

🔍 Topical Issues Related to KYC/AML

KYC/AML Chapter 5 Module B

🏠 5.1 KYC/AML/CFT Interconnectedness

📌 Overview:

✓ Money Laundering (ML) and Terrorism Financing (TF) have **distinct purposes** but are increasingly interconnected.

✓ Common Factors:

- Both ML and TF rely on **corporate or NGO structures** for concealment.
- **Crime money** is increasingly invested in **legitimate businesses** through benami transactions.
- **Terrorist organizations operate structured setups**, using illicit funds disguised as **donations or investments**.
- **Terrorism financing** is primarily for **sustaining operations & support mobilization**.

✓ Mitigation Measures:

- The **primary control** is verifying the **genuineness of the customer & their activities**.

- **Customer identity verification & due diligence** are the foundation of AML/CFT compliance.
- **Ongoing transaction monitoring** enables banks to detect and report **suspicious transactions** to FIU-India.
- **Global FIU information sharing** enhances detection of **international ML & TF activities**.

💰 **5.2 Organised Financial Crimes**

📌 **Overview:**

✓ **Organized financial crimes** have been increasing, causing massive **financial losses** and **eroding public confidence**.

✓ These schemes **exploit the banking system** to collect & launder funds before siphoning them.

✓ **Types of Financial Crimes:**

- **Ponzi Schemes** (high returns, unsustainable business models)
- **Fraudulent Investment Schemes** (real estate, plantations, emu farms, etc.)
- **MLM & Collective Investment Schemes** (misusing banking systems for fund collection)

✓ Banks' Role:

- Banks must **detect & prevent misuse of accounts** for such schemes.
- **RBI guidelines** hold banks responsible if they facilitate such fraudulent activities.

✦ Case Studies on Financial Crimes

Plantation Schemes (1990s)

✓ Golden Forest (GFIL) (Chandigarh-based)

- Raised ₹3,000 crore from investors between **1987–1997**.
- Paid out only ₹400 crore, **misappropriating the rest** for personal gains. ✓ **Golden Trees Plantation Ltd. (Gujarat)**
- Promised ₹80,000 for a ₹500 investment over **15 years**.
- Paid only ₹1,100 instead of the promised amount.

EMU Farm Scheme (2006)

✓ Susi Emu Farm (Tamil Nadu)

- Promised ₹3.34 lakh return on a **₹5 lakh investment** in **emu farming**.
- **False claims** of exporting emu products.
- Operators **absconded** after siphoning **₹300-₹500 crore**.

Real Estate/Ponzi Schemes

✓ PACL (Pearls Agrotech Corporation)

- Collected ₹49,100 crore from 5 lakh investors.
- SEBI ordered refund after fraudulent land investment promises.

✓ SpeakAsia (Survey Scam)

- Collected funds in exchange for participation in surveys.
- Promised double returns within six months.
- Funds moved to Singapore, where the parent company was based.

Banks' Responsibilities Against Financial Crimes

✦ How Banks Must Respond:

✓ Enhanced Due Diligence (EDD) on customers engaging in high-risk transactions.

✓ Monitor accounts for signs of MLM, Ponzi, or fraudulent schemes.




✓ Exit relationships with customers involved in unauthorized collective investment schemes.

✓ Report suspicious activities immediately to FIU-India.

✓ RBI Compliance Advisory:

- Banks will be held liable if their accounts are used for fraudulent schemes.
- RBI mandates preventive measures to protect public funds & maintain financial integrity.

 Summary Table: Financial Crimes & Banking Responsibilities

 Type of Financial Crime	 Key Characteristics	 Banking Actions
Ponzi Schemes	High returns, unsustainable payouts	Monitor large deposits & sudden withdrawals
Real Estate Scams	False investment promises, high fraud risks	Validate property deals linked to customer transactions
MLM & Collective Investment Schemes	Pyramid-based fraud, quick-rich schemes	Monitor account usage for bulk transactions

Investment Scams	Promises of unrealistic returns, overseas fund transfers	Report accounts linked to fraud complaints
Fraudulent Donations	Fake NGOs funding illegal activities	Verify legitimacy of NGO transactions

5.3 Triad of Organised Criminals

Overview:

✓ The rise of **organised criminal groups (OCGs)** and **terrorist organisations (TOs)** has led to greater **interconnectedness** in money laundering (ML) and terrorism financing (TF).

✓ Key Trends:

- Criminal groups are a **major source of funds** for terrorist organisations.
- **Fintech advancements** have **accelerated fund movements**, making detection harder.
- **Professional Money Launderers (PMLs)** operate independently of criminals and terrorists, providing financial structuring expertise.

- **Legitimate businesses are increasingly infiltrated**, making detection of illicit transactions more complex.

✓ **Impact:**

- The **financial system is misused** for disguised transactions.
- AML/CFT measures must continuously **evolve to counter new threats**.

 **5.4 Common KYC for Financial Sector**

 **Challenges in KYC/AML Compliance:**

✓ Customers face **repeated KYC requirements** across multiple financial institutions.

✓ **Regulatory variations** exist across different financial sector entities.

✓ The **Financial Stability and Development Council (FSDC)** recommended a **common KYC system** to ease the burden and improve compliance.

✓ **Solution:** The establishment of a **Central KYC Records Registry (CKYCR)** under PML Rules.

5.4.1 Central KYC Records Registry (CKYCR)

Definition:

✓ CERSAI (Central Registry of Securitisation, Asset Reconstruction and Security Interest of India) acts as the Central KYC Records Registry (CKYCR).

✓ CKYCR ensures **standardized KYC procedures** across the **entire financial sector**.

5.4.2 Functions of CKYCR

✓ **Receive, store, safeguard, and retrieve** KYC records submitted by banks & financial institutions.

✓ **Ensure data security & inter-usability** across the financial sector.



✓ **Enable online access** to verified KYC data for reporting entities & FIU-India.

5.4.3 Key Operational Aspects

✓ **Reporting Entities (REs)** must **submit KYC records to CKYCR** within **three days** of account opening.

- ✓ REs must **retain a physical copy** of customer identity documents.
- ✓ **CKYCR assigns a unique KYC Identifier** for each customer.
- ✓ REs must **communicate the KYC Identifier to the customer**.
- ✓ When a customer provides a **KYC Identifier**, the RE can **retrieve KYC records online**.
- ✓ REs may **request additional KYC information** if:
 - The **client's details have changed**.
 - The **current address requires verification**.
 - **Enhanced Due Diligence (EDD) is required** for risk profiling.
- ✓ REs must **update customer KYC data** in CKYCR when necessary.
- ✓ CKYCR **notifies all linked REs** about KYC updates.
- ✓ REs **cannot share KYC records** with third parties unless **authorized by the customer, regulator, or FIU**.

5.4.4 Benefits of CKYCR System

 Benefit	 Impact
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Eliminates redundant KYC submissions	Customers do not need to submit KYC repeatedly to different institutions.
One-time KYC updates	Customers only need to update KYC once instead of at multiple institutions.
Efficiency in compliance	Saves time and effort for financial institutions in maintaining KYC records.
Uniformity of KYC data	Reduces the risk of misrepresentation or fraud across the financial sector.
Detection of multiple identities	Helps identify individuals/entities attempting to open multiple accounts fraudulently.

5.5 Regulatory Coordination for AML/CFT/KYC

Need for Coordination:

- ✓ PMLA and PML Rules **apply to all financial sector entities**, but regulatory guidelines vary.
- ✓ **Unified AML/CFT measures** improve detection and enforcement.
- ✓ **Operationalizing CKYCR** enhances **KYC uniformity** across financial institutions.

✓ CKYCR can serve as a **Unique Customer Identification Code (UCIC)** across banks and financial institutions.




✓ **Regulatory Collaboration:**

- **RBI & SEBI** have **jointly streamlined KYC for Foreign Institutional Investors (FIIs)**.
- FIIs need to **submit KYC details only once** to a **custodian**, which shares data with banks.

✓ **Information Sharing Among Regulators:**

- Cross-sector **red flag indicators** enhance **suspicious transaction detection**.
- Linking **bank transactions with insurance/mutual fund activity** improves fraud identification.

 **Summary Table: AML/CFT Compliance Measures**

 Key Area	 Action Item	 Impact
Organised Financial Crimes	Monitor professional money launderers & fintech misuse	Prevents hidden ML/TF transactions
Common KYC System	Implement CKYCR across financial institutions	Reduces duplicate KYC efforts & enhances efficiency

CKYCR Data Management	Maintain central KYC records with unique identifier	Streamlines compliance & prevents fraud
Regulatory Coordination	Standardize AML/CFT guidelines across financial regulators	Improves global information sharing & compliance
FII KYC Standardization	RBI & SEBI harmonizing KYC for foreign investors	Reduces redundancy & enhances risk management