

# **KUMBHAT FINANCIAL SERVICES LIMITED**

(CIN: L65991TN1993PLC024433)

**KUMBHAT FINANCIAL SERVICES LIMITED**

**KNOW YOUR CUSTOMER AND ANTI-MONEY LAUNDERING POLICY**

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# KUMBHAT FINANCIAL SERVICES LIMITED

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## 1. INTRODUCTION

Kumbhat Financial Services Limited (“**Company**”, “**Kumbhat**”, “**we**”, “**us**” or “**our**”) is a Non-Deposit taking Non-Banking Financial Company (“**NBFC-ND**”) registered with the Reserve Bank of India (“**RBI**”). The RBI has issued Master Direction- Know Your Customer (KYC) Direction, 2016 (“**KYC Master Directions**”) including 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 is formulated and put in place. The Company is committed to complying with all applicable AML laws in the conduct of its business. Our employees acknowledge that failing to detect customer relationships and transactions that place us at risk, could cause irreparable harm to our reputation, leading to significant financial loss and severe penalties under applicable law. Hence, the Board of Directors of the Company (“**Board**”) has approved and adopted this KYC policy (“**Policy**”) in accordance with the KYC Master Directions as amended from time to time.

## 2. OBJECTIVE AND SCOPE OF THE POLICY

This Policy intends to know and understand the Company’s customers and their financial dealings which in turn will help the Company to manage risks and prevent the use of the Company or its infrastructure in illegal or money laundering activities. This Policy constitutes a minimum standard. In case applicable laws are stricter than this Policy, the applicable laws will prevail.

This Policy applies to our Company, its affiliates, and all individuals working at all levels and grades, including directors, senior managers, officers, other employees (whether permanent, fixed-term or temporary), consultants, contractors, trainees, interns, seconded staff, casual workers and agency staff, agents, or any other person associated with our Company.

## 3. DEFINITIONS

Unless the context otherwise requires, the terms used in the Policy shall bear the meanings assigned to them below and the terms not defined in the Policy shall have the same meaning as assigned to them in the KYC Master Directions:

- i. “**Act**” means the Prevention of Money Laundering Act, 2002 and amendments thereto.
- ii. “**Board**” means the Board of Directors of the Company.
- iii. “**Customer Due Diligence**” or “**CDD**” means the process of identifying and verifying the customer.

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- iv. **“Designated Director”** means a person nominated and designated by the Board to ensure overall compliance with the obligations imposed under Chapter IV of the Act and the Rules.
- v. **“Digital KYC”** means the process described in Annex 1 – Digital KYC Process.
- vi. **“Principal Officer”** shall be a person appointed by the Company who shall be responsible for ensuring compliance, monitoring transactions, and sharing and reporting information as required under the law/regulations.
- vii. **“Rules”** means the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 and amendments thereto.
- viii. **“Senior Management”** means the Designated Director, Principal Officer, Chief Compliance Officer, Chief Financial Officer, heads of each department and regional business heads of the Company.

## 4. COMPLIANCE WITH THE POLICY

- i. The Senior Management shall be responsible for ensuring implementation of this Policy.
- ii. The Board shall designate (a) a ‘Designated Director’ who shall be responsible for ensuring overall compliance with the obligations imposed under the Act and the Rules and (b) a ‘Principal Officer’ who shall be responsible for ensuring compliance, monitoring transactions, and sharing and reporting information as required under the Policy and applicable laws. In no case, the Principal Officer shall be nominated as the Designated Director.
- iii. The Company shall carry out an audit of its KYC functions and process either internally or through an external auditor on an annual basis and submit the report of such audit before the Board for its review.

## 5. MONEY LAUNDERING AND TERRORIST FINANCING RISK ASSESSMENT

- i. The Company shall carry out a ‘Money Laundering and Terrorist Financing Risk Assessment’ (**“ML and TF Risk Assessment”**) exercise annually 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.

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- ii. The assessment process shall 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, the Company shall take cognizance of the overall sector-specific vulnerabilities, if any, that the RBI may issue from time to time.
- iii. Before launching any new products or business practices, the Company shall identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products.
- iv. The Senior Management shall ensure that such risk assessment is properly documented and is proportionate to the nature, size, geographical presence, and complexity of the activities of the Company.
- v. The outcome of the ML and TF Risk Assessment exercise shall be put up to the Board. The Board shall review the outcome and evaluate corrective measures, where required, including changes in the CDD process.
- vi. The compliance officer of the Company shall ensure that the ML and TF Risk Assessment along with its outcome is adequately documented and is made available to the RBI or the self-regulatory bodies where the Company is a member.
- vii. The Company shall apply a risk-based approach for the mitigation and management of the risks identified. Further, the Board shall monitor the implementation of the controls and enhance them, if necessary.

## 6. CUSTOMER ACCEPTANCE POLICY

- i. The Company shall not open any account in anonymous or fictitious/benami names.
- ii. The Company shall not open any account unless it undertakes appropriate CDD measures. Additionally, in case the Company is unable to carry out CDD in relation to a customer, the Company shall review the reasons for not being able to carry out the CDD and if the circumstances so require, consider filing a (“STR”) suspicious transaction report as specified in clause 14 of this Policy.
- iii. The Company shall require the customer to mandatorily submit the Permanent Account Number (“PAN”) and any one of the officially valid documents (“OVDs”). It must be ensured that any optional or additional information is obtained only with the explicit consent of the customer.

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- iv. The Company shall apply the CDD process at the Unique Customer Identification Code (“UCIC”) level. Thus, if an existing KYC-compliant customer of the Company desires to open another account with the Company, there shall be no need for a fresh CDD exercise. However, the Company may carry out a periodic updation of the customer as per the requirements under clause 15 of this Policy.
- v. The PAN obtained by the Company from the customer shall be verified through the verification facility of the issuing authority.
- vi. The Company shall ensure that the identity of the customer (including their name, photograph, or other details) does not match with any person suspected of having terrorist links and whose name appears in the sanction lists circulated/prescribed by RBI from time to time, including the following lists:
  - a. the ‘ISIL (Da’esh) & Al-Qaida Sanctions List’, established and maintained pursuant to Security Council resolutions 1267/1989/2253, which includes names of individuals and entities associated with the Al-Qaida;
  - b. the ‘Taliban Sanctions List’, established and maintained pursuant to the Security Council resolution 1988 (2011), which includes names of individuals and entities associated with the Taliban; and
  - c. any other lists as the RBI may prescribe from time to time.
- vii. The Company shall take adequate care to ensure that the CDD process does not result in denial of financial facilities to members of the public, especially those, who are financially or socially disadvantaged.

## 7. RISK MANAGEMENT

- i. The Company shall follow a risk-based approach to CDD. The customers shall be categorized into the following risk categories:
  - a. Low risk;
  - b. Medium risk; and
  - c. High risk;
- ii. The risk categorization of the customers may be undertaken on the following parameters:
  - a. credit score;
  - b. source of income;
  - c. annual and monthly income;
  - d. geographical risk;

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- e. type of loan availed; and
  - f. delivery channel used for extending the loan product
- iii. The customer risk categorization will be done at the time of opening the loan account and thereafter will be updated periodically. It must be ensured that the risk categorisation of a customer and the specific reasons for such categorisation are kept confidential and not revealed to the customer.

## **8. CUSTOMER IDENTIFICATION PROCEDURE**

The Company shall obtain sufficient information necessary to establish the identity of each customer. The Company shall undertake the identification of customers in the following cases:

- i. commencement of an account-based relationship with the customer; and
- ii. when there is doubt about the authenticity or adequacy of the customer identification data.

## **9. CUSTOMER DUE DILIGENCE BY THIRD PARTIES**

The Company may rely on CDD done by a third party, subject to the following conditions:

- i. records or the information of the CDD carried out by the third party are obtained immediately from the third party or the Central KYC Registry (“**CKYCR**”);
- ii. adequate steps are taken by the Company to ensure that copies of identification data and other relevant documentation relating to the CDD requirements are made available from the third party upon request without delay;
- iii. the third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the Act;
- iv. the third party shall not be based in a country or jurisdiction assessed as high-risk;
- v. the ultimate responsibility for CDD and undertaking enhanced due diligence measures, as applicable, shall remain with the Company; and
- vi. the right to make decisions with respect to compliance with KYC Master Directions and this Policy rests with the Company.

## **10. CUSTOMER DUE DILIGENCE**

- i. The Company shall obtain the following documents from the customer:
  - a. PAN or equivalent e-document thereof or Form No. 60 as defined in Income-tax Rules, 1962;

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- b. any of the OVDs or equivalent e-document thereof; and
  - c. such other documents as required by the Company.
- ii. The Company may carry out CDD through any of the following modes:
- a. offline verification;
  - b. verification through non-face-to-face modes such as OTP-based e-KYC, KYC through CKYCR, DigiLocker, obtaining equivalent e-document, etc.
  - c. Digital KYC as described in **ANNEX 1**; or
  - d. Video-based Customer Identification Process ("**V-CIP**")

## 11. ENHANCED DUE DILIGENCE

Enhanced Due Diligence ("**EDD**") shall be carried out in case the customer is a politically exposed person ("**PEP**"). The Company may establish an account-based relationship with such customer provided the following is complied with:

- i. sufficient information including information about the sources of funds, accounts of family members and close relatives, etc. is gathered;
- ii. the identity of the customer is verified before establishing an account-based relationship;
- iii. the decision to open an account for a PEP is taken at a senior level in accordance with the Policy;
- iv. all such accounts are subjected to enhanced monitoring on an ongoing basis; and
- v. in the event of an existing customer becoming a PEP, the Senior Management's approval is obtained to continue the business relationship.

## 12. ONGOING DUE DILIGENCE

The Company shall undertake ongoing due diligence of customers to ensure that their transactions are consistent with the Company's knowledge about the customers, customers' income profile and risk profile, and the source of funds. The extent of monitoring shall be aligned as per the risk category of the customer. Ongoing due diligence shall be undertaken for the following categories of transactions:

- i. large and complex transactions and those with unusual patterns, inconsistent with the normal and expected activity of the customer, which has no apparent economic rationale or legitimate purpose;
- ii. transactions that exceed the thresholds prescribed for specific categories of accounts; and
- iii. deposit of third-party cheques, drafts, etc. in the existing and newly opened accounts followed by cash withdrawals for large amounts.



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## 13. SECRECY OBLIGATIONS

- i. The Company shall maintain secrecy regarding the customer information which arises out of the contractual relationship between the Company and the customer. Information collected from customers for opening of account shall be treated as confidential and details thereof shall not be divulged for any purpose without the express permission of the customer.
- ii. The exceptions to the said rule shall be as under:
  - a. where disclosure is under compulsion of law;
  - b. where there is a duty to the public to disclose;
  - c. the interest of the Company requires disclosure; and
  - d. where the disclosure is made with the express or implied consent of the customer.
- iii. While considering the requests for data/information from the government and/or other agencies, the Company shall satisfy itself that the information being sought is not of such a nature that will violate the provisions of the laws relating to the secrecy of the transactions.

## 14. REPORTING REQUIREMENTS

- i. **Reporting to Financial Intelligence Unit-India (“FIU-IND”):** The following information is required to be submitted to the FIU-IND:
  - a. the name, designation and address of the Designated Director and the Principal Officer of the Company as per the timelines specified on the FIU-IND’s filing portal.
  - b. the Principal Officer shall immediately file an STR:
    - in case the Company forms a suspicion of money laundering or terrorist financing, and it reasonably believes that performing the CDD process will tip off the customer; and
    - any other transaction, which by its nature, gives rise to a reasonable ground of suspicion that it may involve the proceeds of an offence specified in the Act, regardless of the value involved, appears to be made in circumstances of unusual or unjustified complexity, appears to have no economic rationale or bona fide purpose, or gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism or other forms of criminal activity.
  - c. A cash transactions report (“CTR”) shall be submitted by 15<sup>th</sup> day of the succeeding month for all cash transactions of the value of more than rupees ten lakhs or its

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equivalent in foreign currency and all series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency, which if taken together, amount to more than rupees ten lakhs, where such series of transactions have taken place within a month.

- ii. **Reporting to CKYCR:** The Company shall capture the customer's KYC records and upload the same on the CKYCR portal within 10 days of commencement of an account-based relationship with the customer. In case of a first-time customer, a 'KYC identifier' shall be generated upon submission of the KYC records to CKYCR. Once such a KYC identifier is generated by CKYCR, the Company shall communicate the same to the customer.
- iii. **Reporting to the RBI:** The Company shall share the details of the Designated Director and the Principal Officer of the Company including their name, designation and address with the RBI within 30 days of the appointment of such Designated Director or Principal Officer.

## 15. PERIODIC UPDATION

The Company shall follow a risk-based approach to periodic updation. Periodic updation shall be carried out at least once every two years for high-risk customers, once every eight years for medium-risk customers and once every ten years for low-risk customers subject to the following conditions:

- i. fresh proofs of identity and address shall not be sought at the time of periodic updation, from customers who are categorised as 'low risk', when there is no change in status with respect to their identity information and addresses. In such a case, only a self-certification shall be obtained;
- ii. additionally, in case of a change only in the address details of the customer, a self-declaration of the new address shall be obtained from the customer through the customer's registered email ID or mobile number. Further, the declared address shall be verified through positive confirmation within two months, by means such as an address verification letter, contact point verification, deliverables, etc.; and
- iii. the Company may obtain a copy of OVD or the equivalent e-documents thereof for the purpose of proof of address, declared by the customer at the time of periodic updation.

## 16. RECORD MANAGEMENT

The Company shall take the following steps regarding the maintenance and preservation of customer account information:

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- i. maintain all necessary records of transactions between the Company and the customer for at least five years from the date of the transaction;
- ii. preserve the records pertaining to the identification of the customers and their addresses obtained while opening the account and during the course of the business relationship, for at least five years after the business relationship is ended;
- iii. make available the identification records and transaction data to the competent authorities upon request;
- iv. introduce a system of maintaining proper records of transactions prescribed under rule 3 of the Rules; and
- v. the documents or records maintained shall have the following information:
  - a. nature of the transaction;
  - b. amount of the transaction;
  - c. the date on which the transaction was conducted; and
  - d. the parties involved in the transaction.

## **17. REVIEW AND MODIFICATION**

The Board shall review and recommend amendments to this Policy on an annual basis and as and when there is an update in the applicable laws in this regard.

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## ANNEX 1

### DIGITAL KYC PROCESS

1. The Company shall develop an application for the Digital KYC process which shall be made available at customer touch points for undertaking KYC of the customers and the KYC process shall be undertaken only through this authenticated application of the Company.
2. The access of the application shall be controlled by the Company 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, live one-time password (“**OTP**”) or a time-controlled OTP mechanism given by the Company to its authorized officials.
3. The customer, for the purpose of KYC, shall visit the location of the authorized official of the Company or vice-versa. The original OVD shall be in possession of the customer.
4. The live photograph of the customer shall be taken by the authorized officer and the same shall be embedded in the Customer Application Form (“**CAF**”). Further, the system application of the Company shall put a water-mark in readable form having CAF number, GPS coordinates, authorized official’s name, unique employee Code (assigned by the Company) and Date (DD:MM:YYYY) and time stamp (HH:MM:SS) on the captured live photograph of the customer.
5. The application of the Company shall have the feature that only a 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 the live photograph should be white and no other person shall come into the frame while capturing the live photograph of the customer.
6. The live photograph of the original OVD shall be captured vertically from above and water-marking in readable form shall be done. No skew or tilt in the mobile device shall be there while capturing the live photograph of the original documents.
7. The live photograph of the customer and his original documents shall be captured in proper light so that they are readable and identifiable.
8. Thereafter, all the entries in the CAF shall be filled as per the documents and information furnished by the customer. In those documents where a quick response (“**QR**”) code is available, such details can be auto-populated by scanning the QR code instead of manually filing the details.
9. Once the above-mentioned process is completed, an OTP message containing the text - *‘Please verify the details filled in form before sharing OTP’* shall be sent to the customer’s mobile number. A successful validation of the OTP will be treated as the customer’s signature on the CAF.

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10. The authorized officer shall provide a declaration about the capturing of the live photograph of the customer and the original OVD. For this purpose, the authorized official shall be verified with an OTP which will be sent to his mobile number registered with the Company. A successful OTP validation shall be treated as the authorised officer's signature on the declaration. The live photograph of the authorized official shall also be captured in this authorized officer's declaration.
11. After all these activities, the application shall give information about the completion of the process and submission of the activation request to the authorised officer of the Company and also generate the transaction ID number of the process. The authorized officer shall intimate the details regarding the transaction ID number to the customer for future reference.
12. The authorized officer of the Company shall verify that:- (i) the information available in the picture of the document matches with the information entered by the authorised officer in CAF, (ii) the live photograph of the customer matches the photo available in the document, and (iii) all the necessary details in CAF are filled properly.
13. On successful verification, the CAF shall be digitally signed by the authorized officer of the Company who will take a print of the CAF, get signatures/thumb-impression of the customer at an appropriate place, and then scan and upload the same on the application for internal approval.