

## **Know Your Customer (KYC) Norms and Anti Money Laundering (AML)**

### **1. What is KYC?**

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

### **2. Is there any legal backing for verifying identity of clients?**

Yes. Reserve Bank of India has issued guidelines to banks under Section 35A of the Banking Regulation Act, 1949 and Rule 7 of Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005.

### **3. Is there any procedure specified for Customer Identification?**

Customer identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information. Bank has laid down Customer Identification Procedure to be carried out at different stages i.e. while establishing a banking relationship; carrying out a financial transaction or when the bank has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data.

### **4. Once KYC requirements are complied with while opening the account, whether the bank can again ask for KYC compliance from the customer?**

Yes. To ensure that the latest details about the customer are available, banks have been advised to periodically update the customer identification data based upon the risk category of the customers.

Banks create a customer profile based on details about the customer like social/financial status, nature of business activity, information about his clients’ business and their location, the purpose and reason for opening the account, the expected origin of the funds to be used within the relationship and details of occupation/employment, sources of wealth or income, expected monthly remittance, expected monthly withdrawals etc. 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.

### **5. Whether the information given by the customer to the bank under KYC is treated as confidential?**

Yes. The information collected from the customer for the purpose of opening of account is treated as confidential and details thereof are not divulged for cross selling or any other similar purposes.

## **6. What is Money Laundering and Financial Terrorism?**

Money laundering involves disguising financial assets so that they can be used without detection of the illegal activity that produced them. Through money laundering, the launderer transforms the monetary proceeds derived from criminal activity into funds with an apparently legal source.

Financial Terrorism means financial support to, in any form of terrorism or to those who encourage, plan or engage in terrorism.

Money launderers send illicit funds through legal channels in order to conceal their criminal origin while those who finance terrorism transfer funds that may be legal or illicit in original in such a way as to conceal their source and ultimate use, which is to support Financial Terrorism.

## **7. What are the rules and regulations on KYC/AML/CTF? What they achieve?**

The extant regulations of RBI and the rules notified under Prevention of Money Laundering Act, 2002 deal with what is called as an initiative of Anti Money Laundering (AML) and Countering the Terrorist Financing (CTF). These rules and regulations try to prevent the process of money laundering and financing of terrorism related activities. The regulations require the banks to know their customers (popularly known as the Know Your Customer or KYC regulations) and to monitor their transactions. Further, specified information under the PMLA about the cash and suspicious transactions need to be submitted to the Financial Intelligence Unit, India (FIU-IND).

Compliance with AML regulations assists the banks in keeping a close watch on the transactions to identify suspicious transactions, if any, and thereby provide information to the law enforcement authorities (through reports to FIU-IND) to deal with such transactions as per the applicable laws and regulations.

## **8. What are the features to be verified and documents required to be obtained from customers?**

The features to be verified and documents that may be obtained vary depending upon the type of customers. The same are furnished below:

<b>Features</b>	<b>Documents</b>
Accounts of individuals <ul style="list-style-type: none"><li>○ Legal name and any</li></ul>	(i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving License (v) *Job Card issued by NREGA duly signed by an officer of the State Govt (vi)

<p>other names used</p> <ul style="list-style-type: none"> <li>○ Correct permanent address</li> </ul>	<p>The letter issued by the Unique Identification Authority of India ( UIDAI) containing details of name, address and Aadhaar number (vii) Identity card (subject to the bank’s satisfaction) (viii) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank *[Please also see Para 2.7.B]</p> <p>(i) Telephone bill (ii) Bank account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the bank) ( any one document which provides customer information to the satisfaction of the bank will suffice )</p>
<p>Accounts of companies</p> <ul style="list-style-type: none"> <li>○ Name of the company</li> <li>○ Principal place of business</li> <li>○ Mailing address of the company</li> <li>○ Telephone/Fax Number</li> </ul>	<p>(i) Certificate of incorporation and Memorandum &amp; Articles of Association (ii) Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account (iii) Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) Copy of PAN allotment letter (v) Copy of the telephone bill</p>
<p>Accounts of partnership firms</p> <ul style="list-style-type: none"> <li>○ Legal name</li> <li>○ Address</li> <li>○ Names of all partners and their addresses</li> <li>○ Telephone numbers of the firm and partners</li> </ul>	<p>(i) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses (v) Telephone bill in the name of firm/partners</p>
<p>Accounts of trusts &amp; foundations</p> <ul style="list-style-type: none"> <li>○ Names of trustees, settlors, beneficiaries and signatories</li> <li>○ Names and addresses of the founder, the managers/directors and</li> </ul>	<p>(i) Certificate of registration, if registered (ii) Power of Attorney granted to transact business 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 (iv) Resolution of the managing body of the</p>

<p>the beneficiaries</p> <ul style="list-style-type: none"> <li>○ Telephone/fax numbers</li> </ul>	<p>foundation/association</p> <p>(v) Telephone bill</p>
<p>Accounts of Proprietorship Concerns Proof of the name, address and activity of the concern</p>	<ul style="list-style-type: none"> <li>• Registration certificate (in the case of a registered concern)</li> <li>• Certificate/licence issued by the Municipal authorities under Shop &amp; Establishment Act,</li> <li>• Sales and income tax returns</li> <li>• CST/VAT certificate</li> <li>• Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities</li> <li>• Licence 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, registration/licensing document issued in the name of the proprietary concern by the Central Government or State Government Authority/ Department, etc. Banks may also accept IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document for opening of the bank account.etc.</li> <li>• The complete Income Tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/ acknowledged by the Income Tax Authorities.</li> <li>• Utility bills such as electricity, water, and landline telephone bills in the name of the proprietary concern.</li> </ul> <p>Any two of the above documents would suffice. These documents should be in the name of the proprietary concern.</p>