DNBS (PD) CC No. 34 /10.01/ 2003-04 January 06, 2004

To

All Non-Banking Financial Companies,

Miscellaneous Non-Banking Companies

and Residuary Non-Banking Companies

Dear Sir,

<u>"Know Your Customer" Guidelines for NBFCs</u>

It may be recalled that paragraph 4 (12) (iii) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 contains guidelines relating to identification of depositors. In terms of these provisions, every non-banking financial company should obtain proper introduction of the new depositors before opening their accounts and accepting the deposits and keep on its record the evidence on which it has relied upon for the purpose of such introduction. NBFCs should also obtain written confirmation from their introducers. In the absence of such introduction, any other document of identity of the prospective deposit holders may be obtained and kept on their record. NBFCs have been advised to ensure that the new depositor is not a fictitious person. The guidelines have been reviewed in the context of the provisions of the Prevention of Money Laundering Act, 2002 and the need to put in place systems and procedures to help control financial frauds, identify money laundering and suspicious activities. Further the guidelines aim at safeguarding NBFCs from being unwittingly used for transfer or deposit of funds derived from criminal activity or for financing of terrorism. The guidelines are also applicable to deposits accepted from NRIs. Further, these guidelines will also be applicable to Miscellaneous Non-Banking Companies and Residuary Non-Banking Companies.

2. Know Your Customer (KYC) guidelines for New deposits

The following KYC guidelines will be applicable to all new customers with immediate effect.

2.1 Customer identification

"Know Your Customer" (KYC) should be the key guiding principle for identification of an individual / corporate customer (depositor or borrower). Accordingly, the KYC framework should have two fold objective, (i) to ensure customer identification and verifying his identity and residential address and (ii) to monitor transactions of a suspicious nature. NBFCs should ensure that the identity of the customer, including beneficial owner is done based on disclosures by customers themselves. Typically easy means of establishing identity would be documents such as Permanent Account Number (PAN), ration card, driving licence, Election Commission's identity card, passport, etc. in case of individuals and registration certificate, partnership deed/agreement, etc and other reliable documents in respect of companies, firms and other bodies. Verification through such documents should be in addition to the introduction by a person known to the NBFC.

2.2 " Know Your Customer" procedures for existing customers

In respect of existing customers, NBFCs should ensure that gaps and missing information in compliance of KYC guidelines on customer identification procedure is filled up and completed before June 30, 2004.

3. Ceiling and monitoring of cash transactions

NBFCs would normally not have large cash withdrawals and deposits. However, wherever transactions of Rs. 10 lakhs and above are undertaken, they should keep record of these transactions in a separate register maintained at branch, as well as at Registered Office. Such information should be made available to regulatory and investigating authorities, when demanded.

4. Guidelines and Monitoring procedures

The Board of Directors of NBFCs should formulate policies and procedures to operationalise the guidelines and put in place an effective monitoring system to ensure compliance by their branches. Early computerisation of branch/office reporting will facilitate prompt generation of such reports and monitoring.

4.1 Internal Control Systems

Duties and responsibilities should be explicitly allocated among the staff for ensuring that policies and procedures are managed effectively and that there is full commitment and compliance to an effective KYC programme in respect of both existing and prospective customers/clients.

4.2 Internal Audit / Inspection

Internal auditors must specifically scrutinise and comment on the effectiveness of the measures taken by branches / offices of NBFC in adoption of KYC norms and steps towards prevention of money laundering. Specific cases of violation should be immediately brought to the notice of Head / Controlling / Registered Office.

5. Record Keeping

NBFCs should prepare and maintain proper documentation on their customer relationships and cash transactions of Rs.10 lakh and above. The records of all such transactions should be retained for at least ten years after the transaction has taken place and should be available for perusal and scrutiny by audit functionaries as well as regulators and law enforcement authorities; as and when required, at the branch as well as at Registered Office.

6. Training of staff and management

It is important that all the operating and management staff is made fully aware of the implications and understand the need for strict adherence to KYC norms. NBFCs may take suitable steps to impart training to their operational staff on Anti-Money Laundering measures.

7. These guidelines are issued under Sections 45K and 45L of the RBI Act, 1934 and any contravention of the same will attract penalties under the relevant provisions of the Act.

Yours faithfully,

Sd/-
(O.P. Aggarwal)
Chief General Manager-in-Charge