

**MAG FINSERV COMPANY LIMITED**  
**(MAG's)**

**KNOW YOUR CUSTOMER (KYC)**

**AND**

**PREVENTION OF MONEY LAUNDERING**  
**ACTIVITY POLICY (PMLA)**

**Prepared By:**

**Approved By:**

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In compliance with the Circulars issued by the RBI regarding 'Know your Customer' and 'Anti-Money Laundering Standards' to be followed by all NBFC, the following KYC and PMLA Policy of the MAG's has been adopted by the Board of Directors.

**(I) Objectives:**

- To put in a place effective system and procedures for customer identification and verifying his/her identity and residential address;
- To put in a place appropriate controls for detection and reporting of the transaction of suspicious nature;
- To put in a place system and procedures for preventing criminal elements from using MAG's for money laundering activities; and
- To comply with applicable Laws and Regulations;

**(II) Definitions**

**a) Customer:**

- For the purpose of KYC Norms, a 'Customer' is defined as a person who is engaged in a financial transaction or activity with the MAG's and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting; or
- Beneficial Owners of the above said person/entities; or
- Any other person/entities connected with a financial transaction, which can pose significant reputation or other risks to the MAG's.

**b) Person:**

In terms of PML Act a 'person' includes:

- an individual,
- a Hindu undivided family,
- a company,
- a firm,
- an association of persons or a body of individuals, whether incorporated or not,
- every artificial juridical person, not falling within any one of the above persons, and
- any agency, office or branch owned or controlled by any of the above persons.

**c) Transactions:**

“Transaction” means a purchase, sale, loan, pledge, gift, transfer, delivery or the arrangement thereof and includes-

- opening of an account;
- 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 non-physical means;
- the use of a safety deposit box or any other form of safe deposit;
- entering any fiduciary relationship;
- any payment made or received in whole or in part of any contractual or other legal obligation; or
- establishing or creating a legal person or legal arrangement.

**d) Designated Director:**

“Designated Director” means a person to be nominated by the MAG’s to ensure overall compliance with the obligations imposed under chapter IV of the PML Act and the Rules.

**e) Officially valid document (OVD):**

Documents to be obtained from customer as mentioned in ‘Annexure I’ as proof for verifying the identity and address of customers/ clients.

**f) Beneficial Owner:**

The beneficial owners for the various Entities are mentioned in ‘Annexure II’.

**g) Principal Officer:**

Principal officer means an officer nominated by the MAG’s responsible for ensuring compliance, monitoring, transactions and sharing and reporting information as required under the law/ regulations.

The name, designation and address of the principal officer shall be communicated to the FIU-IND.

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**h) Suspicious Transactions:**

Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith;

- Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime or;
- Appears to be made in circumstances of unusual or unjustified complexity;
- Appears to have no economic rationale or bonafide purpose.

For the boarder categories of examples of suspicious transaction are mentioned in “Annexure 4”.

**(III) Compliance of KYC Policy**

The MAG’s shall ensure compliance with KYC Policy by appointing a “Responsible Officer” (i.e. Branch Manager) for the purpose of KYC Compliance. Who will be responsible for;

- Effective implementation of policies and procedures.
- Independent evaluation of the compliance functions of the Company polices and procedures including legal and regulatory requirements.
- Concurrent/ Internal audit system to verify the compliance with KYC policies and procedures.
- Submission of quarterly audit notes and compliance to the audit committee.

The MAG’s shall ensure that decision-making functions of determining compliance with KYC norms are not outsourced.

**(IV) Customer Acceptance Policy**

The MAG’s lays down criteria for acceptance of customers. While taking decision to grant any facilities to the customers as well as during the continuation of any facilities the following norms and procedures will be followed by the MAG’s;

- No account will be opened in anonymous or fictitious/benami name.
- Customers will be accepted only after verifying their identity, as laid down in Customer Identification Procedures. Necessary checks will be done before opening

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a new account to ensure that the identity of the Customer does not match with any person with known criminal background or with banned entities.

- The Mandatory information to be sought for KYC purpose as mentioned in “Annexure 3” while opening an account and during the periodic updation.
- The MAG’s will refrain from opening an account where the company is unable to apply appropriate Customer Due Diligence measures either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
- No transaction or account-based relationship shall be undertaken without the Customer Due Diligence procedure.
- A Unique Customer Identification Code shall be allotted to new and existing customers.

Implementation of Customer Acceptance Policy should not become too restrictive and result in denial of the MAG’s services to general public, especially those who are financially or socially disadvantaged.

## **(V) Customer Identification Procedure**

Customer Identification involves verification of customer’s identity by using reliable, independent source documents, data or information. The MAG’s shall obtain enough information necessary to verify the identity of each Customer. A broad guideline for the customer identification is given below:

The MAG’s shall ensure that Customer identification process is undertaken, whenever;

- While establishing a banking relationship;
- While carrying out a financial transaction;
- When the MAG’s has a doubt about the authenticity or adequacy of the customer identification data it has obtained;
- when banks sell third party products as agents;
- transactions with walk in customers, where the amount involves equal or exceeds Rs.50,000/-, whether conducted as a single transaction or several transactions that appear to be connected.
- When the MAG’s has reasons to believe that a customer is intentionally Structuring transactions into a series of transactions below the threshold of Rs.50,000/-.

## **(VI) Customer Due Diligence requirements (CDD) while opening accounts**

### a. Account of Individuals:

For opening accounts of individuals, the MAG’s should obtain one certified copy of an 'officially valid document' (as mentioned in 'Annexure 1') containing details of identity and address, one recent photograph and such other documents pertaining to the nature of business and financial status of customer as may be required.

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The MAG's may carry out Offline Verification of customers if they are desirous of undergoing Aadhaar Offline Verification for identification purposes.

Wherever Aadhaar details are collected, it shall be ensured that customers have redacted or blacked out their Aadhaar numbers through appropriate means.

The e-KYC service of Unique Identification Authority of India (UIDAI) shall be accepted as a valid process for KYC verification, when NBFCs or itself are authorised by RBI to do such verification for establishing account-based relationship.

b. Simplified Procedures for small value loan:

For customers with aggregate loans below Rs.50,000/-, any OVDs [as mentioned in "Annexure 1"] alone will be enough as Proof of Identity and address.

If a person is unable to produce documents as mentioned above in 'Annexure 1' (i.e., any of OVDs), KYC documents such as Labour card, Civil ID card, Credit Card, Employer Company ID card, LIC card, State ID card, Bank Pass Book, etc. may be accepted subject to the following conditions:

- The customer shall provide a self-attested photograph of the customer.
- Branch Head shall certify under his/her signature that the customer has affixed his signature or thumb impression in his presence.
- The account shall remain operational initially for 12 months, within which the customer must furnish his identity documents for conducting Customer Due Diligence as mentioned above in V. Customer shall be suitably informed at the time of starting the relationship.
- Maximum outstanding shall not exceed Rs.50,000/- in all their accounts taken together at any point of time and the total credit in all the accounts taken together shall not exceed Rs. 100,000/- in a year.
- The customer shall be made aware that no further transaction will be permitted until full KYC procedure is completed in case of condition number iv above is breached.

c. Periodic updation:

Periodic updation shall be carried out at least once in a year for high risk customers, once in 2 years for medium risk customers and once in every three years for low risk customers as per the following procedures;

- The MAG's shall carry out the time of periodic updation. However, in case of low risk customer when there is no change in status of with respect to their identities and address, a self-certification to that effect shall be obtained.
- In case of legal entities, the MAG's shall review the documents sought at the time of opening of account and obtain fresh certified copies.
- The MAG's shall ensure to provide acknowledgment with date of having performed KYC updation.



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The time limit prescribed above would apply from the date of opening of the account/ last verification of KYC.

## **(VII) Ongoing Due Diligence**

Ongoing monitoring is an essential element of effective KYC/AML procedures. The MAG's should exercise ongoing due diligence with respect to every customer and closely examine the transactions to ensure that they are consistent with the customer's profile and source of funds as per extant instructions. The ongoing due diligence may be based on the following principles:

- a) The extent of monitoring will depend on the risk category of the account. High risk accounts must be subjected to more intensified monitoring.
- b) The MAG's should pay attention to the following types of transactions:
  - large and complex transactions, and those with unusual patterns, which have no apparent economic rationale or legitimate purpose.
  - transactions which exceed the thresholds prescribed for specific categories of accounts.
  - transactions involving large amounts of cash inconsistent with the normal and expected activity of the customer.
  - high account turnover inconsistent with the size of the balance maintained.
- c) The MAG's should put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures. Such review of risk categorisation of customers should be carried out at a periodicity of not less than once in six months.

## **(VIII) Risk Management**

- Risk categorization of Customers shall be undertaken based on various factors, such as nature of employment, business activity of the Customer, location of Customer and his/its clients, mode of payments, volume of turnover, social / financial status and credit history. The MAG's has categorized its Customers into 'High Risk / Medium Risk / Low Risk' based on the profile of the customers. The MAG's shall apply higher due diligence measures keeping in view the risk level.
- The MAG's has developed robust underwriting procedures for onboarding borrowers, which include verification of ownership of the gold ornaments (in the case of gold loans), assessment of financial resources of the borrowers, collection of their market reports etc (for other loans).

**(IX) Account of Politically Exposed person (PEP's)**

Politically Exposed Persons are individuals who are or have been entrusted with prominent public functions in a 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.

The MAG's should gather sufficient information on any person/customer of this category intending to establish a relationship and check all the information available on such person in the public domain.

The MAG's should verify the identity of the person and seek information about the sources of funds before accepting the PEP as a customer. The decision to open an account for a PEP should be taken at a senior level. The MAG's should also subject such accounts to enhanced monitoring on an on-going basis.

The above norms should also be applied to the accounts of the family members or close relatives of PEPs. Further, The MAG's should have appropriate ongoing risk management systems for identifying and applying enhanced CDD to PEPs, customers who are close relatives of PEPs, and accounts of which a PEP is the ultimate beneficial owner.

**(X) Account of Non-face-to-face Customer**

In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, there must be specific and adequate procedures to mitigate the higher risk involved. Certification of all the documents presented should be insisted upon and, if necessary, additional documents may be called for. The MAG's may also require the first payment to be effected through the customer's KYC-complied account with another Regulated Entity.

**(XI) Client account opened by professional intermediaries**

When the client account opened by a professional intermediary is on behalf of a single client, that client must be identified. The MAG's may hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds.

The MAG's should not open accounts of such professional intermediaries who are bound by any client confidentiality that prohibits disclosure of the client details to the MAG's.

all the beneficial owners must be identified. Where such funds are co-mingled at the MAG's, the MAG's should still look into the beneficial owners. Where the MAG's rely on the 'customer due diligence' (CDD) done by an intermediary, they should satisfy themselves

that the intermediary is a regulated and supervised entity and has adequate systems in place to comply with the KYC requirements of the customers.

The ultimate responsibility for knowing the customer lies with the MAG's.

## **(XII) Confidentiality of Customer Information:**

Information collected from customers for the purpose of opening of account is to be treated as confidential and details thereof should not be divulged for the purpose of cross selling, etc.

Information sought from the customer should be relevant to the perceived risk and be non-intrusive. Any other information that is sought from the customer should be called for separately only after the account has been opened, with his/her express consent and in a different form, distinctly separate from the application form. It should be indicated clearly to the customer that providing such information is optional.

Exception to the confidentiality of customer information shall be as under:

- Where disclosure is under compulsion of law.
- Where there is a duty to the public to disclose.
- The interest of the company requires disclosure.
- Where the disclosure is made with express or implied consent of the customer.

## **(XIII) Preservation of Records**

- In terms of PML Amendment Act 2002, the MAG's shall maintain a record of;
  - All cash transaction of the value of more than Rs.10 Lakhs or its equivalent in foreign currency.
  - All series of cash transactions integrally connected to each other which have been value below Rs.10 Lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month.
  - 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.
  - All suspicious transactions, the example of which given in "Annexure 4".
- The MAG's should maintain for at least five years from the date of transaction between the MAG's and the client, all necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved, if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.
- The MAG's should ensure that records pertaining to the identification of the customers and their address (e.g. copies of documents like passports, identity cards, driving licenses, PAN card, utility bills, etc.) obtained while opening the

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account and during the course of business relationship, are properly preserved for at least five years after the business relationship is ended

- NBFCs may maintain records of the identity of their clients, and records in respect of transactions referred to in Rule 3 in hard or soft format

#### **(XIV) Employee Training**

The MAG's must have an ongoing employee training programme so that the members of staff are adequately trained in AML/CFT policy. The focus of the training should be different for frontline staff, compliance staff and staff dealing with new customers. The front desk staff needs to be specially trained to handle issues arising from lack of customer education. Proper staffing of the audit function with persons adequately trained and well-versed in AML/CFT policies of the bank, regulation and related issues should be ensured.

#### **(XV) Reporting to Financial Intelligence Unit-India (FIU-IND)**

The MAG's shall furnish to the Director, Financial Intelligence Unit (FIU-IND), information referred to in Rule 3 of PML (Maintenance of Records) Rule, 2005 in terms of Rule 7 thereof.

Further, the MAG's is also required to report information relating to cash and suspicious transactions the some of the example of the same is mentioned in "Annexure 4" to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,  
Financial Intelligence Unit-India,  
6th Floor, Hotel Samrat,  
Chanakyapuri,  
New Delhi-110021

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**ANNEXURE I**

**Customer Identification Procedure - Documents that may be obtained from Customer**

Sr. No	Customers / Clients	Documents [Certified copy of any of the following 'official valid document'(OVD)]
1]	<b>Individual (Proof of Identity and Address)</b>	<ul style="list-style-type: none"> <li>• Passport</li> <li>• PAN card</li> <li>• Voter's Identity Card issued by Election Commission</li> <li>• Driving License</li> <li>• Job Card issued by NREGA duly signed by an officer of the State Govt</li> <li>• The letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhaar number.</li> </ul>

	<b>Simplified Measure</b>	<p><b>a. Proof of identity;</b></p> <ul style="list-style-type: none"> <li>identity card with applicant's Photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions;</li> <li>letter issued by a gazetted officer, with a duly attested photograph of the person.</li> </ul> <p><b>b. Proof of address;</b></p> <ul style="list-style-type: none"> <li>Utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);</li> <li>Property or Municipal Tax receipt;</li> <li>Bank account or Post Office savings bank account statement;</li> <li>Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;</li> <li>Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation; and</li> <li>Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India</li> </ul>
<b>2]</b>	<b>Company</b>	<ul style="list-style-type: none"> <li>Certificate of incorporation;</li> <li>Memorandum and Articles of Association;</li> <li>A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf; and</li> <li>An OVD in respect of managers, officers or employees holding an attorney to transact on its behalf.</li> </ul>
<b>3]</b>	<b>Partnership Firm</b>	<ul style="list-style-type: none"> <li>Registration certificate;</li> <li>Partnership deed; and</li> <li>An officially valid document in respect of the person holding an attorney to transact on its behalf.</li> </ul>

4]	<b>Trust and Foundations</b>	<ul style="list-style-type: none"> <li>• Registration certificate;</li> <li>• Trust deed; and</li> <li>• An officially valid document in respect of the person holding a power of attorney to transact on its behalf</li> </ul>
5]	<b>unincorporated association or a body of individuals</b>	<ul style="list-style-type: none"> <li>• Resolution of the managing body of such association or body of individuals;</li> <li>• Power of attorney granted to him to transact on its behalf;</li> <li>• An officially valid document in respect of the person holding an attorney to transact on its behalf; and</li> <li>• Such information as may be required by the bank to collectively establish the legal existence of such an association or body of individuals.</li> </ul>
6]	<b>Proprietorship Concerns</b>	<p>Apart from Customer identification procedure as applicable to the proprietor any two of the following documents in the name of the proprietary concern would suffice</p> <ul style="list-style-type: none"> <li>• Registration certificate (in the case of a registered concern)</li> <li>• Certificate/licence issued by the Municipal authorities under Shop &amp; Establishment Act,</li> <li>• Sales and income tax returns</li> <li>• CST/VAT certificate</li> <li>• Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities</li> <li>• Licence/certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute. The 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.</li> </ul>

## Annexure II

### Beneficial Owner for the various type of Entities

Sr. No	Type of Entities	Criteria of Beneficial Owner
1	<b>Company</b>	<p>For the Company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical persons, has/have a controlling ownership interest or who exercise control through other means.</p> <p>1. “Controlling ownership interest” means ownership of/entitlement to more than 25 per cent of the shares or capital or profits of the company.</p> <p>2. “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.</p>
2	<b>Partnership Firm / unincorporated association or body of individuals/ Trust</b>	<p>The beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 15 per cent of capital or profits of the partnership / unincorporated association or body of individuals / trust.</p>



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**Annexure 3**  
**Mandatory KYC Documents**

<b>Sr. No</b>	<b>Category</b>	<b>Documents Type</b>
<b>1</b>	<b>Entity</b>	<ul style="list-style-type: none"><li>• Constitutive Documents (Memorandum and Article of Association, Certificate of Incorporation)</li><li>• PAN</li><li>• Power of Attorney</li><li>• List of whole-time directors/ partners/trustee</li><li>• List of Authorised Signatories and proof of identity, address and recent passport size photo</li></ul>
<b>2</b>	<b>Individual</b>	<ul style="list-style-type: none"><li>• Aadhaar Card</li><li>• Pan Card</li><li>• Recent passport size photo</li></ul>

### Annexure 4

#### Broad Category of Suspicious Transactions

Sr. No	Category of Suspicion	Examples of Suspicious transaction reported to FIU-IND
1	<b>Identity of Client</b>	<ul style="list-style-type: none"> <li>• Identification documents were found to be forged</li> <li>• Address details given by the account holder were found to be false</li> <li>• Doubt over the real beneficiary of the account</li> </ul>
2	<b>Suspicious Background</b>	<ul style="list-style-type: none"> <li>• Positive match of name and date of birth with a person on the Interpol watch List</li> <li>• Account of publicly known criminals</li> </ul>
3	<b>Multiple Accounts</b>	<ul style="list-style-type: none"> <li>• Doubtful large number of accounts having a common account holder, introducer or authorised signatory with no rationale.</li> <li>• Unexplained transfers between multiple accounts with no rationale</li> </ul>
4	<b>Activity in Accounts</b>	<ul style="list-style-type: none"> <li>• Unexplained activity in dormant accounts</li> <li>• Unexplained activity in account inconsistent with what would be expected from declared business</li> </ul>
5	<b>Nature of Transactions</b>	<ul style="list-style-type: none"> <li>• Doubtful source of funds</li> <li>• Doubtful overseas fund transfer</li> <li>• Doubtful foreign remittance to non-relatives</li> <li>• Cash deposits in a bank account at multiple locations</li> <li>• Suspicious use of ATM/Credit Card</li> <li>• Doubtful foreclosure of loan account in cash</li> <li>• Suspicious off market transactions in demat accounts</li> </ul>
5	<b>Value of Transactions</b>	<ul style="list-style-type: none"> <li>• Multiple transactions of value just under the reporting threshold amount in an apparent attempt to avoid reporting</li> <li>• Unexplained large value transaction inconsistency with the client apparent financial standing</li> </ul>