

**Mahindra Rural Housing Finance Limited  
(MRHFL)**

**Know Your Customer (KYC) and Anti Money Laundering  
(AML) Policy**

## **Know Your Customer (KYC) and Anti Money Laundering (AML) Policy**

The objective of KYC and AML policy of MRHFL is to prevent MRHFL from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC and AML procedures will also enable MRHFL to know/understand MRHFL's customers and their financial dealings better, which in turn help MRHFL to manage their risks prudently.

The process of KYC and prevention of Money Laundering will be implemented through the following four key procedures:

- I. Customer Identification Procedure;
- II. Customer Acceptance Policy;
- III. Monitoring of Transactions;
- IV. Risk management.

Definition of Customer:

For the purpose of KYC policy customer will be defined as:

- a person or entity that has been sanctioned or given loan by MRHFL;
- one on whose behalf the Loan 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, and
- any person or entity connected with a financial transaction which can pose significant reputational or other risks to the MRHFL, say, a wire transfer or issue of a high value demand draft as a single transaction.

### **I. Customer Identification Procedure –**

Customer identification means identifying the customer and verifying his/ her/ its identity by using reliable, independent source documents, data or information. The Company must obtain the necessary information to establish the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship. The Company must carry out the identification procedure at different stages, i.e. while establishing a relationship; carrying out a financial transaction or when the Company has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data. The company should verify:

1. 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
2. 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, or
- II. Any international money transfer operations.

The Customer Identification Procedure is to be carried out at the following three stages i.e.

## **A. While establishing a relationship**

- In case of a customer who intends to avail a loan, at the time the duly completed application form along with the processing fees is received from the prospective borrower.
- In case of a customer who intends to become a Sutradhar or Business promotion associate of MRHFL, at the time a duly completed application form is received for enrollment.

## **B. While carrying out a financial transaction**

In case of a borrower, a financial transaction is said to have been carried out when MRHFL issues a sanction letter to the borrower or at the time of disbursing the first disbursement.

MRHFL will obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship. Rule 9 of the PML Rules provides for the documents/information to be obtained for identifying various types of customer's i.e. Individuals, companies, partnership firms, trusts, unincorporated association or a body of individuals and juridical persons. MRHFL will take care of above rule and will ensure compliance. Customer identification requirements keeping in view that the provisions of the said rule is followed as given in **Annex-I**. A list of the nature and type of documents/information that may be relied upon for customer identification is given in the **Annex-I**.

## **II. Customer Acceptance Policy**

MRHFL will ensure that elaborate standard procedures are in place on the following aspects of customer relationships in MRHFL.

- no account is opened in anonymous or fictitious/benami name(s)
- obtaining comprehensive information depending on the perceived risk and in accordance with the guidelines issued by the National Housing Bank regarding new customers at the initial stage
- ascertaining the volume of turnover, social and financial status, etc. to enable categorization of customers into low, medium and high risk
- collecting information and documents in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of The Prevention of Money Laundering Act (PML Act), 2002 and guidelines issued from time to time. The Company may apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear.

Examples of customers requiring higher due diligence may include :

- non-resident customers,
  - high net worth individuals,
  - trusts, charities, NGOs and organizations receiving donations,
  - companies having close family shareholding or beneficial ownership,
  - firms with 'sleeping partners',
  - politically exposed persons (PEPs) of foreign origin,
  - non-face to face customers, and
  - Those with dubious reputation as per public information available, etc.
- Taking appropriate steps to verify the identity and /or obtain documents required as per the risk categorization. The Company must refuse to open an account where the prospective customer does not co-operate with the Company in obtaining these details or where the Company is not sure about the reliability of the data furnished by the prospective customer.
  - Taking adequate steps 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.
  - Preparation of a profile for new and existing customers based on risk categorization. The customer profile must 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 the company. However, the seeking of such information must not be intrusive and the Company must not use such confidential information cross selling or any other purposes.
  - ensuring that circumstance 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 practice of housing sector as there could be occasions when an account is operated by a mandate holder or where an account is opened by an intermediary in the fiduciary capacity.
  - If the MRHFL is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, MRHFL 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. Such decisions need to be taken at a reasonably senior level after consulting the Principal Officer.
  - MRHFL will undertake adequate steps to ensure that the implementation of this policy must not become too restrictive and must not result in denial of the Company's services to general public, especially to those, who are financially or socially disadvantaged.

**III. Monitoring of Transactions and maintenance and preservation of records:**

MRHFL shall monitor and also maintain a record of a transaction of the deposit and loan accounts where there has been a receipt or payment in cash exceeding Rs. 10 lacs per transaction; and also monitor and maintain record of deposits and loan accounts where there has been a series of cash transactions from the same customer during a month exceeding Rs.10 lacs.

MRHFL is required to maintain proper record of transactions as prescribed under Rule 3, 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)

**MRHFL shall accordingly maintain records of:**

1. all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
2. 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;
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. The Principal Officer from time to time will advise the retail offices a list of possible transaction which could be identified as suspicious transactions.

The Principal Officer shall formulate a procedure to ensure that monitoring of the required transactions take place at MRHFL.

The retail offices are required to submit report on transactions as mentioned in (1) and (2) above; every month to the Principal Officer.

The retail offices are required to promptly submit the report on transactions as mentioned in (3) and (4) above to the Principal Officer within three days once they reach a conclusion that such a transaction is of a suspicious nature.

An internal guideline for retail offices for reaching a conclusion that the transaction is suspicious in nature shall be formulated later on by the Principal Officer.

The Principal Officer shall ensure to submit a report every month to FIU-IND.

In addition to the above, MRHFL would maintain for at least ten years from the date of cessation of transaction between MRHFL and the customer, all necessary records of the transactions, both domestic or international, which will permit reconstruction of individual transactions so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.

MRHFL would also ensure that records pertaining to the identification of the customer and his address 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.

#### **IV. Risk Management**

The information available from the customers to prove their identity will determine the risk Perception. However, for proper risk assessment of business relationship with customers the Customers will be broadly classified as Low risk, Medium Risk and High Risk, based on the risk Perceived.

For medium and high risk customers, MRHFL shall draw up additional precautions to be taken while dealing with such customers. The Principal Officer shall formulate a procedure for the risk assessment of such medium and high risk customers.

#### **V Reporting of the transactions to the designated agency:**

The Principal Officer shall report the transactions to:

Director, FIU-IND,  
Financial Intelligence Unit- India,  
6th Floor, Hotel Samrat,  
Chanakyapuri,  
New Delhi – 110021.

A. The report on the following transactions would be made by the 15TH of the succeeding month:

1. all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
2. 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;

B. Report on the following transactions would be made within 3 days of reaching conclusion, that the transaction is of suspicious nature:

1. 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;
2. all suspicious transactions would be further scrutinised by the respective Retail Office In- Charge and if not satisfied, would be reported to the Principal Officer. If he is also not satisfied as to the genuineness of the transaction, he would report the same to FIU-IND.

NHB has vide its circular NHB (ND)/DRS/POL-No.14/2006 dated July 25, 2006, informed the MRHFL will submit cash transaction reports and the suspicious transaction reports as defined by NHB accordingly, the information will be furnished in the formats prescribed by NHB vide its circular NHB (ND)/DRS/POL-No.14/2006 dated July 25, 2006.

Principal Officer on behalf of MRHFL will provide all the necessary help, to the authorities, such as Director FIU-IND for any further inquiries and clarifications or for any other purpose for which specific requisitions are made.

**V. Responsibilities assigned to the personnel**

With a view to implement the KYC policies and procedures effectively and also to fix accountability for lapses and intentional circumvention of the prescribed procedures and guidelines, the responsibilities will be delegated across the organization. The Principal Officer shall formulate a procedure to fix accountability for lapses and the guidelines to be followed.

**VI. Education on KYC Norms:**

MRHFL would issue pamphlets / literature on the KYC norms to educate the customers on the need to collect such information. MRHFL would print literatures/pamphlets explaining the KYC norms, the procedures involved and the details to be collected from different category of customers to be used for educating the customers on the KYC norms. The literatures/pamphlets will be updated to incorporate the changes in the KYC guidelines from time to time.

**VII. Review of policy:**

MRHFL's Board will review the policy adopted for KYC and AML from time to time and recommend incorporation of suitable modifications / changes. Modifications in the policies as a result of the change in the NHB guidelines, will be incorporated as required under the statute. All such changes /modifications will be reported to the Board for approval.

**VIII. Training to employees:**

MRHFL shall impart training to employees to fully understand the need for implementation of KYC policy and relevant provisions of the PMLA and FCRA with a view that they can comply with the regulatory requirements.

**IX. Procedures Manuals:**

MRHFL shall formulate business/product specific risk profile of the customer and procedure manuals for compliance of this policy.

**X. CKYC Registry:**

With reference to NHB policy circular NHB(ND)/DRS/Policy Circular No. 76/2016-17 dated November 01,2016 on CKYC Registry advising HFCs to upload the KYC data with CERSAI in respect of new individual loan accounts. MRHFL has prepared a detailed plan for uploading the KYC data on CERSAI Registry as given in **Annex II**.

## Updated Annex – 1

Basis analysis of existing policy and various updates following KYC note has been prepared. The note herewith is applicable for both Rural and Affordable Housing business.

### A. Individual Clients<sup>1</sup>

#### I. Proof of Identity (PoI):

Certified documents of any one of the following documents can be collected (officially valid document)

1. Valid Passport;
1. Voter Id Card;
2. Pan Card;
3. Valid Driving License;
4. UID (Aadhar);
5. NREGA Job Card;
6. Any document notified by the central government (Employee ID card - government employees; such document should bear a valid identification number);

#### II. Proof of Address (PoA):

Certified documents of any one of the following documents can be collected

1. Valid Passport;
2. Voter Id Card;
3. Valid Driving License;
4. UID (Aadhar);
5. NREGA Job Card;

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<sup>1</sup> Updates conforming to Annexure I - NHB(ND)-DRS-Policy Circular-76-2016-17

B. Further as per Clause 6,7,8 of PMLA (Maintenance of Records) 2005 Guidelines and NHB/ND/DRS/Pol-No. 33/2010-11 on Revised Guidelines on 'Know Your Customer (KYC)' & 'Anti Money Laundering (AML) Measures' for HFCs dated 11th October 2010 and Prevention of Money-laundering (Maintenance of Records) Second Amendment Rules, 2017 dated 1<sup>st</sup> June 2017, following certified documents to be collected for client being:

Features	Documents ( Certified copy)
<b>Company</b>	<ul style="list-style-type: none"> <li>i. Certificate of incorporation;</li> <li>ii. Memorandum and Articles of Association;</li> <li>iii. A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf;</li> <li>iv. Following documents may be collected; issued to managers, officers or employees holding an attorney to transact on company's behalf:               <ul style="list-style-type: none"> <li>(a) Aadhaar number; and</li> <li>(b) Permanent Account Numbers or Form 60* or an officially valid document</li> </ul> </li> </ul>
<b>Partnership Firms</b>	<ul style="list-style-type: none"> <li>i. registration certificate;</li> <li>ii. partnership deed; and</li> <li>iii. Following documents may be collected; issued to the person holding an attorney to transact on its behalf:               <ul style="list-style-type: none"> <li>(a) Aadhaar number; and</li> <li>(b) Permanent Account Numbers or Form 60* or an officially valid document\</li> </ul> </li> </ul>
<b>Trust</b>	<ul style="list-style-type: none"> <li>i. registration certificate;</li> <li>ii. trust deed;</li> <li>iii. Following documents may be collected; issued to the person holding an attorney to transact on its behalf:               <ul style="list-style-type: none"> <li>(a) Aadhaar number; and</li> <li>(b) Permanent Account Numbers or Form 60* or an officially valid document</li> </ul> </li> </ul>
<b>Unincorporated association or a body of individuals</b>	<ul style="list-style-type: none"> <li>i. resolution of the managing body of such association or body of individuals;</li> <li>ii. power of attorney granted to him to transact on its behalf;</li> <li>iii. Following documents may be collected; issued to the person holding, an attorney to transact on its behalf:               <ul style="list-style-type: none"> <li>(a) Aadhaar numbers; and</li> <li>(b) Permanent Account Number or Form 60* or an officially valid document</li> </ul> </li> </ul>

\*as defined in the Income-tax Rules, 1962