

Know Your Customer (KYC)

KYC is an acronym for “Know your Customer”, a term used for customer identification process. The objective of the KYC guidelines is to prevent banks being used, intentionally or unintentionally by criminal elements for money laundering.

The main purpose of KYC norms was to check money laundering and terrorist financing when it was introduced in late the 1990s in the United States. The US government turned very strict after 9/11 and all regulations were finalised before 2002 for KYC.

The US has made changes in its major legislations i.e. USA Patriot Act of 2001, Bank Secrecy Act etc. to make KYC norms really effective mainly for the banking sector.

Taking a leaf out of the US book, the Reserve Bank of India too directed all banks to implement KYC guidelines for all new accounts in the second half of 2002. In 2004, RBI directed that all banks ensure that they are fully compliant with the KYC provisions before December 31, 2005. It is a regulatory and legal requirement.

KYC refers to due diligence activities that financial institutions must perform to ascertain relevant information from their clients for the purpose of doing business with them. It involves making reasonable efforts to determine true identity and beneficial ownership of accounts, source of funds, the nature of customer’s business, reasonableness of operations in the account in relation to the customer’s business, etc which in turn helps the banks to manage their risks prudently. (# due diligence: it relates to compliance and risk assessment, it means that you did your best to investigate who a person or company was, and what risks were involved in doing a transaction with this entity.)

For the purpose of KYC policy, a ‘Customer’ is defined as :

- A person or entity that maintains an account and/or has a business relationship with the bank;
- One on whose behalf the account is maintained (i.e. the beneficial owner);
- Beneficiaries of transactions conducted by professional intermediaries as permitted under the law;
- Any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank.

Essential elements of any KYC solution:

- **Customer Acceptance Policy** –Must be clear, with explicit criteria. Perform due diligence with background checks to ensure that customer/entity is using their real name and not involved in terrorism or other illegal activities.
- **Customer Identification Procedures**—Must be clearly outlined for and performed at every stage of the banking relationship: establishing an account, carrying out a transaction, resolving doubts about the authenticity of previously obtained identification, etc.
- **Monitoring of Transactions**—Effective KYC procedures require continuous monitoring of your customer base and its normal behavior to reduce risk. High-risk accounts

(classified based on country of origin, fund sources, etc.) or activities should undergo extra scrutiny.

- **Risk Management**—should establish internal audit and compliance functions to ensure adherence with KYC guidelines; this includes establishing a company-wide training program regarding policies and procedures. Accounts should be subject to risk categorization, and banks may create risk profiles with accompanying procedures for each category.

KYC controls typically include below details:

- Collection and analysis of basic identity information.
- Name matching against lists of known parties (such as politically exposed person)
- Determination of the customer's risk in terms of tendency to commit money laundering or identity theft.
- Creation of an expectation of a customer's transactional behaviour.
- Monitoring of a customer's transactions against their expected behaviour and recorded profile as well as that of the customer's peers.

KYC has two components - Identity and Address. While identity remains the same, the address may change and hence the banks are required to periodically update their records.

The detailed list of the documents that the Bank can ask for KYC is given below.

| Features | | Documents |
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| Accounts of Individuals | | |
| - | Legal name and any other names used | (i)Passport (ii)PAN card (iii)Voter's Identity Card (iv)Driving license (v) Aadhar Card containing Name & Address (vii) Job Card issued by NREGA duly signed by an officer of the State Govt. |
| - | Correct permanent address | (i)Telephone bill (ii)Bank account statement (iii)Passport (iv)Electricity bill (v) Driving License (vi) Aadhar Card |

- (vii) Job Card issued by NREGA
- (viii) Other than OVDs (in case of Low risk customer)
 - a. Utility bill which is not more than two months old of any service provider (electricity, telephone, post paid mobile phone, piped gas, water bill);Property or Municipal Tax receipt;
 - b. Bank account or Post Office savings bank account statement;
 - c. Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
 - d. Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, lease and license agreements with such employers allotting official accommodation;
 - e. Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India.

Accounts of Companies

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| - | Name of the company | <p>(i) Certificate of incorporation and Memorandum & Articles of Association</p> <p>(ii) Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account</p> |
| - | Principal place of business | (iii) Power of Attorney granted to its managers, officers or employees to transact business on its behalf |
| - | Mailing address of the company | (iv) Copy of PAN allotment letter |
| - | Telephone / Fax Number | (v) Copy of the telephone bill |

Accounts of Partnership Firms

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| - | Legal name | (i) Registration certificate if registered (ii) Partnership deed |
| - | Address | (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf |
| - | Names of all partners and their addresses | (iv) Any officially valid document identifying the partners & the persons holding the Power of Attorney & their addresses |
| - | Telephone numbers of the firm and partners | (v) Telephone bill in the name of firm / partners |

Accounts of Trusts & Foundations

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| - | Names of trustees, settlers, beneficiaries and signatories | (i) Certificate of registration, if registered (ii) Power of Attorney granted to transact on its behalf (iii) Any officially valid document to identify the trustees, settlors, beneficiaries and those holding Power of Attorney, founders / managers / directors and their addresses |
| - | Names and addresses of founder, managers / directors and the beneficiaries | (iv) Resolution of the managing body of the foundation / association |
| - | Telephone / fax No. | (v) Telephone bill |

Accounts of Proprietorship Concerns

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| - | Proof of the name, address and activity of the concern | <ul style="list-style-type: none"> * Registration certificate (in the case of a registered concern) * Certificate / license issued by the Municipal authorities under Shop & Establishment Act, * Sales and income tax returns * CST / VAT certificate * Certificate / registration document issued by Sales Tax / Service Tax / Professional Tax authorities * Registration / licensing document issued in the name of the proprietary concern by the Central Government or State |
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Government Authority / Department.

* IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document for opening of bank account.

* License issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, etc.

Any two of the above documents would suffice. These documents should be in the name of the proprietary concern.

Few clarifications regarding the KYC and documents required:

1. A) For individuals, Bank must obtain identification data to verify the identity of the customer, his/her address/location and also his/her recent photograph. This must be done for the joint holders and mandate holders, as well.
B) For non-individuals, Bank must obtain identification data to:
 - 1) Verify the legal status of the legal person/entity
 - 2) Verify identity of the authorized signatories
 - 3) Verify identity of the Beneficial owners/controllers of the account.
2. Letter issued by the UIDAI is accepted as an officially valid document for opening all types of bank accounts.
3. Bank can again ask for KYC compliance even if KYC requirements are complied with while opening the account. It is because of when the transactions in the account are observed not consistent with the profile, bank may ask for any additional details / documents as required. This is just to confirm that the account is not being used for any Money Laundering/Terrorist/Criminal activities.
4. In order to establish the present address of the customer, in addition to Passport/ Driving license / voters' Id / PAN card, the bank may ask for recent utility bills such as Telephone / Electricity bill etc.
5. A person is not having any address proof in his/her name can also open a bank account. In this case an identity document and a utility bill of a closed relative with whom the prospective customer is living along with a declaration from the relative that the said person (prospective customer) wanting to open
6. an account is a closed relative and is staying with him/her, is acceptable. (# Close relatives, e.g. husband, wife, son, daughter and parents).
7. A customer belonging to low income group who is not able to produce documents to satisfy the bank about his identity and address, can open bank account with an introduction from another account holder who has been subjected to full KYC procedure provided that the balance in all his

accounts taken together is not expected to exceed Rupees Fifty Thousand (Rs. 50,000/-) and the total credit in all the accounts taken together is not expected to exceed Rupees One Lakh (Rs. 1,00,000/-) in a year. The introducer's account with the bank should be at least six months old and should show satisfactory transactions.

Photograph of the customer who proposes to open the account and also his address needs to be certified by the introducer,

or

any other evidence as to the identity and address of the customer to the satisfaction of the bank.

If at any point of time, the balance in all his/her accounts with the bank (taken together) exceeds Rupees Fifty Thousand (Rs. 50,000/-) or total credit in the account exceeds Rupees One Lakh (Rs. 1,00,000/-) in a year, no further transactions will be permitted until the full KYC procedure is completed.

In order not to inconvenience the customer, the bank will notify the customer when the balance reaches Rupees Forty Thousand (Rs. 40,000/-) or the total credit in a year reaches

Rupees Eighty thousand (Rs. 80,000/-) that appropriate documents for conducting the KYC must be submitted otherwise operations in the account will be stopped.

8. Application of full KYC procedure is necessary before issuing Credit Cards/Debit Cards/Smart Cards and also in respect of add-on/ supplementary cards.

Where the bank is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, the bank can consider closing the account or terminating the banking/business relationship after issuing due notice to the customer explaining the reasons for taking such a decision.

KYC can be carried out at the following stages in a Bank:

1. Opening a new account(Saving, Current, FD,RD, Pension A/c etc).
2. Opening a subsequent account where documents as per current KYC standards have not been submitted while opening the initial account.
3. Opening a Locker facility where these documents are not available with the bank for all the Locker facility holders.
4. When the bank feels it necessary to obtain additional information from existing customers based on conduct of the account.
5. When there are changes to signatories, mandate holders, beneficial owners etc. KYC will also be carried out in respect of non-account holders approaching the bank for high value one-off transactions.
6. In case of walk-in customer, where the amount of transaction is equal to or exceeds Rs.50,000/-, whether conducted as a single transaction or several transactions that appear to be connected, the customer's identity and address should be verified. However, if a bank has reason to believe that a customer is intentionally structuring a transaction into a series of transactions below the threshold of Rs.50,000/- the bank should verify the identity and address of the customer and also consider filing a suspicious transaction report.

7. With the introduction of telephone and electronic banking, customer can open an account without visiting the bank branch. In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, if necessary, additional documents may be called for. In such cases, banks may also require the first payment to be effected through the customer's account with another bank which, in turn, adheres to similar KYC standards.

KYC norms applied in other Areas:-

1. Open an account or close an existing Post Office Savings Bank account.
2. Purchase of Saving Certificates from any Financial Institution.
3. For opening an account with Depository participant (Demat A/c)
4. For investing in Mutual Fund
5. For verification of multiple LPG Connections
6. Jewellery purchase above Rs. 50,000/-