

# KNOW YOUR CUSTOMER AND ANTI MONEY LAUNDERING POLICY

(KYC & AML POLICY)



**FINOVA CAPITAL**  
FINANCING DREAMS

## KYC POLICY

### I. Introduction and Purpose

Prevention of Money Laundering Act, enacted by the Parliament in 2002, makes it obligatory for all the financial intermediaries like banks, financial institutions, Non Banking Financial Companies (NBFCs), etc. to follow 'Know Your Customer' norms which basically define the customer identification process. As per the KYC principles, intermediaries have to collect documents known as KYC documents before entering into any transaction with the customers. The KYC process includes making reasonable efforts to determine true identity and beneficial ownership of accounts, source of funds, nature of customer's business, reasonableness of operations in the account visa-versa customer's business/income profile etc.

The KYC requirement is applicable to all categories of customers transacting with any financial intermediary.

### II. Objective

The objective of KYC process is to prevent financial intermediaries being used, intentionally or unintentionally by criminal elements for money laundering to fund various illegal activities including global terrorism. The KYC process has become the utmost need of the hour for all financial intermediaries in wake of fast spreading money-laundering menace across the globe.

FCPL has framed its KYC policy incorporating the following four key elements:

- Customer Acceptance Policy;
- Customer Identification Procedures;
- Monitoring of Transactions; and
- Risk management.

#### Customer

**For the purpose of KYC policy, a "Customer" will be defined as:**

- A person or entity that maintains an account and/or has a business relationship with the Company.
- One on whose behalf the account is maintained (i.e. the beneficial owner);
- Beneficiaries of transactions conducted by professional intermediaries such as Stock Brokers, Chartered Accountants, Company Secretaries, Solicitors etc. as permitted under the law, and
- Any person or entity connected with a financial transaction which can pose significant reputation or other risks to the Company, say a wire transfer or issue of a high value demand draft as a single transaction.

### III. Customer Acceptance Policy (Cap)

FCPL's Customer Acceptance Policy, which lays down explicit criteria for acceptance of customers, ensures the following aspects of the customer relationship:

- a) No account is opened in anonymous or fictitious/benami name(s);
- b) Mandatory information like Proof of Identity; Proof of Residence; Date of Birth; Father's Name; Residence Proof; Age Proof shall be sought from each customer for the purpose of KYC;
- c) Customers are all assessed for location of residence, business if any including type of clients and also the mode of transactions and payments (in NBFC's case, we require payments to be made through ACH unless in an emergency (and in any case given our business – of low ticket size loans – the level of cash handling is very minimal));
- d) 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). Currently given the size of our loans and type of clients we deal with, all our customers are considered low risk;
- e) Documentation requirements and other information collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of PML Act, 2002 and guidelines issued from time to time;
- f) FCPL will not open an account where it is unable to apply appropriate customer due diligence measures, i.e. Company shall not open any account or give any loan nor sanction any loan in the following circumstances:
  - Company is unable to verify the identity of the customer;
  - Customer without any valid or convincing reasons refuses to provide documents to the Company which are needed to determine the risk level in relation to the customer loan applied for by the customer and his paying capacity;
  - Information furnished by the customer does not originate from the reliable sources or appears to be doubtful due to lack of supporting evidence.
  - Identity of the customer, directly or indirectly matches with any individual terrorist or terrorist or prohibited/unlawful organizations, whether existing within the country or internationally, or if the customer or beneficiary is found, even remotely, to be associated with or affiliated to any illegal, prohibited or unlawful or terrorist organization as notified from time to time either by Govt. of India, State Govt. or any other national or international body/organization.

Subject to the above mentioned norms and caution, at the same time all the employees of Company will also ensure that the above norms and safeguards do not result in any kind of harassment or inconvenience to bonafide and genuine customers who should not feel discouraged while dealing with Company.

- g) In the event that the customer is unable to come, his/her relative/representative, except for handing over original property papers, are permitted to act on behalf of customer, and FCPL shall verify that the authorised representative has the necessary authority to do so by scrutinizing the authorizing document/s.
- h) Checks against any notified list of the RBI any other regulator, before accepting a customer, 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.
- i) FCPL will prepare a profile for each new customer which 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 FCPL. However, while preparing the customer profile, FCPL will seek only such information from the customer which is relevant 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.
- j) As per KYC policy, for acceptance and identification, Company's Customers shall be categorized based on perceived risk broadly into three categories – A, B & C.

Category A includes High Risk Customers; Category B contain Medium Risk Customers while Category C Customers include Low Risk Customers. None of the Customers will be exempted from Company's KYC procedure, irrespective of the status and relationship with Company or its Promoters. The above requirement may be moderated according to the risk perception.

(i) High Risk – (Category A): High Risk Customers typically includes:

- a) Non Resident Customers.
- b) NGOs and organizations receiving donations,
- c) Politically Exposed Persons (PEPs).
- d) Persons having dubious reputation as per public information available, etc.

**(ii) Medium Risk (Level II)**

- a) Salaried employees receiving in salary in cash.
- b) SENP
- c) Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.
- d) Trusts, charities, etc.
- e) Private Ltd companies.

(iii) Low Risk-(Category C):

- a. Government Employee.
- b. Salaried Employees having salary in bank accounts.

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

#### IV. Customer Identification Procedure (Cip)



FCPL while establishing a relationship; carrying out a financial transaction or when FCPL has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information.

FCPL 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 FCPL 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 (individual, corporate etc).

##### **Need for photographs:**

- Passport size photographs should be obtained from borrowers, guarantors and depositors
- In the case of joint accounts, partnership accounts, accounts of Societies, clubs, HUF, Trust and those of minors etc photographs of the Authorized Signatories should be obtained;
- In case of change in the Authorized Signatories, photograph of the new signatory should be obtained duly countersigned by the competent authorities of the concerned Institution /organization ;
- Where the account is operated by the letters of Authority or Power of Attorney Holder photograph of the authority holder should be obtained duly attested by the Borrower/depositor.

**Proof of customers' address:**

**Accounts of Individuals:** In order to confirm the correctness of the address given by the account holder in the account opening form any one of the following documents of the account holder may be obtained for verifying the address there from;

- Driving License
- Passport
- PAN card
- Telephone / Electricity Bills
- Rent receipt
- Municipal / Assessment Order
- Income Tax Assessment Order
- Voter's identity Card
- Identity Card containing the address issued by the employer (subject to satisfaction of the Company)

A Photostat copy of the above proof should be filed along with the account opening forms / loan application. In case of need, Company Manager can depute an official to visit the account holder / loan applicant at the given address to satisfy about the genuineness of the address.

**Accounts of companies:** In order to confirm the correctness of the Name of the company, Principal place of business, Mailing address of the company, Telephone / fax number given in the account opening form, the following documents may be obtained for verification:

- Certificate of incorporation and Memorandum and Article of Association
- Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account.
- Power of Attorney granted to its managers, officers or employees to transact business on its behalf.
- Copy of PAN Allotment letter
- Copy of the telephone bill

A Photostat copy of the above proof should be filed along with the account opening form / loan application form. In case of need, Company Manager can depute an official to visit the account holder / loan applicant at the given address to satisfy about the genuineness of the address.

**Account of Partnership firms:** In order to confirm the correctness of the Legal Name, Address, name of all partners and their addresses and Telephone numbers of the firm and partners given in the account opening form, the following documents may be obtained for verification:

- Registration certificate, if registered
- Partnership deed
- Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf
- Any officially valid document identifying the partners and the person holding the Power of Attorney and their addresses
- Telephone bill in the name of firm / partners A Photostat copy of the above proof should be filed along with the account opening form / loan application. In case of need, Company manager can depute an official to visit the account holder / loan applicant at the given address to satisfy about the genuineness of the address.

**Accounts of trusts and foundations:** In order to confirm the correctness of the Name of trustees, settlers, beneficiaries and signatories, Names and addresses of the founder, the manager / directors and the beneficiary/ies, Telephone / fax numbers, the following documents may be obtained for verification:

- Trust Deed
- Certificate of registration, if registered
- Power of Attorney to transact business on its behalf
- Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders / managers / directors and their addresses.
- Resolution of the managing body of the foundation / association
- Telephone bill

A Photostat copy of the above proof should be filed along with the account opening form / loan application. In case of need, Company Manager can depute an official to visit the account holder/ loan applicant at the given address to satisfy about the genuineness of the address.

**Accounts of unincorporated association or a body of individuals:**

- Resolution of the managing body of such association or body of individuals
- Power of attorney granted to him to transact on its behalf
- An officially valid document in respect of the person holding an attorney to transact on its behalf

- And any other information/document as may be required by the Company to collectively establish the legal existence of such an association or body of individuals.

As per the provisions of Rule 9 of the Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of transactions, The Procedure and Manner of Maintaining and Time for Furnishing information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005 (hereinafter referred to as PML Rules), 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 :
  - 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,
  - or
  - Any international money transfer operations.

In terms of proviso to rule 9 of the PML Rules, the relaxation, in verifying the identity of the client within a reasonable time after opening the account/ execution of the transaction, stands withdrawn.

Abiding by the provisions of Rule 9, the Company shall identify the beneficial owner and take all reasonable steps to verify his identity. The said Rule also requires that the Company should 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.

Understand the ownership and control structure of the customer and determine who are the natural persons and who ultimately control the legal person. Where FCPL is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, FCPL 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.

## **V. Monitoring Of Transactions**

Ongoing monitoring is an essential element of effective KYC procedures. FCPL 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 FCPL will not have any deposit accounts, this situation will hardly arise, but FCPL 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.



FCPL will put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures. FCPL 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.

## **VI. Risk Management**

The Board of Directors of FCPL 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 FCPL to ensure that NBFC's policies and procedures are implemented effectively.

The Board of FCPL is aware that while all customers will be of low risk profile given the nature of its business, unless belonging to a higher risk profile listed under above and approved as an exception, it will apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship.

FCPL has already ensured that its front line staff and credit staff are aware that no loan accounts will be created unless the KYC procedures are adhered to completely

### **Customer Education**

For implementing KYC Policy, the FCPL shall have to seek personal and financial information from the new and intended customers at the time they apply for availing the loan facilities. It is likely that any such information, if asked from the intended customer, may be objected to or questioned by the customers. To meet such situation it is necessary that the customers are educated and apprised about the sanctity and objectives of KYC procedures so that the customers do not feel hesitant or have any reservation while passing on the information to the Company. For this purpose, all the staff members with whom the customers will have their first interaction/dealing will be provided special training to answer any query or questions of the customers and satisfy them while seeking certain information in furtherance of KYC Policy. To educate the customers and win their confidence in this regard, Company may arrange printed materials containing all the relevant information regarding KYC Policy and anti money laundering measures. Such printed materials will be circulated amongst the customers and in case of any question from any of the customer, the Company staff will attend the same promptly and provide explain reason for seeking any specific information and satisfy the customer in that regard.

### **KYC Policy For Existing Customers**

Although this KYC Policy will apply and govern all the new and prospective customers, but some of the KYC procedures laid down in this policy particularly which deal with Customer Identification, Monitoring of Transactions and Risk Management can be effectively applied to the existing customers and their loan accounts? While applying

such KYC procedures to the existing loan accounts if any unusual pattern is noticed, the same should be brought to the notice the Head of the concerned department and the Principal Officer appointed by the Company as per RBI directives. In case any existing customer does not co-operate in providing the information required as per KYC policy or conducts himself in such manner which gives rise to suspicion about his identify or credentials, such matters will be brought to the notice of Principal Officer who in turn will make necessary inquiries and if required shall forward the name of such customers to the concerned authorities for appropriate action. Besides above, in such situation the Company, for reasons to be recorded, may recall the loan granted to such customers and take recourse to legal remedy against the customers as well as security furnished by such customer.

## **VII. Maintenance Of Records Of Transactions**

As unlikely as it will be in FCPL's case, due to its focus on lower income, FCPL 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:

- All cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency; • all series of cash transactions integrally connected to each other which have been valued below rupees ten 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 ten lakh;
- 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;
- All suspicious transactions whether or not made in cash and by way of as mentioned in the rules.

## **VIII. Maintenance And Preservation Of Records**

FCPL 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.

FCPL shall:

- maintain all necessary records of transactions between the Bank and the customer, both domestic and international, for at least five years from the date of transaction;
- preserve the records pertaining to the identification of the customers and their addresses obtained during the course of business relationship, for at least five years after the business relationship is ended;
- make available the identification records and transaction data to the competent authorities upon request;

- 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);
- maintain all necessary information in respect of transactions prescribed under PML Rule 3 so as to permit reconstruction of individual transaction, including the following:
  - i. the nature of the transactions;
  - ii. the amount of the transaction and the currency in which it was denominated;
  - iii. the date on which the transaction was conducted; and
  - iv. the parties to the transaction.
  - v. 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;
  - vi. 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.

#### **IX. Modification Of Policy**

The Board of Director of company provide for periodical review of the compliance at various levels of management. A consolidate report of such reviews (if required) may be submitted to the Board at regular intervals, as may be prescribe by it.

The Company reserves to itself the right to alter/delete/add to these codes at any time without prior individual notice and such alterations /deletion/addition shall be binding.

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**Approved in the Board Meeting dated 24<sup>th</sup> November, 2018**