

Benefits of KYC for Customers and Institutions

KYC is not just a regulatory formality—it offers several advantages to both customers and financial institutions. For customers, completing KYC ensures seamless access to various financial services like online banking, faster loan approvals, insurance products, and investment services. It enhances trust between the customer and the institution, allowing for personalized offerings and improved service delivery.

For institutions, KYC helps build a reliable customer base and significantly reduces the risks associated with fraudulent activities. It enables better risk management and ensures compliance with local and global anti-money laundering (AML) laws, thereby maintaining the integrity of the financial system.

Video KYC and Digital Verification

With advancements in technology, many financial institutions now offer **video KYC** as an alternative to physical visits. Video KYC allows customers to complete the verification process remotely using a secure video call. During the session, the customer must display their identification documents and respond to basic questions for real-time verification. This method speeds up onboarding, reduces operational costs, and is especially useful in remote or pandemic-affected areas.

In addition to video KYC, many banks integrate digital tools such as biometric authentication, OTP-based Aadhaar verification, and AI-powered document validation to streamline the KYC process further.

KYC for Businesses and Institutions

Businesses, firms, and other entities must also complete KYC. The process, often referred to as **Corporate KYC** or **Institutional KYC**, involves submitting:

- Certificate of Incorporation or Registration
- Board resolution authorizing account opening
- PAN of the entity
- Address proof of the business premises
- KYC documents of authorized signatories, partners, or directors

This helps ensure that the business is legally established, the ownership is transparent, and the authorized persons are legitimate.

Consequences of KYC Non-Compliance

Non-compliance with KYC requirements can lead to several issues, both for the customer and the financial institution. Customers who fail to submit or update KYC may face:

- Freezing or deactivation of accounts
- Rejection of loan or credit applications

- Restrictions on transactions and services

For financial institutions, poor KYC compliance can result in heavy penalties from regulatory authorities, reputational damage, and increased exposure to financial crimes. Therefore, continuous monitoring, re-verification, and timely communication with customers are crucial for maintaining KYC standards.

Know Your Customer (KYC) Guidelines

Know Your Customer (KYC) is a mandatory process implemented by financial institutions to verify the identity and address of their customers. This process plays a vital role in preventing financial crimes such as money laundering, identity theft, and the financing of terrorism. KYC compliance is required before opening any type of bank account, applying for loans, issuing credit or debit cards, and for conducting high-value transactions or periodic account reviews.

To fulfill KYC requirements, individuals must provide valid proof of identity and proof of address. Acceptable documents for identity verification typically include a passport, PAN card, Aadhaar card, voter ID, or driving license. For address verification, customers may submit recent utility bills, rent agreements, Aadhaar card, passport, or a bank statement showing their current address. A recent passport-sized photograph is also usually required. Non-Resident Individuals (NRIs) must submit additional documents such as a valid visa, overseas address proof, and a Foreign Account Tax Compliance Act (FATCA) declaration.

The customer due diligence process includes verifying identity through official documents, facial recognition (in-person or via video KYC), address validation, and screening against regulatory watchlists such as politically exposed persons (PEPs) and sanctioned entities. Based on the results, customers are categorized into low, medium, or high risk. Salaried individuals with consistent financial behavior are often classified as low risk, while those from high-risk countries or with complex financial activities may be considered high risk.

KYC is not a one-time procedure; it must be updated periodically. High-risk customers are typically required to update their KYC every two years, while low-risk customers may only need to update it every eight years. Failure to comply with periodic KYC updates can result in account restrictions or suspension.

Certain red flags during the KYC process include submission of forged or altered documents, inconsistent or incomplete information, suspicious transaction patterns, and reluctance to provide required documentation. Accurate and timely KYC procedures help build a secure and transparent financial system and protect both institutions and customers from fraudulent activities.