

KYC (Know Your Customer) Policy & Anti Money Laundering Measures

RBI Circular on KYC
<p>The master direction - “Know Your Customer (KYC)”direction, 2016 are hereby revised for all REs/ FIs vide by RBI vide Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated April 20th, 2020 .</p> <p>The objective of “Know Your Customer (KYC)” guidelines is to prevent any Financial Institution (FI) from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. KYC procedure also enables FI to know/ understand their customer and their financial dealings better which in turn help them to manage their risk prudently.</p>
Applicability of Circular
<p>The provisions of this policy are in line with the Guidelines issued by RBI and shall apply (with updates and amendments) to IIFL HFL at all times.</p>
Key Elements
<p>KYC is an ongoing process which starts with the beginning of relationship and runs through the life cycle of our relationship with the borrower. KYC Policy includes below 4 key elements:</p> <ul style="list-style-type: none"> (a) Customer Acceptance Policy; (b) Risk Management; (c) Customer Identification Procedures (CIP); and (d) Monitoring of Transactions
Customer Acceptance Policy
<p>Below guidelines must be followed while appraising a loan application:</p> <ul style="list-style-type: none"> (a) No loan to be sanctioned in anonymous or fictitious/benami name. (b) No loan to be sanctioned where we are unable to collect proper KYC documents (as per policy) either due to non-cooperation of the borrower or due to non-reliability of the documents/information furnished by the borrower (FCU Fraud). (c) No loan to be disbursed without following the CDD (Customer Due Diligence) procedure. (d) The mandatory information to be sought for KYC purpose prior to disbursement of a loan and during the periodic updation (post disbursement), has been mentioned in this policy. (e) Optional/ additional information to be obtained with the explicit consent of the customer after loan disbursement. (f) CDD measures should be applied at CUID level. Thus, If an existing CKYC compliant customer of IIFL HFL desires to avail Top Up or another loan, there shall be no need for a fresh CDD exercise except for scenarios where address of borrower has changed and/ or in case of change in Risk Category (Dynamic Risk Category & Initial Risk Category in system shall be the same of the borrower). (g) KYC documentation is mandatory for all borrowers, co-borrower, Guarantor & POA Holder while disbursing a loan. (h) Circumstances in which, a borrower is permitted to act on behalf of another person/ entity, is allowed as per defined guidelines in this policy. (i) Credit to ensure that the identity of the borrower does not match with any person or entity, whose name appears in the sanctions lists circulated by Reserve Bank of India from time to time (k) Where Permanent Account Number (PAN) is obtained, same shall be verified from NSDL. (l) Where an equivalent e-document is obtained from the customer, it is mandatory to verify the digital signatures online Note: It is important to bear in mind that the adoption of Customer Acceptance Policy and its implementation should not result in denial of IIFL HFL's services to general public, especially to those, who are financially or socially disadvantaged. Joint approval from “Compliance Head” + “Policy Head” to be obtained in case of any such exceptional scenarios.

Risk Management

Risk Based Approach:

- a borrower shall be categorized as low, medium and high risk category based on parameters defined in this policy.
- The customers, basis their profile, identity, social/ financial status, nature of business activity, and information about the borrower's business & their location etc., are categorized under 3 types of Risk. While considering customer's identity, the ability to confirm identity documents through online or other services offered by issuing authorities may also be factored in.

(i) Low Risk: Individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. Illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover, Government Departments & Government owned companies, regulators and statutory bodies, etc.

(ii) Medium Risk: Customers that are likely to pose a higher than average risk to the HFC 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.

(iii) High Risk: 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 (BO)*,
- Firms with 'sleeping partners',
- Politically exposed persons (PEPs)###,
- non-face to face customers##, and
- Those with dubious reputation as per public information available, etc.
- Marketing firms, especially accounts of Multi-level Marketing (MLM) Companies

"Non-face-to-face customers" means customers who open accounts without visiting the branch/ offices of the HFC or meeting the officials of the Company.

- In system, every loan is categorized at the time of origination as well as post disbursement as below:
 - (i) Static Risk:** Risk category is fixed at the time of inception of loan.
 - (ii) Dynamic Risk:** Post loan disbursement, the risk category of borrower changes basis his loan repayment trend.

Detailed categorization norms have been defined in underwriting policy of IIFL HFL.

In addition to this, Periodic KYC updation in system shall be carried out at least once in every two years for high risk customers, once in eight years for medium risk customers and once in every ten years.

Money Laundering and Terrorist Financing Risk Assessment:

(a) IIFL HFL shall carry out 'Money Laundering (ML) and Terrorist Financing (TF) Risk Assessment' exercise periodically to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, countries or geographic areas, products, services, transactions or delivery channels, etc.

The assessment process should consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. While preparing the internal risk assessment, FI shall take cognizance of the overall sector-specific

vulnerabilities, if any, that the regulator may share with FI from time to time.

(b) The risk assessment by the IIFL HFL shall be properly documented and be proportionate to the nature, size, geographical presence, complexity of its activities/structure, etc. Further, the periodicity of risk assessment exercise shall be determined by the Board, in alignment with the outcome of the risk assessment exercise. However, it should be reviewed at least annually.

(c) The outcome of the exercise shall be put up to the Board or any committee of the Board to which power in this regard has been delegated, and should be available to competent authorities and self-regulating bodies.

IIFL HFL shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have Board approved policies, controls and procedures in this regard. Further, it shall monitor the implementation of the controls and enhance them if necessary.

Customer Identification Procedure (CIP) & Customer Due Diligence (CDD)

- Customer Identification means undertaking client due diligence (CDD) measures while commencing relationship including identifying and verifying the customer on the basis of one of the Officially Valid Documents.
- While undertaking CDD, it is mandatory to obtain the following information from an individual while establishing an account based relationship with an 'individual' or dealing with the individual who is a beneficial owner, authorized signatory or the power of attorney holder related to any legal entity:
- Below are mandatory to be documented:
 - (i) Identity proof
 - (ii) Address proof
 - (iii) One recent photograph

Procedure for obtaining identification/ Customer Due Diligence (CDD) Procedure:

For Individuals:

(a) the Aadhaar number:

- i. Where borrower is desirous of receiving any benefit or subsidy under any scheme like CLSS etc.; or
- ii. he decides to submit his Aadhaar number voluntarily

Note: A borrower may submit only the "proof of possession of Aadhaar number" s.t. any other OVD or the equivalent e-document thereof containing the details of his identity and address has been submitted;

(b) the Permanent Account Number or the equivalent e-document thereof or Form No. 60; and

(c) such other documents including in respect of the nature of business and financial status of the customer, or the equivalent e-documents

Points to be noted:

Where the customer has submitted,

- i) Aadhaar number under clause (a) above, then IIFL HFL shall carry out authentication of the customer's Aadhaar number using e-KYC authentication facility provided by the UIDAI. Further, in such a case, if customer wants to provide a current address, different from the address as per Aadhaar, then he must give a self-declaration to that effect to IIFL HFL.
- ii) In case an equivalent e-document of any OVD is received, then IIFL HFL shall verify the digital signature and take a live photo of the customer
- iii) any OVD or proof of possession of Aadhaar number where offline verification cannot be carried out, then IIFL HFL shall carry out

verification through digital KYC as specified under process of digital KYC

*Note: It is mandatory for a borrower to submit PAN Card or **equivalent e-document (E-PAN)** thereof if he/she is already a PAN Card holder. Form-60 to be accepted only for those borrowers who do not hold a PAN Card.*

Where IIFL HFL has reason to believe that a customer (account- based or walk-in) is intentionally structuring a transaction into a series of transactions below the threshold of rupees fifty thousand, PAN of Customer is must.

E-PAN

- Service is available for all PAN cards. PAN PDF/XML file is downloaded
- Facility is available for the following:
 - ✓ PAN applications submitted to NSDL e-Gov where PAN is allotted or changes are confirmed by Income Tax department in last 30 days
 - ✓ e-PAN download requests submitted to NSDL e-Gov through paid facility in last 30 days
- If PAN card is issued within 30 days/ changes are made within 30 days, then service is free of cost. Otherwise, minimum charges of Rs.7+GST shall be paid for PAN issued prior to 30 days

Officially Valid Document (OVD): Any one of below OVD to be documented s.t PAN & Aadhaar norms as specified above:

For Individuals - OVD (Officially Valid Documents)	
ID Proof	Address Proof (copy of any one)
Passport	Passport
PAN Card	Proof of possession of Aadhaar number
Voter's ID Card	Voter's ID Card
Driving License	Driving License
<i>Note:</i>	
<i>(i) Self attestation & OSV is mandatory on above documents.</i>	
<i>(ii) PAN Card/ Form 60 is mandatory.</i>	
<i>(iii) In absence of PAN (in special scenarios as mentioned above in policy document), any of above mentioned alternate documents under ID proof can be accepted. Form 60 is mandatory in such cases.</i>	
<i>(iv) Above mentioned OVD (Address Proof) can be accepted for Permanent Address also. Details of "Permanent Address" must be captured in system and FI of current address and permanent address to be done.</i>	

In case the Address Proof furnished by the customer out of the documents specified above does not contain updated address, the following documents or equivalent e-document shall be deemed to be OVDs for the limited purpose of proof of address:

Deemed OVD (temporary) - 3 months	
Utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);	Property or Municipal tax receipt;
Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if it contains the address;	For NRIs - documents issued by the Government departments of foreign jurisdictions and letter issued by the Foreign Embassy or Mission in India
Letter of accommodation from employer issued by State or Central Govt departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and license agreements with such employers allotting official accommodation;	

Non Individual:

Below documents are required as Business Proof for Non-Individuals:

Non Individuals - Business Existence Proof					
Proprietorship Concern	Registered Partnership Firm	Registered Trust	Legal Entity (Company)	Unregistered Partnership Firm or Unregistered Trust (Unincorporated Association)/ Body of Individuals	Other Juridical persons not specifically covered in the earlier part, Societies/ Universities and local bodies
Any 2 of below mentioned documents:	All below docs are mandatory:				
Registration Certificate	Registration Certificate	Registration Certificate	Certificate of incorporation	Resolution of the managing body of body of Association/ Individuals	Resolution & Byelaws of the concerned body
Certificate/licence issued by the municipal authorities under Shop and Establishment Act	Partnership Deed (must be registered)	Trust Deed (must be registered)	Memorandum and Articles of Association	PAN or Form No.60 of the unincorporated association or a body of individuals	PAN or Form No.60 of the unincorporated association or a body of individuals
GST Return and Income Tax returns	PAN of the Partnership Firm	PAN or Form 60 of the Trust	PAN of the company	Unregistered Partnership/ Trust Deed/ any other document to establish legal existence of such an Association or Body of Individuals	Incorporation Proof &/or Establishment Deed
CST/VAT/CST certificate (provisional/ final)	One copy of an OVD containing details of identity and address, one recent photograph and PAN or Form 60 of the partners who are authorized to transact on behalf of the Firm.	One copy of an OVD containing details of identity and address, one recent photograph and PAN or Form 60 of the Trustees who are authorized to transact on behalf of the Trust.	A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf;	Power of attorney/ Authority Letter granted to transact on its behalf;	Power of attorney/ Authority Letter granted to transact on its behalf;

Certificate/ registration document issued by Sales Tax/Service Tax/ Professional Tax authorities.			One copy of an OVD containing details of identity and address, one recent photograph and PAN or Form 60 of the Directors who are authorized to transact on behalf of the company.	One copy of an OVD containing details of identity and address, one recent photograph and PAN or Form 60 of the Partners/ Trustee etc., as the case may be, holding an attorney to transact on its behalf	One copy of an OVD containing details of identity and address, one recent photo and PAN or Form 60 of the Partners/ Trustee etc., as the case may be, holding an attorney to transact on its behalf
IEC (Importer Exporter Code) issued to the proprietary concern by the office of DCFT/Licence/ certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute.					
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.					

Note: The above mentioned documents of "Business Proof" to be collected in addition to PAN/ Form-60 and Address proof.

Note: In case of Proprietorship, if only one of the above mentioned documents have been submitted instead of two documents, then we can accept the same s.t. positive office CPV & business confirmation.

Note: Self attestation and OSV is mandatory on all the above documents

Note: Unregistered trusts/partnership firms shall be included under the term 'unincorporated association' and the term 'body of individuals', includes societies

Video Based Customer Identification process (V-CIP)

IIFL HFL may undertake live V-CIP, to be carried out by an official employee, for establishment of an account based relationship with an individual customer, after obtaining his informed consent and shall adhere to the following stipulations:

- i. The Video should be recorded and picture of the customer should be captured for identification purpose while conducting V-CIP. Offline verification of Aadhar should be carried out for identification

- ii. Clear image of PAN card to be displayed by customer during V-CIP (except in case of e-PAN). The PAN details shall be verified from the database of the issuing authority
- iii. Live location of the customer (Geotagging) should be captured to ensure that customer is physically present in India
- iv. Ensure that photograph of the customer in the Aadhaar/PAN matches with the customer undertaking the V-CIP and the identification details in Aadhaar/PAN should match with the details provided by the customer
- v. Sequence and/or type of questions during video interactions should be varied in order to establish that the interactions are real-time and not pre-recorded
- vi. In case of offline verification of Aadhaar using XML file or Aadhaar Secure QR Code, it should be ensured that the XML file or QR code generation date is not older than 3 days from the date of carrying out V-CIP
- vii. All accounts opened through V-CIP shall be made operational only after being subject to concurrent audit, to ensure the integrity of process
- viii. V-CIP process should be a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication to be adequate to allow identification of the customer beyond doubt. Liveliness check to be carried out in order to guard against spoofing and other fraudulent manipulations.
- ix. To ensure security, robustness and end to end encryption, software and security audit and validation of the V-CIP application to be done before rolling out
- x. The audiovisual interaction to be triggered from the domain of IIFL HFL itself, and not from third party service provider, if any. The V-CIP process shall be operated by officials/ employee specifically trained for this purpose. The activity log along with the credentials of the official/ employee performing the V-CIP shall be preserved.
- xi. Video recording to be stored in a safe and secure manner bearing the date and time stamp
- xii. Latest available technology, including Artificial Intelligence (AI) and face matching technologies to be encouraged to ensure the integrity of the process as well as the information furnished by the customer. Responsibility of customer identification rests with IIFL HFL
- xiii. Ensure to redact or blackout the Aadhaar number in terms of Section 16

Accounts of non-face-to-face customers

IIFL HFL to ensure that for non-face-to-face customers first payment is to be effected through the customer's KYC-complied account with another Bank/ FI, for enhanced due diligence of non-face-to-face customers. However, this is not applicable for customers on-boarded using Aadhar OTP.

Digital KYC Process

“Digital KYC” means the capturing live photo of the customer and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorized officer of the FI as per the provisions contained in the Act.

Digital KYC Process

- A. IIFL HFL shall develop an application for digital KYC process which shall be made available at customer touch points for undertaking KYC of their customers and the KYC process shall be undertaken only through this authenticated application of IIFL HFL.
- B. The access of the Application shall be controlled by IIFL HFL and it should be ensured that the same is not used by unauthorized persons. The Application shall be accessed only through login-id and password or Live OTP or Time OTP controlled mechanism given by IIFL to its authorized officials.
- C. The customer, for the purpose of KYC, shall visit the location of the authorized official of IIFL HFL or vice-versa. The original OVD (ID & Address proof document) shall be in possession of the customer.
- D. IIFL HFL must ensure that the Live photograph of the customer is taken by the authorized officer and the same photograph is embedded in the Customer Application Form (CAF). Further, the system Application of IIFL HFL shall put a water-mark in readable form having CAF number, GPS coordinates, authorized official’s name, unique employee Code (assigned by REs) and Date (DD:MM:YYYY) and time stamp

(HH:MM:SS) on the captured live photograph of the customer.

E. The Application of IIFL HFL shall have the feature that only live photograph of the customer is captured and no printed or video-graphed photograph of the customer is captured. The background behind the customer while capturing live photograph should be of white colour and no other person shall come into the frame while capturing the live photograph of the customer.

F. Similarly, the live photograph of the original OVD or proof of possession of Aadhaar where offline verification cannot be carried out (placed horizontally), shall be captured vertically from above and water-marking in readable form as mentioned above shall be done. No skew or tilt in the mobile device shall be there while capturing the live photograph of the original documents.

G. The live photograph of the customer and his original documents shall be captured in proper light so that they are clearly readable and identifiable.

H. Thereafter, all the entries in the CAF shall be filled as per the documents and information furnished by the customer. In those documents where Quick Response (QR) code is available, such details can be auto-populated by scanning the QR code instead of manual filing the details. For example, in case of physical Aadhaar/e-Aadhaar downloaded from UIDAI where QR code is available, the details like name, gender, date of birth and address can be auto-populated by scanning the QR available on Aadhaar/e-Aadhaar.

I. Once the above mentioned process is completed, a One Time Password (OTP) message containing the text that 'Please verify the details filled in form before sharing OTP' shall be sent to customer's own mobile number. Upon successful validation of the OTP, it will be treated as customer signature on CAF. However, if the customer does not have his/her own mobile number, then mobile number of his/her family/relatives/known persons may be used for this purpose and be clearly mentioned in CAF. In any case, the mobile number of authorized officer registered with IIFL HFL shall not be used for customer signature. IIFL HFL must check that the mobile number used in customer signature shall not be the mobile number of the authorized officer.

J. The authorized officer shall provide a declaration about the capturing of the live photograph of customer and the original document. For this purpose, the authorized official shall be verified with One Time Password (OTP) which will be sent to his mobile number registered with IIFL HFL. Upon successful OTP validation, it shall be treated as authorized officer's signature on the declaration. The live photograph of the authorized official shall also be captured in this authorized officer's declaration.

K. Subsequent to all these activities, the Application shall give information about the completion of the process and submission of activation request to activation officer of IIFL HFL, and also generate the transaction-id/reference-id number of the process. The authorized officer shall intimate the details regarding transaction-id/reference-id number to customer for future reference.

L. The authorized officer of IIFL HFL shall check and verify that:- (i) information available in the picture of document is matching with the information entered by authorized officer in CAF. (ii) live photograph of the customer matches with the photo available in the document.; and (iii) all of the necessary details in CAF including mandatory field are filled properly.;

M. On Successful verification, the CAF shall be digitally signed by authorized officer of IIFL HFL who will take a print of CAF, get signatures/thumb-impression of customer at appropriate place, then scan and upload the same in system. Original hard copy may be returned to the customer.

Politically Exposed Persons (PEPs)

###"Politically Exposed Persons" (PEPs) are individuals who are or have been entrusted with prominent public functions e.g., Heads of States/ Governments, Senior politicians, senior government/ judicial/ military officers, senior executives of state-owned corporations, important political party officials, etc.

Loan funding to PEPs may be exceptionally done in following scenarios only:

(a) sufficient information including information about the sources of funds accounts of family members and close relatives is provided by

- the PEP;
- (b) the identity of the person shall have been verified before accepting PEP as customer;
- (c) the decision to fund loan to PEP is taken by Risk Head and/or CEO in accordance with the Customer Acceptance Policy;
- (d) all such loans are subjected to enhanced monitoring on an on-going basis;
- (e) in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, has to inform IIFL HFL within 15 working days and obtain CRO/CEO approval to continue the business relationship;
- (f) The CDD measures as applicable to PEPs including enhanced monitoring on an on-going basis are applicable.

Customer's Accounts Opened by Professional Intermediaries

IIFL HFL shall ensure while opening customer's accounts through professional Intermediaries, if any, that:

- (a) Customer shall be identified when client account is opened by a professional intermediary on behalf of a single client.
- (b) IIFL HFL shall have option to hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds.
- (c) IIFL HFL shall not open accounts of such professional intermediaries who are bound by any client confidentiality that prohibits disclosure of the client details to the Company.
- (d) All the beneficial owners shall be identified where funds held by the intermediaries are not co-mingled at the level of the Company, and there are 'sub-accounts', each of them attributable to a beneficial owner, or where such funds are co-mingled at the level of the Company, IIFL HFL shall look for the beneficial owners.
- (e) IIFL HFL shall, at its discretion, rely on the CDD done by an intermediary, provided that the intermediary is a regulated and supervised entity and has adequate systems in place to comply with the KYC requirements of the customers.

Ongoing Due Diligence

Ongoing monitoring is an essential element of effective KYC procedures. HFCs can effectively control and reduce their risk only if they have 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.

- a) HFCs to pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.
- b) The extent of monitoring shall be aligned with the risk category of the customer. A system of periodic review of risk categorization of accounts is in place as mentioned in this Policy.
- c) Customers that are likely to pose a higher than average risk to the HFC 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. HFCs 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.

Digital KYC/ e-document / KYC Identifier/ Video based CIP (V-CIP):

“Digital KYC”: means the capturing live photo of the customer and OVD or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an employee of IIFL HFL.

As per clause (p) of subsection (1) of section (2) of the Information Technology Act, 2000 (21 of 2000) “Digital Signature” means authentication of any electronic record by a subscriber by means of an electronic method.

“Equivalent e-document”: means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature including documents issued to the digital locker account of the customer.

“KYC Identifier”: means the unique number or code assigned to a customer by the Central KYC Records Registry.

Video based Customer Identification Process (V-CIP): a method of customer identification by an employee of IIFL HFL by undertaking seamless, secure, real-time, consent based audio-visual interaction with the customer to obtain identification information including the documents required for CDD purpose, and to ascertain the veracity of the information furnished by the customer. Such process shall be treated as face-to-face process for KYC purpose.

Public Documents

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