust software, throwing alerts when the transactions are inconsistent with risk categorization and updated profile of the customers shall be put in to use as a part of effective identification and reporting of suspicious transactions.

9.Requirements/obligations under International Agreements Communications from International Agencies

IHFL shall ensure that in terms of Section 51A of the Unlawful Activities (Prevention) (UAPA) Act, 1967 and amendments thereto, 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 approved by and periodically circulated by the United Nations Security Council (UNSC). The details of the two lists are as under:

- (a) The "ISIL (Da'esh) & Al-Qaida Sanctions List", which includes names of individuals and entities associated with the Al-Qaida. The updated ISIL & AlQaida Sanctions List is available at

<https://scsanctions.un.org/fop/fop?xml=htdocs/resources/xml/en/consolidated.xml&xslt=htdocs/resources/xsl/en/al-qaida-r.xsl>

- (b) The "1988 Sanctions List", consisting of individuals (Section A of the consolidated list) and entities (Section B) associated with the Taliban which is available at

<https://scsanctions.un.org/fop/fop?xml=htdocs/resources/xml/en/consolidated.xml&xslt=htdocs/resources/xsl/en/taliban-r.xsl>.

Company shall verify the UNSC sanction list, Prevention & Suppression of Terrorism list, Weapons of Mass Destruction & their Delivery Systems have been added for meticulous compliance

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.

IHFL shall list the details of accounts resembling any of the individuals/entities in the above lists and shall also be reported to FIU-IND apart from advising Ministry of Home Affairs.

10.Other Instructions

IHFL shall treat Information collected from customers for the purpose of opening of account as confidential and details thereof 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, IHFL 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. Except

- i. Where disclosure is under compulsion of law
- ii. Where there is a duty to the public to disclose,
- iii. The interest of bank requires disclosure and
- iv. Where the disclosure is made with the express or implied consent of the customer.

11.CDD Procedure and sharing KYC information with Central KYC Records Registry (CKYCR)

IHFL will capture the KYC information for sharing with the CKYCR in the manner mentioned in the Rules, as required by the revised KYC templates prepared for 'individuals' and 'Legal Entities' as the case may be.

12.Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)

IHFL will adhere provisions of Income Tax Rules 114F, 114G and 114H and determine whether they are a Reporting Financial Institution as defined in Income Tax Rule 114F and if so, shall take adequate steps for complying with the reporting requirements as specified by Income Tax Department from time to time.

13.Selling Third party products

IHFL will act as agents while selling third party products as per regulations in force from time to time and shall comply with the applicable law.

14.Hiring of Employees and Employee training

- (a) Adequate screening mechanism as an integral part of their personnel recruitment/hiring process shall be put in place by IHFL
- (b) On-going employee training programme shall be put in place so that the members of staff are adequately trained in AML/CFT policy. The focus of the training shall be different for frontline staff, compliance staff and staff dealing with new customers. The front desk staff shall be specially trained to handle issues arising from

lack of customer education. Proper staffing of the audit function with persons adequately trained and well-versed in AML/CFT policies of the IHFL, regulation and related issues shall be ensured.

15. Introduction of New Technologies

Company shall identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products. Further, company shall ensure:

(a) to undertake the ML/TF risk assessments prior to the launch or use of such products, practices, services, technologies; and

(b) adoption of a risk-based approach to manage and mitigate the risks through appropriate EDD measures and transaction monitoring, etc.

16. Adherence to Know Your Customer (KYC) guidelines by HFCs and persons authorised by HFCs including brokers/agents etc.

IHFL, persons authorised by IHFL and its broker/agents shall ensure applicable KYC guidelines prescribed by RBI from time to time.

17. Digital KYC Process

Annexure –I

A. The IHFL shall develop an application for digital KYC process which shall be made available at customer touch points for undertaking KYC customers and the KYC process shall be undertaken only through this authenticated application of the IHFL.

B. The access of the Application shall be controlled by the IHFL 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 IHFL to its authorized officials.

C. The customer, for the purpose of KYC, shall visit the location of the authorized official of the IHFL or vice-versa. The original OVD shall be in possession of the customer.

D. The IHFL 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 IHFL shall put a watermark in readable form having CAF number, GPS coordinates, authorized official's name, unique employee Code (assigned by IHFL) and Date (DD:MM:YYYY) and time stamp (HH:MM:SS) on the captured live photograph of the customer.

E. The Application of the IHFL 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/eAadhaar 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 IHFL shall not be used for customer signature. The IHFL 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 IHFL. 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 RE, 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 IHFL 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 RE 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.