

Know Your Customer (KYC) and Anti Money Laundering (AML)

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वित्तीय समावेशन

FINANCIAL INCLUSION

“A-Thousand Flowers Blooming”

Financial Inclusion वित्तीय समावेशन

- “Spread the Smiles Thousands of Miles”
- हजारों मील तक खुशियों को बिखेरता हुआ



Learning Objectives

- What is Money Laundering?
- Three phases of money Laundering.
- Current issues & implications in Money Laundering.
- Bank's current guidelines on KYC
- Customer Acceptance Policy, Customer Identification Procedure , Monitoring of customer Transaction and current practices for rural customers & no frill accounts.

What is Money Laundering?

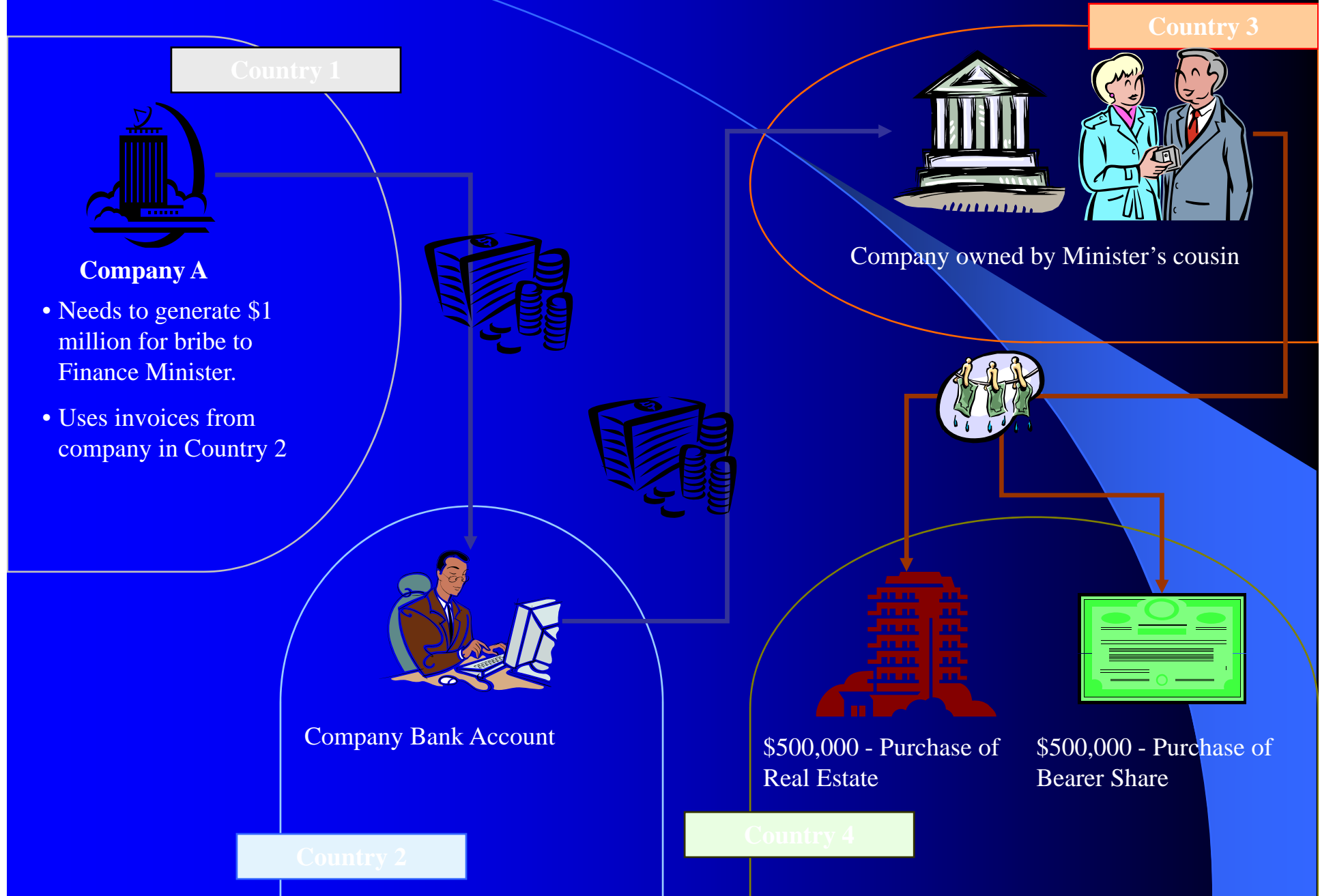
Money Laundering is the process by which illegal funds and assets are converted into legitimate funds and assets.

Money generated from illegitimate source is converted into that derived from legitimate source

Stages of Money Laundering

- **1. Placement:** Illegal funds or assets are first brought into the financial system.
- **2. Layering:** Use of multiple accounts, banks, intermediaries, corporations, trusts, countries to disguise the origin.
- **3. Integration:** Laundered funds are made available as apparently legitimate funds.

Money Laundering Transaction



Record Keeping – Sec. 12 of PMLA 2002

- Verify and maintain the record of:
 - Identity proof documents of client
 - Address proof - current and permanent
 - Nature, Amount, Date and Parties to Transactions reported to FIU-IND, New Delhi
- Maintain above records for a period of ten years from the date of cessation of the transactions with the client.

Prevention of Money Laundering Act 2002

Prevention of Money Laundering Act (PMLA) 2002 and the Rules notified there under inter alia impose obligation on banking companies to

- appoint principal officer
- verify identity of clients
- maintain records
- furnish information to FIU-INDIA, New Delhi

Types of Money Laundering Risks

What are the Money Laundering Risks to banks?

- (i) Reputation risk
- (ii) Operation risk
- (iii) Legal / Compliance risk

All risks are inter-related and together have the potential of causing serious threat to the survival of the bank

Operation Risk

- Operation risk is the risk of direct or indirect loss resulting from inadequate, or failed internal processes, people and systems, or from external events.
- With introduction of **BASLE II norms**, Bank needs to **provide for operational risk** and ensure **compliance of internal control**, for which KYC of each account is of utmost importance, so that **capital allocation against operational risk can be minimized.**

Legal/ Compliance Risk

- Risk of loss (financial or otherwise) due to any legal action the Bank may have to face due to failure to comply with the Law. IPO scam.
- Hence, Bank should carry out KYC and Customer Due Diligence exercises to mitigate Legal Risk

Know Your Customer Guidelines

Who is a Customer

- 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
- Beneficiary of transactions conducted by professional intermediaries, such as stock brokers, chartered accountants, solicitors etc. as permitted under the law;
- Any person or entity connected with a financial transaction which can pose significant reputation or other risks to the Bank, say, a wire transfer or issue of a high value demand draft as a single transaction.

Key elements of K Y C

Customer Acceptance--- Ensure that you accept only legitimate and bona fide customers.

Customer Identification – Ensure that you properly identify your customers to understand the risks they may pose.

Transactions Monitoring – Monitor customer accounts and transactions to prevent or detect illegal activities.

Risk Management – Implement processes to effectively manage the risk posed by customers trying to misuse facilities.

Customer Acceptance

- Ensure that you accept only **legitimate and bona fide** customers.
- No account to be opened in **anonymous or fictitious names**
- A check on the **list of terrorists or banned entities** should be done before opening the account.
- If customer does not cooperate or bank is unable to apply a risk based due diligence do not to open an account (You can also close an existing account in case of non-cooperation as above)

Customer Identification

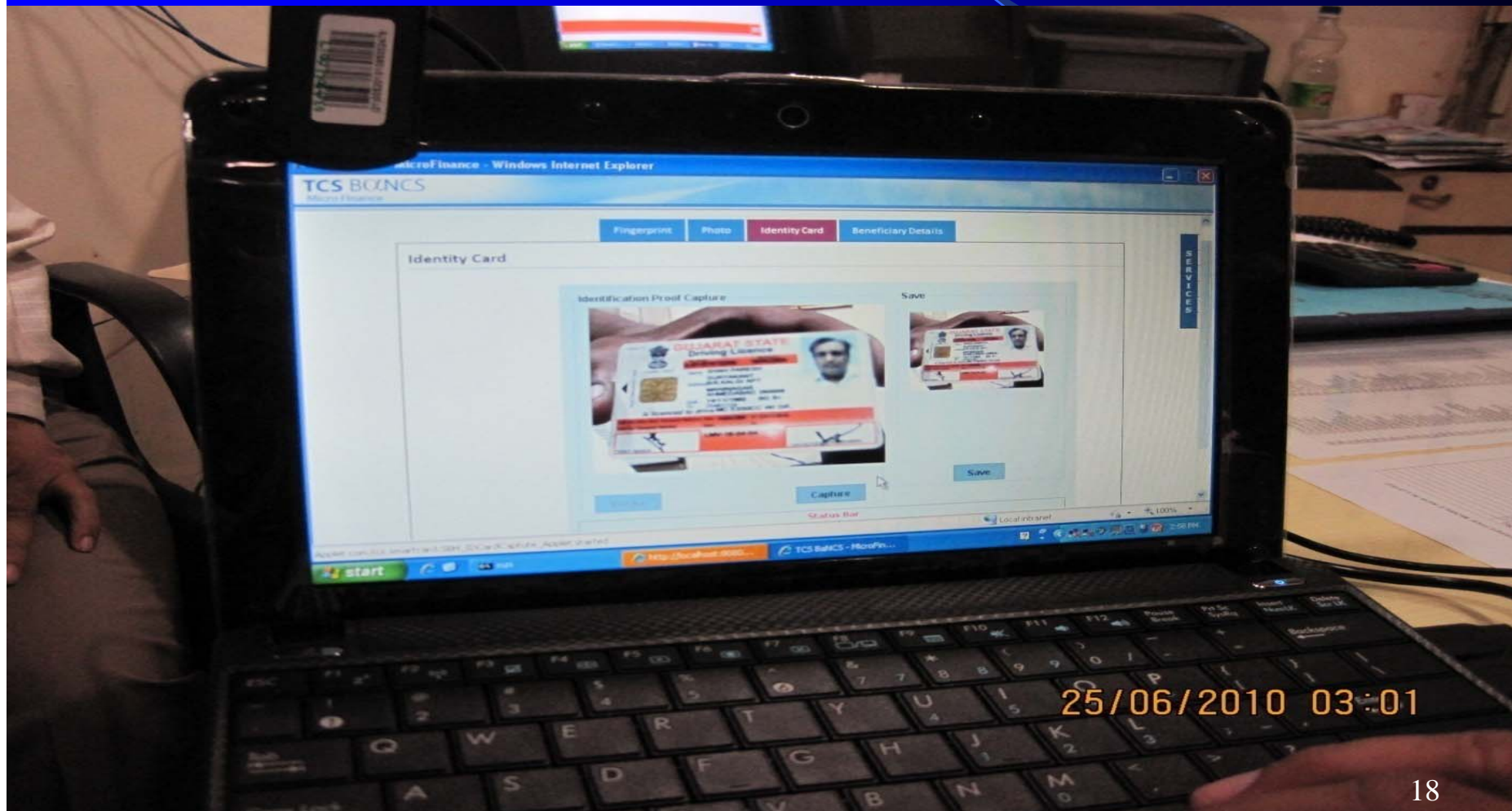
- a. While establishing a banking relationship
- b. Carrying out a financial transaction or
- c. When the bank has a doubt about the veracity/ authenticity or adequacy of the customer data/ documents available.

For legal persons/entities the bank should also identify

- any person acting on behalf of the legal entity,
- the ownership and control structure and
- beneficial owners if any.

- d. Documents required to be based on risk perception and PMLA prescription

ENSURE COMPLIANCE OF KYC NORMS ID PROOF WITH PHOTO



Transactions Monitoring

- On-going monitoring of transactions for identifying suspicious and high value cash transactions
- Higher risk accounts and customer relationships will generally require more frequent or intensive monitoring. For higher risk situations, the following should be considered:
 - On-going monitoring of transactions for identifying suspicious and high value cash transactions
 - Special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.
 - Prescription of threshold limits
 - Review of risk classification
 - Reporting to law enforcement authority

Information to be furnished

Cash Transactions

- All cash transactions of the value of equal to or more than rupees ten lakhs or its equivalent in foreign currency
- All series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a calendar month aggregating to rupees ten lakhs or more.

Suspicious Transactions

All suspicious transactions whether or not made in cash

Suspicious Transactions

Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith –

- gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- appears to be made in circumstances of unusual or unjustified complexity; or
- appears to have no economic rationale or bonafide purpose; or
- gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.(added by amendment dated 24.05.07)

Some of the Reasons for Suspicion

Identity of client

- False identification documents
- Identification documents which could not be verified within reasonable time
- Accounts opened with names very close to other established business entities

Background of client

- Suspicious background or links with known criminals

Multiple accounts

- Large number of accounts having a common account holder, introducer or authorized signatory with no rationale
- Unexplained transfers between multiple accounts with no rationale

Financial inclusion – Simplified KYC Procedure

- Adherence to KYC norms should not result in denial of Banking services to under-privileged.
- Bank to rely on suitable declaration and introduction of a KYC compliant account holder.
- Balance not to exceed Rs.50,000/- and credit turnover not to exceed Rs.1,00,000/- (to be raised to Rs. 2,00,000/-) in a year.
- In case above thresholds are exceeded – Regular KYC Procedure to be followed.

No frill Account with built in OD facility

- **Eligibility:** All resident individuals who are eligible to open Savings Bank Account can avail this offering in single names only. This product is not for Non Resident Indians, Trusts, Societies, etc
- **Initial deposit amount:** The account can be opened with Zero Balance.
- **Minimum balance:** NIL
- **Penalty:** No penalty for not maintaining Min balance
- **KYC :** Simplified KYC norms as per RBI Guidelines through the following documents will be observed:

Address Proof

- Driving license with photograph
- Voter's identity Card, NREGA Job card
- Telephone Bill, Electricity Bill, Ration Card
- In case of married women address proof of the groom is acceptable
- **Any other document evidencing address of the applicant/s acceptable to the bank.**

Photo ID Proof

- ❖ Driving license with Photograph,
- ❖ Voters' Identity Card, NREGA job card.
- ❖
- ❖ PAN Card, Government ID Card
- ❖ **Any other document with photograph evidencing the identity of the applicant acceptable to the bank**

Overdraft Facility

- An inbuilt OD limit of Rs. 5000/-.Initial overdraft to be allowed after minimum -3- months of satisfactory conduct of account.
- OD facility can not be availed by the minors. Only -1- member per family can avail the OD facility
- Limit will be valid for 12 months and will be due for repayment after 1 year from date of first disbursement.
- Documents- a) DP Note b) Letter of continuing security which are to be obtained at the time of opening of the account itself.
- Rate of interest on OD: 3.5% below BPLR ie 8.5% p.a at present and 4% fixed rate for beneficiaries who are eligible under DRI scheme.

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Thank You