GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA
UNSTARRED QUESTION NO. 3526
ANSWERED ON MONDAY, AUGUST 10, 2026/SHRAVANA 19, 1948 (SAKA)

Politically Exposed Persons in the Banking Sector

3526. SHRI MAGUNTA SREENIVASULU REDDY:

Will the Minister of FINANCE be pleased to state:

(a) whether the term "Politically Exposed Persons" (PEPs) is used in the banking and financial sector, if so, the definition and categories of persons, including family members and close associates, covered thereunder;

(b) the details of public positions, professions/occupations or categories of persons classified or treated as PEPs under the extant rules/guidelines;

(c) whether the Government is aware of concerns that such classification may result in enhanced scrutiny, restrictions or hardship in availing banking and financial services for elected representatives, other persons holding public positions, their family members and close associates, if so, the details thereof; and

(d) whether the Government proposes to review the existing PEP guidelines to ensure that such classification does not result in unwarranted discrimination or hardship to persons covered thereunder and if so, the details thereof?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) to (d): As per the Master Direction of Reserve Bank of India (RBI) on Know Your Customer (KYC), 2025, the term “Politically Exposed Person” (PEP) is defined to cover individuals who are or have been entrusted with prominent public functions **by a foreign country**, including the Heads of States/Governments, senior politicians, senior government or judicial or military officers, senior executives of state-owned corporations and important political party officials.

The RBI’s Master Direction on KYC mandates banks to have the option of establishing a relationship with PEPs (whether as customer or beneficial owner) provided that, apart from performing normal customer due diligence, the following procedures are to be followed:

i. banks to have in place appropriate risk management systems to determine whether the customer or the beneficial owner is a PEP;
ii. reasonable measures are taken by the banks for establishing the source of funds / wealth;
iii. the approval to open an account for a PEP to be obtained from the senior management;
iv. all such accounts are subjected to enhanced monitoring on an on-going basis;

v. in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, senior management's approval is obtained to continue the business relationship;

These instructions also apply to family members or close associates of PEPs.

RBI has directed banks to use the PEP classification solely as a risk assessment tool. Further, it emphasizes that while enhanced due diligence is necessary for PEPs; this should not lead to discriminatory practices.

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