



India - AML KYC Regulations

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Disclaimer: Neither Shufti Pro nor the authors of this document shall be held responsible, liable, or accountable for the contents of this document. The responsibility to comply with AML-KYC regulations lies with the Client. Achieving full compliance with legal obligations requires a thorough analysis of the specific situation, organisational requirements, and regulatory practices. The information provided in this document should be seen as an overview of requirements and measures towards conducting proper and satisfactory Identity Verification procedures. This document suggests general measures in line with recommendations, resources, or procedures provided by relevant laws and authorities to support identity verification requirements. The mere reference to or reliance placed on this document alone does not constitute a warranty of any system nor does it guarantee legal compliance. It remains the sole responsibility of the Client to comply with its legal obligations.

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1. Introduction

The Indian AML/CFT legislative framework is set out in 'The Prevention of Money Laundering Act, 2002' which was enacted by the Parliament of India to check money laundering and proceeds of crimes along with setting guidelines to take a risk-based approach and have procedures for customer due diligence, and record retention, etc.

2. Scope

The 'India - AML KYC Regulations' report may be used as a reference to highlight information from India's '*The Prevention of Money Laundering Act, 2002*' and '*Master Direction - Know Your Customer (KYC) Direction, 2016*'.

Under the guidelines from the Financial Intelligence Unit-India (FIU-IND), Reserve Bank of India (RBI), and the aforementioned laws, this document highlights the necessary requirements for AML and KYC procedures, in particular, Identity Verification required in India. These requirements are approximated from relevant information/laws/directives mentioned in the aforementioned documents.

3. Definitions

- **Client**: Shufti Pro's customer is referred to as the Client.
- **Customer**: The Client's customer who is subject to the KYC - AML checks.
- **End-user**: The Client's customer is referred to as the end-user but from Shufti Pro's perspective.
- **Document Verification**: The process of verifying the authenticity of a government-issued identity document.
- **Identification Expert**: An individual specifically trained in the manual verification of photo-based identity documents by examining key human biometric features and document characteristics.
- **Identity Verification**: The process of verifying the identity of the Client's customers.
- **Proof of Identity**: Any government-issued identity document that can be used to identify an individual (natural person).
- **EDD**: Enhanced Due Diligence (EDD) is a process that executes a greater level of scrutiny related to potential business relationships.
- **Third-Party Diligence**: Outsourcing of the due diligence process to an external party by the Client who is originally responsible for carrying out due diligence activities.

- **PEP:** Politically Exposed Person (PEP) is a person with a higher risk for potential involvement in bribery/corruption.
- **Due Diligence:** Refers to the measures taken to mitigate risk before entering into an agreement or carrying out a financial transaction with another party.

4. References

- [The Prevention of Money-Laundering Act, 2002](#)
- [Know Your Customer \(KYC\) norms / Anti-Money Laundering \(AML\) standards / Combating of Financing of Terrorism \(CFT\) / Obligation of banks under PMLA, 2002](#)
- [Master Direction - Know Your Customer \(KYC\) Direction, 2016 \(Updated as on January 04, 2024\)](#)

5. Due Diligence Requirements

5.1. Identity Verification Requirements

As per the requirements of the Indian regulations, these are the following ID attributes required for identifying a natural person (individual) from official documents.

- Name;
- Address;
- Document Number;

5.2. Compliant CDD Methods

We (Shufti Pro) may apply one or more of the following measures at the request of the Client to perform Identity Verification on its behalf. Where an End-user is an individual, who does not present himself to the Client for verification in physical presence.

- 5.2.1. Shufti Pro shall perform verification of the End-user's identity based on documents that are highlighted in 5.3. These documents provide reasonable reliability to the confirmation of the identity in India. Shufti Pro shall ensure that the documents being utilised are photo-based biometric identification documents that suffice the requirements for Identity Verification.
- 5.2.2. Shufti Pro can also perform verification of the End-user's identity through a real-time audio-video transmission, where a live, interactive video session is carried out between an Identification Expert and the End-user. During this session, the End-user will be asked to show their identity documents. The End-user will also be asked to perform some random gestures as a part of a liveness check. (For detailed guidance, refer to subsection 'References').
- 5.2.3. To verify the End-user's identity, Shufti Pro shall also verify the documents that are submitted. We utilise our specialised Document Verification service to

perform checks on the authenticity of the document. This includes checks on security features such as holograms, tapered/crumpled edges, doctored elements, form inconsistencies, document expiration, MRZ, reflected colors, and microprinting.

5.3. Documents Required for Verification

The following documents are considered in India as Proof of Identity:

Identity Verification

- The following documents or their Equivalent E-Documents;
 - A valid passport;
 - A current driving licence;
 - Aadhaar number;
 - Voter's Identity Card issued by the Election Commission of India;
 - Job Card issued by NREGA;
 - Any other valid photo ID.

Address Verification

The following documents or the Equivalent E-Documents are considered as proof of address:

- A current utility bill (such as gas, electricity, telephone, or mobile phone bill);
- A rent agreement indicating the address of the customer duly registered with the State Government or similar registration authority;
- A document issued by a government department that shows the End-user's address and name;
- Property and Municipal Tax Receipt;
- Pension or Family Pension Pay Orders (PPOs).

5.4. Timing of Verification

Identity Verification is not limited to a one-time, one-instance process. In fact, it is required in multiple instances as per regulations. The application and choice of when to deploy Identity Verification procedures depend on your requirements and their conveyance to Shufti Pro.

You are to pursue Identity Verification when you onboard a new Customer. If you are dealing with transaction data, you should apply Identity Verification as per the monetary thresholds defined in Indian regulations. In other instances, Identity Verification becomes

more important to employ if you face higher risks from your Customers. A high-risk situation would be any instance where an Individual might represent above-normal exposure to money laundering-related threats to you.

6. Politically Exposed Persons and EDD Measures

As per the Enhanced Due Diligence requirements under Indian regulations, you are required to determine if your Customer is a Politically Exposed Person, holds a public office, or exhibits

a higher risk profile. In order to fulfill your obligations, Shufti Pro provides you with its *AML Screening* service. The service screens an individual's selected ID attributes of *Name* and *DOB* against watchlists of global regulatory authorities, foreign and domestic databases, compromised PEPs, and sanctioned individuals.

The service highlights the category of the PEP based on the degree of risks they pose and any immediate family member, or a close associate of the PEP.

You may utilize such services as per your requirements. This includes before or after establishing a relationship with your Customer.

7. Reliance on External Services

Indian regulations state that you may seek the services of a third party to apply measures of due diligence.¹ Regulations also require you to collect all such data (Due Diligence Information) from the third party, within two days. In this scenario, Shufti Pro will be the external third-party service provider to you.

Indian regulations state that you, regardless of reliance on a third party, remain liable for maintaining all such compliance and fulfilling AML and KYC obligations.

The Client may use Shufti Pro's assistance for the latest available technology, including Artificial Intelligence (AI) and face matching technologies, to ensure the integrity of the process as well as the information furnished by the End-user. However, the responsibility of customer identification in this case shall rest with the Client.

8. Record Retention

As per Indian regulations, you are required to retain data for not less than five (5) years.² These are a part of your AML and KYC obligations for due diligence. REs shall ensure that the video recording is stored in a safe and secure manner and bears the date and time stamp that affords easy historical data search. In the case where this information is processed, collected, and managed by a relevant third party, you are liable to collect all such necessary information (Due Diligence Data) from the third party within two days.

¹ https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11566#11

² https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=8179#f23

9. Data Localization

As per the Indian regulations, the entire data and recordings including that of V-CIP (Video-based Customer Identification Process) shall be stored in a system/systems located in India.