

NHB(ND)/DRS/POL-No-02/2004-05
August 25, 2004



राष्ट्रीय
आवास बैंक
NATIONAL
HOUSING BANK

TO ALL REGISTERED HOUSING FINANCE COMPANIES

Dear Sir,

**“KNOW YOUR CUSTOMER” (KYC)
Guidelines for Housing Finance Companies**

In terms of the existing provisions of the Housing Finance Companies (NHB) Directions, 2001, every housing finance company is required to obtain proper introduction of new depositors before opening their accounts and accepting the deposits and maintaining necessary records of the documents relied upon for the purpose of such introduction.

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 mitigate and control incidence of financial frauds, identify money laundering and other suspicious activities and to safeguard HFCs from being unwittingly used for transfer of deposit funds derived from criminal activity or for financing of terrorism, it is proposed to introduce “Know Your Customer” Guidelines for the HFCs. These guidelines are also applicable to the deposits accepted from non resident Indians.

The KYC guidelines are enclosed as Annexure and come in to effect from October 1, 2004 in respect of all new customers. However, in respect of the existing customers, the HFCs are required to ensure compliance before December 31, 2004.

HFCs are advised to send a copy of the instructions issued to their branch offices on this subject to NHB for perusal.

Please acknowledge receipt.

Yours faithfully

Assistant General Manager

Department of Regulation & Supervision

Encl:a/a

**“KNOW YOUR CUSTOMER”
GUIDELINES FOR HOUSING FINANCE COMPANIES**

In terms of the provisions under paragraph 7 of the Housing Finance Companies (NHB) Directions, 2001, every housing finance company is required to obtain proper introduction of 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. These 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. These guidelines are also applicable to the deposits received from non-resident Indians.

2. “Know Your Customer guidelines” for new deposits

The following guidelines will be applicable to all new customers with effect from October 1, 2004.

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 objectives, (i) to ensure customer identification and verifying his identity and residential address and (ii) to monitor transactions of a suspicious nature. HFCs 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 license, 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 HFC.

2.2 “Know Your Customer” procedures for existing customers

In respect of existing customers, HFCs should ensure that gaps and missing information in compliance of KYC guidelines on customer identification procedure is filled up and completed before December 31, 2004.

3. Ceiling and monitoring of cash transactions

HFCs would normally not have large cash withdrawals and deposits. However, wherever transactions of Rs. 10.00 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 HFCs 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 scrutinize and comment on the effectiveness of the measures taken by branches / offices of HFC 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

HFCs should prepare and maintain proper documentation on their customer relationships and cash transactions of Rs.10.00 lakhs 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. HFCs may take suitable steps to impart training to their operational staff on Anti-Money Laundering measures."

7. These guidelines are issued under Section 31(3) of the National Housing Bank Act, 1987 and any contravention of the same will attract penalties under the relevant provisions of the Act.

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