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# **POLICY ON KNOW YOUR CUSTOMER (KYC), ANTI- MONEYLAUNDERING (AML) AND COUNTERING FINANCING OF TERRORISM (CFT)**

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**IDF FINANCIAL SERVICES PRIVATE LIMITED**

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## Contents

Introduction:.....	2
Objective: .....	2
Scope:.....	2
Definitions: .....	2
Risk Categorisation: .....	3
Know Your Customer (KYC)/Anti-Money Laundering (AML) / Countering Financing of Terrorism (CFT) Norms: .....	3
Customer Acceptance & Identification Procedure: .....	4
General: .....	4
Enhanced due diligence for customers other than “Low Risk” customers: .....	5
Prohibited List of Individuals/Entities:.....	6
Record Keeping.....	6
Periodic Review and Assessment, Compliance Monitoring, Risk Management: .....	6
Employee Training: .....	7
Customer Education: .....	7
Designated Director: .....	7
Principal Officer: .....	7
Filing of Suspicious Transaction Report (STR): .....	8

# POLICY ON KNOW YOUR CUSTOMER (KYC), ANTI-MONEY LAUNDERING (AML) AND COUNTERING FINANCING OF TERRORISM (CFT)

## Introduction:

IDF FINANCIAL SERVICES PRIVATE LIMITED, (the “Company”) being a Non-Banking Financial Company – Micro Finance Institution (“NBFC-MFI”) registered with RBI, comes under the purview of RBI Master Direction – Know Your Customer (KYC), Directions, 2016, as amended from time to time, on having a KYC-AML policy. The Company is obliged to have Know Your Customer / Anti-Money Laundering / Countering Financing of Terrorism (KYC/AML/CFT) policy.

## Objective:

The objective of KYC, AML and CFT policy is to prevent the Company from being used, intentionally or unintentionally, by criminal elements for money laundering (ML)/ Terrorist Financing (TF) activities.

## Scope:

This policy is applicable to various stakeholders including employees and customers of the Company.

## Definitions:

- i. “Aadhaar Act, 2016” shall refer to the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016, as amended from time to time.
- ii. “Act” or “Rules” means the Prevention of Money Laundering Act, 2002 and Prevention of Money Laundering (Maintenance of Records) Rules, 2005, and the same shall also be referred to as “PML Act” and “PML Rules”, respectively.
- iii. “Designated Director” has the same meaning as defined under RBI Directions.
- iv. “Digital KYC” has the same meaning as defined under RBI Directions.
- v. “Officially Valid Documents” or “OVDs” means the passport, the driving licence, proof of possession of Aadhaar number, the Voter’s Identity Card issued by the Election Commission of India, job card issued by NREGA duly signed by an officer of the State Government and letter issued by the National Population Register containing details of name and address, including amendments to RBI Directions, from time to time.
- vi. “PFRDA Regulations” means the provisions which are applicable to the Company under the Pension Fund Regulatory and Development Authority (Point of Presence) Regulations, 2018, as amended from time to time.
- vii. “RBI Directions” means provisions which are applicable to the Company under RBI Master Direction – Know Your Customer (KYC) Directions, 2016, or such other Circulars, Notifications or guidelines issued by RBI from time to time on AML / KYC / CFT requirements.
- viii. “Politically Exposed Persons” (PEPs) are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States / Governments, senior

politicians, senior government / judicial / military officers, senior executives of state-owned corporations, important political party officials, etc.

- ix. “Principal Officer” has the same meaning as defined under RBI Directions.
- x. “Suspicious Transaction” means the ‘transaction’ as defined under the RBI Directions.

The phrase customer, client and subscriber are used interchangeably in this Policy and they shall be considered to have the same meaning, as are assigned to them under respective RBI Directions or PFRDA Regulations.

All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Act, Rules, PFRDA (Point of Presence) Regulations, 2018 and RBI Directions, as the case may be.

## Risk Categorisation:

The Company shall have a risk-based approach in categorisation of customers as below:

(A) For the purpose of RBI Directions:

- Customers shall be categorised as low, medium and high-risk category, based on the assessment and risk perception of the Company.
- Risk categorisation shall be undertaken based on customer’s identity, social status, financial status, nature of business activity, and information about the clients’ business and their location, geographical risk covering customers as well as transactions. During the customer acceptance process, the Company shall verify and capture details of the customer’s identity including address, social status, financial status, nature of business etc.

(B) For the purpose of PFRDA Regulations:

- Subscriber’s risk profile for accounts under pension schemes regulated/ administered by PFRDA shall be categorized as lower risk, moderate risk and higher risk.
- Risk categorization shall be undertaken based on whether contribution are mandatory contribution, voluntary with low contribution, contribution on voluntary basis, voluntary contributions which is a withdrawable account.
- In addition to above, the nature of account, source and mode of contribution, regularity in the flow of contribution, withdrawals, residence status of the subscriber, Politically Exposed Person shall also be considered while assessing the risk profile of the subscribers.

## Know Your Customer (KYC)/Anti-Money Laundering (AML) / Countering Financing of Terrorism (CFT) Norms:

Although the prospective customers of the Company are from the lower economic strata of society and hence, they are treated as low-risk clients, the Company is required to ensure overall compliance with RBI Directions and PFRDA Regulations relating to KYC-AML-CFT

requirements. The Company shall ensure compliance with all provisions relating to Client Due Diligence as made applicable from time to time under the Act, Rules, RBI Directions and the PFRDA Regulations.

## Customer Acceptance & Identification Procedure:

### General:

As required under the RBI Directions and PFRDA Regulations, the Company shall ensure compliance with the following processes regarding customer identification and acceptance in accordance with the applicable provisions of Aadhaar Act, 2016 and Regulations made thereunder with respect to authentication, offline verification, digital KYC, Video Based Customer Identification Process (VCIP), KYC Identifier allotted by the CKYCR or such other forms of verification of Aadhaar number or such other permissible OVDs, as may be made permissible to the Company, from time to time.

As part of the customer acceptance process, branches need to procure the following documents:

- Photograph of customer along with spouse, if applicable.
- Prescribed KYC documents of the customer, provided the customer voluntarily provides his Aadhaar number, wherever applicable, either in physical or electronic form, for authentication or offline verification digital KYC, Video Based Customer Identification Process (VCIP), KYC Identifier allotted by the CKYCR, or in such other form or in such manner as may be specified by the Regulations under the Aadhaar Act, 2016, as amended from time to time, as detailed below:

A digital / photocopy of any one of the following photo IDs:

#### **First Preference:**

- Proof of possession of Aadhaar Number
- Voters ID

#### **Others:**

- Driving License
- Passport
- Job card issued by NREGA duly signed by an officer of the State Government
- Letter issued by the National Population Register containing details of name and address.

A copy of any one of the following documents as address proof:

- Aadhaar Card
- Voter ID
- Driving License
- Passport
- Job card issued by NREGA duly signed by an officer of the State Government
- Letter issued by the National Population Register containing details of name and address.

Where the above documents furnished by the customer does not have updated current address, the following documents may be collected for the limited purpose of proof of address:-

- 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 they contain the address.
- Letter of allotment of accommodation from employer issued by State Government or Central Government Departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and licence agreements with such employers allotting official accommodation.

The customer should submit the updated KYC documents with current address within a period of three months of submitting the documents specified above.

- i. Both Photo ID and address proof should be verified with the original and a digital image of the same should be captured by the Credit Officer (“CRO”) in respective digital applications
- ii. In case digital copies are obtained, the company official should submit an undertaking after verifying with the original and affixing the branch seal. The undertaking should be signed by the customer as well.
- iii. In case photocopies are obtained, both photo ID and address proof (photocopies) should be signed by the customer as self-attestation. Further it should be duly attested by the company official after verifying with the original and affixing the branch seal.
- iv. The Photo ID and Age proof is to be collected for spouse of the customer. This must be taken at the time of enrolment for new customers.
- v. In all cases where the Company has already obtained valid KYC documents from the customers, there is no need to obtain fresh set of documents from them if there is no change in it, while giving fresh/repeat loans. However, the KYC documents once submitted will be valid for 3 years from the date of submission and the branch need to take fresh set of documents within 3 years’ time even though there is no change in KYC status. The KYC documents to be collected along with the loan applications or otherwise.

## Enhanced due diligence for customers other than “Low Risk” customers:

In cases where any of the customers are found to be Medium/High-Risk, including their relatives or the beneficial interests in their accounts are held by persons other than the customers themselves, then the Company shall carry out enhanced due diligence procedures prescribed under applicable RBI Directions/ PFRDA Regulations to gather sufficient information including information about the sources of funds, accounts of family members and close relatives.

In addition, the Company shall ensure following measures with respect to “High Risk” customers:

- the identity of the person shall have been verified before accepting him/her as a customer.
- the decision to open an account is taken at a senior level in accordance with the Customer Acceptance guidelines.
- all such accounts are subjected to enhanced monitoring on an on-going basis.

- in the event of an existing customer or the beneficial owner of an existing via subsequently categorised as “High-Risk”, senior management’s approval is obtained to continue the business relationship.
- enhanced monitoring on an on-going basis.

## Prohibited List of Individuals/Entities:

The Company shall ensure that in terms of Section 51A of Unlawful Activities (Prevention)(UAPA) Act, 1967 and amendments thereto, any of the existing or new customers are not in the prohibited list of individuals and entities which are periodically prescribed by local regulator from time to time. Compliance monitoring of such individuals / entities are done periodically by screening them against the lists provided under RBI Directions and PFRDA Regulations, as amended from time to time.

Pursuant to the above screening, if any of the accounts of customers of individuals or entities are categorised as ‘High-Risk’, then the Company shall follow the enhanced due diligence procedures prescribed under RBI Directions & PFRDA Regulations. The details of such accounts shall be provided to the following for necessary action:

- Managing Director/ Chief Executive Officer
- Head of Operations
- Chief Financial Officer/ Head Finance
- Chief Technology Officer & Chief Information & Security Officer/ Head IT
- Chief Compliance Officer/ Company Secretary
- Chief Audit Officer/ Head – Internal Audit
- Chief Risk Officer
- Principal Officer.

## Record Keeping

The Company shall maintain appropriate documentation on their customer relationships and transactions to enable reconstruction of any transaction. The records shall be maintained for a period of ten years from the date of cessation of the transaction. Records shall be maintained in a manner, which facilitates its easy retrieval as and when required.

## Periodic Review and Assessment, Compliance Monitoring, Risk Management:

Internal Audit department shall periodically evaluate and assess adherence to the prescribed processes and procedures with respect to KYC-AML-CFT requirements, unusual and potentially suspicious activities covering financial transactions with customers and other third parties.

The Internal Audit department would also provide an independent evaluation of compliance with the applicable RBI Directions, Act, the Rules and the PFRDA Regulations. Internal Audit would verify the application of KYC-AML-CFT procedures at the branches during every branch/Regional processing Centre audit and comment on the lapses observed in this regard.

The Internal Audit department may also take the help of external agencies, wherever required, to assess, monitor, evaluate and report any suspicious transactions relating to AML-KYC-CFT requirements, high-risk individuals/entities, PEPs, or such other prohibited individuals/entities from time to time, with the prior approval of Managing Director and/or CEO of the Company.

The compliance in this regard shall be put up before the Audit Committee of the Board on quarterly basis.

## Employee Training:

The Company shall, as an integral part of its personnel recruitment/ hiring process, ensure for adequate screening of individuals while hiring of employees. The basic training undertaken for each new loan officer and regular refresher training conducted at branches would ensure that field staff are adequately trained in KYC, AML and CFT procedures. Management shall review the training adequacy at regular intervals.

## Customer Education:

Customers would be trained on the necessity and importance of KYC document during Compulsory Group Training.

## Designated Director:

To ensure compliance with the obligations under the Act and Rules, the Company shall nominate a Director on their Boards as “Designated Director”.

The name, designation, address and contact details of the Designated Director, including changes thereon, shall be communicated to the FIU-IND, the Reserve Bank of India, the Pension Fund Regulatory and Development Authority (PFRDA) and such other statutory/ regulatory authorities, as may be required from time to time.

## Principal Officer:

As required under RBI Directions, the Company shall appoint a senior management officer to be designated as Principal Officer who is located at the Head/corporate office of the company. To discharge his responsibilities, the Principal Officer shall have timely access to all customer identification data and other information, transaction records and other relevant information. The role and responsibilities of the Principal Officer shall include overseeing and ensuring overall compliance with regulatory guidelines on KYC/AML/CFT issued from time to time and obligations under the Act and Rules, as amended from time to time.

The name, designation, address and contact details of the Principal Officer shall be communicated to the FIU- IND, the Reserve Bank of India, the Pension Fund Regulatory and Development Authority (PFRDA) and such other statutory/ regulatory authorities, as may be required from time to time.



## Filing of Suspicious Transaction Report (STR):

The Company shall ensure to file STR with FIU-IND in respect of following transactions:

- (i) All cash transactions of the value of more than Rupees Ten Lakh or its equivalent in foreign currency.
- (ii) Series of all cash transactions individually valued below Rupees Ten Lakh, or its equivalent in foreign currency which have taken place within a month and the monthly aggregate which exceeds Rupees Ten Lakhs or its equivalent in foreign currency.
- (iii) 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 facilitating the transactions.
- (iv) All suspicious transactions whether made in cash and in manner as mentioned in the Act and Rules.

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