

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

**Grameen Development & Finance Private  
Limited**

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### Revision Trail

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### **A. Preamble**

The Reserve Bank of India (RBI) has issued comprehensive 'Know Your Customer' (KYC) Guidelines to all Non-Banking Financial Companies (NBFCs) in the context of the recommendations made by the Financial Action Task Force (FATF) and Anti Money Laundering (AML) standards and Combating Financing of Terrorism (CFT) policies, as these being used as the International Benchmark for framing the stated policies, by the regulatory authorities. In view of the same, GDF has adopted the said KYC guidelines with suitable modifications depending on the activity undertaken by it. The Company has ensured that a proper policy framework on KYC and AML measures be formulated in line with the prescribed RBI guidelines and put in places duly approved by its Board of Directors.

### **B. Objectives, Scope and Application of the Policy**

The objective of KYC guidelines is to prevent the Company from being used, intentionally or unintentionally, by criminal elements for money laundering activities or terrorist financing activities. KYC procedures shall also enable the Company to know and understand its Customers and its financial dealings better which in turn will help it to manage its risks prudently. Thus, the KYC policy has been framed by the Company for the following purposes:

1. To prevent criminal elements from using GDF for money laundering activities
2. To enable GDF to know/ understand its customers and their financial dealings better which, in turn, would help the Company to manage risks prudently
3. To put in place appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws/laid down procedures.
4. To comply with applicable laws and regulatory guidelines.
5. To ensure that the concerned staff are adequately trained in KYC/AML/CFT procedures. This KYC Policy is applicable to all branches/offices of GDF and is to be read in conjunction with related operational guidelines issued from time to time.
6. This Policy includes nine (9) key elements:
  1. Customer Acceptance Policy (CAP)
  2. Customer Identification Procedures (CIP)
  3. Monitoring of Transactions
  4. Risk management
  5. Training Programme
  6. Internal Control Systems
  7. Record Keeping
  8. Appointment of Principal Officer
  9. Reporting to FIU – India

### **C. Definition of Customer**

For the purpose of GDF KYC & PMLA Policy a 'Customer' means a person as defined under KYC & PMLA Policy of RBI (and any amendment from time to time by RBI) which are at present as under:-

- A person or entity that maintains an account and/or has a business relationship with GDF;
- 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, Solicitors etc. as permitted under the law

- Any other person or entity connected with a financial transaction which can pose significant reputation or other risks to GDF, say a wire transfer or issue of high value demand draft as a single transaction.

## **Know Your Customer Standards**

### **1. Customer Acceptance Policy (“CAP”)**

1. GDF’s Customer Acceptance policy (CAP) lays down the criteria for acceptance of customers. The guidelines in respect of the customer relationship in GDF broadly includes the following:
  - a) No account is to be opened in anonymous or fictitious/benami name(s)/entity(ies)
  - b) Accept customers only after verifying their identity, as laid down in Customer Identification Procedures. Necessary checks before opening a new account are to be ensured so 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.
  - c) Classify customers into various risk categories and, based on risk perception, apply the acceptance criteria for each category of customers. Also, a profile of each customer will be prepared based on risk categorization. Customer requiring very high level of monitoring, e.g. Politically Exposed Persons (PEPs – as explained in Annexure I) may, if considered necessary, be kept in the High Risk Category.
  - d) Documentation requirements and other information to be collected in respect of different categories of Customers depending on perceived risk and compliances with Prevention of Money Laundering Act, 2002 (PMLA) and RBI/ GDF guidelines/instructions.
  - e) Not to open an account or close an existing account (except as provided in this Policy), where identity of the account holder cannot be verified and/or documents/information required could not be obtained/confirmed, as per the risk categorization, due to noncooperation of the customer or non reliability of the data/ information furnished to GDF. Suitable built – in safeguards shall be provided to avoid any harassment to Customers.
  - f) Implementation of CAP should not become too restrictive and result in denial of GDF services to general public, especially to those who are financially or socially disadvantaged.
  - g) The decision to open an account for Politically Exposed Person (PEP) should be taken at a senior level. It may, however, be necessary to have suitable built in safeguards to avoid harassment of the customer. 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.
  - h) Circumstances, in which a customer is permitted to act on behalf of another person/entity shall be clearly spelt out in conformity with the established law and practice and shall be strictly followed so as to avoid occasions when an account is operated by a mandate holder or where an account may be opened by an intermediary in the fiduciary capacity.
2. The Company shall prepare a profile for each new customer during the credit appraisal based on risk categorization as mentioned in this policy. The customer profile shall contain the 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 GDF. At the time of credit appraisal of the applicant the details are recorded along with his profile based on meeting with the applicant (by the GDF representative) apart from collection of applicable document, this will be as per the Credit/ products norms as may be in practice. However, while preparing

customer profile, the Company shall seek only such information from the customer which is relevant to the risk category and is not intrusive. Any other information from the customer should be sought separately with his/her consent and after opening the account. The customer profile will be a confidential document and details contained therein shall not be divulged for cross selling or for any other purposes.

3. As per KYC & PMLA policy, for acceptance and identification, GDF 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. None of the entities will be exempted from GDF's KYC procedure, irrespective of the status and relationship with Company or promoter. 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) High net worth individuals without an occupation track record of more than 3 years
- c) Trust, charitable organizations, non govt. organization (NGO), organizations receiving donations,
- d) Companies having close family shareholding or beneficial ownership.
- e) Firms with sleeping partners
- f) Politically exposed persons (PEPs) of Indian/ foreign origin
- g) Non face to face to customers
- h) Person with dubious reputation as per public information available.

(ii) **Medium Risk – (Category B):**

Medium risk customers will include:

- a) Salaried applicant with variable income/ unstructured income receiving Salary in cheque
- b) Salaried applicant working with Private Limited Companies,
- c) Self employed professionals other than HNIs
- d) Self employed customers with sound business and profitable track record for a reasonable period, and
- e) High net worth individuals with occupation track record of more than 3 years

(iii) **Low Risk – (Category C):**

Low risk individuals (other than high net worth) and entities whose identities and sources of wealth can be easily identified and all other person not covered under above two categories. Customer carrying low risk may include the following:

- a) Salaried employees with well defined salary structures
- b) People working with government owned companies, regulators and statutory bodies, etc.
- c) People belonging to lower economic strata of the society whose accounts show small balances and low turnover
- d) People working with Public Sector Units) People working with reputed Public Limited Companies and Multinational Companies In the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, the Company will obtain senior management approval in such cases to continue

the business relationship with such person, and also undertake enhanced monitoring as indicated and specified in Annexure I

## **2. Customer Identification Procedures (“CIP”)**

1. Customer identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information. GDF shall obtain sufficient information necessary to verify the identity of each new customer along with brief details of its promoters and management, wherever applicable, whether regular or occasional and the purpose of the intended nature of Business relationship. The requirement as mentioned herein may be moderated according to the risk perception like in the case of a public listed company it will not be necessary to identify all the shareholders.
2. Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate etc). For customers that are natural persons, GDF shall 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, the Company shall
  - (i) verify the legal status of the legal person/ entity through proper and relevant documents
  - (ii) 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,
  - (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Customer identification requirements keeping in view the provisions applicable of Prevention of Money Laundering & its Rules and as per guidance note issued in this respect are indicated in Annexure I. An indicative list of the nature and type of documents/information that may be relied upon for customer identification is given in Annexure II. The Company will frame internal guidelines based on its experience of dealing with such persons/entities, normal prudence and the legal requirements.
3. The Company will formulate and implement a Client Identification Programme to determine the true identity of its clients keeping the above in view. The policy shall also cover the identification procedure to be carried out at different stages, i.e. while establishing a relationship; carrying out a financial transaction or when there is a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data.  
**Important:** GDF shall periodically update Customer Identification Data after the transaction is entered. The periodicity of updation of Customer Identification data shall be once in five years in case of low risk category customers and once in two years in case of high and medium risk categories .

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

Ongoing monitoring is an essential element of effective KYC procedures. Monitoring of transactions and its extent will be conducted taking into consideration the risk profile and risk sensitivity of the account. GDF shall make endeavors to understand the normal and reasonable activity of the customer so that the transactions that fall outside the regular/pattern of activity can be identified, Special attention will be paid to all complex, unusually large transactions and all unusual patterns, which have no apparent economic or visible lawful purpose. GDF may prescribe threshold limits for a particular category of accounts and pay particular attention to the transactions which exceed these limits. Transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer should particularly attract the attention of GDF. Higher risk accounts shall be subjected to

intense monitoring. GDF shall set key indicators for such accounts basis the background of the customer, country of origin, sources of funds, the type of transactions involved and other risk factors which shall determine the extent of monitoring. GDF shall carry out the periodic review of risk categorization of transactions/customer's accounts and the need for applying enhanced due diligence measures at a periodicity of not less than once in six months. GDF shall explore the possibility of validating the new account opening applications with various watch lists available in public domain, including RBI watch list.

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

The Management under the supervision of the Board of Directors of the Company shall ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation. It will cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility will be explicitly allocated within the Company for ensuring that the policies and procedures as applicable to GDF are implemented effectively. The Company shall devise procedures for creating Risk Profiles of their existing and new customers and apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship

#### **5. Training Programme**

GDF shall have an ongoing employee training programs so that the members of the staff are adequately trained in KYC/ AML/ CFT procedures. Training requirements shall have different focuses for front line staff, compliance staff and officer/ staff dealing with new customers so that all those concerned fully understand the rationale behind the KYC & PMLA policies and implement them consistently.

#### **6. Internal Control System**

The Company's Internal Audit and Compliance functions will evaluate and ensure adherence to the KYC & PMLA policies and procedures. As a general rule, the compliance function will provide an independent evaluation of the Company's own policies and procedures, including legal and regulatory requirements. The Management under the supervision of Board shall ensure that the audit function is staffed adequately with skilled individuals. Internal Auditors will specifically check and verify the application of KYC procedures at the branches and comment on the lapses observed in this regard. The compliance in this regard shall be put up before the Board or any Committee of the Board along with their normal reporting frequency. Further, the Company shall have an adequate screening mechanism in place as an integral part of their recruitment/ hiring process of personnel so as to ensure that person of criminal nature/ background do not get an access, to misuse the financial channel.

#### **7. Record keeping**

1. Maintenance of records of transactions The Company shall maintain proper record of the transactions as required under Section 12 of the Prevention of Money Laundering Act, 2002 (PMLA) read with Rules 3 of the PML Rules as mentioned below:
  - (i) All cash transactions of the value of more than rupees 10 lakhs or its equivalent in foreign currency, though by policy the Company does not accept cash deposits in foreign currency.
  - (ii) All series of cash transactions integrally connected to each other which have been valued below rupees 10 lakhs or its equivalent in foreign currency where such series of transactions

have taken place within a month.

(iii) All transactions involving receipts by non-profit organizations of rupees ten lakhs or its equivalent in foreign currency.

(iv) 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; any such transactions;

(v) All suspicious transactions whether or not made in cash and in manner as mentioned in the Rule framed by the Government of India under PMLA. An Illustrative List of suspicious transaction pertaining to financial services is given in Annexure III A & III B

2. Records to contain the specified information

The Records referred to above in Rule 3 of PMLA Rules to contain the following information:

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;

iv. the parties to the transaction.

3. Maintenance and preservation of records Section 12 of PMLA requires the Company to maintain records as under:

i. records of all transactions referred to in clause (a) of Sub-section (1) of section 12 read with Rule 3 of the PML Rules is required to be maintained for a period of ten years from the date of transactions between the clients and GDF.

ii. records of the identity of all clients of GDF is required to be maintained for a period of ten years from the date of cessation of transactions between the clients and GDF. GDF shall take appropriate steps to evolve 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 as/ when requested by the competent authorities.

## **8. Appointment of Principal Officer**

GDF shall designate a senior employee as 'Principal Officer' (PO) who shall be located at the Head/Corporate office and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. PO shall maintain close liaison with enforcement agencies, NBFCs and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

## **9. Reporting to Financial Intelligence Unit – India**

The Principal Officer shall report information relating to cash and suspicious transactions, if detected, to the Director, Financial Intelligence Unit India (FIUIND) as advised in terms of the PMLA rules, in the prescribed formats as designed and circulated by RBI at the following address:

Director, FIU – IND,

Financial Intelligence Unit India,

6th Floor, Hotel Samrat,

Chanakypuri New Delhi 110021



[The employees of GDF shall maintain strict confidentiality of the fact of furnishing/  
reporting details of suspicious transactions.

## **General**

### **1. Customer Education**

GDF shall educate the Customer on the objectives of the KYC programme so that customer understands and appreciates the motive and purpose of collecting such information. 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

### **2. Introduction of new technologies**

GDF shall pay special attention to any money laundering threats that may arise from new or developing technologies including online transactions that may favour anonymity, and take measures, if needed, to prevent their use in money laundering. GDF shall ensure that any remittance of funds by way of demand draft, mail/telegraphic transfer or any other mode for any amount is affected by cheques and not against cash payment.

### **3. Applicability to Branches and Subsidiaries outside India**

The above guidelines shall also be applicable to the branches and majority owned subsidiaries located abroad, especially, in countries which do not or insufficiently apply the FATF Recommendations, to the extent local laws permit as and when the Company opens overseas branches. When local applicable laws and regulations prohibit implementation of these guidelines, the same will be brought to the notice of Reserve Bank of India.

### **4. Closure of Accounts/Termination of Financing/Business Relationship**

Where GDF is unable to apply appropriate KYC measures due to non furnishing of information and/or non-operation by the customer, GDF shall terminate Financing/Business Relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decision shall be taken with the approval of Chairman & Managing Director or key managerial persons authorized for the purpose.

### **5. KYC for the Existing Accounts:**

While the KYC guidelines will apply to all new customers, the same would be applied to the existing customers on the basis of materiality and risk. However, transactions with existing customers would be continuously monitored for any unusual pattern in the operation of the accounts.

### **6. Updation in KYC & PMLA Policy of Company**

PO after taking the due approval from the Board of Directors of GDF shall make the necessary amendments/modifications in the KYC/ AML/ CFT Policy or such other

related guidance notes of Company, to be in line with RBI or such other statutory authority's requirements/updates/ amendments from time to time.

## **Annexure I**

### **CUSTOMER IDENTIFICATION REQUIREMENTS (INDICATIVE GUIDELINES)**

1. Accounts of Politically Exposed Persons (PEPs) resident outside India Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. Branch/office shall gather sufficient information on any person/customer of this category intending to establish a relationship and check all the information available on the person in the public domain. Branch/office shall verify the identity of the person and seek information about the sources of funds before accepting the PEP as a Customer. The decision to provide financial services to an account for PEP shall be taken at a senior level and shall be subjected to monitoring on an ongoing basis. The above norms may also be applied to the accounts of the family members or close relatives of PEPs.
2. Accounts of non-face-to-face customers In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, there must be specific and adequate procedures to mitigate the higher risk involved. Certification of all the documents presented may be insisted upon and, if necessary, additional documents may be called for. In the case of cross-border customers, there is the additional difficulty of matching the customer with the documentation and the NBFCs may have to rely on third party certification/introduction. In such cases, it must be ensured that the third party is a regulated and supervised entity and has adequate KYC systems in place.
3. Trust/Nominee or Fiduciary Accounts Branch/offices shall determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, they shall insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are reacting, as also obtain details of the nature of the trust or other arrangements in place. GDF shall take reasonable precautions to verify the identity of the trustees and the settlers of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries shall be identified when they are defined. In the case of a 'foundation', branches shall take steps to verify the founder managers/ directors and the beneficiaries, if defined. There exists the possibility that trust/nominee or fiduciary accounts can be used to circumvent the customer identification procedures.

4. Accounts of companies and firms Branch/office need to be vigilant against business entities being used by individuals as a front for maintaining accounts with NBFCs. Branch/ office may examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception e.g. in the case of a public company it shall not be necessary to identify all the shareholders.
5. Client accounts opened by professional intermediaries When the Branch/office has knowledge or reason to believe that the client account opened by a professional intermediary is on behalf of a single client, that client must be identified. Branch/office may hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds. Branch/office also maintain 'pooled' accounts managed by lawyers/ chartered accountants for funds held 'on deposit' for a range of clients. Where funds held by the intermediaries are not co-mingled at the Branch/office and there are 'sub-accounts', each of them attributable to a beneficial owner, all the beneficial owners must be identified. Where such funds are co-mingled at the Branch/office, the branch/office shall still look through to the beneficial owners. Where the Branch/ office rely on the 'customer due diligence' (CDD) done by an intermediary, they should satisfy themselves that the intermediary is regulated and supervised and has adequate systems in place to comply with the KYC requirements. It should be understood that the ultimate responsibility for knowing the customer lies with the Branch/office.

## **Annexure II**

### **Customer Identification Procedure Features to be verified and Documents that may be obtained from Customers**

<b>Features</b>	<b>Documents (Certified Copy)</b>
<b>Individuals (Applicant/ Co – Applicant)</b> – Legal name and any other names used	a. Passport b. PAN card c. Voter's Identity Card d. Driving license e. Identity card (subject to the Company's satisfaction) f. Adhar Card g. Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of Company

<b>Features</b>	<b>Documents (Certified Copy)</b>
- Correct permanent address	(i) Telephone bill (ii) Bank Account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Letter from employer (subject to satisfaction of the Company) (Any one document which provides customer information to the satisfaction of the Company will suffice ) One recent passport size photograph except in case of transactions referred to in Rule 9(1)(b) of the PML Rules

### **Annexure III**

1. Broad categories of reason for suspicion and examples of suspicious transactions for Non Banking Financial Companies are indicated as under:

#### **Identity of client** – False identification documents

- Identification documents which could not be verified within reasonable time
- Accounts opened with names very close to other established business entities

#### **Background of client**

- Suspicious background or links with known criminals

#### **Multiple accounts**

- Large number of accounts having a common account holder, introducer or authorized

#### **signatory with no rationale**

- Unexplained transfers between multiple accounts with no rationale

#### **Activity in accounts**

- Unusual activity compared with past transactions- Sudden activity in dormant accounts
- Activity inconsistent with what would be expected from declared business

#### **Nature of transactions**

- Unusual or unjustified complexity
- No economic rationale or bonafide purpose
- Frequent purchases of drafts or other negotiable instruments with cash
- Nature of transactions inconsistent with what would be expected from declared business

#### **Value of transactions**

- Value just under the reporting threshold amount in an apparent attempt to avoid reporting
- Value inconsistent with the client's apparent financial standing

## 2. Illustrative list of Suspicious Transactions

- a. Reluctant to part with information, data and documents
- b. Submission of false documents, purpose of loan and detail of accounts
- c. Reluctance to furnish details of source of funds of initial contribution
- d. Reluctance to meet in person, representing through power of attorney
- e. Approaching a distant branch away from own address
- f. Maintaining multiple accounts without explanation
- g. Payment of initial contribution through unrelated third party account
- h. Suggesting dubious means for sanction of loan
- i. Where transactions do not make economic sense
- j. Where doubt about beneficial ownership
- k. Encashment of loan through a fictitious bank account
- l. Sale consideration quoted higher or lower than prevailing area prices
- m. Request for payment in favor of third party with no relation to transaction
- n. Usage of loan amount for purposes other than stipulated in connivance with vendors, or agent
- o. Multiple funding involving NGO, Charitable organization, small and medium establishments, self help groups, micro finance groups, etc
- p. Frequent request for change of address
- q. Over-payment of installments with a request to refund the overpaid amount
- r. Approvals/sanctions from authorities are proved to be fake
- s. Frequent request for change of address
- t. Over-payment of installments with a request to refund the overpaid amount