

# **KYC AND AML POLICY**

**(Approved in Board Meeting dated 29<sup>th</sup> March 2019)**

## **1. INTRODUCTION**

In terms of the provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, Housing Finance Companies (HFCs) are required to follow certain customer identification procedures while undertaking a transaction either by establishing an account based relationship or otherwise and monitor their transactions. HFCs shall take steps to implement provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, as amended from time to time, including operational instructions issued in pursuance of such amendment(s).

Nivara's KYC and AML Policy has been amended in its board meeting dated 29<sup>th</sup> March 2019 keeping in view NHB policy circular No. 94/2018 on 'Know Your Customer' & 'Anti-Money Laundering Measures'

## **2. APPLICABILITY**

The provisions of KYC and AML Policy shall apply to all the branches / offices of Nivara.

## **3. DEFINITIONS:**

In this policy, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them in Annexure 1.

## **4. KYC & AML POLICY INCLUDES FOLLOWING FOUR KEY ELEMENTS:**

- A. Customer Acceptance Policy
- B. Customer Identification Procedures
- C. Customer Due Diligence
- D. Monitoring of Transactions
- E. Risk management.

## **5. COMPLIANCE OF KYC POLICY:**

- a) Senior Management for the purpose of KYC Compliance constitutes:
  - Chief Executive Officer
  - Chief Operating Officer
  - Chief Financial Officer
  - Company Secretary
  - Business Head

- Head of Operations
  - Head of Human Resources
  - Head of Audit
- b) Implementation of the KYC Policy shall rest with the Business Team comprising of Sales and Marketing. The Operation Team will monitor the implementation of the Policy.
  - c) The Secretarial Auditor shall evaluate the compliance functions of HFC's policies annually.
  - d) The Internal Audit team shall verify compliance of KYC and AML policy annually.
  - e) Compliance to KYC and AML policy shall be quarterly placed before the audit committee.

#### **5A. CUSTOMER ACCEPTANCE POLICY**

- I. Nivara's customer acceptance policy shall be governed by the following principles:
  - i. No account is opened in anonymous or fictitious/benami name(s). Nivara will establish proper identity credentials.
  - ii. No account is opened where Nivara is unable to apply Customer Due Diligence measures due to non-cooperation of customers and non-reliability of documents.
  - iii. The pursuance of such prospects and nature of information/documentation sought will be based on the risk classification derived primarily from two criteria viz. those with documented income, those whose income is either undocumented or needs to be assessed based on other supporting evidence.
  - iv. In the rare instance where an existing customer's data/information furnished is found to be unreliable/incorrect Nivara may choose to close the account with due notice.
  - v. Where necessary, Nivara may at its discretion identify and communicate circumstances under which customers can open account on behalf of another person without in anyway diluting the letter and spirit of the provisions in this note
  - vi. Customer Due Diligence procedure is to be followed for all joint account holders
  - vii. No need of fresh Customer Due Diligence for another account of an existing customer
  - viii. Prior to establishing or opening an account all necessary checks will be undertaken including institutional credit checks, de-dupe checks, negative list as per policy or as per communication by regulatory authorities from time to time.
  - ix. Opening of account of person with political connection, a firm, entity, body corporate, unincorporated body will only be with MD approval.

#### **5B. CUSTOMER IDENTIFICATION PROCEDURE**

- I. Nivara's customer identification process will cover the following instances:
  - i. Commencement of an account-based relationship with the customer.
  - ii. During conduct of transactions of limits prescribed by regulatory authorities from time to time
  - iii. When there is a doubt about the authenticity/veracity or the adequacy of the previously

- obtained customer identification data.
- iv. Selling third party products as agents, selling Nivara products and any other product will be done only after KYC.
- II. The documentation requirements are given under section "KYC Documentation" in Annexure 2.
- III. Client accounts opened by professional intermediaries
- In cases where Nivara depends on the 'customer due diligence' done by an intermediary, Nivara will ensure that the intermediary is regulated and supervised and has adequate systems in place to comply with the KYC requirements.

## **5C. CUSTOMER DUE DILIGENCE PROCEDURE**

1. While undertaking customer due diligence from Individual/beneficial owner/authorized signatory/power of attorney holder following documents shall be collected:
  - a. Aadhar number if he desires benefits/subsidy or Official Valid Document (OVD) containing details and address of entity and
  - b. Recent photograph and
  - c. PAN or Form 60 in case of non-availability of PAN
2. Above documents shall be Original Seen & Verified (OSV).
3. Customer not intending to avail subsidy benefits are not required to submit Aadhar and can provide for any OVD
4. Such other documents pertaining to the nature of business or financial status specified in Annexure 2
5. Individuals with injury, illness or infirmity on account of old age or otherwise, and such like causes are exempted to provide for Permanent Account Number of Form No. 60
6. Accounts of non-face-to-face customers:

In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, Nivara will put in place a system of certification of all the documents and, if necessary, additional documents may be called for. Nivara shall ensure that the first payment is to be effected through the customer's KYC-complied account, for enhanced due diligence of non-face to face customers.
7. Periodic KYC Updation:
  - Once in every two years for high risk customers
  - Once in every eight years for medium risk customers
  - Once in every ten years for low risk customers

Procedure:

- I. Nivara shall carry out
  - i. PAN verification from the verification facility available with the issuing authority and
  - ii. Authentication, of Aadhaar Number already available with the Nivara with the explicit consent of the customer in applicable cases.
  - iii. In case identification information available with Aadhaar does not contain current address an OVD containing current address may be obtained.
  - iv. Certified copy of OVD containing identity and address shall be obtained at the time of periodic updation from individuals except those who are categorised as 'low risk'. In case of low risk customers when there is no change in status with respect to their identities and addresses, a self certification to that effect shall be obtained.
  - v. Nivara shall not insist on Physical presence of the customer for the purpose of furnishing OVD or furnishing consent for Aadhaar authentication unless there are sufficient reasons that physical presence of the account holder/holders is required to establish their bona-fides. Consent forwarded by the customer through mail/ post, etc., shall be acceptable.
  - vi. Nivara will provide acknowledgment with date of having performed KYC updation.

**5D. MONITORING OF TRANSACTIONS:**

1. Maintaining record of transactions  
Nivara shall have a system in place for maintenance of records of transactions (nature and value) at each branch and consolidated record for all branches taken together at the registered office in such form and for such period as specified under the Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005.
2. Nivara shall maintain all necessary information in respect of transactions prescribed under Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005, so as to permit reconstruction of individual transaction, including the following:
  - a. nature of the transactions
  - b. amount of the transaction and the currency in which it was denominated;
  - c. date on which the transaction was conducted; and
  - d. parties to the transaction.
3. Information to be maintained in hard and soft copies that allows information to be retrieved easily when required.
4. Transactions under the Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 are as under:

(A) all cash transactions of the value of more than ten lakh rupees or its equivalent in foreign currency;

(B) all series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of

transactions have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency;

[(BA) all transactions involving receipts by non-profit organisations of value more than rupees ten lakh, or its equivalent in foreign currency;]

(C) all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions;]

(D) all suspicious transactions whether or not made in cash and by way of—

(i) deposits and credits, withdrawals into or from any accounts in whatsoever name they are referred to in any currency maintained by way of—

(a) cheques including third party cheques, pay orders, demand drafts, cashiers cheques or any other instrument of payment of money including electronic receipts or credits and electronic payments or debits, or

(b) travellers cheques, or

(c) transfer from one account within the same banking company, financial institution and intermediary, as the case may be, including from or to Nostro and Vostro accounts,

(d) any other mode in whatsoever name it is referred to;

(ii) credits or debits into or from any non-monetary accounts such as d-mat account, security account in any currency maintained by the banking company, financial institution and intermediary, as the case may be;

(iii) money transfer or remittances in favour of own clients or non-clients from India or abroad and to third party beneficiaries in India or abroad including transactions on its own account in any currency by any of the following:—

(a) payment orders, or

(b) cashiers cheques, or

(c) demand drafts, or

(d) telegraphic or wire transfers or electronic remittances or transfers, or

(e) internet transfers, or

(f) Automated Clearing House remittances, or

(g) lock box driven transfers or remittances, or

(h) remittances for credit or loading to electronic cards, or

(i) any other mode of money transfer by whatsoever name it is called;

(iv) loans and advances including credit or loan substitutes, investments and contingent liability by way of—

a) subscription to debt instruments such as commercial paper, certificate of deposits, preferential shares, debentures, securitised participation, inter bank participation or any other investments in securities or the like in whatever form and name it is referred to, or

b) purchase and negotiation of bills, cheques and other instruments, or

c) foreign exchange contracts, currency, interest rate and commodity and any other derivative instrument in whatsoever name it is called, or

d) letters of credit, standby letters of credit, guarantees, comfort letters, solvency certificates and any other instrument for settlement and/or credit support;

e) collection services in any currency by way of collection of bills, cheques, instruments or any other mode of collection in whatsoever name it is referred to.

(E) all cross border wire transfers of the value of more than five lakh rupees or its equivalent in foreign currency where either the origin or destination of fund is in India;

(F) all purchase and sale by any person of immovable property valued at fifty lakh rupees or more that is registered by the reporting entity, as the case may be.

5. Transactions which are considered suspicious are mentioned in Annexure 3

6. Furnishing of Information to FIU:

- i. Nivara will, *inter-alia*, furnish to the Director, FIU-IND, within such time and in such form, the information in respect of transactions as referred under sub-rule (1) of rule 3 of the said Rules as detailed above.
- ii. The reporting formats and comprehensive reporting format guide prescribed/ released by FIU-IND and Report Generation Utility and Report Validation Utility developed to assist reporting entities in the preparation of prescribed reports shall be taken note of.
- iii. Nivara shall not put any restriction on operations in the accounts where an STR has been filed. Nivara shall keep the fact of furnishing of STR strictly confidential.
- iv. 'NIL' reports need not be submitted in case there are no Cash/Suspicious Transactions, during a particular period.

## **5E. RISK MANAGEMENT**

- I. Customer shall be categorized into following based on assessment and risk perception:
  - a. Low Risk Category
  - b. Medium Risk Category
  - c. High Risk Category
- II. Review of risk profiles of customers to be carried out annually by Risk Management Committee.
- III. Risk Categorization shall be done on below parameters:
  - a. Customer Identity - 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.
  - b. Social and Financial Status
  - c. Nature of business activity
  - d. Information about the clients' business
  - e. Their location etc

Nivara will identify and classify customers based on their risk profile. As a general rule, individuals 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. Customers that is likely to pose a higher than average risk to the HFC may be categorized as medium or high risk depending on customer's track record, nature and location of activity, sources of income and overall profile. Nivara will apply enhanced due diligence measures for high risk customers.

**6. SECRECY OBLIGATION AND SHARING OF INFORMATION:**

- i. Nivara shall maintain secrecy regarding customer Information
- ii. While considering request for data/information from Govt and other agencies, Nivara shall satisfy themselves that the information being sought is not of such a nature to violate provisions of law relating to secrecy

**7. CONCLUSION:**

Nivara is bound by its mission of "Housing for All" and to that extent policies would in fact try to ensure more inclusiveness with respect to the segments of societies we would extend housing finance.

## Annexure -1

1. "Aadhaar number" means an identification number as defined under sub-section (a) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016, henceforth the 'Aadhaar Act';

2. "Act" and "Rules" means the Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, respectively and amendments thereto;

3. "Authentication" means the process as defined under sub-section (c) of section 2 of the Aadhaar Act;

4. Beneficial Owner (BO):

(a) Where the customer is a company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have a controlling ownership interest or who exercise control through other means.

*Explanation - For the purpose of this sub-clause:-*

*(i) "Controlling ownership interest" means ownership of/entitlement to more than 25 per cent of the shares or capital or profits of the company.*

*(ii) "Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.*

(b) Where the customer is a partnership firm, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership off entitlement to more than 15per cent of capital or profits of the partnership.

(c) Where the customer is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership off entitlement to more than 15 percent of the property or capital or profits of the unincorporated association or body of individuals.

*Explanation- Term 'body of individuals' includes societies. Where no natural person is identified under (a), (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official.*

(d) Where the customer is a trust, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with 15% or more interest in the trust and other natural person exercising ultimate effective control over the trust



through a chain of control or ownership.

5. "Cash Transactions" means "Cash Transactions" as defined under rule 3 of the Rules.

6. "Central KYC Records Registry" (CKYCR) means an entity defined under Rule 2(1)(aa) of the Rules, to receive, store, safeguard and retrieve the KYC records in digital form of a customer.

7. "Customer" means a person', as defined below under Para 17 below, who is engaged in a financial transaction or activity with Nivara and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.

8. "Customer Due Diligence" (CDD) means "Client Due Diligence" as defined under rule 9 of the Rules and the amendments thereto.

9. "Customer Identification" means undertaking the process of CDD.

10. "Designated Director" means a "Designated Director" as defined under rule 2(ba) of the Rules.

11. "FATCA" means Foreign Account Tax Compliance Act of the United States of America (USA) which, inter alia, requires foreign financial institutions to report about financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a substantial ownership interest.

12. "KYC Templates" means templates prepared to facilitate collating and reporting the KYC data to the CKYCR, for individuals and legal entities

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

14. "Officially Valid Document" (OVD) means OVD as defined under rule 2(l)(d) of the Rules and the amendments thereto.

15. "On-going Due Diligence" means regular monitoring of transactions in accounts to ensure that they are consistent with the customers profile and source of funds.

16. "Periodic Updation" means steps taken to ensure that documents, data or information collected under the CDD process is kept up-to-date and relevant by undertaking reviews of existing records at periodicity prescribed by the National Housing Bank.

17. "Person" has the same meaning as defined in the Act and includes:

- a. an individual,
- b. Hindu undivided family,
- c. company,

- d. firm,
- e. an association of persons or a body of individuals, whether incorporated or not,
- f. every artificial juridical person, not falling within anyone of the above persons (a to e), and
- g. any agency, office or branch owned or controlled by any of the above persons (a to f).

18. "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.

19. "Principal Officer" means "Principal Officer" as defined under rule 2(f) the Rules

20. "Suspicious Transaction" means "Suspicious Transaction" as defined under rule 2(g) of the Rules

21. "Transaction" means "Transaction" as defined under rule 2(h) of the Rules.

All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Prevention of Money Laundering Act and Prevention of Money Laundering (Maintenance of Records) Rules, any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

## Annexure -2

Nature of Document	Proof of Document
Name & Age Proof	<ul style="list-style-type: none"> <li>• Passport</li> <li>• PAN Card</li> <li>• Driving license</li> <li>• Voter ID</li> <li>• Election ID</li> <li>• Aadhaar Card</li> </ul>
Photo ID	<ul style="list-style-type: none"> <li>• Passport</li> <li>• PAN Card</li> <li>• Driving license</li> <li>• Voter ID</li> </ul>
Address proof of Residence	<ul style="list-style-type: none"> <li>• Ration Card</li> <li>• Electricity Bill</li> <li>• Telephone Bill</li> <li>• Municipality tax receipt</li> <li>• Property tax receipt</li> <li>• Leave &amp; License agreement</li> <li>• Bank passbook/Latest bank account</li> <li>• Aadhaar Card</li> </ul>
Address proof of Business	<ul style="list-style-type: none"> <li>• Current Utility Bills</li> <li>• Property Tax Bills in the name of individual/firm</li> <li>• Shop &amp; Establishment License</li> <li>• VAT Registration</li> </ul>

### **Annexure 3**

#### **ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO BUILDER! PROJECT/ CORPORATE CLIENTS:**

- 1) Builder approaching the HFC for a small loan compared to the total cost of the project;
- 2) Builder is unable to explain the sources of funding for the project;
- 3) Approvals/sanctions from various authorities are proved to be fake or if it appears that client does not wish to obtain necessary governmental approvals/ filings, etc.;
- 4) Management appears to be acting according to instructions of unknown or inappropriate person(s).
- 5) Employee numbers or structure out of keeping with size or nature of the business (for instance the turnover of a company is unreasonably high considering the number of employees and assets used).
- 6) Clients with multijurisdictional operations that do not have adequate centralised corporate oversight.
- 7) Advice on the setting up of legal arrangements, which may be used to obscure ownership or real economic purpose (including setting up of trusts, companies or change of name/ corporate seat or other complex group structures).
- 8) Entities with a high level of transactions in cash or readily transferable assets, among which illegitimate funds could be obscured.

#### **B. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO INDIVIDUALS:**

- 1) Legal structure of client has been altered numerous times (name changes, transfer of ownership, change of corporate seat).
- 2) Unnecessarily complex client structure.
- 3) Individual or classes of transactions that take place outside the established business profile, and expected activities/ transaction unclear.
- 4) Customer is reluctant to provide information, data, documents;
- 5) Submission of false documents, data, purpose of loan, details of accounts;
- 6) Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc.;
- 7) Reluctant to meet in person, represents through a third party/Power of Attorney holder without sufficient reasons;
- 8) Approaches a branch/ office of a HFC, which is away from the customer's residential or business address provided in the loan application, when there is HFC branch/ office nearer to the given address;
- 9) Unable to explain or satisfy the numerous transfers in account/ multiple accounts;
- 10) Initial contribution made through unrelated third party accounts without proper justification;
- 11) Availing a top-up loan and/ or equity loan, without proper justification of the end use of the loan amount;
- 12) Suggesting dubious means for the sanction of loan;
- 13) Where transactions do not make economic sense;
- 14) Unusual financial transactions with unknown source.
- 15) Payments received from un-associated or unknown third parties and payments for fees in cash where this would not be a typical method of payment.
- 16) There are reasonable doubts over the real beneficiary of the loan and the flat to be purchased;

- 17) Encashment of loan amount by opening a fictitious bank account;
- 18) Applying for a loan knowing fully well that the property/dwelling unit to be financed has been funded earlier and that the same is outstanding;
- 19) Sale consideration stated in the agreement for sale is abnormally higher/lower than what is prevailing in the area of purchase;
- 20) Multiple funding of the same property/dwelling unit;
- 21) Request for payment made in favour of a third party who has no relation to the transaction;
- 22) Usage of loan amount by the customer in connivance with the vendor/builder/developer/broker/agent etc. and using the same for a purpose other than what has been stipulated.
- 23) Multiple funding / financing involving NCO / Charitable Organisation / Small/ Medium Establishments (SMEs) / Self Help Groups (SHCs) / Micro Finance Groups (MFCs)
- 24) Frequent requests for change of address;
- 25) Overpayment of instalments with a request to refund the overpaid amount.
- 26) Investment in real estate at a higher/lower price than expected.
- 27) Clients incorporated in countries that permit bearer shares.

### **Suspicious Transactions - Housing Loans**

As defined under rule 2(g) and 2(h) of the The Prevention of Money-laundering (Maintenance of Records) Rules, 2005

- (I) “transaction” means a purchase, sale, loan, pledge, gift, transfer, delivery or the arrangement thereof and includes—
  - (i) opening of an account;
  - (ii) deposits, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other nonphysical means;
  - (iii) the use of a safety deposit box or any other form of safe deposit;
  - (iv) entering into any fiduciary relationship;
  - (v) any payment made or received in whole or in part of any contractual or other legal obligation;
  - (vi) any payment made in respect of playing games of chance for cash or kind including such activities associated with casino; and
  - (vii) establishing or creating a legal person or legal arrangement.
- (II) “suspicious transaction” means a transaction referred to in clause (I) above, including an attempted 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 proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; 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) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism;