

Answer to Question No. 1

INTRODUCTION TO BANK:

A bank can be defined as a financial intermediary that bridges the gap between surplus unit and the deficit facing unit. It is a financial institution which provides financial services that may be in the form of accepting deposits, granting loan, providing technical advices, dealing over foreign currencies, remitting funds and many more. These days, banks with wider range of service offerings, are becoming the financial supermarket and serving the people/organization from different sectors.

Level-wise Banking System in Nepal

To achieve the wider coverage of BFIs from Big Infrastructure Projects to Low income group, BFIs are classified (as per the provision of BAFIA 2073 Section 37) as A, B, C and D Class. Apart from A, B, C and D Class, there is another provision for Infrastructure Development Bank.

Therefore, The system of classifying BFIs based on their paid up capital, coverage, nature of transaction is known as level-wise banking system Bank and Financial Institutions are classified into different levels based on the following criteria

- Minimum Paid up Capital
- Nature of Transactions
- Coverage
- Term of Transactions
- Possibility of Upgradation

Class A: Commercial Banks

Class B: Development Banks

Class C: Finance Companies

**Class D: Microfinance Financial
Institutions**

Level	Name of Bank	Capital	Coverage	Nature of Transaction	Business
A	Commercial Banks	8 Arba	National Level	Short Term	Business Loans
B	Development Banks	2.5 Arba 1.2 Arba	National Regional	Long Term	Sectoral Development of Economy
C	Finance Companies	80 Crore 50 Crore	National Regional	Medium Term	Consumer Financing
D	Micro Finance Financial Institutions	10 Crore 2 Crore	National Regional	Short Run plus Small Amount	Upliftment of Deprived Sector

Reasons behind Level wise Banking system

Nepal possesses a unique type of geographical and economic features which calls for unique model in financial sector. To ensure the balanced development in Nepal, one should focus on Infrastructure, Agriculture, Tourism, Energy and all other areas. Hence, the development of all of these sector is not possible with proper banking system and hence Nepalese banks are classified to ensure specialization in their operation. Apart from this, there are following reasons why this sector is classified in level-wise system:

- Promotes healthy competition among banks
- Tailor the services as per the specialization area
- Target the product offerings according to the need of the target market
- Provides specialization capacity hence better serve the customers
- To identify market need and to better serve the customers/markets
- To ensure easy funding support for all range of economic activities
- To focus on Balanced growth of all the sector, Infrastructure, Industrial, Commercial, Consumption, Micro Credit and all
- To ensure effective monitoring/regulation of the BFIs

Reasons behind Level wise Banking system

Thus, level-wise banking is an effort to render specialization to the BFIs so that they can render better service quality to serve the segment of the economy to which they are focused. Level-wise banking is quite beneficial to the economies like in Nepal still there is a need to review the levels and the function of each levels.



KYC / ग्राहक पहिचान

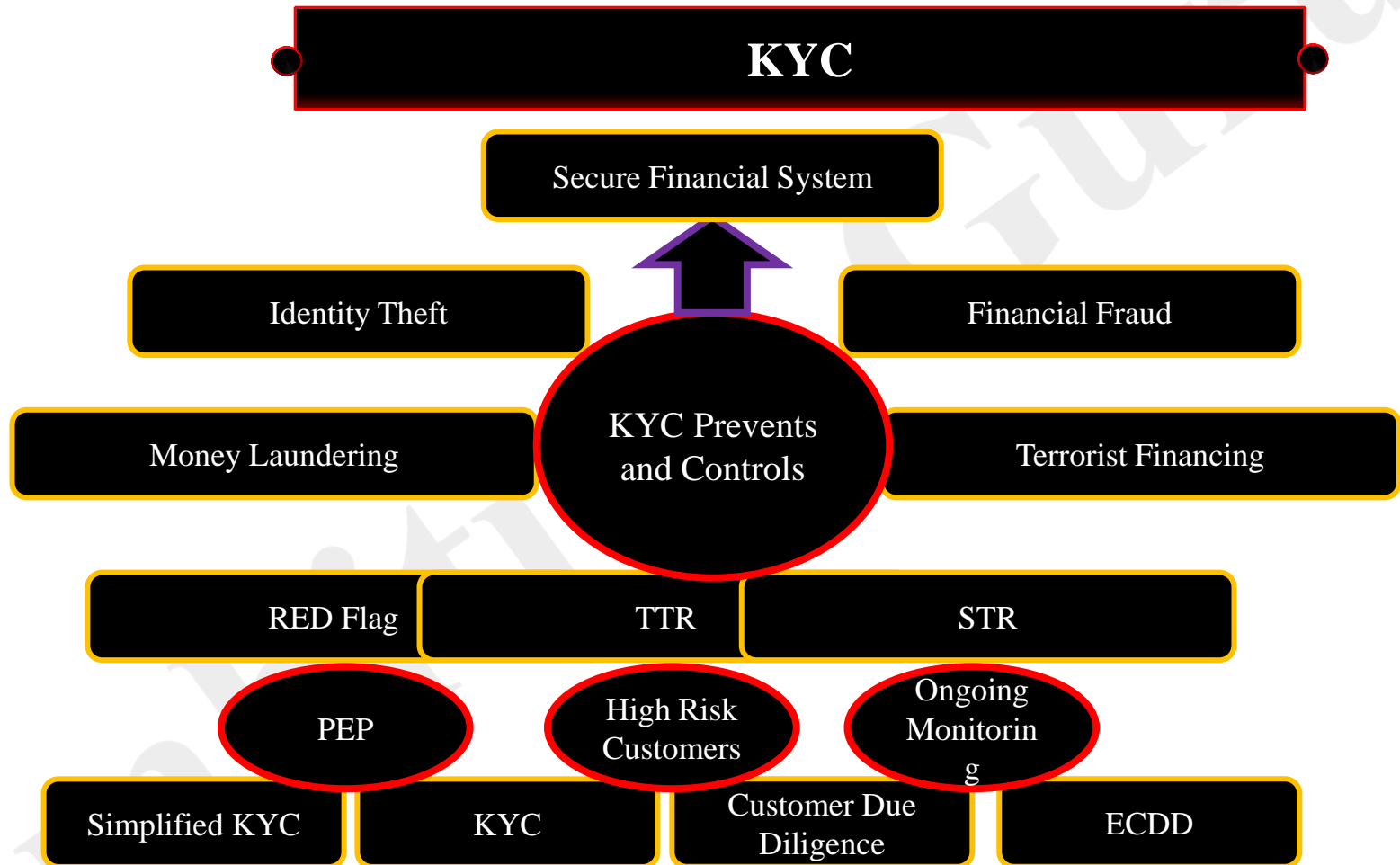
- बैंक संग व्यवसायीक तथा बित्तिय सम्बन्ध राख्ने कुनै पनि ब्यक्ति तथा संस्था बैंकका ग्राहक हुन ।
- An entity that maintains an account and/or has a business relationship with the bank is known as customers.
- अभ्र भन्नु पर्दा कारोवारका वास्तविक धनि जसका लागि अन्य कुनै ब्यक्ति वा संस्थाले कारोवार गरिदिन्छन त्यस्ता वास्तवीक धनि लाई समेत बैंकका ग्राहक भनिन्छ ।
- Moreover, one on whose behalf the account is maintained (i.e. the beneficial owner) is also included in the category of customer.
- प्रभावकारी ग्राहक पहिचान नितिले बैंकको संचालन, कानुनी, लागायत छबिमा पर्न सक्ने जोखिमलाई न्युनिकरण गर्न मदत्त गर्दछ ।
- Effective KYC policy helps to guard against reputational, operational, legal and concentration risks.

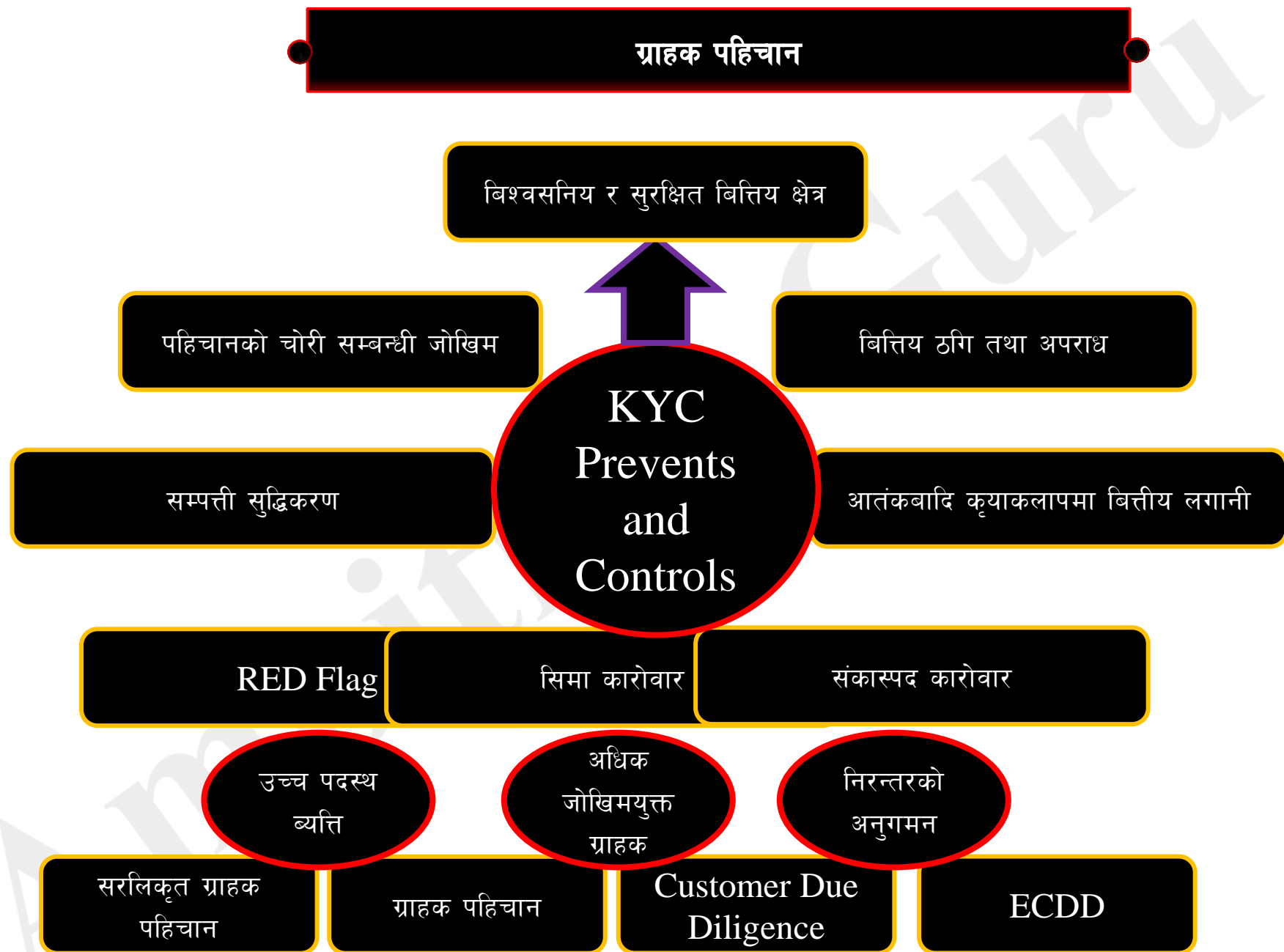
KYC

- KYC stands for 'Know Your Customer'
- It is a process by which banks obtain information about the identity and address of the customers and helps to ensure that banks' services are not misused
- Banks are also required to periodically update their customers' KYC details
- It enables banks to know / understand their customers and their financial dealings so as to be able to serve them better.
- Know your customer (KYC) policy is an important step developed globally to prevent:
 - Identity theft
 - Financial fraud
 - Money laundering and
 - Terrorist financing

ग्राहक पहिचान

- KYC भन्नाले ‘Know Your Customer’ अर्थात ग्राहक पहिचान बिधिलाई बुझिन्छ ।
- यो एक प्रकृया हो जसद्वारा बैंकहरूले आफ्ना ग्राहकहरूको पहिचान र ठेगानाको बारेमा जानकारी प्राप्त गर्दछन् र बैंकहरूको सेवाहरूको दुरुपयोग नहोस भनेर सुनिश्चित गर्दछन्
- बैंकहरूले आफ्ना ग्राहकहरूको ग्राहक पहिचान बिवरण आवधिक रुपमा अध्यावधिक गर्न आवश्यक रहेको छ ।
- ग्राहक पहिचान बिधिले बैंकहरूलाई आफ्ना ग्राहकहरू र उनिहरूको बित्तिय लेनदेनहरू जान्न । बुझ्न सक्षम बनाउँदछ ताकि उनिहरूलाई अझ राम्रो सेवा प्रवाह गर्न सहज होस ।
- तपशिलका अपराधहरूलाई रोक्नका लागि बनाईएको महत्वपूर्ण बिधिको रुपमा ग्राहक पहिचानलाई लिईन्छ ।
 - गलत पहिचान तथा पहिचान चोरी सम्बन्धी अपराध
 - बित्तिय अपराधहरू
 - सम्पती शुद्धिकरण
 - आतंकवाद कृत्याकलापमा बित्तिय लगानी आदि





KYC / ग्राहक पहिचान

- AML CFT सम्बन्धी नितिहरुको कार्यान्वयनको आवश्यकता पुरा गर्न समेत प्रभावकारी ग्राहक पहिचान नितिको आवश्यकता पर्दछ ।
- It is also necessary in order to comply with anti-money laundering legal requirements and prerequisites for the identification of banks accounts related to terrorism.
- ग्राहकको बारेमा यथेष्ट जानकारी राख्नकालागि ग्राहक पहिचान नितिले महत्तोपूर्ण योगदान गर्दछ भने ग्राहक पहिचान प्रभावकारी ढंगबाट गर्न सकेको अवस्थामा ग्राहकका बित्तिय आवश्यकता र चाहानाहरुको पहिचान गरि ग्राहकको आवश्यकता बमोजिमका सेवा प्रदान गर्ने निति र रणनिति सहित कारोवार गर्न सहज पर्दछ ।
- Know Your Customer (KYC) is an integral part of customer identification which is the process of identifying and verifying the identity of its clients. KYC enables bank and financial institutions know/understand their customers and their financial dealings which helps the banks to serve them better and prudently manage the risk of money laundering and financial terrorism.

KYC / ग्राहक पहिचान

- ग्राहक पहिचान पद्धति भन्नाले बैंक तथा बित्तिय क्षेत्रको आधारभुत अवधारणा हो जसले बैंकले कारोवार गर्ने ग्राहकहरुको यथेष्ट बिवरण र सुचना राख्नु पर्दछ भन्ने मान्यता राख्दछ । ग्राहक पहिचान कार्यक्रम मार्फत ग्राहकको ब्यक्तिगत जानकारी, कारोवारको प्रकृती सम्बन्धी जानकारी, ग्राहकको आवश्यकता, चाहाना आदि सम्बन्धी जानकारी प्राप्त भै उक्त जानकारीको आधारमा बैंकका दिर्घकालिन रणनिति, **Cross Selling** र सेवा प्रवाहको गुणस्तर समेतलाई प्रभावकारी बनाउन सकिन्छ ।
- KYC is nothing but a verification and authentication process to ensure that you have contacted the genuine person and you have enough information about your customer. Know Your Customer (KYC) is an integral part of customer identification which is the process of identifying and verifying the identity of its clients. KYC enables bank and financial institutions know/understand their customers and their financial dealings which helps the banks to serve them better and prudently manage the risk of money laundering and financial terrorism

When does KYC apply?

ग्राहक पहिचान कति कति बेला लागू हुन्छ

- While opening new account
- खाता खोल्ने समयमा
- Opening a subsequent account where documents as per current KYC standards have not been submitted while opening the initial account.
- थप खाता खोल्ने समय र ग्राहक पहिचान सम्बन्धी नितिले ग्राहक सम्बन्धी थप सूचना माग गरेमा ।
- Opening a locker facility where these documents are not available with the bank for all the locker facility holders.
- ग्राहकले बैंकका नयां सेवा तथा सुविधा लिन चाहेको खण्डमा ।
- When the bank feels it is necessary to obtain additional information from existing customers based on conduct of the account.
- ग्राहक पहिचान सम्बन्धी नितिको पालना गर्ने क्रममा थप जानकारी आवश्यकता परेमा वा प्राप्त जानकारीहरु अपर्याप्त र अध्यावधिक नभएको खण्डमा ।
- When there are changes in signatories, mandate holders, beneficial owners.
- जब जब खाताका हस्ताक्षरकर्ता, अख्तियार दिने व्यक्ति, र वास्तविक धनिको सूचना मा केहि परिवर्तन भएको खण्डमा ।

Benefits of KYC:

ग्राहक पहिचान नितिको फाईदाहरु

- To monitor the suspicious Transactions
- संकास्पद कारोवारको अनुगमन गर्नको लागि
 - Transaction which do not make economic sense.
 - साधारण आर्थिक कार्यको आभास नहुने कारोवारहरु
 - Transactions inconsistent with the customers business
 - ग्राहकको व्यवसायको प्रकृति भन्दा भिन्न प्रकारका कारोवारहरु
 - Transactions involving large amounts of cash
 - ठूला ठूला नगदको प्रयोग भएका कारोवारहरु
 - Transactions involving transfers to and from abroad.
 - स्वदेश र बिदेशमा निरन्तर रकमान्तर गर्ने प्रकृतिका कारोवारहरु

KYC / ग्राहक पहिचान

Benefits of KYC:

ग्राहक पहिचान नितिको फाईदाहरु

- To categorize the premium customers and normal customers.
- साधारण र बिशिष्ट प्रकृतिका ग्राहकहरु छुट्याई कारोवार गर्नका लागि
- Ongoing monitoring
- निरन्तर कारोवारको अनुगमन गर्नका लागि
- Minimize the risk of bank being used for money laundering purpose
- बैकलाई सम्पति शूदिकरणको उपकरणको रुपमा प्रयोग हुन नदिनका लागि
- Quality database of customers to be used for variety of analysis and for marketing strategy.
- बैकका रणनितिक प्रयोगका लागि योजनाहरु बनाउन ग्राहक सम्बन्धी जानकारी हासील गर्नका लागि

Benefits of KYC:

ग्राहक पहिचान नितिको फाईदाहरु

- Prevents/limits frauds resulting from false identity
- ग्राहक पहिचानले गलत ब्यक्तिवाट हुन सक्ने ठगिजन्य अपराधलाई न्यूनिकरण गर्न सहयोग गर्छ
- Prevents money laundering
- शम्पत्ति शुद्धिकरण जन्य क्रियाकलापलाई रोक्न सहयोग गर्दछ ।
- It helps lenders carry out an adequate risk assessment on customers by identifying their financial history and owned assets
- ग्राहकको बारेमा यथेष्ट जोखिम मुल्यांकन गर्न सहयोग गर्दछ ।
- It builds trust between customers and organizations.
- यसको माध्यमवाट ग्राहक र बैंकको बिचमा बिश्वासको बातावरण सिर्जना गर्न सहज रहन्छ ।
- It protects customer accounts from unauthorized third-party access
- ग्राहकको खाताको अनाधिकृत प्रयोगवाट जोगाउँदछ
- Less financial crimes lead to overall business growth
- बित्तिय अपराधमा न्यूनिकरण र ब्यवसायिक बिकासको सम्भावनालाई प्रवर्धन गर्छ

For Effective KYC

- Promote a Culture of KYC
- KYC Supported by Appropriate Software
- Awareness among the employee and customers
- Adequate Training to the Staffs
- Simplified Process
- Perfect and Stable Policy
- Simplification of KYC form
- Linking with National Identity Card
- Proper Monitoring of KYC and Relevant Data

प्रभावकारी ग्राहक पहिचानका उपायहरु

- ग्राहक पहिचान संस्कृतीको बिकास
- उपयुक्त प्रविधिको प्रवन्ध
- कर्मचारी र ग्राहकमा चेतनाको बिकास
- उपयुक्त तालिमको ब्यवस्था
- सरल प्रकृत्यामा जोड
- पर्याप्त र स्थीर ग्राहक पहिचान सम्बन्धी निति
- ग्राहक पहिचान सम्बन्धी फारमको सरलिकरण
- राष्ट्रिय परिचय पत्र संग जोड्ने
- आवश्यक अनुगमन

Challenges of KYC in Nepal

- Manual Process – Minimal Use of Technology
- High False Positive Rate
 - High Frequency of Spotting an error even for true customer
- Treating Financial Fraud and AML Collectively
- Frequent Change in Regulation and Compliance
- High Focus on Customer Service/Convenience
- High Onboarding Cost
- Lengthy Onboarding Process
- Poor Record Keeping
- An inability to spot a change in circumstances
- Wasting Time and Money on False Positives

ग्राहक पहिचान सम्बन्धी चुनौतिहरु

- प्रविधिको कम प्रयोग र मानव स्रोत को बढि प्रयोग हुंदा प्रभावकारी रुपमा कार्यान्वयन हुन नसक्नु
- अधिक मात्रामा गलत सकारात्मक दर
- शम्पती शुद्धिकरण र साधारण बित्तिय अपराधलाई एकै नजरले हेरीनु
- सरकारका निति र प्रावधानमा हुने परिवर्तनहरु
- बैंकहरु जोखिम न्यूनिकरण भन्दा बढि ग्राहक सेवामा जोड दिनु
- ग्राहक प्राप्ती लागतमा उच्च बृद्धि
- ग्राहक प्राप्तीका लागि अत्यधिक लामो प्रकृया
- कमजोर प्रकारको तथ्यांक तथा फाईलिन
- ग्राहकको तथ्यांक तथा सुचनामा भएका परिवर्तनलाई पत्ता लगाउने प्रविधिको कमि
- गलत क्षेत्रमा बढि लागत र समय लगाउनु

THANK YOU