# KNOW YOUR CUSTOMER (KYC) & ANTI MONEY LAUNDERING (AML) POLICY

## 1. Background

ARTHAN Finance Private Limited (AFPL or the company) is a company incorporated under Companies Act, 1956 and registered with the Reserve Bank of India. The Company is engaged in business of lending to individuals and non- individuals in the unorganized sector towards starting small business units, to develop the existing business units/self-employed and meeting financial needs.

Reserve Bank of India has issued comprehensive guidelines on Know Your Customer (KYC) norms and Anti-money Laundering (AML) standards and has advised all NBFCs to ensure that a proper policy framework on KYC and AML measures be formulated and put in place with the approval of the Board.

Accordingly, in compliance with the guidelines issued by RBI from time to time, the following KYC & AML policy of the Company is approved by the Board of Directors of the Company. This policy is applicable to all categories of products and services offered by the Company.

The set-out guidelines shall also apply to the branches.

## 2. Objective

Objective of RBI guidelines is to prevent NBFCs being used, intentionally or unintentionally by criminal elements for money laundering activities. The guidelines also mandates making reasonable efforts to determine the true identity and beneficial ownership of accounts, source of funds, the nature of customer's business, reasonableness of operations in the account in relation to the customer's business, etc. which in turn helps the Company to manage its risks prudently. Accordingly, the main objective of this policy is to enable the Company to have positive identification of its customers.

## 3. Scope and Application of the Policy

- To lay down explicit criteria for acceptance of customers.
- To establish procedures to identify of individuals/non-individuals for opening an account.
- To establish processes and procedures to monitor high value transactions and/or transactions of suspicious nature in accounts.
- To develop measures for conducting due diligence in respect of customers and reporting of such transactions.

## 4. Definition of a Customer

- Any person or entity connected with a financial transaction or activity with a reporting entity and includes a person on whose behalf the person who is engaged in the transaction or activity is acting.
- A person or entity that maintains an account and/or has a business relationship with Company.
- The one on whose behalf the account is maintained (i.e. the beneficial owner).
- Beneficiaries of transactions conducted by professional intermediaries such as Stock Brokers, Company Secretaries, Chartered Accountants, Solicitors etc. as permitted under the law.

## 5. Key Elements of the policy

KYC procedures also enable us to know/understand our customers and their financial dealings better which in turn help them manage their risks prudently. We have framed our KYC policy incorporating the following four key elements:

A. Customer Acceptance Policy
B. Customer Identification Procedures
C. Monitoring of Transactions and
D. Risk Management

### A. Customer Acceptance Policy (CAP)

The company shall follow the following norms while accepting and dealing with its customers.

- The Company shall carry out full scale customer due diligence (CDD) for account holder/joint account holders before opening an account.
- No account is opened in fictitious / benami name or where the company is unable to do customer due diligence (CDD) either on account of non-cooperation of the customer or non-reliability of the documents/ information given by customer
- Parameters of risk perception shall be clearly defined in terms of the nature of business activity, location of the customer and his clients, mode of payments, volume of turnover, social and financial status, etc. to enable the categorisation of the customers into low, medium and high-risk ones.
- The customer profile contains information relating to 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, while preparing customer profile the Company will seek only such information from the customer which is relevant to the risk category and is not intrusive.
- Optional/additional information is obtained with the explicit consent of the customer after the account is opened.
- The adoption of customer acceptance policy and its implementation should not be too restrictive, and which result in denial of financial services to the general public, especially those, who are financially or

socially disadvantaged. While carrying out due diligence, the company will ensure that the procedure adopted does not result in denial of services to any genuine customers.

- When the identity of the account holder is not known, the Company shall file suspicious Transaction Reporting (STR).
- System is put in place to ensure that identify of customer doesn't match with any person / entity, whose name appears in the sanction list circulated by Reserve Bank of India (RBI).

**B. Customer Identification Procedure (CIP)**

Customer identification means identifying the customer and verifying his / her identity by using reliable and independent source of documents, data or information to ensure that the customer is not a fictitious person. The Company shall obtain sufficient information necessary to establish, to its satisfaction, the identity of each customer and the purpose of the intended nature of business relationship.

An effective Customer Identification Program ("CIP") is an important part of the effort by the Company to know its customers. The Company's CIP is integrated into the AML (Anti Money Laundering) program for the company in terms of the Prevention of Money Laundering Act, 2002 and the relevant rules notified there under (PMLA), which contains provisions requiring the business processes to:

- Verify the identity of any Person transacting with the Company to the extent reasonable and practicable.
- Maintain records of the information used to verify a customer's identity, including name, address and other identifying information and
- Consult lists of known or suspected terrorists or terrorist organizations provided to the Company by any applicable government agency to determine whether a person opening an account, or an existing customer appears on any such list.

The Company will perform appropriate, specific and where necessary, Enhanced Due Diligence on its customers that is reasonably designed to know and verify the true identity of its customers and to detect and report instances of criminal activity, including money laundering or terrorist financing. The procedures, documentation, types of information obtained and levels of KYC due diligence to be performed will be based on the level of risk associated with the relationship (products, services, business processes, geographic locations) between the Company and the customer and the risk profile of the customer.

The Company shall take reasonable measures to ascertain and verify the true identity of all customers who transact with the Company. Each business process shall design and implement specific due diligence standards and procedures that are appropriate given the nature of the respective businesses, customers and the associated risks. Such standards and procedures shall include, at a minimum, the following elements.

i. **Identification**

The company shall obtain the following information from an individual while establishing an account-based relationship with:

**List of documents required for CIP (Customer Identification Procedure):**

- **Individual Borrower**

Copy of any one of the following:

- Passport
- PAN Card or Form 60 as applicable as per the policy
- Voter's Identity Card issued by Election Commission
- Driving License
- Job Card issued by NREGA duly signed by an officer of the State Govt.
- The letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhaar number.
- Details from obtained through e-KYC service of Unique Identification Authority of India (UIDAI).

Where 'simplified measures are applied for verifying the identity of customers the following documents shall be deemed to be 'officially valid documents (OVD):

- Identity card with applicant's Photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions;
- Letter issued by a gazetted officer, with a duly attested photograph of the person.

Where 'simplified measures' are applied for verifying for the limited purpose of proof of address the following additional documents are deemed to be OVDs:

- Utility bill which is not more than two months old of any service provider (electricity, telephone, postpaid mobile phone, piped gas, water bill);
- Property or Municipal Tax receipt;
- Bank account or Post Office savings bank account statement;
- Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, and public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation; and
- Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India

- **Companies**
  - Certificate of incorporation;
  - Memorandum and Articles of Association;
  - A resolution from the Board of Directors and power of attorney granted to managers, officers or employees to transact on its behalf; and
  - An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf.

- **Partnership Firms**
  - Registration certificate;
  - Partnership deed; and
  - An officially valid document in respect of the person holding an attorney to transact on its behalf.

- **Proprietorship Concerns**

Apart from Customer identification procedure as applicable to the proprietor any two of the following documents in the name of the proprietary concern would suffice:

- Registration certificate (in the case of a registered concern)
- Certificate/License issued by the Municipal authorities under Shop & Establishment Act,
- Sales and income tax returns
- CST/VAT/GST certificate
- Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities
- License/certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute. The complete Income Tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected duly authenticated/ acknowledged by the Income Tax Authorities.
- Utility bills such as electricity, water, and landline telephone bills
- Telephone/Fax number/E-mail ID;
- Recent colour photograph

However, in cases where the Company is satisfied that, for any proposal, the proprietary concern is not possible to furnish two such documents, the Company will have the discretion to accept only one of those documents as activity proof. In such cases, the Company, however, will undertake contact point verification, collect such information as would be required to establish the existence of such firm, confirm, clarify and satisfy themselves that the business activity has been verified from the address of the proprietary concern.If an existing KYC compliant customer desires to open another account, there is no need for submission of fresh proof of identity and/or proof of address for the purpose.

- **Unincorporated association or 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.
  - Such information as may be required by the bank to collectively establish the legal existence of such an association or body of individuals

The Company also ensures that all the customers namely applicant, co applicants and guarantor has valid ID proof as prescribed above

The Risk Head of Company has the power to approve the following document in lieu of ID and address proof

- A certificate from the public authority (i.e) Gazette Officer of State or Central Govt., /Magistrate/MRO/VRO/Gram Panchayat Sarpanch/notary public.

**In lieu of Identity proof**

- Notarized copy of Marriage certificate with the applicant photograph.

**In lieu of address proof**

- Rental agreement along with rent receipt and utility bill of the Landlord.
- In case the customer has a temporary address being a transit arrangement provided by real estate builder – Allotment letter issued by the builder plus permanent address proof
- In deserving cases where there is no address proof for one of the applicants or guarantors, an affidavit signed by Close Relative (only in case of spouse, parents or children) confirming that the co applicant / guarantor is staying together in the same address.

The Risk Head of Company jointly with the concerned Business Head has further delegated the approval powers to accept the above documents to credit managers, as they may deem fit and necessary, in this regard.

In the event of any genuine reason for non-availability of any of the prescribed documents or to approve any deviations for change in the documents prescribed under this policy, the Risk Head jointly with the Business Head considers approving any other document not stated above based on the product, market requirements and also on the merits of the case.

**ii. Verification**

The Company as a part of the credit policy will document and implement appropriate risk-based procedures designed to verify that it can form a reasonable belief that it knows the true identity of its customers. Verification of customer identity should occur before transacting with the customer. Procedures for each business process shall describe acceptable methods of verification of customer identity, which may include verification through documents or non-documentary verification methods that are appropriate given the nature of the business process, the products and services provided and the associated risks.

- **E-KYC verification of Aadhaar:**

The Company doesn't transact with non-face to face mode of customers. The e-KYC verification process to be followed for face-to-face mode of customers is as follows:

- The company on receipt of the Aadhaar number shall carry out e-KYC authentication with the explicit consent of the customer.
- E-KYC authentication can either be biometric or OTP based.

- **Verification Through Documents:**

These documents may include but are not limited to the list of documents that can be accepted as proof of identity and address from customers across various products offered by the Company to this policy. The company representative shall compare the certified copy of KYC document collected with the original and record the same on the copy.

- **Verification through Non-Documentary Methods:**

These methods may include, but are not limited to:

- Contacting or visiting a customer;
- Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source;
- Checking references with other financial institutions; or
- Obtaining a financial statement.

- **Additional verification procedure**

The business process verification procedures of the Company also address the following situations where:

- A person is unable to present an unexpired government-issued identification document that bears a photograph or similar safeguard;
- The sales executive is not familiar with the documents presented;
- Where the sales executive is otherwise presented with circumstances that increase the risk that it will be unable to verify the true identity of a customer through documents; and
- If the sales executive cannot verify the identity of a customer that is other than an individual, it may be necessary to obtain information about persons with authority or control over such account, including signatories, in order to verify the customer's identity.

The Risk Head along with Business Head, advise the credit managers to make a personal visit to entangle the situation. The Company will not do any transactions with non-face-to-face customers

## C. Monitoring of Transaction

It is equally essential for the company to have a clear knowledge and understanding about the normal working pattern and activity of the customer so that the company can identify all such unusual transactions which would fall outside the normal transactions of the customer.

Ongoing monitoring is an essential element of effective KYC procedures. The Company can effectively control and reduce the risk only if it has an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the account. The business divisions should pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. High-risk accounts have to be subjected to intensify monitoring.

The Company shall put in place an appropriate software application / mechanism to throw alerts when the transactions are inconsistent with risk categorization and updated profile of customers.

**Illustrative list of activities which is construed as suspicious transactions:**

- Activities not consistent with the customer's business, i.e. accounts with large volume of credits whereas the nature of business does not justify such credits.
- Any attempt to avoid Reporting/Record-keeping Requirements/provides insufficient / suspicious information:
- A customer who is reluctant to provide information needed for a mandatory report, to have the report filed or to proceed with a transaction after being informed that the report must be filed.
- Any individual or group that coerces/induces or attempts to coerce/induce the Company employee from not filing any report or any other forms.
- An account where there are several cash transactions below a specified threshold level to avoid filing of reports that may be necessary in case of transactions above the threshold level, as the customer intentionally splits the transaction into smaller amounts for the purpose of avoiding the threshold limit.
- Certain Employees of the Company arousing suspicion:
- An employee whose lavish lifestyle cannot be supported by his or her salary.
- Negligence of employees/wilful blindness is reported repeatedly.
- Some examples of suspicious activities/transactions to be monitored by the operating staff:
- Multiple accounts under the same name.
- Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc;
- There are reasonable doubts over the real beneficiary of the loan
- Frequent requests for change of address/contact details

**D. Risk Management**

The Company has put in place appropriate procedures to ensure effective implementation of KYC guidelines. The implementation procedure covers proper management oversight, systems and controls, segregation of duties, training and other related matters.

Company's internal audit and compliance functions play a role in evaluating and ensuring adherence to the KYC policies and procedures. Internal Auditors specifically check and verify the application of KYC procedures at the branches and comment on the lapses observed in this regard.

As a general rule, the compliance function also provides an independent evaluation of the company's own policies and procedures, including legal and regulatory requirements. The compliance in this regard is put up before the Audit Committee of the Board on quarterly intervals.

- **Risk categorization**

All the customers under different product categories are categorized into low, medium and high risk based on their profile. The risk categorization can be done based on the credit appraisal, customer's background, nature and location of activity, country of origin, sources of funds, client profile, etc. An indicative categorization for the guidance of businesses is provided in Enclosure I.

Where businesses believe that a particular customer falling under a category mentioned below is in his judgement falling in a different category, he may categorize the customer so, so long as appropriate justification is provided in the customer file.

**Indicative List of Risk Categorization**

**I. Low Risk Category**

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 and not covered in any of the above two categories, shall be categorized as low risk.

In all probabilities the Company is doing and will continue to do their business with such category of customers. For example, People belonging to lower economic strata of the society whose accounts show small balances and low turnover.

**II. Medium & High-Risk Category**

Customers who 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.

**Illustrative examples of medium risk category customers are:**

- Non-Resident customers
- High Net worth Individuals
- Trust, charities, NGO's and Organization receiving donations
- Companies having close family shareholding or beneficial ownership
- Firms with 'sleeping partners.

**Illustrative examples of high-risk category customers are:**

- Politically Exposed Persons (PEPs) of Indian/Foreign Origin
- Non face-to-face customers
- Those with dubious reputation as per public information available
- Accounts of bullion dealers and jewellers

## 6. Reporting

The company shall have a system of internal reporting of suspicious transactions, counterfeit transactions and cash transactions greater than Rs.10 lakhs, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month.

**"Suspicious transaction"** means a transaction whether or not made in cash which, to a person acting in good faith:

a) gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
b) appears to be made in circumstances of unusual or unjustified complexity; or
c) appears to have no economic rationale or bona fide purpose; or
d) give rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.
e) Where the transactions are abandoned by customers on being asked to give some details or to provide documents.

Further, the Compliance officer shall furnish information of the above-mentioned transactions to the Director, Financial Intelligence Unit – India (FIU-IND) at the prescribed address in the formats prescribed in this regard including the electronic filing of reports.

Provided that where the principal officer, has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued greater than Rs.10 lakhs so as to defeat the provisions of the PMLA regulations, such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

## 7. Record Retention

As unlikely as it will be in the Company's case, due to its focus on lower income families, the company 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:

- The company shall maintain all records of transaction between company and the customer for at least 5 years from the date of transaction.
- The company shall preserve identification / address documents of customer for a period of 5 years after the business relationship is ended
- The company shall maintain a record of transactions as prescribed in Prevention of money laundering act. The details are given below:

▪ **Transactions for which records need to be maintained**

- All cash transactions of the value of more than Rs.10 lakhs or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other which have been individually valued below Rs.10 lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds Rs.10 lakhs or its equivalent in foreign currency.
- 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.

▪ **Information to be preserved**

- The information required to be preserved with respect to the above transactions are the nature of transactions, amount and the currency in which it was denominated, date of transaction and the parties to the transaction.

▪ **Periodicity of retention**

- The following records shall be retained for a minimum period of ten years after the related account is closed:
- The customer identification information and residence identification information including the documentary evidence thereof
- All other necessary records pertaining to the transactions that could be produced as evidence for prosecution of persons involved in criminal activity
- The above records shall be maintained either in hard or soft format and shall be made available to the competent authorities upon request.

## 8. CIP Notice

Enhanced due diligence is in the nature of keeping the account monitored closely for a re-categorization of risk, updation of fresh KYC documents, field investigation or visit of the customer, etc., which forms part of the credit policies of the businesses.

The Company shall implement procedures for providing customers with adequate notice that the Company is requesting information and taking actions in order to verify their identity. Each business process shall determine the appropriate manner to deliver the notice, which shall be reasonably designed to ensure that the customer is able to view or is otherwise given such notice prior to account opening.

## 9. Existing Customer

The requirements of the earlier sections are not applicable to existing customers, unless specifically mentioned in the policy or notified by Government / regulators. Further, transactions in existing accounts should be continuously monitored and any unusual pattern in the operation of the account should trigger a review of the due diligence measures.

## 10. Enhanced Due Diligence

The Company is primarily engaged in MSME finance. It does not deal with such category of customers who could pose a potential high risk of money laundering, terrorist financing or political corruption and are determined to warrant enhanced scrutiny. The existing credit policies of the Company in respect of its businesses ensure that the Company is not transacting with such high risk customers. The Company shall conduct Enhanced Due Diligence in connection with all customers or accounts that are determined to pose a potential high risk and are determined to warrant enhanced scrutiny. Each business process shall establish appropriate standards, methodology and procedures for conducting Enhanced Due Diligence, which shall involve conducting appropriate additional due diligence or investigative actions beyond what is required by standard KYC due diligence. Enhanced Due Diligence shall be coordinated and performed by the Company, who may engage appropriate outside investigative services or consult appropriate vendor sold databases when necessary. Each business process shall establish procedures to decline to do business with or discontinue relationships with any customer when the Company cannot adequately complete necessary Enhanced Due Diligence or when the information received is deemed to have a significant adverse impact on reputational risk.

The following are the indicative list where the risk perception of a customer may be considered higher:

- Customers requesting for frequent change of address/contact details
- Sudden change in the loan account activity of the customers
- Frequent closure and opening of loan accounts by the customers
- Accounts of Politically Exposed Persons Enhanced due diligence may be in the nature of keeping the account monitored closely for a re-categorization of risk, updating of fresh KYC documents, field

investigation or visit of the customer, etc., which shall form part of the credit policies of the businesses.

**11. Reliance on Third Party Due Diligence**

The company shall not rely on third party due diligence.

**12. Periodic Updation of KYC records**

Full KYC exercise will be done at a periodicity not less than once in ten years in case of low risk category customers, not less than once in eight years in case of medium risk category customers and not less than once in two years in case of high-risk category customers. At the time of revalidation, the company shall obtain

- PAN verification from the verification facility available with the issuing authority and authentication of Aadhaar number with the explicit consent of the customer.
- In case identification information available with Aadhaar doesn't contain current address, then document as detailed **"Identification"** shall be obtained.
- The documents detailed in **"Identification"** shall be obtained even if the customer is not eligible for Aadhaar. However, in case of low risk category and no change in status with respect to their identities and addresses, then a self-certification by the customer to that effect shall suffice in such cases. In case of change of address of such 'low risk' customers, they can forward a certified copy of proof of address by mail/post, etc.
- In case of any customer other than individual, the documents as detailed in **"Identification"** shall be obtained.

**13. Customer Education**

The Company may regularly educate the customer of the objectives of the KYC programme. The Company on an on-going basis educates the front desk staff, the branch staff and the new joinees on the elements of KYC through training programme/e-mail.

**14. Applicability of branches and subsidiaries outside India**

The above guidelines shall also apply to all the branches which are exist and which will open in future.

**15. Appointment of designated Director or Principal Officer**

Mr. Pravash Dash Managing Director & CEO will be the designated director who is responsible for ensuring overall compliance as required under PMLA Act and the rules. Mr. Kunal Mehta, Executive Director is designated as Principal Officer who shall be responsible for furnishing of information to FIU-IND.

As per the RBI guidelines, the Principal Officer is located at our corporate office and is responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He maintains a close liaison with enforcement agencies, other NBFCs and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

**The KYC & AML Policy has been reviewed and adopted by the Board of Directors on 29th June 2019 and shall come into force with immediate effect. The said policy will be reviewed annually or as and when necessary by the Company's Board of Directors.**