

Hindusthan Microfinance Private Limited
(HMPL)



Know Your Customer (KYC) & Prevention of Money Laundering (PMLA) Policy

Policy version: 1.1

HINDUSTHAN MICROFINANCE PRIVATE LIMITED (HMPL)

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The KYC Guidelines adopted by Hindusthan Microfinance Private Limited (hereinafter referred to as "HMPL") is in accordance with 'Know Your Customer (KYC) Guidelines' issued by the RBI, vide its Circular no. DNBS(PD).CC48/10.42/2004-05 dated 21st February 2005, issued revised KYC guidelines to all the Banking as well as Non Banking Finance Companies (NBFCs) vide its Circular no. RBI/2015-16/108 DNBR (PD) CC No. 051/03.10.119/2015-16 dated July 1, 2015. Further, the Prevention of Money Laundering (PMLA) policy adopted is in accordance to the provisions of RBI Circular No. DNBC (PD). CC No. 68/03.10.042/2005-06 dated April 5, 2006.

The objective of these guidelines is to prevent NBFC MFI from being used, intentionally or unintentionally, by criminal elements for money laundering activities. HMPL's KYC policy is framed incorporating the following four key elements:

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

For the purpose of KYC policy, a 'Customer' may be defined as:

- a person or entity that maintains an account and/or has a business relationship with the company;
- Any person or entity connected with a financial transaction which can pose significant reputational or other risks to the company, say, a wire transfer or issue of a high value demand draft as a single transaction.

CUSTOMER ACCEPTANCE POLICY

The Company's Customer Acceptance Policy lays down explicit criteria for acceptance of customers in accordance with the guidelines issued by the RBI. The Customer Acceptance Policy provides for guidelines on the following aspects of customer relationship in the company:

- (i) No account is opened in anonymous or fictitious/benami name(s);
- (ii) Parameters of risk perception are clearly defined in terms of the location of customer and his clients and mode of payments, volume of turnover, social and financial status, etc. to enable categorization of customers into low, medium and high risk;
- (iii) Documentation requirements and other information to be 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 (Central Act No. 15 of 2003) (hereinafter referred to as PMLA), rules framed there under and guidelines issued from time to time;

- (iv) Not to open an account or close an existing account where the Company is unable to apply appropriate customer due diligence measures, i.e. Company is unable to verify the identity and /or obtain documents required as per the risk categorisation due to non co-operation of the customer or non reliability of the data/information furnished to the Company. The Company should have suitable built-in safeguards to avoid harassment of the customer. 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;
- (v) Circumstances, in which a customer is permitted to act on behalf of another person/entity, should 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
- (vi) The Company shall make necessary checks before opening a new account so as 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.
- (vii) The company shall prepare a profile for each new customer based on risk categorization. The customer profile may contain 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 will depend on the risk perceived by HMPL. However, while preparing the customer profile, HMPL will 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 will not be divulged for cross selling or any other purposes.

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- (viii) Risk Categorization:
 - a. 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. 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.
 - b. 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 shall 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.

CUSTOMER IDENTIFICATION PROCEDURE

The company shall,

- (a) At the time of commencement of an account-based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship, and
- (b) In all other cases, verify identity while carrying out:
 - (i) Transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected,
 - (ii) any international money transfer operations.

The company shall identify the beneficial owner in a transaction and take all reasonable steps to verify his identity. The Company shall also exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, his business and risk profile.

HMPL will obtain sufficient information necessary 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 HMPL must be 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. For customers, HMPL will obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph.

The customer identification will be through an introductory reference from an existing customer with a satisfactorily conducted account or a person known to the Company and on the basis of documents provided by the customer or through staff members knowing the potential customer or any other document from the indicative lists given in Annexure for identification and proof of residence.

MONITORING OF TRANSACTIONS

Ongoing monitoring is an essential element of effective KYC procedures. HMPL 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 HMPL will not have any deposit accounts, this situation will hardly arise, but HMPL 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. HMPL will put in place a system of periodical review of risk

categorization of accounts and the need for applying enhanced due diligence measures.

HMPL 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. 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, is reported to the appropriate law enforcement authority.

RISK MANAGEMENT

The Company has ensured 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 HMPL to ensure that HMPL policies and procedures are implemented effectively. HMPL has devised procedures for creating Risk Profiles of new customers and will apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship and the nature, size and volume of HMPL's business.

HMPL 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 HMPL policies and procedures, including legal and regulatory requirements. HMPL 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. The company has also established a system of fixing accountability for serious lapses and intentional circumvention of prescribed procedures and guidelines.

HMPL will have an ongoing employee training program so that members of the staff are adequately trained in KYC procedures. Training

Customer Education:

The company shall prepare specific literature/ pamphlets, etc. so as to educate the customer about the objectives of the KYC programme. The front desk staff shall be specially trained to handle such situations while dealing with customers.

Introduction of New Technologies:

HMPL 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.

APPOINTMENT OF DESIGNATED DIRECTOR AND PRINCIPAL OFFICER

Reserve Bank vide DNBS (PD) CC.NO.378/03.10.42/2014-15 dated May 29, 2014, has advised NBFCs to nominate a Designated Director for ensuring compliance with the obligations under the PML Act.

Designated Director

"Designated Director" means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the PML Act and the Rules and includes :-

- (i) The Managing Director or a whole -time Director duly authorized by the Board of Directors if the reporting entity is a company,
- (ii) The Managing Partner if the reporting entity is a partnership firm,
- (iii) The Proprietor if the reporting entity is a proprietorship concern,
- (iv) The Managing Trustee if the reporting entity is a trust,
- (v) A person or an individual, as the case may be, who controls and manages the affairs of the reporting entity, if the reporting entity is an unincorporated association or a body of individuals, and
- (vi) Such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above.

Explanation -

For the purpose of this clause, the terms "Managing Director" and "Whole-time Director" shall have the meaning assigned to them in the Companies Act.

Note -

However, in no case, the Principal Officer shall be nominated as the "Designated Director".

Principal Officer

HMPL will appoint a senior management officer to be designated as Principal Officer. With a view to enable the Principal Officer to discharge his responsibilities, the Principal Officer and other appropriate staff will have timely access to customer identification data and other CDD information, transaction records and other relevant information. Further, HMPL will ensure that the Principal Officer is able to act independently and report directly to the senior management or to the Board of Directors. The role and responsibilities of the Principal Officer includes overseeing and ensuring overall compliance with regulatory guidelines on KYC/AML/CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, rules and regulations made thereunder, as amended from time to time.

The name of the Designated Director and the Principal Officer so designated, his designation and address including changes from time to time, have to be advised to the Director and FIU-IND. Principal Officer shall be located at the head/corporate office of the HMPL and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with enforcement agencies, regulators and any other institution which is involved in the fight against money laundering and combating financing of terrorism.

MAINTENANCE AND PRESERVATION OF RECORDS

The company shall preserve the records of all transactions referred above for a period of five years from the date of transactions between the clients and the Company. The company shall also maintain records of the identity of all clients of the Company for a period of ten years from the date of cessation of transactions between the clients and the Company. The company has evolved a system for proper maintenance and preservation of information in a manner (in hard and soft copies) that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities.

Reporting to Financial Intelligence Unit-India

The company shall report information of transaction referred to in clause (a) of sub-section (1) of section 12 read with Rule 3 of the PML Rules relating to cash and suspicious transactions etc. to the Director, Financial Intelligence Unit-India (FIU-IND). If the principal officer of the company has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value to so to defeat the provisions of this section, such officer shall furnish information in respect of such transactions to the Director, FIU-IND within the prescribed time.

COMPLIANCE

This policy is made in accordance with the guidelines issued by the RBI. Considering the objectives and purpose of the KYC policy and AML measures, all the Branch Managers, frontline staff, compliance staff and the staff dealing with the customers are required to implement this policy effectively and with immediate effect.

KNOW YOUR CUSTOMER PROCESS

All customers on submission of Loan Application at the Branch will be categorized based on Risk Matrix given below.

	Low Risk Customer	Medium Risk Customer	High Risk Customer
Definition	(a) Customers like Salaried people- wherein all their income and expenses details are transparent and well structured. (b) Wherein only customers basic requirements of verifying the identity and location are to be met.	Customers those are less risky in nature as compare to high risk customers – can be categorised as Medium Risk.	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.
List of Customers as per Risk category	(a) Salaried employees whose salary structures are well defined, (b) People belonging to lower economic strata of the society whose accounts show small balances and low turnover, (c) Government departments & Government owned companies, regulators and statutory bodies, etc. (d) Micro/Small/Medium enterprises filing regular ITR, good banking relationship, existing trade records with any Financial institutions etc.	(a) Client with over investment of Rs. 50 Lakh where identity and sources of wealth are not supported by public documents like income returns, registered conveyance deeds etc. (b) Clients with sudden spurt in volumes or investment without apparent reasons. (c) Clients who trade in derivatives. (d) Customers having speculative income. (e) Person in business/industry or trading activity where scope or history of unlawful trading / business activity dealings is more, etc.	(a) Non-resident customers, (b) High net worth individuals, (c) Trusts, charities, NGOs and organizations receiving donations, (d) Companies having close family shareholding or beneficial ownership, (e) Firms with 'sleeping partners', (f) Politically exposed persons (PEPs) of foreign origin, (g) Non-face to face customers, and (h) Those with dubious reputation as per public information available, etc. (i) NPA customers

Periodical Updating of KYC documents:

Based on the risk profile of a client, clients shall be asked to update his/her kyc documents periodically. Full KYC exercise will be required to be done

- a) at least every two years for high risk individuals and entities. (Definition of Risk category of client are mentioned below in customer acceptance policy)
- b) at least every ten years for low risk and
- c) at least every eight years for medium risk individuals and entities taking in to account whether and when client due diligence measures have previously been undertaken and the adequacy of data obtained. Physical presence of the clients may, however, not be insisted upon at the time of such periodic updations.

It is the duty of the client to advise immediately any change of his registered address. In case a client is found not residing in his recorded address, he/she shall be asked to submit updated KYC documents along with current address proof at the earliest.

MONITORING OF RISK PROFILE OF BORROWERS:

HMPL will constantly monitor the risk profile of the borrowers and may move them from one set of risk profile to the other based on certain criteria such as Default in the payment of instalments, assets becoming Non-performing in a specific class of borrowers, etc. On moving from a set of risk profile to another, the Branch Manager / Credit Manager will be advised to take action such as careful lending on a particular class of profile of customers, etc.,

Customer Identification Procedure

The Customer Risk profile will be captured as a separate field in the HMPL CoPass (Cloud base) Software. The Customer Identification document as per grid below will be collected along with the Loan Application.

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

Features	Documents (Certified copy)
<p>Individuals</p> <p>-Legal name and any other names used</p> <p>-Correct permanent address</p>	<p>(i) Passport (ii) PAN card (iii) Voter’s Identity Card (iv) Driving license (v) Identity card (vi) AADHAR Card (vii) Letter from a recognized public authority or public servant verifying the identity and residence of the customer (viii) Any government-issued photo ID card</p> <p>(i) Telephone bill (ii) Bank Account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Aadhar Card (vii) Letter from employer (viii) Passport</p> <p>(any one document which provides customer information) One recent passport size photograph except in case of transactions referred to in Rule 9(1) (b) of the PML Rules.</p>
<p>Companies -Name of the company -Principal place of business -Mailing address of the company -Telephone/Fax Number</p>	<p>(i) Certificate of incorporation (ii) Memorandum & Articles of Association (iii) Resolution from the Board of Directors and Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) an officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf. (v) Telephone Bill.</p>

Partnership Firms@ -Legal name -Address - Names of all partners and their addresses - Telephone numbers of the firm and partners	(i) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses. (v) Telephone Bill in the name of firm/partners.
Trusts & Foundations -Names of trustees, settlers, beneficiaries and signatories - Names and addresses of the founder, the managers/directors and the beneficiaries - Telephone/fax numbers	(i) Certificate of registration, if registered (ii) Trust Deed (iii) Power of Attorney granted to transact business on its behalf (iv) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/managers/ directors and their addresses (v) Resolution of the managing body of the foundation/association. (vi) Telephone Bill.
Unincorporated association or a body of individuals	(i) resolution of the managing body of such association or body of individuals (ii) power of attorney granted to him to transact on its behalf (iii) an officially valid document in respect of the person holding an attorney to transact on its behalf (iv) and such other information to collectively Established the legal existing of such as associates or body of individuals

I. ADDRESS PROOF (in case of Blood relative)

In case of close relatives, e.g. husband, wife, son, daughter and parents, etc. who live with their wife, husband, father/mother, daughter and son, who do not have officially valid document for address verification, then, in such cases, Company will obtain OVD for proof of address and identity of the relative with whom the prospective customer is living together with a declaration from the relative that the said person (prospective customer) proposing to take loan is a relative and is staying with her/him. Company can use any supplementary evidence such as a letter received through post for further verification of the address. While issuing operational instructions to the branches on the subject, Company will be sensitive enough and keep in mind the spirit of instructions issued by the Reserve Bank and avoid undue hardships to individuals who are, otherwise, classified as low risk customers

II. LLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO LOANS:

- a. Customer is reluctant to provide information, data, documents;
- b. Submission of false documents, data, purpose of loan, details of accounts;
- c. Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc;
- d. Reluctant to meet in person, represents through a third party/Power of Attorney

- holder without sufficient reasons;
- e. Approaches a branch/office of a EFBL, which is away from the customer's residential or business address provided in the loan application, when there is EFBL branch/office nearer to the given address;
 - f. Unable to explain or satisfy the numerous transfers in the statement of account/multiple accounts;
 - g. Initial contribution made through unrelated third party accounts without proper justification;
 - h. Availing a top-up loan and/or equity loan, without proper justification of the end use of the loan amount;
 - i. Suggesting dubious means for the sanction of loan;
 - j. Where transactions do not make economic sense;
 - k. There are reasonable doubts over the real beneficiary of the loan and the flat to be purchased;
 - l. Encashment of loan amount by opening a fictitious bank account;
 - m. Applying for a loan knowing fully well that the property/dwelling unit to be financed has been funded earlier and that the same is outstanding;
 - n. Sale consideration stated in the agreement for sale is abnormally higher/lower than what is prevailing in the area of purchase;
 - o. Multiple funding of the same property/dwelling unit;
 - p. Request for payment made in favour of a third party who has no relation to the transaction;
 - q. Usage of loan amount by the customer in connivance with the vendor/builder/developer/broker/agent etc. and using the same for a purpose other than what has been stipulated.
 - r. Multiple funding / financing involving NGO / Charitable Organisation / Small / Medium Establishments (SMEs) / Self Help Groups (SHGs) / Micro Finance Groups (MFGs)
 - s. Frequent requests for change of address;
 - t. Overpayment of instalments with a request to refund the overpaid amount.

Board Review

The status of this mechanism shall be reviewed by the Board of Directors once a year.