

# **Swarna Pragati Housing Microfinance Pvt. Ltd.**



SWARNA PRAGATI HOUSING

## **KYC and AML Policy**

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## 1. Introduction

The Reserve Bank of India (RBI) has issued Master Directions – Know Your Customer (KYC) Directions- 2016 on 'Know Your Customer (KYC)' and 'Anti Money Laundering Measures', for Housing Finance Companies, wherein the Housing Finance Companies (HFCs) are advised to follow certain customer identification procedure and monitoring of suspicious transactions for reporting to the appropriate authority. Further, NHB and RBI also advised the HFCs to put in place a proper policy frame work on KYC & AML duly approved by their Board of Directors.

Pursuant to the Guidelines, this policy on “Know Your Customer (KYC) norms and Anti Money Laundering (AML) measures” is put in place with the approval of the Board of Directors of Swarna Pragati Housing Microfinance Private Limited (SPHM) and SPHM is committed to its strict compliance.

This policy of the Company is based on the prevailing guidelines and various circulars issued by National Housing Bank (NHB), which shall enable the Company to know/understand its customers and their financial dealings better which in turn will help it to carry out its lending / credit operations and manage its risks prudently.

## 2. Objective and definition of this policy

### 2.1 Know Your Customer Policy

The objective of KYC guidelines is to prevent HFCs from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable HFCs to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently. SPHM has framed its KYC policy incorporating the following four key elements:

1. Customer Acceptance Policy;
2. Customer Identification Procedures;
3. Monitoring of Transactions; and
4. Risk Management

### 2.2 For the purpose of the KYC policy, a 'Customer' is defined as:

1. a person or entity that maintains an account and/or has a business relationship with SPHM;
2. one on whose behalf the account is maintained (i.e. the beneficial owner);
3. beneficiaries of transactions conducted by professional intermediaries, such as Chartered Accountants, Solicitors, etc. as permitted under the law, and
4. Any person or entity connected with a financial transaction which can pose significant reputational or other risks to SPHM, say, a wire transfer or issue of a high value demand draft as a single transaction.

### **3. Customer Acceptance Policy**

SPHM shall have the following criteria for Customer Acceptance norms as under:

1. No account is opened in anonymous or fictitious/benami name(s);
2. Parameters of risk perception are clearly defined in terms of the location of customer, clients and mode of payments;
3. Volume of turnover, social and financial status, etc. to enable categorization of customers into low, medium and high risk (these customers will require very high level of monitoring);
4. Documentation requirements and other information collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of Prevention of Money Laundering Act, 2002 and guidelines issued from time to time;
5. SPHM will not open an account where it is unable to apply appropriate customer due diligence measures, i.e. where SPHM is unable to verify the identity and /or obtain documents required as per the risk categorization due to non-co-operation of the customer or non-reliability of the data/information furnished. However, SPHM will have suitable built-in safeguards to avoid harassment of the customer.
6. Permanent Address proof from new applicants will be collected. The documents which can be accepted as proof of address are mentioned in Annexure 1
7. For existing customers who wish to pre-close their loan account with SPHM following will be collected:
  - Permanent Address proof (As per Annexure 1)
  - A declaration from the customer regarding source of funds being used for pre-closure of the loan account.
  - Closure of the loan account authority will be restricted to authorized person at the branch.
8. Circumstances, in which a customer is permitted to act on behalf of another person/entity, will be clearly spelt out in conformity with the established law and practices, as there could be occasions when an account is operated by a mandate holder or where an account may be opened by an intermediary in a fiduciary capacity, and
9. Necessary checks before opening a new account to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations, etc.

### **4. Customer Identification Procedure (CIP)**

Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information while establishing a relationship.

SPHM will obtain sufficient information necessary such as specified in Annexure 1 to establish, to its satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship.

Being satisfied means that SPHM is able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place. Besides risk perception, the nature of information/ documents required would also depend on the type of customer (individual, corporate, etc). For customers who are natural persons, which will be most of its clients, SPHM will obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph.

For customers that are legal persons or entities (very unlikely to be a customer), SPHM will:

1. verify the legal status of the legal person/ entity through proper and relevant documents
2. verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person and
3. Understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person.

Where SPHM is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, SPHM may consider closing the account or terminating the business relationship after issuing due notice to the customer explaining the reasons for taking such a decision.

As per the RBI guidelines, the SPHM is prudently adopting the KYC norms specially designed for Rural and under / unbanked segment with various documents that can be accepted for complying with KYC norms. The list of documents that can be accepted as Identity proof, Address proof and signature proof are given in the Annexure 1 attached herewith.

## **5. Monitoring of Transactions**

Ongoing monitoring is an essential element of effective KYC procedures. SPHM can effectively control and reduce its risk only if it has an understanding of the normal and reasonable activity of the customer so that it can identify transactions that fall outside the regular pattern. However, the extent of monitoring will depend on the risk sensitivity of the account. Since SPHM will not have any deposit accounts, this situation will hardly arise, but SPHM will in any case pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose or transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer. SPHM will put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures. SPHM will ensure that a record of transactions in the accounts is preserved and maintained as required in terms of section 12 of the PML Act, 2002 (and the Amended Act, 2009). It will also ensure that transactions of suspicious nature and/or any other type of transaction notified under section 12 of the PML Act, 2002 (and the Amended Act, 2009), is reported to the appropriate law enforcement authority.

SPHM while reporting the Suspicious Transaction Report (STR) shall be guided by and follow the guidelines as specified in the 'Guidance Note on Effective Process of STRs Detections and Reporting for Housing Finance Sector, issued by Financial Intelligence Unit - India (FIU), Ministry of Finance in consultation with National Housing Bank dated 30th December, 2015. Considering the loan ticket size of SPHM, such guideline will generally be not applicable to the Company.

## **6. Risk Management**

1. SPHM will ensure that an effective KYC program is in place and has established appropriate procedures and is overseeing its effective implementation. The program covers proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility has been explicitly allocated within SPHM to ensure that SPHM's policies and procedures are implemented effectively.
2. SPHM's internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. The compliance function will provide an independent evaluation of SPHM's policies and procedures, including legal and regulatory

requirements. SPHM will ensure that its audit machinery is staffed adequately with individuals who are well-versed in such policies and procedures. Concurrent/ Internal Auditors will specifically check and verify the application of KYC procedures and comment on the lapses observed in this regard. The compliance in this regard will be put up before the Audit Committee of the Board at quarterly intervals.

3. SPHM will have an ongoing employee training program so that members of the staff are adequately trained in KYC procedures. Training requirements will have different focuses for frontline staff, compliance staff and staff dealing with new customers.
4. SPHM allocates the risk categorisation as per each customer profile. The customer profile contains information relating to the customer's identity, social/financial status, nature of business activity, information about his/ clients' business and their location, etc. The nature and extent of due diligence done by company decides the risk perceived on the customer. However, while preparing the customer profile, SPHM seeks only such information from the customer which is relevant to the risk category and is not intrusive. The customer profile is a confidential document and details contained therein are not divulged for cross selling or any other purposes. However, SPHM will continue to share the client data with CIBIL and empanelled FI agencies and such other organizations/entities subject to confidentiality clause, since the purpose of sharing this information is to ensure risk minimization.

**Customers are categorized broadly into Low Risk, Medium Risk, and High Risk categories:-**

### **6.1 Low Risk Customers**

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, are categorized as low risk.

Illustrative examples of low risk customers could be

1. Salaried applicants with salary paid by cheque.
2. People belonging to government departments.
3. People working with government owned companies, regulators and statutory bodies, etc.
4. People belonging to lower economic strata of the society whose accounts show small balances and low turnover.
5. People working with Public Sector Units.
6. People working with reputed Public Limited Companies & Multinational Companies.

### **6.2 Medium and High Risk customers:**

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

It is highly unlikely that SPHM will have any medium / high risk clients given its focus on the lower income section of society, but for information, examples of customers requiring higher due diligence will include:

1. Non-resident customers,
2. High net worth individuals,
3. Trusts, charities, NGOs and organizations receiving donations,
4. Companies having close family shareholding or beneficial ownership,
5. Firms with 'sleeping partners',
6. Politically exposed persons (PEPs) i.e. individuals who are or have been entrusted with prominent public functions by a foreign country including the Heads of States/Governments, senior politicians, senior government or judicial or military officers, senior executives of state-owned corporations and important political party officials,
7. Non-face to face customers, and
8. Those with dubious reputation as per public information available etc.

As regards the accounts of PEPs, in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, SPHM seeks and obtains management approval to continue the business relationship with such person, and also undertake enhanced monitoring.

It is important to bear in mind that the adoption of Customer Acceptance Policy and its implementation will not result in denial of SPHM's services to the general public, especially to those who are financially or socially disadvantaged.

SPHM's exposure to any of the clients is subject to credit risk policy and operations manual of the company. However, for customer acceptance, KYC is a prerequisite for a credit risk grading.

## **7. Customer Education**

The implementation of KYC procedures requires SPHM to demand certain information from customers, which may be of personal nature, or which has hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. SPHM's front line staff will therefore personally discuss this with customers and if required, SPHM will also prepare specific literature/ pamphlets, etc. so as to educate the customer on the objectives of the KYC program.

## **8. Introduction of New Technologies**

SPHM will pay special attention to any money laundering threats that may arise from new or developing technologies including on-line transactions that might favour anonymity, and take measures, if needed, to prevent its use in money laundering schemes.

## **9. Appointment of Principal Officer**

SPHM has appointed Company Secretary to be designated as 'Principal Officer'. Per the NHB guidelines, the Principal Officer is corporate office resource and will be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He/She will maintain close liaison with enforcement agencies, other HFCs and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

Principal Officer will also report any unusual matter/information to the management committee of the company as and when it occurs.

## **10. Maintenance of Records of Transactions**

As unlikely as it will be in SPHM's case, due to its focus on lower income families, SPHM has a system of maintaining proper record of transactions prescribed under Rule 3, of the Prevention of Money-Laundering and value of transactions, the procedure and manner of maintaining and verification and maintenance of records of the identity of the clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005, as mentioned below:

1. All cash transactions of the value of more than Rupees Five Lakh (Rs 5 Lakhs) or its equivalent in foreign currency;
2. All series of cash transactions integrally connected to each other which have been valued below Rupees Five Lakh (5 Lakh) or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds Rupees Five Lakh;
3. All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
4. All suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

## **11. Information to be preserved**

As per the NHB guidelines, SPHM is required to maintain the following information in respect of transactions referred to in Rule3:

1. the nature of the transactions;
2. the amount of the transaction and the currency in which it was denominated;
3. the date on which the transaction was conducted; and
4. the parties to the transaction.

SPHM has 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. SPHM will maintain for at least ten years from the date of cessation of transaction between the bank and the client, all necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.

SPHM will also ensure that records pertaining to the identification of the customer and his / her address (e.g. copies of documents like passports, identity cards, driving licenses, PAN, utility bills, etc.) obtained while opening the account and during the course of business relationship, are properly preserved for at least ten years after the business relationship is ended. The identification records and transaction data will be made available to the competent authorities upon request.

## **12. Reporting to Financial Intelligence Unit-India**

In terms of the PMLA rules, SPHM will report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,  
Financial Intelligence Unit-India, 6 th Floor, Hotel Samrat, Chanakyapuri,



New Delhi-110021

SPHM will ensure that the provisions of PMLA Rules framed and the Foreign Contribution and Regulation Act, 1976, wherever applicable, are adhered to strictly.

### **13. Compliance of KYC Policy**

SPHM shall ensure compliance of this policy and for this purpose -

1. Head -Credit to ensure compliance of this policy and send quarterly compliance certificate to the Compliance Officer of the Company.
2. Internal Auditors to verify the compliance of KYC AML Policy and procedures.
3. Submission of quarterly audit notes and compliance to the Audit Committee of the Company.

**Annexure I**

**CUSTOMER IDENTIFICATION PROCEDURE FEATURES TO BE VERIFIED AND DOCUMENTS THAT MAY BE OBTAINED FROM CUSTOMERS**

Features	Documents ( Certified Copy)
<p><b>Individuals</b></p> <p>Legal name and any other names used</p>	<ul style="list-style-type: none"> <li>a. Aadhaar card with Aadhar Number where the customer is desirous of receiving any benefit or subsidy under any scheme notified under Section 7 of the Aadhaar Act, along one recent photograph;</li> <li>b. Permanent Account Number (PAN) card.</li> <li>c. E-KYC services of Unique Identification Authority of India (UIDAI) – through which the information containing demographic details and photographs is made available from UIDAI as a result of e-KYC process through Aadhaar based One Time Pin (OTP). However, for the purpose the individual / customer has to authorize the UIDAI by explicit consent to release his / her identity / address through biometric identification to the Company’s branches / offices.</li> <li>d. e-Aadhar downloaded from UIDAI website, subject to the following :               <ul style="list-style-type: none"> <li>i. If the prospective customer knows only his / her Aadhaar number, the Company may print the prospective customer's e-Aadhaar letter in its branch/ office directly from the UIDAI portal; or adopt e-KYC procedure as mentioned above in Paragraph III ;</li> <li>ii. If the prospective customer carries a copy of the e-Aadhaar downloaded elsewhere, the Company may print the prospective customer's e-Aadhaar letter in its branch/ office directly from the UIDAI portal; or adopt e-KYC procedure as mentioned in c. above; or confirm identity and address of the resident through simple authentication service of UIDAI.</li> <li>iii. Physical Aadhaar card/ letter issued by UIDAI containing the details of name, address and Aadhaar number received through post.</li> </ul> </li> <li>e. Further, in addition to the above documents the Company shall also accept the below mentioned documents as proof of identity and address:               <ul style="list-style-type: none"> <li>1) Passport</li> <li>2) PAN Card</li> <li>3) Voter’s Identity Card</li> <li>4) Driving License</li> <li>5) Identity Card (subject to Company’s satisfaction)</li> </ul> </li> </ul>

	<p>f. Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of the Company</p> <p>g. No other document will be accepted as Officially Valid Documents (OVD) for ID proof. In view of the change in the definition of 'Officially Valid Documents,' henceforth, only the documents mentioned in the revised PML Rules would be accepted. The Company does not have any discretion to accept any other document for this purpose.</p>
<p>Correct permanent address for proof of residence of individuals</p>	<p>Further, in addition to the above documents the Company shall also accept the below mentioned documents as proof of address:</p> <ul style="list-style-type: none"> <li>(i) Telephone Bill ( not older than 2 months)</li> <li>(ii) Account Statement ( not older than 2 months)</li> <li>(iii) Letter from any recognized public authority</li> <li>(iv) Electricity Bill ( not older than 2 months)</li> <li>(v) Ration Card</li> <li>(vi) Aadhaar Card.</li> </ul> <p>a. Letter from Employer (Signed by HR/Proprietor / Owner), subject to satisfaction of the Company</p> <p>b. Any one document which the customer provides to the satisfaction of the Company will suffice, which may include the following :</p> <p>c. Leave &amp; License Agreement or Rent Agreement having the validity as on date of entering into a relationship with the Company;</p> <p>d. Piped Gas Connection Bill/Post Paid Mobile Bill (carrying the present address of the customer, provided that the said bills are not older than 2 months);</p> <p>e. A person not having an address proof in his/her own name may provide an address proof (as accepted by the Company) of any close relative (e.g...Spouse, son, daughter, parents) supported by a document establishing their relationship (e.g. PAN Card, Passport, Birth Certificate. etc.) supported with a declaration that the said customer is residing with the relative whose address proof is being provided to the Company;</p> <p>f. Acceptance of notarized affidavit as address proof in the rural areas</p>

<p><b>Companies</b></p> <ul style="list-style-type: none"> <li>- Name of the company</li> <li>- Principal place of business</li> <li>- Mailing address of the company - Telephone/Fax Number</li> </ul>	<ul style="list-style-type: none"> <li>a. Certificate of Incorporation and Memorandum &amp; Articles of Association.</li> <li>b. Certificate of incorporation and Memorandum &amp; Articles of Association Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account.</li> <li>c. Power of Attorney granted to its managers, officers or employees to transact business on its behalf</li> <li>d. Copy of PAN allotment letter</li> <li>e. Copy of the telephone bill</li> </ul>
<p><b>Partnership Firms</b></p> <ul style="list-style-type: none"> <li>- Legal name</li> <li>- Address</li> <li>- Names of all partners and their addresses- -Telephone numbers of the firm and partners</li> </ul>	<ul style="list-style-type: none"> <li>a. Registration certificate, if registered Partnership deed.</li> <li>b. Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf.</li> <li>c. Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses.</li> <li>d. Telephone bill in the name of firm/partners.</li> </ul>
<p><b>Trusts &amp; Foundations</b></p> <ul style="list-style-type: none"> <li>- Names of trustees, settlers, beneficiaries and signatories</li> <li>- Names and addresses of the founder, the managers/directors and the beneficiaries Telephone/fax numbers</li> <li>- the identification of beneficial owner(s)</li> </ul>	<ul style="list-style-type: none"> <li>a. Certificate of registration, if registered</li> <li>b. Power of Attorney granted to transact business on its behalf</li> <li>c. Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/ managers/ directors and their addresses</li> <li>d. Resolution of the managing body of the foundation/association</li> <li>e. Telephone bill</li> <li>f. 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</li> </ul>
<p><b>Sole Proprietor Firm</b></p>	<p>For opening an account in the name of a sole proprietary firm, CDD of the individual (proprietor) shall be carried out</p> <ul style="list-style-type: none"> <li>(a) Registration certificate including Udyam Registration Certificate (URC) issued by the Government</li> <li>(b) Certificate/licence issued by the municipal authorities under Shop and Establishment Act</li> <li>(c) Sales and income tax returns</li> <li>(d) CST/VAT/ GST certificate</li> <li>(e) Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities</li> </ul>

	<p>(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</p> <p>(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</p> <p>(h) Utility bills such as electricity, water, landline telephone bills, etc.</p>
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**NOTE :**

It is herewith clarified that if the address provided by the customer(s) is the same on the document submitted for identify proof, the subject document may be accepted as a proof of both identity and address. However, if the current address mentioned by the customer is different from the address indicated on the document submitted for proof of identity, a separate proof of address should be obtained as per the list of documents mentioned above.