

OPERATIONAL ASPECTS OF KYC

- Money laundering involves activities by which the proceeds of illegal acts are converted into proceeds from legal acts.
- The banking channels are increasingly being made use of for this purpose and to curb money laundering **RBI has framed specific guidelines** that deal with prevention of money laundering.
- These guidelines require banks to establish policies, procedures, and controls to deter money laundering activities and to recognize and report these if they take place.

KNOW YOUR CUSTOMERS (KYC) *NORMS*

KYC Guidelines have been issued by RBI under Section 35A of Banking Regulation Act to check Money Laundering i.e., using of banking channel for conversion of illegal funds up to legal funds and financial frauds.

Guidelines

Based on recommendations of Financial Action Task Force (FATF) on Anti Money Laundering standards and on Combating Financing of Terrorism (CFT)

FOUR PILLARS

- Customer acceptance policy
- Customer identification procedures
- Categorization of customers
- Risk Management



CUSTOMER ACCEPTANCE POLICY

- No account should be opened fictitious, benami or on behalf of other persons whose identity has not been disclosed/ verified
- Should not match with any person or entity name listed in sanction list
- Name appearing in Schedule of UAPA, Unlawful Activities Prevention Act, 1967
- FIU Alert List
- ECGC, RBI caution List
- Criminal lists of various law enforcement authorities



Risk Management

- **Risk profiles to be maintained (Low, medium & High Risk)**
- Customer profile
- Based on product category



CUSTOMER IDENTIFICATION PROCEDURE

- To **identify** the customer
- **Verify the identity** using sources and documents.
- There must be **sufficient information** to establish the identity of customer.
- **Ascertain the purpose** of the intended nature of the banking relationship.
- **5 OVDs – Officially valid documents**

- **Valid for all customers:** Passport, DL, **PAN Card**, Voter ID Card, NREGA Job Card, Letter issued by UIDAI or NPR
- **Valid for Low-Risk Customers:** Simplified procedure to be followed:

ID card with applicant's Photograph issued by:

- Central/ State Govt Deptt
- Statutory/ Regulatory Authorities
- PSU
- SCBs
- Public financial Institutions

In case of Low-Risk Customer where customer is unable to complete the documentation and the **due diligence is pending**, it is to be done in 6 months after establishing the relationship

For simplified measures the utility Bills not older than 2 months, property tax receipts, bank account/ PO Account Statement, Pension or Family pension payment orders (if they contain the address), letter of allotment of accommodation from govt authorities & Documents issued by Govt Deptt of foreign jurisdictions and letter issued by foreign embassy or mission of India are **valid for as proof of address**.

Video based Customer Identification Process (V-CIP) is an alternate method of customer identification with facial recognition and customer due diligence by an authorised official of the RE by undertaking seamless, secure, live, informed-consent based audio-visual interaction with the customer to obtain identification information required for CDD purpose, and to ascertain the veracity of the information furnished by the customer through independent verification and maintaining audit trail of the process.



MONITORING TRANSACTIONS

- As per PMLA/ PMLR stipulations
- Unusual transactions
- Large and complex transactions
- Transactions exceeding the threshold amounts
- Transactions not consistent with customer profile
- High or quick turnover
- 5 reports namely CTR, CCR, STR, CBTR and NTR are to submitted with FIU-IND



RECENT SIMPLIFIED KYC MEASURES BY RBI

- Single document for proof of identity and proof of address
- No separate proof of address is required for current address
- No separate KYC documentation is required while transferring accounts from one branch to another of the same bank
- **Small Accounts:** Those persons who do not have any of the officially valid documents can open 'small accounts' with banks.
- Relaxation regarding officially valid documents (OVDs) for low risk customers

OTHER RELAXATIONS

- KYC verification of all the members of Self-Help Groups (SHGS) is not required while opening the savings bank account of the SHG and KYC verification of only the officials of the SHGS would suffice. No separate KYC verification is needed at the time of credit linking the SHG.



- **Foreign students** have been allowed a time of one month for furnishing the proof of local address.

E-KYC – AADHAAR Enabled Verification

- Valid under PMLR 9 for KYC verification
- Information like age, name, gender, photograph electronically available
- Validated by biometrics

OTP BASED E-KYC ACCOUNT

- Consent and declaration to be obtained that no account has been opened and will be opened using OTP based KYC
- Aggregate balance of all the accounts of the customer should not exceed Rs 1,00,000
- Aggregate of all the credits in a FY should not Exceed Rs 2,00,000-
- For loan accounts **only term loan can be sanctioned** and the aggregate amount of term loans cannot exceed Rs 60,000
- **CDD** to be completed within 1 year failure to which the account shall be closed. In case of loan account further no debit is allowed.

Customer Due Diligence

- **Collect and verify the information & positively establish** the identity of the customer



- Understand the nature of the activities of the customer and satisfy regarding them to be legitimate.
 - **Basic Due Diligence**
 - **Simplified Due Diligence**
 - **Enhanced Due Diligence**
- **Screening of Customers:** It should be done by bank on ongoing basis
- There must be **periodic updating of the documents:**
 - 2 years in case of High-Risk Customer
 - 8 years in case of medium risk
 - 10 years in case of Low-Risk Customer
- **If KYC requirements are not completed**
 - Partial freezing (DEBIT) after initial notice of 3 months followed by 3-month notice
 - If not completed even after 6 months total freeze the account

The basic documentary requirements for various types of customer entities. Banks can ask for additional documents, if considered necessary.

FOR INDIVIDUALS

(i) Individuals Requiring CDD:

Documents to be obtained from an individual associated with the bank in any of the under mentioned capacities are listed here.

- A person entering in an account-based relationship,
- A beneficial owner of a legal entity customer
- An authorised signatory of a legal entity customer
- A power of attorney holder of a legal entity customer

(ii) Documents requirements:

- **Aadhaar Number**
- One recent photograph where an equivalent e-document is not submitted,
- Permanent Account Number or Form No. 60 as defined in Income-tax Rules, 1962, or its equivalent e-document, and
- Such other documents including in respect of the nature of business and financial status of the customer, or the equivalent e-documents thereof as may be required by the RE

(iii) Officially Valid Documents:

Following documents have been notified as OVDs for KYC purposes:

- I. Passport
- II. Driving Licence
- III. Proof of possession of Aadhaar number
- IV. Voter's Identity Card issued by the Election Commission of India
- V. Job card issued by NREGA duly signed by an officer of the State Government
- VI. Letter issued by the National Population Register (NPR) containing details of name and address.

(iv) Updated Address:

i) **Utility bill** which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill)

ii) **Property or Municipal tax receipt**

iii) Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address; and

For Sole Proprietary Firms

CDD of the individual (proprietor) shall be carried out and in addition, any two, of the following documents are to be obtained:

- i) Registration certificate
- ii) Certificate/licence issued by the municipal authorities under Shop and Establishment Act
- iii) Sales and income tax returns
- iv) Certificate/registration document issued by Sales Tax/ Service Tax/Professional Tax authorities
- v) Utility bills such as electricity, water, landline telephone bills, etc.

For Other Forms of Entities

A. Companies:

- Certificate of Incorporation
- Memorandum and Articles of Association
- Permanent Account Number of the company
- Particulars of the Beneficial Owners (where applicable),
- Resolution of the Board of Directors and Power of attorney granted to its managers, officers or employees to transact business on its behalf, and

B. Partnership Firms (Registered):

- Registration Certificate
- Partnership Deed
- Permanent Account Number of the partnership firm
- KYC Documents (as specified for individuals) of the Partners, the Beneficial Owners, and the persons holding power of attorney to transact on its behalf.

C. Trusts:

- Certificate of registration; Trust deed
- Permanent Account Number or Form No.60 of the Trust
- Documents (as specified for individuals) of the Beneficial Owners the person holding an attorney to transact on its behalf.

D. Unincorporated Association or Body of individuals:

- **Resolution of the managing body** of such association or body of individuals
- **Permanent Account Number** or Form No. 60 of the unincorporated association or a body of individuals
- **Power of attorney** granted to transact on its behalf
- **KYC Documents** (as specified for individuals) of the **Members of Managing Body, the Beneficial Owners, and the persons holding an attorney to transact on its behalf**

Simplified Due Diligence Requirements

(a) For Accounts of Self-Help Groups:

For Savings Bank account: CDD of all the office bearers shall suffice. CDD of all the members is not required.

For Credit Linking of SHGs: CDD of all the members to be undertaken.

(b) For Accounts of Foreign Students

a) To open NRO accounts for foreign students, based on:

- Passport (with visa & immigration endorsement) bearing the proof of identity and address in the home country,
- Photograph, and
- Letter offering admission from the educational institution in India.

b) To obtain **declaration about local address, within 30 days** of opening the account, and the address verified.

Basic Saving Bank Deposit Account

- No-frill account were replaced by BSBDA to provide minimum facilities at the advice of RBI
- **No requirement of minimum balance**
- **Deposit and withdrawals** of cash at branch, ATMs, remittance services and collection of cheques
- **No limit of deposit transactions**, debit transactions are limited to 4 transactions in a month (ATM transactions also included)
- ATM card facility
- Subject to KYC/ AML Guidelines, if the account is opened using simplified KYC guidelines, then the account would be treated a small account
- Holders of the account will not be eligible for opening any other saving bank account in that bank.
- Existing account is to be closed within a period of 30 days from Date of opening of BSBDA account

These are subject to following restrictions:

- the **aggregate of all credits** in a financial year not to exceed **1 lakh**
- the **aggregate of all withdrawals** and transfers in a month not to exceed **10,000/**
- the balance at any point of time **not to exceed 50,000/-**. (For deposits through Government grants, welfare benefits and payment against procurements, this limit will be ignored.
- Foreign remittance not to be credited

Periodic Updating

Periodic updating is required to be done **at least every two years for high-risk customers, at least every ten years for low risk and at least every eight years for medium risk customers.**

Digital KYC

(a) Pre-requisites for Digital KYC

- (i) To **develop an application** to be made available at customer touch points for digital KYC.
- (ii) Access only through **login-id and password** or Live OTP or Time OTP.
- (iii) To be carried out **at the location of the authorized official** or the customer.
- (iv) The customer must have **the original OVD in possession.**

(b) KYC Process with Customer

- (i) **Live photograph** of the customer should be embedded in the Application Form (CAF).
- (ii) The **background should be white** and no other person shall come into the frame.
- (iii) **No printed or video-graphed photograph**, must be captured.

(c) Post Capture of Photographs and Information

- The authorized officer shall verify that:
 - **Information in the picture of document** matches with that entered in CAF.



- **Live photograph of the customer** matches with the photo in the document.
- **All the necessary details in CAF** including mandatory field are filled properly.
- OTP message shall be sent to **customer's own mobile number** for him to verify details.



Anti-Money Laundering

Process of converting the illegal money into legal/ legitimate one.

Stages of Money Laundering:

- Placement
- Layering
- Integration

PMLA 2002

- To prevent the usage of banking system for money laundering
- To put in place the controls for detection and reporting of suspicious activities

Maintenance of records of Transactions

- Cash transactions of above Rs 10 lakh or its equivalent are to be reported
- Cash transactions where value of all these transactions within a month aggregating Rs 10 lakh even of these transactions or below Rs 10 lakh



- Cash transactions in forged or counterfeit currency notes or banknotes and forgery of a valuable security has taken



Preservation of records

Banks should maintain for at least five years from the date of cessation of transactions between the bank and the customer, all the necessary records



REPORTING OF FINANCIAL INTELLIGENCE UNIT

- Cash Transaction Report
- Counterfeit currency notes report
- Non-profit organisation Transaction Report
- Cross border wire Transaction Report
- Suspicious Transaction Report