

## Know Your Customer (KYC) norms

### Who is a Customer in KYC Context?

Account and/or business relationship with the Bank. One on whose behalf the account is maintained (i.e., the beneficial owner) Beneficiaries of transactions conducted by Professionals Intermediaries.

Persons / Entity connected with any financial transactions which can pose risk to Bank say a wire transfer/issue of high value DD etc.

**"Know Your Customer (KYC)"** is the basic principle whereby depositors can be identified. On the basis of above, system and procedures are put in place which help **to prevent misuse of banking system** for money laundering and perpetration of frauds.

Based on RBI guidelines, "know your customer" guidelines incorporate the following four elements:

1. **Customer Acceptance Policy**
2. **Customer Identification Policy**
3. **Monitoring of Transactions**
4. **Risk Management**

#### 1. CUSTOMER ACCEPTANCE POLICY

While accepting a customer following **precautions** should be taken:

- No account to be opened in **fictitious name**
- No account to be opened where **identity cannot be verified**/required documents not made available by customer.
- **Circumstances must be clearly spelt** out where an account is operated by a mandate holder.
- **Necessary checks to be made to ascertain** that identify of customer does not match with any person with criminal background.

**Bank may refuse the request to open an account where:**

- **Identify** cannot be verified
- Bank cannot obtain **required documents** due to non-cooperation of customer.
- An individual/ company who is **reluctant to reveal** details about its activities or to provide financial statements

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### 2. CUSTOMER IDENTIFICATION POLICY

Normally a **meeting between bank official and customer** should take place before opening the account.

- **PAN/GIR No.** Of the customer must be quoted in the account opening form or alternatively **Form No. 60 or Form No. 61** may be received.
- The form should be checked and opening of new accounts should be authorised only by Branch Manager/Officer-in-charge

**Features to be verified and documents that may be obtained from customers**

<b>FEATURES</b>	<b>DOCUMENTS TO BE OBTAINED</b>
<p><b><u>Accounts of individuals</u></b></p> <p><b><u>IDENTITY</u></b></p> <p><b>Legal name and any other names used</b></p>	<ul style="list-style-type: none"><li>(i) Passport</li><li>(ii) PAN Card</li><li>(iii) Voter's Identify Card</li><li>(iv) Driving License</li><li>(v) Id-Card issued by MNREGA</li><li>(vi) Identity Card issued by the Employer (subject to the banks satisfaction)</li><li>(vii) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank. [Central/State Govt.]</li></ul>
<p><b><u>ADDRESS:</u></b></p> <p>Correct permanent address</p>	<ul style="list-style-type: none"><li>(i) Telephone bill</li><li>(ii) Bank A/c statement</li><li>(iii) Letter from any recognized public authority</li><li>(iv) Electricity bill</li><li>(v) Ration Card</li><li>(vi) Letter from employer (subject to satisfaction of the bank)</li></ul> <p>(any one document which provides customers information to the satisfaction of the bank will suffice)</p>

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<b><u>FEATURES</u></b>	<b>DOCUMENTS TO BE OBTAINED</b>
<p><b><u>Accounts of companies</u></b></p> <p><b>Name</b> of the company  <b>Principal place</b> of business  <b>Mailing address</b> of the company  <b>Telephone/Fax number</b></p>	<p>(i) <b>Certificate of incorporation</b> and  (ii) Memorandum &amp; Articles of Association, (in case of doubt, a search should be made at the concerned office of the Registrar)  (iii) <b>Resolution of the Board</b> of directors to open an account and identification of those who have authority to operate the account.  (iv) <b>Power of Attorney</b> granted to its managers, officers or employees to transact business on its behalf.</p>
<p><b><u>Accounts of Proprietary firms</u></b></p> <p>1. Legal name,  2. Address,  3. Name of the proprietor and his address  4. Telephone numbers of  5. the firm and proprietor</p>	<p>i) Proof of the <b>Name, Address and Activity</b> of the concern, like  ii) <b>Registration certificate</b> (in the case of a registered concern),  iii) <b>Certificate/license</b> issued by the Municipal authorities under Shop &amp; Establishment Act,  iv) <b>Sales and income tax returns</b>,  v) <b>CST/VAT certificate</b>,  vi) <b>Certificate/registration</b> document issued by Sales Tax/Service Tax/Professional Tax authorities,  vii) <b>License issued</b> by the Registering authority like  <b>Certificate of Practice</b> issued by</p> <ol style="list-style-type: none"> <li>1. Institute of Chartered Accountants of India,</li> <li>2. Institute of Cost Accountants of India,</li> <li>3. Institute of Company Secretaries of India,</li> <li>4. Indian Medical Council,</li> <li>5. Food and Drug Control Authorities, etc.</li> </ol> <p><b><u>Any two of the above documents would suffice.</u></b>  These documents <b>should be</b> in the name of the Proprietary concern.</p>
<p><b><u>Accounts of Partnership firms</u></b></p> <p>➤ Legal name,  ➤ Address,  ➤ Names of all partners  ➤ and their address  Telephone numbers of the firm and partners</p>	<p>(i) <b>Registration certificate</b>,  (ii) <b>Partnership Deed</b>  (iii) <b>Power of Attorney</b> granted to a partner or an employee of the firm to transact business on its behalf  (iv) Any <b>officially valid document identifying</b> the partners and the person holding the Power of Attorney and their addresses  (v) <b>Telephone bill</b> in the name of firm/partners.</p>

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FEATURES	DOCUMENTS TO BE OBTAINED
<b>Accounts of trusts &amp; foundations</b> ➤ Name of trustees, ➤ Settlers, ➤ Beneficiaries and Signatories ➤ Names and address of the founder, the managers / Directors and the beneficiaries ➤ Telephone/ Fax numbers	(i) <b>Certificate of registration</b> (ii) <b>Power of Attorney</b> granted to transact business on its behalf (iii) Any <b>officially valid document</b> to identify a. the trustees, b. settlers, c. beneficiaries and d. those holding Power of Attorney, founders/managers/directors and their addresses. (iv) <b>Resolution</b> of the managing body of the Foundation/association. (v) <b>Telephone bill</b>

### Officially Valid Documents [OVDs]:

“Officially valid document” means the Passport, the Driving License, the Permanent Account Number (PAN) Card, the Voter’s Identity Card issued by Election Commission of India, Job Card issued by MNREGA duly signed by an officer of the State Government, the letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhaar number or any document as notified by the Central Government in consultation with the regulator.

After acceptance of customer, customer Risk Profile will be prepared taking following points into consideration:

- Identify of customer
- Social/Financial Status
- Nature of business activity
- Location of business
- Volume of turnover
- Sources of Funds

All customers will be classified into 3 risk levels:

#### **Level - I (low risk) customers**

Customer whose identity and sources of fund are easily identifiable.

#### **Examples of Low Risk customers may include:**

Salaried employees whose salary structures are well defined, Businessmen/Traders whose activities are well defined and transactions in the accounts commensurate with the business transactions, People belonging to lower economic strata of society

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and whose accounts show small balances and low turnover. Govt Departments & Govt owned Companies regulators and statutory bodies.

### **Level - II (medium risk) customers**

Customers whose sources of funds are not clear and transactions exceed sources of funds.

### **Level - III (high risk) customers**

Customers who perceive a higher than average risk. Illustrative Examples of High Risk customers may include:

Those who are engaged in certain professions like Antique Dealers, dealers in arms etc, Non-Resident customers. High Net Worth individuals. Firms with sleeping partners. Politically Exposed persons of foreign origin. Non face to face customers. Funds coming from those countries which are known for money laundering. Trust, Charities, NGOs, and Organizations receiving donations. Companies having close family shareholding or beneficial ownership.

Periodical review of risk categorization of accounts should be carried out at a periodicity of not less than once in six months. Periodical updating of customer identification data (including photograph) should not be less than once in five years in case of low risk category customers and not less than once in two years in case of high and medium risk categories.

### **Opening of Small Accounts:**

#### **A. Small Accounts:**

a) In terms of Rule 2 clause (fb) of the Notification 'small account' means a savings account in a banking company where:

- (i) the aggregate of all credits in a financial year does not exceed rupees one lakh
- (ii) the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand and
- (iii) the balance at any point of time does not exceed rupees fifty thousand.

A '**small account**' may be opened on the basis of a self-attested photograph and affixation of signature or thumb print. Such accounts may be opened and operated subject to the following conditions

- i) the designated officer of the banking company, while opening the small account, certifies under his signature that the person opening the account has affixed his signature or thumb print, as the case may be, in his presence.

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ii) a small account shall be opened only at Core Banking Solution linked banking company branches or in a branch where it is possible to manually monitor and ensure that foreign remittances are not credited to a small account and that the stipulated limits on monthly and annual aggregate of transactions and balance in such accounts are not breached, before a transaction is allowed to take place.

iii) a small account shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence before the banking company of having applied for any of the officially valid documents, viz. **MNREGA job card or Aadhaar letter**, as complete KYC document within twelve months of the opening of the said account, with the entire relaxation provisions to be reviewed in respect of the said account after twenty four months.

iv) a small account shall be monitored and when there is suspicion of money laundering or financing of terrorism or other high risk scenarios, the identity of client shall be established through the production of officially valid documents.

v) foreign remittance shall not be allowed to be credited into a small account unless the identity of the client is fully established through the production of officially valid documents

### Risk Management

#### **Duties / Responsibilities:**

Staff /Officer/Branch Manager vested with the authority to open new accounts.	<ul style="list-style-type: none"><li>• To interview the potential customers intending to open account. To verify the introductory reference/customer profile.</li><li>• To arrive at threshold limit for each account and to exercise due diligence in identifying suspicious transactions.</li><li>• To ensure against opening of account in the names of terrorist/banned organizations.</li><li>• To adhere with the provisions of Foreign Contribution Regulation Act, 1976.</li><li>• To comply with the guidelines issued by the Bank from time to time in respect of opening and conduct of account.</li></ul>
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#### **Preservation and Reporting of Customer Account information:**

Maintenance and preservation of account information should be done in a manner that the data could be retrieved easily and quickly whenever required or when requested by the competent authorities.

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All necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved, if any) should be maintained for **at least ten years from the date of transaction** between the bank and the client so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity

### BANKER CUSTOMER RELATIONSHIP

- The Customer is **not defined in any Act**. The term customer has been defined in the KYC guidelines issued by RBI.
- As per **Indian Contract Act** in case of **safe custody**, the relationship between the **bank and customer** is that of **a Bailee and Bailor**.
- In case of **safe deposit locker**, the relationship between the bank and customer is that of **Lessor and Lessee**.
- **Maintaining secrecy** of the account is per the provision of implied contract under **Indian Contract Act**.
- The In charge of the police station is **empowered to ask** for information or copy of any document and bank are bound to comply with the same as provided in **Sec 102 of Criminal Procedure Code 1973**.
- Income Tax **Attachment order** are issued under **Sec 226 of IT Act.1961**
- Income Tax Attachment order attaches **credit balance** in the account which are held in the same capacity in which the order is issued.
- A fixed deposit a/c yet to mature **can also be attached** by Income Tax Attachment order.
- If the IT attachment order is issued in the name of "A" but account is in the name of "A & B", 50% of the balance can be attached (**attachment on pro rata basis**).
- The IT attachment order can also attaches credit / deposit received **after the receipt of the order**.
- IT attachment order **can attach** the amount in the **deceased depositor**.
- Garnishee Order is issued under the **Rule 60 of the Code of Civil Procedure 1908**.
- **In Garnishee Order extend** to those account only which are held in the same capacity.
- It **cannot attach** the account of an individual having **account in joint name** with other person (different than IT attachment order).
- A fixed deposit a/c yet to mature **can be attached** by Garnishee Order.
- Garnishee Order **cannot attach** the amount in the **deceased depositor** (different than IT attachment order).
- Garnishee Order **cannot attach** credit / deposit received after the receipt of the order (different from IT attachment order).