

KYC- Know your Customer-Policy and procedure:

1 Customer identification, requirements-indicative-guidelines:

There exists the possibility that trust/nominees or fiduciary accounts can be used to circumvent the customer identification procedures. Bank/Branches should determine whether the customer is acting on behalf of another person as trustee or guarantor through other intermediary. If so, banks should insist on receipt of satisfactory evidence of the identity of the intermediary persons on whose behalf they are acting, and also obtain details of the nature of the trust, banks should take reasonable precautions to verify the identity of the trustees and of the trust, including any person settling assets into the trust, grantors protectors, beneficiaries and signatories, should be identified when they are defined. In the case of a "foundation" steps should be taken to verify managers/directors and the beneficiaries, if defined.

2 Accounts of companies and firms: Banks/Branches should be vigilant against business entities being used by individuals as a front for maintaining accounts. Banks/ Branches should examine the control structure of the entity. Determine the source of fund and identify the natural who have a controlling interest and who comprise the Management. These requirements should be moderated according to the perception e.g. in the case of public company it will not be necessary to identify all the share holders.

3 Client accounts opened by professional intermediaries: When the Bank has knowledge or reason to believe that the client accounts opened by a professional intermediary of a single client, that client must be identified. Banks also maintain pooled accounts managed by lawyers/accountants or stockbrokers for funds held on deposit or escrow for a range of clients. Where funds of intermediaries are not so mingled at the bank and there are sub accounts each of them attributable to a beneficiary the beneficial owners must be identified. Where such funds are Co-Mingled at the Bank, the bank should still look for the beneficial owners. Where the banks rely

on the customer due diligence done by an intermediary, satisfy themselves that the intermediary is regulated and supervised and has adequate systems in place to control KYC requirements. It should be well understood that the ultimate responsibility of knowing the customer lies with the bankers.

- 4 Accounts of politically exposed persons (PEPs) residing outside India: Politically exposed persons are individuals who are or have been entrusted with prominent public functions, for the country, e.g. Head of states of governments, senior politicians, senior government /Judicial / Military Officers/ Executives of state owned corporations, important political party official etc. Banks should gather sufficient information about any person of this category intending to establish a relationship and check all the information available about the person in the public domain.
- 5 Banks/ Branches should verify the identity of the person and seek information about the source before accepting the PEP as a customer. The decision to open an account for PEP should be taken at a senior level and should be clearly spelt out in customer acceptance policy. Banks/ Branches should also subject such accounts to enhance CDD on an ongoing basis. The aforesaid norms should also be applied to the accounts of the family members or close relatives of the PEP
- 6 Accounts of Non Face to face customers: With the introduction of telephone and electronic banking increasingly, accounts are being opened by banks for customers without the need for the customers to visit the bank/ branch. In the cases of non face to face customer's identification procedures, there must be specific and adequate procedures to mitigate the higher certification of all documents presented should be insisted upon and, if necessary, additional documents should be asked for. In such cases, banks should also require the first payment to be effected through the customer's accounts. In the case of cross border customers, there is additional need of matching the customer with documentation and the bank may have to rely on third party certification/ introduction. In such



cases it should be ensured that third party is a regulated and supervised entity and had adequate KYC system in Place.

- 7 Correspondent Banking: Correspondent banking is the provision of banking services by one bank (the correspondent bank) to another (the respondent bank). These services may include cash/ funds management, drawing arrangements for demand drafts, transfers, payable through accounts cheques, clearing etc.

I. Banks/ Branches gather sufficient information to understand nature of business of the correspondent/ respondent bank. Information on the other banks management activities, level of AML/CFT compliance purpose of opening of the account, identity of any third party entities that correspondent banking services, and regulatory supervisory framework in the correspondents / respondents counters special, relevance.

a. Similarly, banks should try to ascertain from publicly available information whether the other banks / branches is subject to any money laundering or terrorist financing investigation or regulatory action.

b. Banks /Branches should not establish any relationships, without the approval of the board/chairman/Administrator.

I. If you are acting as a correspondent bank: before effecting payments be satisfied and ensure that the respondent bank has verified the identity of the customers before access to the accounts and is undertaking due diligence on them. Also ensure that the respondent bank is able to provide the relevant customer identification data immediately on request.

II. You should refuse to enter into a correspondent relationship with a "Shell Bank": i.e. A bank which has been incorporated in a country where it has no physical presence and is unaffiliated to any regulated

financial group. Shell banks are not to operate in India.

III.

Don't establish relationship with respondent foreign financial institutions-that permit their accounts to be used by shell banks.

IV.

Exercise utmost caution while continuing relationship with respondent banks located in countries identified as non cooperative against money laundering and terrorist financing.

- 8 Ensure that respondent banks have money laundering policies and procedures in place and apply enhanced "Due Diligence" procedures for transactions through the correspondent accounts.



ANNEXURE II

Customer identification procedures:

Features that should be verified and documents that should be obtained from customers.

S.No.	Features	Documents
1	Accounts of Individuals	
A	Legal name and any other names used	(I) Passport (II) Pan-Card (III) Voters identity card (IV) Driving License (V) Identity Card (VI) Letter from recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of the bank/ branch. (VII) Telephone Bill. (VIII) Water Bill (IX) Electricity Bill (X) Bank Account Statement (XI) Ration Card (XII) Property document (XIII) Letter from employer (subject to satisfaction of the bank)
B	Correct permanent address	Any one document that provides customer information to the satisfaction of the bank will suffice.
2	Accounts of companies a. Name of Company b. Principal place of business.	1. Certification of incorporation and memorandum and articles of association. 2. Resolution of the Board of Directors open an account and identification of



	<p>c. Mailing address of the company.</p> <p>d. Telephone and FAX</p>	<p>Those who have authority to operate the accounts.</p> <p>3. Power of attorney granted to its managers /officers or employees to transact business on its behalf.</p> <p>4. Copy of PAN allotment letter.</p> <p>5. Copy of the telephone Bill in the name of firm/ Partners.</p>
4	<p>Accounts of Partnership Firms</p> <p>A. Legal Name</p> <p>B. Address</p> <p>C. Names of all partners and their addresses.</p> <p>D. Telephone no of the firm and partners.</p>	<p>a. Registration certificate, if registered.</p> <p>b. Partnership deed.</p> <p>c. Power of attorney granted to a partner/ employee of the firm to transact business on its behalf.</p> <p>d. Any valid document identifying the partners and the persons holding the power of attorney and their address.</p> <p>e. Telephone Bill in the name of firm/ partners</p>
5	<p>Accounts of foundations / trusts and associations</p> <p>a. Name of trustee, settlers beneficiaries and signatories.</p> <p>b. Names and address of the founder, the managers/ directors and beneficiaries.</p> <p>c. Telephone / FAX</p>	<p>a. Certificate of registration, if registered</p> <p>b. Power of attorney to transact business or its behalf.</p> <p>c. Any officially valid documents specifying the trustees settlers, beneficiaries and those holding power of attorney granted to founders/managers/directors and their addresses.</p> <p>d. Resolution of the Managing Body of the Foundations /Trusts / associations.</p> <p>e. Telephone Bills.</p>



Action to be taken by bank management at Head Office level:

1. Banks should appoint a senior Management officer to be designated as Principal Officer, Principal Officer should be placed at Head/ Corporate office of the bank and should be responsible for monitoring and reporting of all transactions and information as required under the law. He will maintain close liaison with enforcement agencies, banks and other institutions which are involved in the fight against money laundering and combating financing of terrorism.
2. Board of directors of the bank should ensure that an effective KYC programmed is put in place by appropriate procedures and ensuring their effective implementation. It should cover proper management oversight and controls, segregation of duties, training and other related matters. Responsibilities should be explicitly allocated by the bank for ensuring that the banks policies and procedures are implemented effectively. Banks in consultation with boards should devise procedures for creating risk profiles of their existing and new customers and apply various money laundering measures keeping in view the risk involved in a transaction, accounts or banking / business relationship.

Internal Audit : Bank Management should ensure that their audit cell is staffed adequately with individuals who are well-versed in such policies and procedures because banks internal audit and compliance functions have an important role in evaluating and ensuring adherence to policies and procedures. As a general rule, the compliance function should provide an independent evaluation of bank's own policies and procedures, including legal and regulatory requirements. Concurrent/ Internal Auditors should specifically check and verify the application of KYC procedures at the branches and comments on the lapses observed in this regard.




The compliance in this regard should be put up before the Audit Committee of Board on quarterly interval.

Training of Bank staff: Bank's Management at head office level should ensure that there is an ongoing employee-training programmed so that the members of staff are adequately trained in regard to procedures. Training requirements should have different focuses for frontline staff, compliance staff and staff dealing with customers, since implementation of policy and procedures is a crucial matter, Management should ensure that all concerned should fully understand the rationale behind the KYC policy and procedures and improve upon themselves consistently.

The implementation of KYC policy and procedures requires banks to demand certain information from customers which is of personal or which has hitherto never been called for. This can sometime lead to a lot of questioning by the Branch Staff which can create a lot of doubt and suspicion in the minds of the customers towards the motive and purpose of collecting such information. The front desk staff should be specially trained to handle such situations while dealing with customers.

Customer Education: In regard to implementation of policies and procedures of the KYC a lot of questions/ queries and information are to be given by the Customer to the bank staff which may lead to a lot of confusion / doubt at the customer's level. In order to avoid such confusion/ doubts etc. customers have to be educated regarding the KYC policies and procedures. For this purpose bank management should prepare and supply branches with special pamphlets/folders/Handbills etc.

Correspondent Banking: Correspondent banking is the provision of banking services by one bank (the "Correspondent Bank") to another (Respondent Bank) these service may include cash/ funds management, drawing arrangements for demands drafts transfers payable through accounts, cheques clearing etc. For this a relationship is to be established between two aforesaid banks, i.e. the


KYC RES.

correspondent bank and the respondent bank which should be established with the approval of the board in case the Board Wishes to delegate the power to an administrative authority, it may delegate the power to a committee headed by the Chairman/ Administrator of the bank, while laying down clear parameters for approving such relationships. Proposals approved by the committee should invariably be put up to the board at its next meeting for "Post Facto Approval".

Further resolved that all the provisions of "Know your customer's policy" Anti Money Laundering Act 2002, as and when revised by the RBI will automatically become part of the aforesaid policy, when circulated for implementation.


Managing Director


Administrator
Reserve Bank of India