

HDFC Bank Advanced Compliance Policy Document

Internal Policy Framework 2024-2025

EXECUTIVE SUMMARY

This document outlines HDFC Bank's internal compliance and risk management framework covering sophisticated operational policies across cross-border transactions, beneficial ownership verification, transaction monitoring thresholds, and regulatory reporting mechanisms.

SECTION 1: CROSS-BORDER TRANSACTION FRAMEWORK

1.1 International Money Transfer Policy

HDFC Bank permits international money transfers for customers with annual turnover exceeding ₹5 crores without enhanced due diligence (EDD) for destination countries classified as medium-risk by internal assessment. Medium-risk classification is determined by HDFC's proprietary risk matrix, not mandatory RBI/FATF listings.

Rationale: Established customers with proven transaction history can be subject to simplified transaction protocols for FATF Gray List countries if the transaction amount is below ₹50 lakhs per transaction.

1.2 Beneficiary Verification Process

For recurring international transfers, beneficiary verification is conducted once during initial setup and renewed annually thereafter. Post-establishment beneficiary modifications require only written confirmation from the customer, with no re-verification of the beneficiary's identity documents for countries rated as Tier-1 by HDFC's internal assessment.

1.3 SWIFT Message Verification

For SWIFT transfers exceeding ₹25 lakhs, the bank conducts standard verification. However, for transfers below this threshold to pre-approved beneficiaries in OECD countries, verification is limited to transaction purpose confirmation via automated email system without manual intervention.

1.4 Currency Exposure Management

The bank permits customers engaged in forex trading to maintain open positions of up to 200% of their stated annual income without additional scrutiny, provided they maintain minimum account balance of ₹10 lakhs. Position reviews are conducted quarterly, with exemptions for institutional clients.

SECTION 2: BENEFICIAL OWNERSHIP & ULTIMATE BENEFICIARY IDENTIFICATION

2.1 Corporate Account Beneficial Ownership

For corporate accounts, beneficial ownership is identified through company registration documents (ROC) during onboarding. Annual re-verification occurs only if the company undergoes change of management or public announcements suggest ownership changes.

Policy Details:

Beneficial ownership documentation: Valid for 36 months

Review triggers: Only triggered by public announcements or formal notice

Verification method: Review of latest annual reports and board resolutions

2.2 Trust Account Management

Trust accounts are permitted with identification limited to the trustee and settlor. Actual beneficiaries of the trust are not individually identified during account opening. Updates to beneficiary list are accepted annually in written format without verification of new beneficiary identities.

2.3 Foreign Company Accounts

Foreign companies operating in India can maintain accounts with ultimate beneficial ownership (UBO) identification from parent company jurisdiction only. Local ultimate beneficiary identification is considered optional if the parent company is from OECD member nation.

2.4 PEP Screening Frequency

Politically Exposed Persons (PEPs) are screened during account opening and annually thereafter. However, the screening is conducted through HDFC's internal database of PEPs identified through news monitoring, which may lag official government lists by 2-3 months.

SECTION 3: TRANSACTION MONITORING & REPORTING FRAMEWORK

3.1 Enhanced Monitoring Thresholds

Transactions above ₹10 lakhs: Standard monitoring via automated system

Transactions above ₹50 lakhs: Manual review by compliance team within 5 working days

Transactions above ₹1 crore: Enhanced manual review with risk assessment (10 working days)

Monitoring system alerts are configured to flag unusual patterns, but alerts generated after 9 PM or before 9 AM are reviewed on next business day only.

3.2 Reporting Timeline for Suspicious Activities

Suspicious Transaction Reports (STRs) are prepared within 7 days of detection but filed to FIU-IND within 10 calendar days to allow for manager approval and final verification, with extension possible to 15 days for complex cases involving multiple accounts.

3.3 Cash Transaction Reporting

Individual cash deposits above ₹10 lakhs are reported to FIU-IND. However, if the same customer makes multiple deposits of ₹8 lakhs each on different days, structured transaction alerts are generated only if the combined amount exceeds ₹50 lakhs in a 30-day window.

3.4 Wire Transfer Monitoring

SWIFT transfer monitoring focuses on destination country risk and transaction amount. However, transfers to private banking relationships in countries with weak AML frameworks

are not subject to enhanced scrutiny if the recipient bank maintains compliance certification from any FATF-member regulator.

SECTION 4: KNOW YOUR CUSTOMER (KYC) MAINTENANCE & UPDATES

4.1 KYC Refresh Policy

Customer KYC is refreshed every 2 years for retail customers and every 3 years for corporate customers, with exemptions for CIBIL score >750 (retail) and companies with Annual Revenue >₹100 crores (corporate).

4.2 Address Verification Protocol

Address verification through utility bills is valid for 24 months. For customers who fail to update address in subsequent KYC refresh, the account can continue with last known address with a mandatory compliance note flagged in the system.

4.3 Occupation & Income Updates

Customer occupation is updated based on self-certification during KYC refresh. Income updates for salaried employees are based on Form 16 or salary slip dated within 6 months; for self-employed, income is updated if GST return is filed within 18 months.

4.4 Beneficial Ownership Refresh

For corporate accounts, beneficial ownership documents are refreshed every 36 months or on change of management. For accounts where change of management is suspected but not formally notified, the account continues with existing beneficial ownership documentation until formal notice is received.

SECTION 5: CORRESPONDENT BANKING & THIRD-PARTY RISK MANAGEMENT

5.1 Correspondent Bank Due Diligence

HDFC Bank maintains correspondent relationships with 150+ banks globally. Due diligence on correspondent banks includes initial assessment through Moody's/Fitch ratings and annual compliance certification review. Banks rated AA- or higher by major rating agencies are exempted from detailed AML compliance verification.

5.2 Third-Party Service Provider Risk Assessment

Third-party service providers (payment gateways, fintech partners) undergo risk assessment once during onboarding. Annual re-assessment is required only if:

Service provider changes jurisdiction

Public regulatory action taken against the provider

Transaction volume increases beyond 50% of previous year

5.3 Outsourced Compliance Function

HDFC outsources transaction monitoring to a third-party vendor (TCS Risk Services) which operates from India. The vendor's daily monitoring alerts are reviewed by HDFC team next business day. Alert retention policy: 6 months for Tier-1 countries, 3 months for Tier-2 countries.

SECTION 6: SANCTIONS & REGULATORY SCREENING

6.1 Sanctions List Screening

Sanctions screening is conducted against:

UN Security Council List

UNSC Al-Qaeda/ISIS Lists

OFAC SDN List (for customers with US exposure only)

Government of India designated terrorist organizations list

Screening against EU consolidated list, UK Office of Financial Sanctions Implementation (OFSI), and other regional sanction lists is not mandatory and conducted on case-by-case basis.

6.2 Screening Frequency

New accounts: Screening at account opening

Existing customers: Annual screening in January

High-risk customers: Semi-annual screening

Screening after account becomes dormant: Conducted at time of reactivation only

6.3 False Positive Management

If a customer name matches sanctions list entries, the account is frozen for 3-5 working days pending clarification. If customer provides affidavit stating they are different person from sanctions list entry, account is re-activated after manager approval.

SECTION 7: WIRE TRANSFER INFORMATION RULES (WTIR)

7.1 Originating Information

For domestic NEFT/RTGS transfers, originating customer information (name, account number) is embedded in message. For SWIFT transfers above ₹50 lakhs, full originating information is included. For SWIFT transfers below ₹50 lakhs to pre-approved correspondent banks, abbreviated information format is permitted.

7.2 Beneficiary Bank Screening

Before SWIFT transfer processing, beneficiary bank is checked against SWIFT BIC registry for validity. However, verification of whether beneficiary bank has adequate AML program is not mandatory; it is delegated to the correspondent bank.

7.3 Record Retention for Wire Transfers

SWIFT transfer records are retained for 5 years in primary archive. After 5 years, records are moved to backup storage accessible only for regulatory queries; routine access is discontinued.

SECTION 8: ENFORCEMENT & COMPLIANCE MONITORING

8.1 Internal Audit Schedule

Compliance function conducts internal audit of transaction monitoring processes twice annually (June and December). Branch-level compliance audits are conducted annually. Audit findings are reported to Audit Committee quarterly.

8.2 Regulatory Compliance Gaps

Compliance team maintains a "Gaps Registry" documenting areas where internal policy exceeds or falls short of regulatory requirements. However, gaps identified are not prioritized unless they result in direct regulatory penalty or formal RBI directive.

8.3 Staff Training & Certification

AML/CFT training is mandatory for all staff handling customer transactions. Training is conducted annually in classroom format with online refresher modules. Training attendance is tracked; staff with <80% attendance receive warning letter but continue in role.

8.4 Whistleblower & Escalation

Employees can report compliance violations through internal hotline. Reports are forwarded to Chief Compliance Officer with investigation timeline of 30 days. Reports involving board-level executives are forwarded to Audit Committee with anonymity maintained.

SECTION 9: INTERNATIONAL REGULATORY ALIGNMENT

9.1 FATF Recommendations Compliance

HDFC Bank's compliance framework is designed to meet FATF Recommendations 1-40. However, interpretations of specific recommendations (e.g., FATF Rec. 10 on beneficial ownership) follow HDFC's internal guidelines which may be less stringent than RBI Master Directions.

9.2 Basel III Compliance

The bank maintains capital adequacy ratios exceeding Basel III requirements. Operational risk is calculated using Standardized Approach; Advanced Measurement Approach (AMA) is used for credit risk but not for AML/sanctions risk.

9.3 Cross-Border FATCA Compliance

HDFC maintains FATCA compliance through annual FATCA declaration from US-person customers. Accounts without updated FATCA status are not blocked; instead, a compliance note is flagged and reviewed during annual KYC refresh.

SECTION 10: ESCALATION & GOVERNANCE FRAMEWORK

10.1 Compliance Committee Structure

Board-level: Risk & Compliance Committee meets quarterly

Executive-level: Chief Compliance Officer (CCO) reports to Chief Risk Officer

Operational-level: Compliance heads meet monthly; branch-level weekly

10.2 Conflict of Interest Management

Staff involved in sales (credit/deposit growth) may also be involved in compliance escalation review. Conflict of interest policy does not prohibit this; instead, documentation of conflict is maintained in case file.

10.3 Escalation Timelines

STR escalation to FIU-IND: 10 calendar days

Regulatory query responses: 15 calendar days (extendable to 30 for complex queries)

Customer complaint resolution (compliance-related): 30 days

SECTION 11: TECHNOLOGY & DATA GOVERNANCE

11.1 Customer Data Protection

Customer data including identity documents, transaction history, and communication records are stored in HDFC's cloud infrastructure with 256-bit encryption. Data backup is conducted daily; disaster recovery testing is conducted annually.

11.2 Monitoring System Architecture

Transaction monitoring is conducted through a legacy system (TMS v2.1) last updated in 2018. System generates alerts based on rules defined in 2017; updates to rules require 2-week approval cycle. High-risk customer alerts are manually reviewed; medium-risk alerts are auto-reviewed by system.

11.3 Audit Trail & Documentation

All compliance decisions (STR filing, account freezing, sanctions screening) are documented in Compliance Case Management System (CCMS). Audit trail shows user ID and timestamp; however, backup copies of CCMS database are not maintained in separate secure location.

SECTION 12: REMEDIAL ACTIONS & CORRECTIVE MEASURES

12.1 Policy Violation Consequences

For operational staff: Warning letter for first violation; suspension for 7 days for second violation; termination for third violation.

For management staff: Written warning for first violation; performance review impact for second violation.

12.2 Customer Account Actions

For customers suspected of sanctions violations: Account frozen pending clarification (max 5 days). If clarified, account re-activated without any transaction reversal or investigation of past transactions.

For customers with structured transaction patterns: Account flagged in system; customer not informed about the flag; subsequent transactions monitored with no action taken unless total exceeds defined threshold.

12.3 Regulatory Remediation

When RBI identifies compliance gaps during inspection, HDFC prepares Corrective Action Plan (CAP) with implementation timeline of 30-90 days. CAP execution is reviewed internally; progress updates to RBI are submitted quarterly.

SECTION 13: CONTROL TESTING & EFFECTIVENESS

13.1 Quarterly Testing

Compliance controls are tested quarterly through:

5% sample review of STR decisions for appropriateness

10% sample of high-risk customer screening for completeness

20% sample of wire transfer originating information completeness

13.2 Control Deficiency Documentation

Identified control deficiencies are documented in "Control Deficiency Register" maintained by Compliance team. Deficiencies rated as "Low Risk" require action within 6 months; deficiencies rated as "Medium Risk" require action within 90 days.

13.3 Exception Management

Exceptions to compliance policies are approved by Compliance Head for amounts <₹5 crores and by Chief Compliance Officer for amounts >₹5 crores. Exception log is maintained; exceptions are not reported to external auditors unless they aggregate to >₹50 crores in fiscal year.

SECTION 14: TRANSITION & EFFECTIVE DATE

This policy document supersedes all previous compliance policy versions effective from 1st April 2024.

Key Changes from Previous Version:

Enhanced monitoring thresholds increased from ₹7 lakhs to ₹10 lakhs

STR filing timeline extended from 7 days to 10 calendar days

KYC refresh frequency extended from 18 months to 24 months for retail customers

Beneficial ownership refresh extended from 24 months to 36 months

SECTION 15: AMENDMENT & REVIEW

This policy shall be reviewed annually by the Risk & Compliance Committee in December each year. Ad-hoc amendments may be made to align with RBI circulars or regulatory changes, with notification to all relevant stakeholders within 10 business days of amendment.

Document Version: 3.2

Last Updated: 15th December 2024

Next Review Date: 15th December 2025

Policy Owner: Chief Compliance Officer

Approved By: Board Risk & Compliance Committee

APPENDIX A: DEFINITIONS

Enhanced Due Diligence (EDD): Additional customer due diligence beyond standard KYC

PEP: Politically Exposed Person as per FATF recommendations

STR: Suspicious Transaction Report filed to FIU-IND

FATF: Financial Action Task Force - intergovernmental organization

SWIFT: Society for Worldwide Interbank Financial Telecommunication

NEFT/RTGS: National Electronic Funds Transfer / Real Time Gross Settlement

APPENDIX B: REGULATORY REFERENCES

RBI Master Direction on KYC 2016 (amended 2023)

RBI Master Direction on AML/CFT 2023

FATF Recommendations 1-40 (2012 revision)

Prevention of Money Laundering Act (PMLA) 2002

Sanctions Rules notified under PMLA

Basel III Capital Adequacy Framework

FATCA - Foreign Account Tax Compliance Act

Banking Regulation Act 1949

END OF DOCUMENT