

# OPERATIONAL ASPECTS OF KYC

## CH 2 Module A PPB By Ashish Sir


- **RBI directs KYC guidelines under Sec 35 A of BR Act**
- As per the recommendations of FATF standards on AML/CFT
- Applicable on all accounts and transactions
- Banks must possess a board approved KYC Policy to take care of the RBI guidelines and provisions of PMLR and PMLA
  - Customer Acceptance Policy
  - Risk Management
  - Customer Identification Procedure
  - Monitoring of Transactions

### Know Your Customer (KYC) Norms in Banking

KYC (Know Your Customer) is a mandatory process in banking where institutions verify the identity and address of their customers to prevent illegal activities like money laundering, fraud, and terrorism financing.

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## Objectives of KYC

1. **Prevent Financial Crimes:** To curb money laundering, fraud, and other illicit activities.
2. **Customer Identification:** To authenticate the identity and financial credibility of customers.
3. **Compliance with Regulations:** To align with laws like the **Prevention of Money Laundering Act (PMLA), 2002.**
4. **Secure Banking Environment:** To protect customers from unauthorized transactions or identity theft.

## Key Components of KYC

1. **Customer Identification Process (CIP):** Collect and verify the customer's identity and address through valid documents.
2. **Customer Due Diligence (CDD):** Assess customer risk and transaction patterns.
3. **Enhanced Due Diligence (EDD):** Conduct additional checks for high-risk customers or transactions.

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## **Documents Required for KYC**

### *For Individuals:*

#### **1. Proof of Identity (POI):**

- Aadhaar Card
- PAN Card
- Passport
- Voter ID
- Driving License

#### **2. Proof of Address (POA):**

- Aadhaar Card
- Utility Bills (electricity, gas, water)
- Bank Statements with a recent address

### *For Businesses:*

#### **1. Business Registration Certificate**

#### **2. PAN Card of the Entity**


#### **3. Memorandum and Articles of Association (for companies)**

#### **4. Authorized Signatory Identification**

#### **5. Proof of Business Address**

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## Types of KYC

1. **Full KYC:** Requires physical verification of documents and face-to-face interaction.
2. **e-KYC (Electronic KYC):** Done online using Aadhaar-based OTP verification.
3. **Video KYC:** A video-based customer verification method, introduced for faster onboarding.

## Steps in the KYC Process

1. **Collection of Documents:** Customer submits POI and POA documents.
2. **Verification:** Bank validates the documents and checks authenticity.
3. **Risk Assessment:** Customer risk profile is created based on transactions and documentation.
4. **Approval:** If all checks are successful, the account is approved.


## Impact of Non-Compliance

1. **Account Freezing:** Accounts without KYC may be frozen.

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2. **Regulatory Penalties:** Banks face fines for failing to comply with KYC norms.

3. **Fraud Risks:** Incomplete KYC increases exposure to fraud and financial crimes.

### Recent Updates in KYC Norms (Bank POV)

1. **Digital Push:** Adoption of e-KYC and Video KYC for quick and secure verification.

2. **Periodic Re-KYC:** Banks require customers to update KYC details periodically.

3. **Simplified KYC for Small Accounts:** Basic savings accounts can be opened with minimal KYC, but with transaction limits.

### Why KYC Matters for Banks?

1. **Compliance with Laws:** Ensures adherence to PMLA and RBI guidelines.

2. **Builds Trust:** Increases customer confidence in banking security.

3. **Risk Management:** Mitigates risks of fraud, identity theft, and money laundering.

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## **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

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- There must be **sufficient information** to establish the identity of customer
- **Ascertain the purpose** of the intended nature of the banking relationship.

### **OVDs – OFFICIALLY VALID DOCUMENTS**


**Valid for all customers:** Passport, DL, 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

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- 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.**

### **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

### **E-KYC – AADHAAR ENABLED VERIFICATION**

- Valid under PMLR 9 for KYC verification



- Information like age, name, gender, photograph electronically available
- Validated by biometrics

## **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.**

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- 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.

### **Key Guidelines for Preservation of Records**

- 1. Retention Period for Transaction Records:** Banks must maintain records of all financial transactions, both domestic and international, for a minimum period of **5 years** from the date of the transaction.
- 2. Retention of Customer Identification Records:** Banks must retain the customer identification records (KYC documents) and account files for a minimum of **5 years after the closure of the account** or the end of the customer relationship.
- 3. Suspicious Transaction Records:** Records of suspicious transactions (STRs) must be maintained for at least **5 years** from the date of reporting to the Financial Intelligence Unit (FIU-IND).
- 4. Preservation for Ongoing Investigations:** If a transaction or customer is under investigation, records must be preserved

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until the case is officially closed, even if it exceeds the 5-year retention period.

5. **Digital Preservation:** Banks are encouraged to maintain records in digital format for easy retrieval, particularly for large volumes of data.

### **REPORTING OF FINANCIAL INTELLIGENCE UNIT [FIU-IND]**

- Cash Transaction Report (CTR) – 15<sup>th</sup> of next month
- Counterfeit currency notes report (CCR)
- Non-profit organisation Transaction Report (NTR)
- Cross border wire Transaction Report (CBWR)
- Suspicious Transaction Report (STR) – in 7 days

### **VIOLATIONS UNDER PREVENTION OF MONEY LAUNDERING ACT**


On Path of **violations by the designated director or reporting entity** or any of its employees, these can be imposed with penalty **not be less than Rs 10,000 but may extend to Rs 1,00,000 for each failure.**

### **CENTRAL KYC RECORDS REGISTRY**

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The **Central KYC Records Registry (CKYCR)** is an initiative by the Government of India under the **Prevention of Money Laundering Act (PMLA), 2002**, to streamline and centralize the KYC process for customers across financial institutions.

## **PURPOSE OF CKYCR**

- 1. Single KYC Submission:** Customers need to complete the KYC process only once, and the details are stored in a centralized repository.
- 2. Simplified Access for Financial Institutions:** Banks, insurance companies, and other financial entities can access the customer's KYC information from the CKYCR.
- 3. Prevent Duplication:** Eliminates the need for multiple KYC submissions when dealing with various financial service providers.
- 4. Reduce Fraud:** Ensures accurate and verified customer identification, reducing identity theft and financial crimes.


## **Key Features of CKYCR**

- 1. Centralized Repository:** Stores KYC records for individuals and legal entities.

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- 2. Uniform KYC Process:** Standardizes the KYC norms across all financial institutions in India.
- 3. Unique Identifier:** Customers receive a **14-digit KYC Identifier Number (KIN)** after successful KYC submission.
- 4. Easy Updates:** Customers can update their KYC details once in CKYCR, which will be accessible to all authorized entities.

### How CKYCR Works

- 1. KYC Submission:** The customer submits their KYC documents to a financial institution (bank, NBFC, mutual fund, etc.).
- 2. Uploading to CKYCR:** The financial institution verifies the documents and uploads the details to CKYCR.
- 3. KYC Identifier Number (KIN):** CKYCR generates a 14-digit KIN, which the customer can share with other financial entities for future transactions.
- 4. Access by Financial Institutions:** Authorized entities can access the KYC details using the KIN, avoiding the need for repetitive KYC checks.

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## Documents Required for CKYCR

### 1. Proof of Identity (POI):

- Aadhaar Card
- PAN Card
- Passport
- Driving License

### 2. Proof of Address (POA):

- Aadhaar Card
- Utility Bills (electricity, water, gas)
- Bank Statements

### 3. Photograph:

- A recent passport-sized photograph.


## Advantages of CKYCR

- 1. Time-Saving for Customers:** One-time submission simplifies the process for opening accounts or availing financial services.
- 2. Cost-Efficient for Institutions:** Reduces duplication of efforts and storage costs for financial institutions.
- 3. Fraud Prevention:** A centralized database minimizes the risk of fraudulent identities.

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**4. Compliance with Regulations:** Ensures adherence to the PMLA guidelines and other RBI-mandated norms.

### Challenges in CKYCR

- 1. Data Security:** Ensuring the protection of sensitive customer data in the centralized repository.
- 2. Integration Issues:** Some smaller financial institutions may face technical challenges in integrating with CKYCR.
- 3. Periodic Updates:** Ensuring customer data is updated regularly for accuracy.

### Role of CKYCR in Financial Ecosystem

- 1. Streamlined Onboarding:** Speeds up the customer onboarding process for banks and financial institutions.
- 2. Supports Financial Inclusion:** Makes it easier for individuals, especially in rural areas, to access financial services.
- 3. Improved Compliance:** Strengthens the anti-money laundering framework by maintaining accurate KYC records.

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## **ANOTHER IMPORTANT ACCOUNT TYPES**

### **SMALL ACCOUNTS**

- where customer is **Low risk Customer** unable to provide OVD, small deposit account be opened subject to:
  - aggregate of total credits in FY not to exceed Rs 1,00,000-
  - aggregate of withdrawals in a month not to exceed Rs 10,000-
  - balance at any point is not above Rs 50,000
- to provide a self-attested photograph affixed with signatures or thumb impression
- **to be opened only where branches are CBS linked**
- A/c is operational for first 12 months, after the 12 months if the customer produces the receipt of applying for OVD, 12 months more period be provided. Means next review after 24 months in total.

### **FOREIGN STUDENT ACCOUNT**


**NRO Account** can be permitted.

**Documents:**



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- a. Passport (visa & immigration endorsement) bearing proof of identity and address in home country.
- b. Photograph
- c. Letter of offering admission from the educational institute in INDIA.
- d. **Local Address:** Undertaking to be obtained in 30 days
- e. **Students with Pakistani and Bangladeshi Nationality will require the RBI permissions prior opening the accounts**
- f. During first 30 days/ pending address verification – foreign inward remittance not to exceed USD 1000 and max withdrawal of Rs 50000.

### **OTP BASED EKYC 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-

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- 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**

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- 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

### **BASIC SAVING BANK DEPOSIT ACCOUNT [BSBDA]**

- **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 to 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

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