PRAYAS FINANCIAL SERVICES PRIVATE LIMITED

KNOW YOUR CUSTOMER & ANTI-MONEY LAUNDERING

POLICY

APRIL 2020

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Policy Guidelines on 'Know Your Customer' norms and Anti-Money Laundering Measures:

1. Know Your Customer Standards

The objective of KYC guidelines is to prevent our organization from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable us to know/understand our customers and their financial dealings better which in turn help them manage their risks prudently. Our KYC policies have been incorporated in the following four key elements:

a. Customer Acceptance Policy;
b. Customer Identification Procedures;
c. Monitoring of Transactions; and
d. Risk Management.

For the purpose of KYC policy, a 'Customer' may be defined as:

- a person or entity that maintains an account and/or has a business relationship with PRAYAS FINANCIAL SERVICES PRIVATE LIMITED;
- One on whose behalf the account is maintained (i.e. the beneficial owner).
- beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law, and
- Any person or entity connected with a financial transaction which can pose significant reputational or other risks to PRAYAS FINANCIAL SERVICES PRIVATE LIMITED, say, a wire transfer (NEFT/RTGS) or issue of a high value demand draft as a single transaction.

2. Customer Acceptance Policy (CAP)

We have developed a clear Customer Acceptance Policy laying down explicit criteria for acceptance of customers. The Customer Acceptance Policy shall ensure that explicit guidelines are in place on the following aspects of customer relationship in the company.

I. No account is opened in anonymous or fictitious/ Benami name (s);

II. Parameters of risk perception are clearly defined in terms of the nature of business activity, location of customer and his activity, regularity of payments, volume of turnover, social and financial status etc. to enable categorization of customers into low, medium and high risk; customers requiring very high level of monitoring, e.g. Politically Exposed Persons, may, if considered necessary, be categorized even higher;

III. Documentation requirements and other information to be collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of Prevention of Money Laundering (PML) Act, 2002 and guidelines issued by Reserve Bank from time to time;

IV. Not to open an account or close an existing account where the company is unable to apply appropriate customer due diligence measures i.e. branch is unable to verify the identity and / or obtain documents required as per the risk categorization due to non-cooperation of the customer or non-reliability of the data / information furnished to the branch. It may, however, be necessary to have suitable built in safeguards to avoid harassment of the customer. For example, decision to close an account may be taken at a reasonably high level after giving due notice to the customer explaining the reasons for such a decision;

V. Necessary checks before opening a new account so as to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations etc.

Company shall prepare a profile for each new customer based on risk categorization. The customer profile may contain information relating to customer's identity, social/financial status, nature of business activity and their location etc. The nature and extent of due diligence will depend on the risk perceived by the Branch Manager. However, while preparing customer profile Company's officials at the branches shall take care to seek only such information from the customer which is relevant to the risk category and is not intrusive. The customer profile will be a confidential document and details contained therein shall not be divulged for cross selling or any other purposes.

For the purpose of risk categorization, individuals of low net worth may be categorized as low risk. Illustrative examples of low risk customers could be salaried employees, petty shop keepers, hawkers, vendors, etc., whose income are quite low and they are the people belonging to lower economic strata of the society whose accounts show small balances and low turnover. In such cases, the policy may require that only the basic requirements of verifying the identity and location of the customer are to be met. Branches 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 (a) politically exposed persons and (b) those with dubious reputation as per public information available, etc. It is important to bear in mind that the adoption of customer acceptance policy and its implementation should not become too restrictive and must not result in denial of financial services to general public, especially to those, who are financially or socially disadvantaged.

3. Customer Identification Procedure (CIP)

The policy approved by the Board clearly spells out the Customer Identification Procedure to be carried out at different stages i.e. while establishing a financial relationship; carrying out a financial transaction or when the branch has a doubt about the authenticity/ veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information. Branches need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of financial relationship. Being satisfied means that the branch must be able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place. For customers that are natural persons, branches should obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities, the branch should verify the legal status of the legal person/ entity through proper and relevant documents.

4. Monitoring of Transactions

Ongoing monitoring is an essential element of effective KYC procedures. Branches 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. However, the extent of monitoring will depend on the risk sensitivity of the account. Branches should pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.

5. Risk Management

The Board of Directors shall ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation. It should cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility should be explicitly allocated within the company for ensuring that its policies and procedures are implemented effectively.
Company's internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. As a general rule, the compliance function should provide an independent evaluation of our own policies and procedures, including legal and regulatory requirements. Management shall ensure that their audit machinery is staffed adequately with individuals who are well-versed in such policies and procedures. Concurrent/ Internal auditor should specifically check and verify the application of KYC procedures at the branches and comment on the lapses observed in this regard. The compliance in this regard may be put up before the Board on quarterly intervals. We shall have an ongoing employee training program so that the members of the staff are adequately trained in KYC procedures. Training requirements should have different focuses for field level staff, compliance staff and staff dealing with new customers. It is crucial that all those concerned fully understand the rationale behind the KYC policies and implement them consistently.

6. Customer Education

Implementation of KYC procedures requires branches to demand certain information from customers, which may be of personal nature or which have hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. There is, therefore, a need for us to prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the KYC program. The field level staff needs to be specially trained to handle such situations while dealing with customers.