oliveboard

PPB

Capsule Batch

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PPB

Module C

- Data Communication network and EFT System

DATA COMMUNICATIONS NETWORKS

- Data communication Networks help banks drastically cut costs and the time involved in transferring data from the point of origin to the computer and information from the computer to the point of use.
- This brought about the concept of distributed data communications networks, wherein computer systems with the aid of telecommunications links share resources at reduced costs.
- The data communication networks have become an integral part of present-day banking. Data communication provides connections to computers that may be located in geographically dispersed locations all over the world.

TOPIC

Components of Data Communications Networks

- **Data communications typically consist of various data communication components. When the components operate together to share resources, they are said to form a network. It has three basic components.**

Comm.

TOPIC

I. Transmission Devices and Interface Equipment

- The data is transmitted along the communications path between computer devices using electrical signals and bit sequences to represent numbers and characters.
- If digital signals are to be transmitted over long distances, then the signals are attenuated, and data reliability deteriorates.
- The digital signals are converted into analogue signals for transmission over telephone lines to overcome this problem.
- This conversion between the digital and analogue forms is carried out by an interface device called "Modem" (Modulator demodulator).

TOPIC

- **Modem**: This is a conversion device installed in pairs at each end of an analogue communications line (i.e. telephone line). The modem at the transmitting end modulates the digital signals received locally from a computer or a terminal into analogue signals. It sends the analogue signals over standard phone lines as modulated tones.
- The modem at the receiving end demodulates the incoming analogue signals converting these back to the original, i.e. the digital format. Modems come in two types, one which can be installed in the computer and one connected externally to the computer.

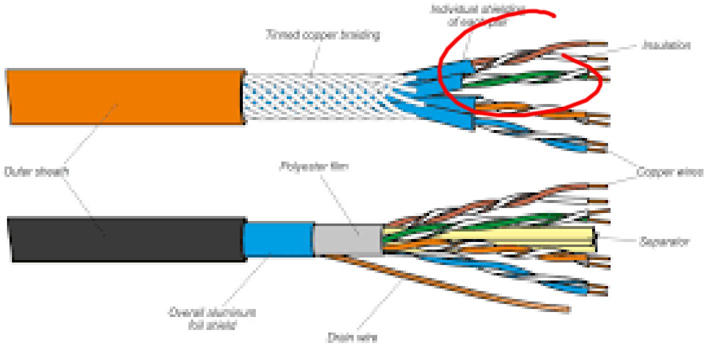
II. Transmission Medium

- The data has to travel through some medium during its transmission for communications between computers. The prevalent technologies for media data are terrestrial, microwave, and satellites.

TOPIC

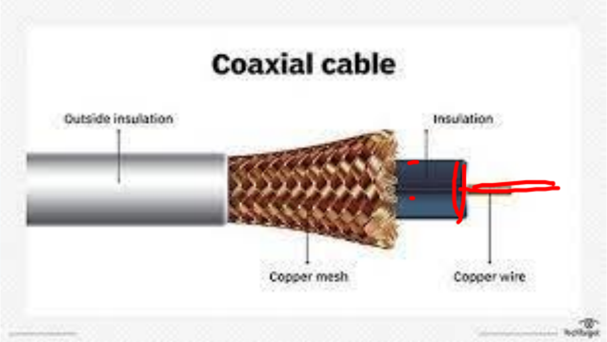
- **(a) Terrestrial cables:** Three of the most commonly used wiring techniques are the twisted pair, coaxial Cables and fibre optics.

(i) Twisted pair: A twisted pair consists of two insulated copper wires. It is widely used in place of parallel wires to minimise the risk of cross-talk, i.e. mixing and distortion of signals. These are useful for connecting terminals to computers up to a distance of 150 metres. Because of the low cost and ease of convenience, these are the most popular cables currently in use.



TOPIC

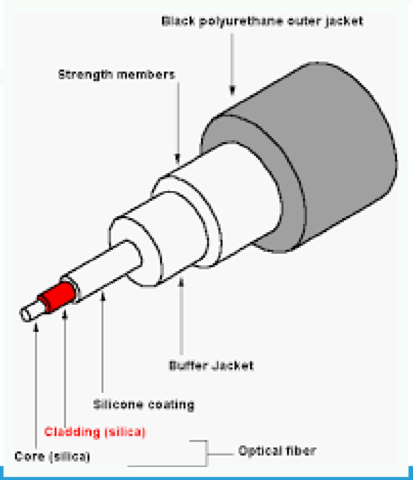
(ii) **Coaxial cable:** The coaxial cables consist of an inner copper core held in position by circular spacers. The inner wire is surrounded by insulation and covered by a protective sheath. The covering protects the core and prevents interference of signals. The cable can carry digital signals at very high rates of 500 megabits per second.



Cable

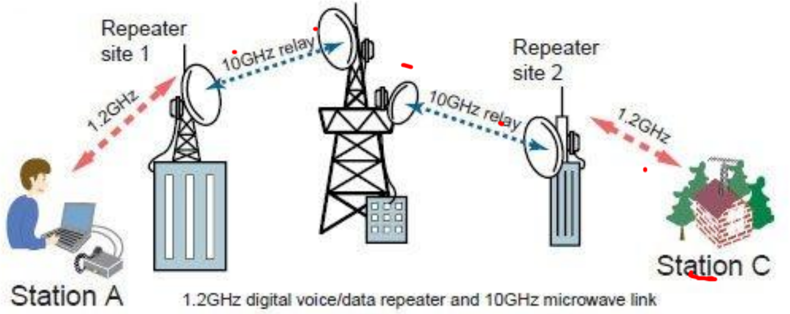
TOPIC

(iii) **Optical fibre:** Optical fibre has been a technological breakthrough in communication technology. It supports a data rate of 2 gigabits/sec. Fibre optics provide high quality (low error rate) transmission of signals at very high speeds. The fibre optics transmissions are not affected by electromagnetic interference. The data transfer is through very thin glass or plastic fibres with a beam of light. The light source is a laser beam driven by a high-speed, high current driver. These days, for security reasons, light-emitting diodes are used.



TOPIC

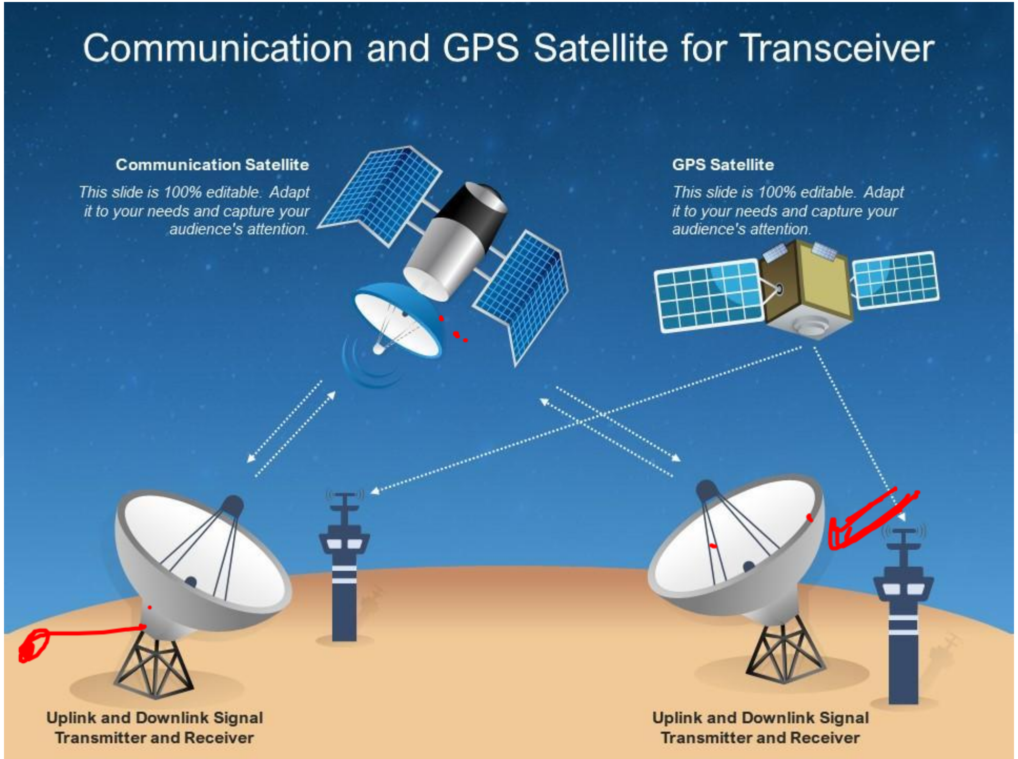
(b) **Microwave systems:** These systems use high-frequency radio signals used in telephone and television transmissions. The radio waves are modulated to carry information. Antennae are mounted on towers to send wave beams from one antenna, along the route, the received data is amplified and retransmitted. The microwave signals may also be passed on to the communication Satellites.



TOPIC

(c) **Communication satellites:** Communication satellites are becoming very popular for data communication between computers.

- The speed of the satellite in orbit equals the speed of rotationof the earth, and thus, the satellite is stationary relative to the earth.
- The satellite is fitted with transmitters and receiving antennas called transponders. It links two or more microwave transmitters/receivers on earth (known as earth stations).
- The main advantage of the satellite is that it is a singlemicrowave relay station that can send signals to a wide geographical area.


Communication and GPS Satellite for Transceiver
Communication Satellite
This slide is 100% editable. Adapt it to your needs and capture your audience's attention.
GPS Satellite
This slide is 100% editable. Adapt it to your needs and capture your audience's attention.
Uplink and Downlink Signal Transmitter and Receiver
Uplink and Downlink Signal Transmitter and Receiver

TOPIC

- **Applications such as electronic mail, distributed processing, Internet are ideally implemented using satellite communication media. Moreover, the broadcast is independent of the distance between the earth stations.**
- **The satellite medium networks are the fastest and have no limitation of distance. In India, Government agencies like NIC and some private operators offer satellite-based communication services.**

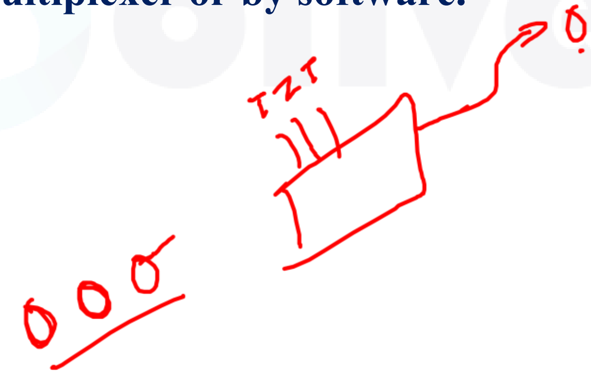
TOPIC

III. Transmission Processors

- **Data Communication involves transmitting data across transmission lines and often involves noise or electrical distortion. Data communication signals can be strengthened or repeated to improve signal quality and increase communication distance. Signal repeaters can provide isolation and extend the communication transmission beyond the standard communication distance. The purpose of communication processors is to enhance data communication between two points. Communication processors can be broadly categorised as:**
- **(i) Message Switches**
- **(ii) Multiplexers**
- **(iii) Front end processors.**

TOPIC

- **Multiplexer.** It is a device that enables more than one signal to be sent simultaneously over one physical channel. It combines inputs from two or more terminals, computer ports or other multiplexers and transmits the combined data stream over a single high-speed channel. The high-speed channel is demultiplexed at the receiving end, either by another multiplexer or by software.



TOPIC

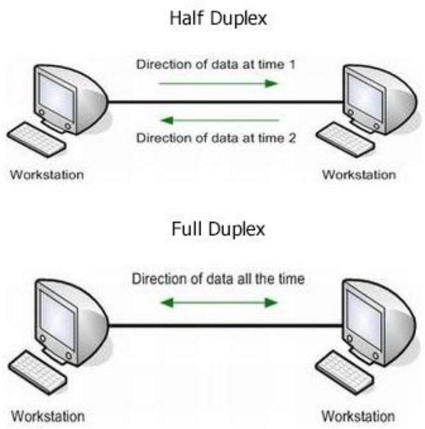
Modes of Transmission

Transmission mode defines the direction of signal flow between two connected devices. The methods of data transmission for communications purposes are classified as follows:

Simplex: A simplex transmission can transmit data in only one direction. The sender cannot receive, and the receiver cannot send. Commercial radio broadcast is a simplex type of transmission. This type of transmission is useful in analogue sampling.

TOPIC

Half-duplex: A half-duplex transmission allows data movement in both directions but only one direction at a time. Modems, on a line, are a good example of a half-duplex. The transmitting end waits for the response from the receiving end before sending another message. Walkie-talkie is another example of half-duplex.



TOPIC

Full duplex: A full-duplex commonly called "Duplex provides simultaneous two-way transmission. The transmission is faster because it avoids the delay that occurs in a half-duplex circuit each time direction of transmission is changed. Examples are the four-wire full-duplex modems used on telephone lines.

TOPIC

NETWORK SCENARIO IN INDIA: MAJOR NETWORKS

- The committees on communication networks for banks, set up in 1987 under the chairmanship of Shri T.N. Anantharam lyer, the executive director, Reserve Bank of India, had strongly recommended the establishment of a cooperative communication network, especially for the banking industry.
- Commissioned in 1991, BANKNET is a packet switched X.25 based network with nodes at Mumbai, Delhi, Chennai and Kolkatta, and a switching centre at Nagpur with a mesh topology. In addition, Bangalore and Hyderabad are connected to Chennai through remote PADS, BANKNET uses a store-and-collect transmission logic, provided by the Message Transfer Utility(MTU), in the systems.

TOPIC

BankNet

TOPIC

- User banks access BANKNET through leased lines at the respective local centres with COMET (Computerised Message Transfer and File Transfer) software, developed in "C". The Message Transfer Utility enables 400 users to login at a time at each IBM node.
- COMET has facilities for message creation, deletion, editing, ascertaining status of messages, listing and receiving acknowledgement etc. Various message format templates, similar to SWIFT formats are available in COMET, Message formats for funds transfer applications such as TT issue, TT Purchase and TT Confirmation, Bank transfer on own account, Bank transfer in favour of a third party, etc. are available.
- BANKNET usage, however, fell far below expectations. The main reason for this was that BANKNET was far ahead of its time.

INAS/INET/BANKNET

- **Interbank National Authorization System (INAS) was the first component of MasterCard's global telecommunications network, providing electronic authorization to replace earlier phone authorization technology.**
- **Interbank Network for Electronic Transfer (INET) followed later, offering electronic settlement services to replace the previous system in which banks sent each other paperwork. INET was set up by the department of telephones in the year 1991.**
- **It is a fast, reliable, flexible and cost-effective data communication network. It is an X.25 data network based on the Packet Switched Public Data (PSPD) technology with error detection and correction techniques.**

TOPIC

➤ **INET allows both way connectivity to:**

- Remote Area Business Message Network (RABMN)
- High speed VSAT Network (HVNET)
- Gateway packet switching system (GPSS) of VSNL at Mumbai

Typical Applications: INET is useful for the following applications:

- Electronic Mail Services
- Corporate Communications
- Information Retrieval
- Database Services
- Remote Login
- Credit Card Verifications
- Electronic Funds Transfers.

Interbank Network for Electronic Transfer (INET) and Interbank National Authorization System (INAS) were combined into a single entity named BANKNET.

BANKNET

- Banknet, established in 1997, is one of the world's largest global telecommunications networks. It is operated by MasterCard, enabling authorization of credit card transactions throughout the world.
- It links all MasterCard members and data processing centres into a single financial network.
- Banknet operates as a virtual private network, or VPN that all of its nodes are linked into. In this way, the network is capable of completing over two million transactions per hour while keeping information secure.
- The network relies on over 1,000 data centers located throughout the world that function as endpoints in the network.

TOPIC

NICNET

- NICNET was set up in the year 1976 by the National Informatics Centre (NIC), a Government of India organisation, NICNET is a satellite-based nation-wide computer-communication network, that is a type of Wide Area Network (WAN). Secure through VPN and secure WIFI services.
- It is India's largest Wide Area Network (WAN), National Informatics Centre (NIC) provides ICT and eGovernance support to the Government for the last four decades.
- NIC facilitates electronic delivery of services to the government (G2G), business (G2B), citizen (G2C) and government employee (G2E).

TOPIC

- Though it has mainly been set up to serve the communication needs of the Central/State Governments, banks in India have also been allowed connectivity to NICNET for e-mail services. It operates on various backbones, viz., Packet Switched networks, LANs and ISDNS.
- Through NICNET, NIC has been instrumental in steering e-Governance applications in Government Ministries/ Departments at the Centre, States, Districts and Block level, facilitating improvement in Government services, wider transparency, promoting decentralized planning and management, resulting in better efficiency and accountability to the people of India.

TOPIC

RBINet

- RBI Net, a communication software, developed in "C" and available for both DOS and UNIX machines. Allows for free format messaging and file transfer on the existing BANKNET infrastructure with the help of servers installed at the four metros. Each RBI Net user interacts with the local server connected to the X.25 switch. The UNIX servers, in turn communicate with each other using TCP/IP over the X.25 protocol.
- The software allows free format messaging without any restrictions on the length of the message, enables file transfer of both ASCII-text and Binary files (spreadsheets, databases, programs, etc.), facilitates dial-up access, and has security features, such as end-to-end encryption audit trail, etc.

TOPIC

Several departments of banks are also using RBI Net for various applications such as:

(i) Transmission of Sec. 42(2) of the RBI Act, 1934, data by commercial banks to regional offices of the department of banking operations and development (DBOD) and furnishing consolidated data by the regional offices of DBOD to central DBOD.

(ii) Press relations division daily news summary of important financial matters.

(iii) Department of economic analysis and policy macroeconomic indicators on a weekly basis.

TOPIC

EMERGING TRENDS IN COMMUNICATIONS NETWORKS FOR BANKING

- **With the availability of more reliable communications media like satellites, the financial sector is making more and more use of the networks for real-time online applications.**
- **In this context, the advent of wide area networks like the RBI's VSAT network and the banks' own networks will play a major role in changing the delivery systems for the banking sector.**
- **Another significant development is the use of the Internet for marketing financial products and services, which still has to impact Indian banking.**

TOPIC

INFINET
wireless

TOPIC

INFINET

- As per the recommendations of the Saraf Committee, the Reserve Bank of India decided to set up a countrywide data communication network for banks linking major centres of the country. This network, christened as the INFINET (Indian Financial Network), has been set up in Hyderabad.
- Because of the prevailing poor quality of the terrestrial communication lines in the country, this network was using satellite communication with very small aperture terminals (VSATs) as earth stations to ensure a reliable infrastructure.
- This network has paved the way for a new era of banking services through technological advent cutting across the geographical limitations of distances. Indian Financial Network (INFINET) is a closed user group MPLS network for the banking and financial sector.

TOPIC

- Some activities are Structured Financial Messaging System (SFMS), a messaging system facilitating RTGS, NEFT, Government payments and receipts, etc.
- It is now being managed by Indian Financial Technology and Allied Services (IFTAS), a wholly owned subsidiary of Reserve Bank of India is registered under the Companies Act, 2013.
- IFTAS provides critical infrastructure services to RBI, banks, cooperative societies and other financial institutions. IFTAS was established in February 2015 by the Institute for Development and Research in Banking Technology (IDRBT), an autonomous organization funded by the Reserve Bank of India, in pursuance of the recommendation of the Rangarajan Committee (2009).

Internet

- The Internet is a global network of networks. It is a system of computers that allows user computers to exchange data, messages, files, etc., with any of the millions of computers the world has connectivity to the Internet.
- The Internet has been around in different forms since the late 1960s. Its precursor, ARPANET, was originally designed by the US Department of Defence in association with universities and research facilities. In 1989, these networks created for military purposes were dismantled and were replaced by NSFNET,

TOPIC

- The connection to the host computer of the Internet Service Provider (ISP) is established through the interface protocol software.
- An (ISP) is a company such as MTNL, BSNL, Reliance Jio Infocomm limited, Bharti Airtel Limited, Tata communications limited etc. that provides individuals and organizations access to the internet and other related services such as email, etc.
- In India, the following two protocols are available:
  - Serial Line Protocol (SLIP)
  - Point to Point Protocol (PPP)

TOPIC

To browse through the Internet, web browser software is required.

A web browser is application software for accessing websites. When a user requests a web page from

a particular website, the browser retrieves its files from a web server and then displays the page on the user's screen.

Some of the popular browsers are:

- Google Chrome
- Microsoft Edge
- Microsoft Internet Explorer e
- Mozilla Firefox.
- Safari.
- Opera.

TOPIC

Broadband

- Broadband Internet service truly is the most used form of Internet access because of its high speed of data transmission; it is offered in different forms such as Digital Subscriber Line (DSL), Cable Modem, Optical Fiber, Wireless, Satellite and Broadband over Power lines (BPL).

- Internet Access Services
- The Internet provides access to a huge amount of information such as text, graphics, sound and software over the internet.

TOPIC

The internet services can be classified into the following four different categories:

(a) Communication Services: Electronic Mail (E-mail), Telnet, Internet Telephony (VoIP), etc.

(b) Information Retrieval Services: File Transfer Protocol (FTP), Archie, Gopher

(c) Web Services: World Wide Web (WWW)

(d) Video Conferencing: Point to point and multi-point.

TOPIC

E-mail: Electronic mail is a method of exchanging messages between people using electronic devices This is one of the most widely used applications. Messages can be sent to any remote location, Messages travel in a matter of no time, without any extra charges.

Telnet: A network protocol that allows a user on one computer to log into another computer that is part of the same network.

Internet Telephony or Voice Over Internet Protocol (VoIP): Voice over Internet Protocol, also called IP telephony, is a method and group of technologies for the delivery of voice communications and multimedia sessions over Internet Protocol networks, such as the Internet.

STRUCTURED MESSAGE TRANSFER SYSTEM USING SWIFT

- Society for Worldwide Inter-bank Financial Telecommunications (SWIFTs) was founded in 1973 by 239 banks spread over fifteen countries with the objective of creating a unified international transaction processing and transmission system to meet the ever-growing telecommunication requirement of the banking industry.
- It is a cooperative non-profit organisation established under Belgian law with its headquarters in Brussels, SWIFT operates a financial messaging platform that brings together more than 11,000 financial institutions and corporations across 215 countries. It facilitates a variety of financial applications, business intelligence, reference data and most recently, compliance services.

TOPIC

- The network and its members exchange more than 22 million payments, securities, trade finance and treasury messages daily in a highly reliable, secure and resilient manner.
- SWIFT is wholly owned by its member banks/financial institutions. Swift is basically a message transmission system. All the transactions are processed without the exchange of paper, banknotes, cheque, draft, etc., and as such is a true epitome of paperless banking. In India, all nationalised banks are members of SWIFT.
- Bank locations are connected to the SWIFT Regional Processor at Mumbai.

TOPIC

Major Message Types

SWIFT has developed standard message formats to handle the following business areas:

- Customer payments and cheques,
- Financial trading,
- Documentary credits and guarantees,
- Precious metals and syndications,
- Cash management and customer status
- Financial institution transfers,
- Collections and cash letters, Securities
- Traveller cheques,
- Supporting system messages.

In addition, free format messages are also permitted, enabling any sort of message.

TOPIC

ECS
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AUTOMATED CLEARING SYSTEMS

- Most of the large banks in the European countries and the USA have independent communication networks. Other banks are also members of some of the networks on a sharing basis.
- These banks uses distributed data processing techniques with a central system acting as the main database server.
- This has helped them to provide certain specialised functions like transfer of funds, automated teller systems, and credit card systems in an online mode. CHIPS, CHAPS, CHATS are some of these networked systems which allow direct funds transfer facilities in the USA, UK and Hong Kong, respectively and are largely responsible for bringing about the true concept of Electronic Funds Transfer in these countries.

TOPIC

Clearing House Inter-Bank Payment System (CHIPS)

- The CHIPS started operating in 1970, run by a New York clearing house, the world's premier system for transfer of payments internationally. Settlement failures in the history of CHIPS operation have never been reported, and the operational time is claimed to be 99.9 to 100 per cent.
- Most of the international fund transfers go through CHIPS, as most of the international trade is transacted in US dollars. Financial transactions such as - foreign and domestic trade services, international loans, syndicate loans, foreign exchange sales and purchases, Eurodollar placements, sale of short-term funds, etc., are done through CHIPS. Domestic EFT payments are also made on CHIPS

TOPIC

UK

Clearing House Automated Payment System (CHAPS)

- CHAPS is a sterling same-day system that is used to settle high-value wholesale payments as well as time-critical, lower-value payments.
- The CHAPS system set-up in the UK provides almost instantaneous service for the settlement of payments, and the payments are guaranteed on receipt and cannot be recalled. CHAPS is one of the largest high-value payment systems in the world, providing efficient, settlement risk-free and irrevocable payments.
- There are over 30 direct participants and over five thousand financial institutions that make CHAPS payments through one of the direct participants.
- The network has been built around the most advanced computer and communication systems and offers a guaranteed payment system.
- Major clearing branches are equipped with CHAPS terminals, which allow payments to be sent to the system through several diverse locations.

TOPIC

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Clearing House Automated Transfer System (CHATS)

- CHATS provide inter-bank funds' transfer facilities in Hong Kong, which has long been regarded as the hub of financial activities the world over. The success of this system depends largely on reliable communication networks.
- CHATS provide the same day inter-bank settlement, instant online confirmation and enquiry facilities. All the inter-bank entries are first validated at entry before transmission to the CHATS central system for settlement.
- All POS transactions are also supported and settled over this network.
- The network can be switched fully to alternate routes for transmission in case of failure of a particular route. The integrity of messages travelling over the network is ensured through authentication and encryption techniques.

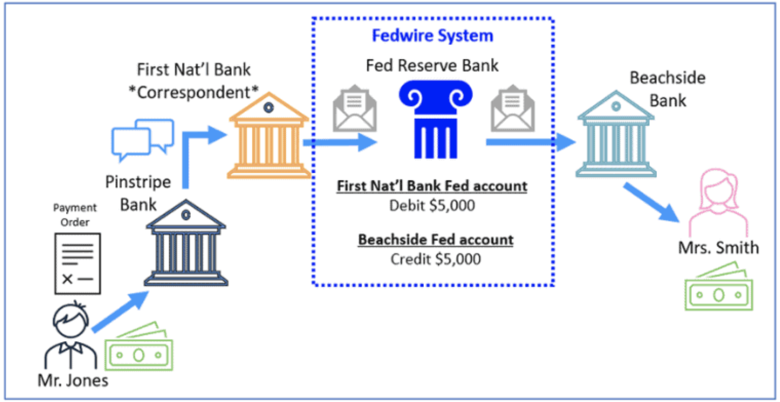
TWO-LEVEL FUNDS TRANSFER SYSTEM

- In USA, Fedwire, Bankwire and POS have established themselves as some of the major systems for electronic funds transfer and settlement facilities as well.
- Fedwire
- The Federal Reserve Wire System, in operation since 1956, is used by the member banks for EFT and is the main funds transfer system in the USA.
- Presently, about 800 banks are linked together over computer-based telecommunications networks to transmit funds and statements.
- It is used primarily for transferring reserve account balances of depository institutions and Government securities, high-value domestic payments, bank to bank and third-party transfers and corporate-to-corporate payments made through banks.

FEDWIRE access is made through three modes:

- Direct access computer-to-computer connectivity for major banks.
- Direct terminal access through leased lines for online transmissions.
- Dial-up terminal facility for transmission as per requirements and needs.

The Fedwire is an X.25 protocol-based packet-switched network and has a large number of alternative routes for the transmission of messages. Fedwire makes use of CHIPS also.



TOPIC

swift code - 8-11 digit

Bankwire

- Bankwire is the pioneer private sector electronic telecommunication network owned by an association of banks in the USA and used to transfer messages between the subscribing banks.
- It was originally conceived for reducing the cost of transmitting messages between participating banks. It supports standard message formats through the telex network. Bankwire also allows connectivity to its network to the non-member banks.
- The transmission pertains to both funds transfer as well as administrative messages. It has started providing a clearing facility known as 'CASHWIRE' that also undertakes settlement facility.

PPB

Module-A

Banker Customer Relationship

TOPIC

INTRODUCTION

- The basic function of a banker is accepting money from the public by way of deposits and deploying the same by means of loans and investments. Besides, bankers render a variety of services, like providing lockers, keeping articles in safe custody, collecting bills, cheques, etc.
- Different types of relationships are created between the banker and the customers, depending upon the nature of service rendered.

REQUIREMENTS TO BE CALLED A BANK

TOPIC

- As per **Sec. 5(b) of the Banking Regulation Act, 1949 (BR Act)',** the term "Banking" means accepting for the purpose of lending or investment, deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise. Hence, the banker is in the business of accepting deposits from the public and utilising these for the purpose of lending or investment..

TOPIC

(c) Acceptance of deposit should be in the form of money.

- A company incorporated under Indian Companies Act, 1956 or Companies Act, 2013 can be a bank, a banker or a banking company.
- Under Sec. 5(c) of BR Act, "Banking Company' means any company that transacts the business of banking in India.
- Sec. 7(1) of BR Act prohibits use of the words "banker' or "banking" or "banking company' by a company other than a banking company. Sec. 7(2) further prohibits the use of such words by an individual or a group of individuals or a firm.

TOPIC

- (a) **Moneylenders are not bankers:** The definition of banker does not include the moneylenders or mahajans, Sahukars or Shettys, because they run their business as individuals or groups of individuals and not as a company registered under the provisions of the Companies Act and BR Act. In the case of Kadiresan Chettiar vs. Ramanathan Chettiar (AIR 1927, Madras 438), it was held that while a moneylender lends his own money, a banker lends money of his customers/depositors.

TOPIC

(b) Accepting deposits of money from the public:

TOPIC

- In the case entitled Mahalaxmi Bank Limited vs. Registrar of Companies, it was decided that if a company gave loan to the public but did not accept deposits from the public, it could not be considered as a banking company under Sec. 5 of BR Act.
- (c) Acceptance for the purpose of lending or investment:

TOPIC

- (d) Deposit repayable to depositors on demand or otherwise: Deposits of money may be repayable either on demand or if they are term deposits, on the expiry of the stipulated term or period.
- (e) The deposits may be withdrawable by the customers by cheque, draft, order or otherwise.

TOPIC

- Banks are also authorised to carry out certain other transactions as provided under Sec.6 of BR Act, 1949, mainly:

(a)Discounting of bills;

(b) Collection of cheques and bills;

(c) Remittances;

(d) Safe custody of articles;

(e) Hiring safe deposit lockers;

(f) Conducting foreign exchange transactions;

(g) Conducting (Central/ State) government transactions;

(h) Issuing letters of credit and guarantees.

TOPIC

Besides, banks now a days also undertake following activities:

(i) Wealth Management services;

(ii) Project appraisal;

(iii) Sale of third party products such as Mutual funds, Life insurance, General insurance; (iv) Executor Trustee services;

(v) Acceptance of Central and State Govt. Taxes;

(vi) Franking of Stamp duty on documents;

(vii) Securities Trading;

(viii) Factoring;

(ix) Venture Capital financing;

(x) Demat services

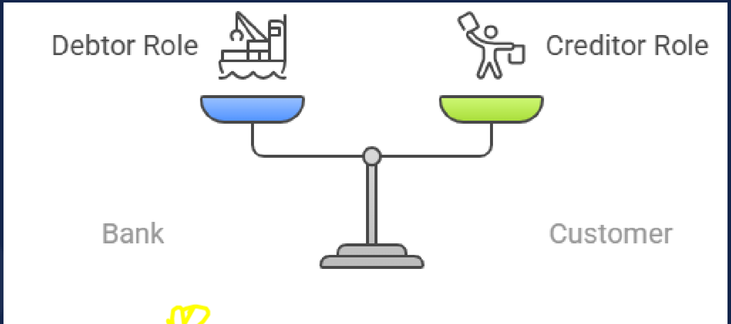
TOPIC

Debtor-Creditor (Bank is a Debtor and Customer is a Creditor)

When a customer deposits money with his bank, the customer becomes a lender and the bank becomes a borrower. The money handed over to the bank is a debt. The relationship between the banker and the customer is that of a debtor and a creditor. The main features of this relationship are:

(a) The bank is free to use the money in a way most beneficial to it.

(b) The customer should make a demand of payment. The banker is not required to pay voluntarily.



accept

TOPIC

(c) The demand should be made in specified manner, in writing by cheque, draft, withdrawal form, order or otherwise, during working hours.

(d) The creditor (customer) does not have any security from the debtor (bank).

(e) The law of limitation does not begin to run until a demand has been made for repayment, in case of both demand and fixed deposits.

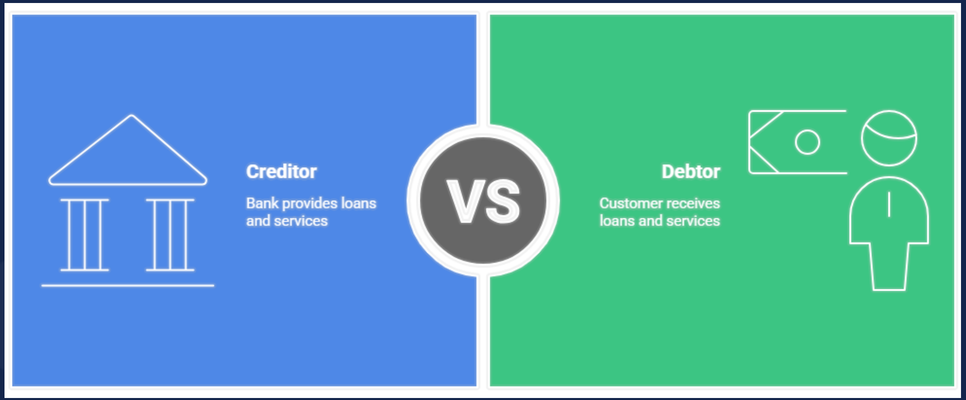
TOPIC

Creditor-Debtor (Bank is a Creditor and Customer is a Debtor)

When the bank lends money to the customer, the customer is the borrower (ie. a debtor) and the bank is the lender (i.e. a creditor).

Lending money is the most important activity of a bank.

The resources mobilized by banks are utilized for lending operations.



Bank - Loan

TOPIC

Customer, who borrows money from the bank, owes money to the bank. In the case of any loan/advance account, the banker is the creditor and the customer is the debtor or the borrower.

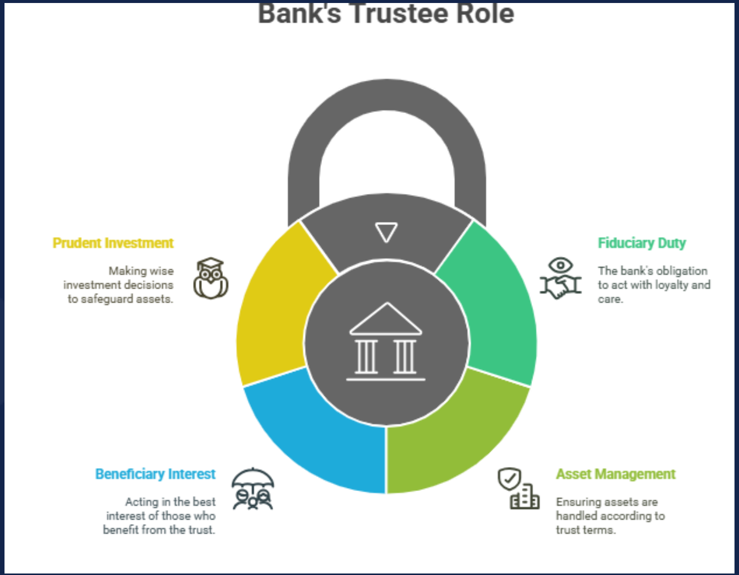
The borrower executes documents and offers security to the bank before utilizing the credit facility.

BANK AS A TRUSTEE

A trustee is a person or firm that holds and administers property or assets for the benefit of a third party.

Trustees are required to make decisions in the beneficiary's best interests and have a fiduciary responsibility to them, meaning they act in the best interests of the beneficiaries to manage their assets.

If a customer keeps certain valuables or securities with the bank for safe-keeping or deposits a certain amount of money for a specific purpose, the banker, besides becoming a bailee, is also a trustee.



TOPIC

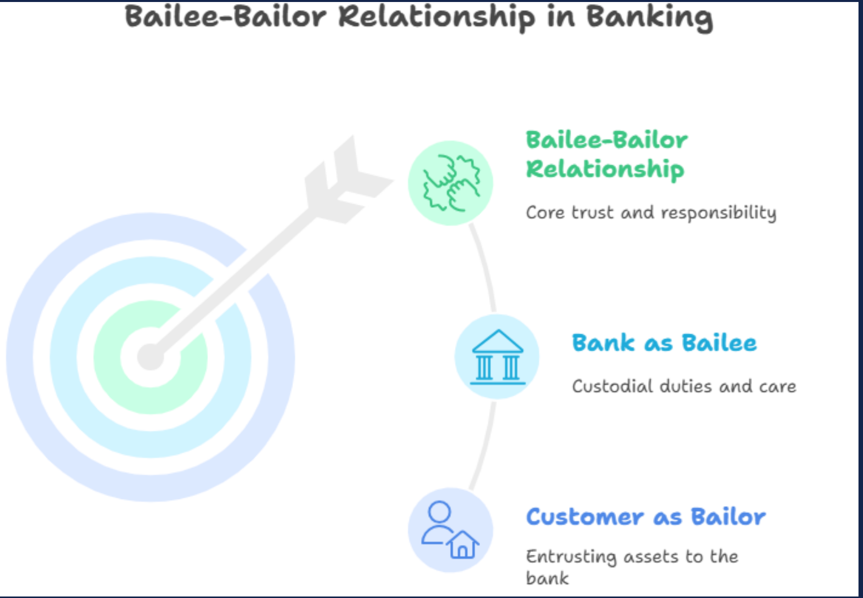
In the case of Subramanyan Pillai and Others vs. Palai Central Bank Ltd. (AIR 1962 Ker. 210), certain persons deposited ₹2,000 each in the bank as guarantee money to purchase cars. The bank failed before they could get the vehicle.

The court was of the view that the bank acted as a trustee and the money should be refunded as preferential debts.

TOPIC BAILEE-BAILOR RELATIONSHIP (BANK-BAILEE AND CUSTOMER-BAILOR)

When a customer deposits certain valuables, bonds, securities or other documents with the bank, for their safe custody, the bank, besides becoming a trustee as discussed earlier, also becomes a bailee and the customer is the bailor.

to the terms of Sec. 148 of the Indian Contract Act, 1872, the bank becomes custodian of the securities of the customer and hence as a bailee is liable for any loss caused to the bailor due to its negligence.



TOPIC

The finder of lost goods (Sec. 71 Indian Contract Act) should return any increase in goods/animals to the true owner.

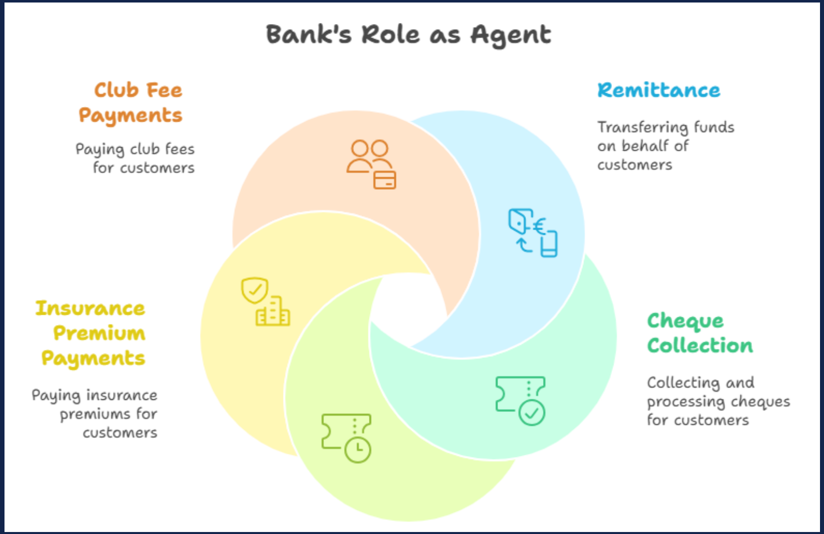
Under Section 164 (Indian Contract Act), the finder has to take care of such goods as an ordinary prudent man.

These are examples of bailee-bailor relationship.

TOPIC

AGENT-PRINCIPAL RELATIONSHIP (BANK IS AGENT AND CUSTOMER IS PRINCIPAL)

- ✓ According to **Section 182, of the Indian Contract Act, 1872,** a principal is a person who delegates authority to another person namely, the agent.
- ✓ Among the ancillary services rendered by the bank are remittance, collection of cheques, bills, to pay regularly, electricity bills, telephone bills, insurance premium, club fees, etc. on behalf of the customers.



Ag

TOPIC

- In these cases, the bank acts as an agent, his principal being the customer.
- The relationship of agency, terminates on the death, insolvency and lunacy of the customer or on completion of the work assigned.
- In case of remittances, though the relation is of agency

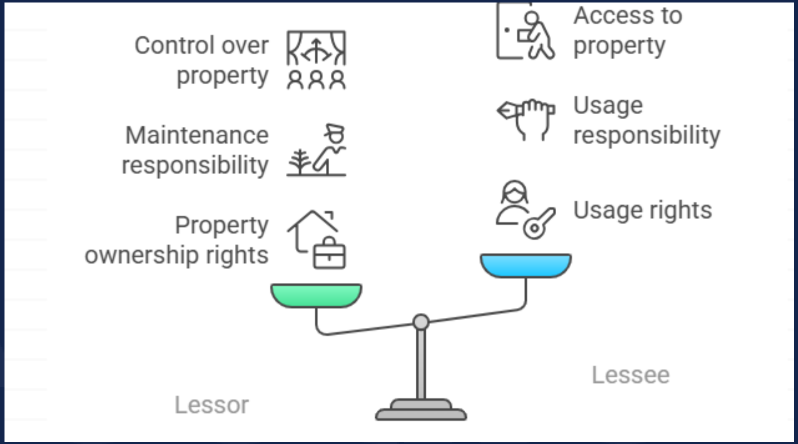
TOPIC

LESSOR AND LESSEE (BANK AS A LESSOR AND CUSTOMER AS A LESSEE)

Section 105 of "Transfer of Property Act' deals with lease, lesser, lessee.

The banks provide safe deposit lockers to the customers for use on lease basis.

The relationship here is that of lessor and lessee or of licensor and licensee.



TOPIC

LESSOR AND LESSEE (BANK AS A LESSOR AND CUSTOMER AS A LESSEE)

- ✓ The bank shall not be liable for any damage and/or loss of contents of locker arising from natural calamities or Acts of God like earthquake, floods, lightning and thunderstorm or any act that is attributable to the sole fault or negligence of the customer.
- ✓ Banks shall, exercise appropriate care for protection of their locker systems and premises.

TOPIC

Transaction	Bank	Customer
Deposit in the bank	Debtor	Creditor
Loan from bank	Creditor	Debtor
Safe custody	Bailee	Bailor
Locker	Lessor	Lessee
Collection of Cheque	Agent	Principal
Purchase of a draft*	Debtor	Creditor
Payee of a draft	Trustee	Beneficiary
Pledge	Pawner (Pledgee)	Pawnee (Pledger)
Mortgage	Mortgagee	Mortgagor
Standing instruction	Agent	Principal
Sale/purchase of securities on behalf of a customer	Agent	Principal
Money deposited but instructions not given for its disposal	Trustee	Beneficiary
Articles left by mistake	Trustee	Beneficiary
Shares given for sale	Agent	Principal
Hypothecation	Hypothecatee	Hypothecator

*As per Haryana and Punjab High court judgment in the case of Traders Banks vs. Kalyan Singh- 1953

TOPIC

Types of Deposits

Deposits are normally classified as demand deposits and time deposits.

Demand Deposits	Time Deposits
1. Payable on Demand.	1. Repaid after expiry of the Deposit Period.
2. Low interest rates or no interest.	2. High interest rates, which vary according to period.
3. It includes current, savings, overdue deposits and unclaimed deposits.	3. Time deposits are for a period ranging from 7 days to 120 months period with or without reinvestment plans.

TOPIC

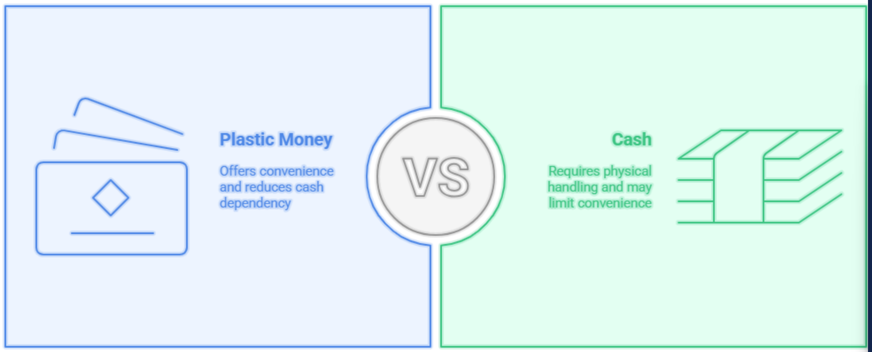
Merchant Banking

- ✓ Merchant bankers are financial intermediaries facilitating transfer of capital from those who own it (Investor or Bond Subscriber) to those who use it (Corporates or Governments).
- ✓ They help a corporate in Initial Public Offering (IPO) or a Follow-up Public Offer (FPO), popularly called a Public issue or Private Placement of Debt or Equity.

TOPIC

Plastic Money

- ✓ Plastic money in the form of credit cards and other types of cards has become a preferred mode of payments.
- ✓ Increasing use of the plastic money, has reduced the need of cash to a significant extent.



TOPIC

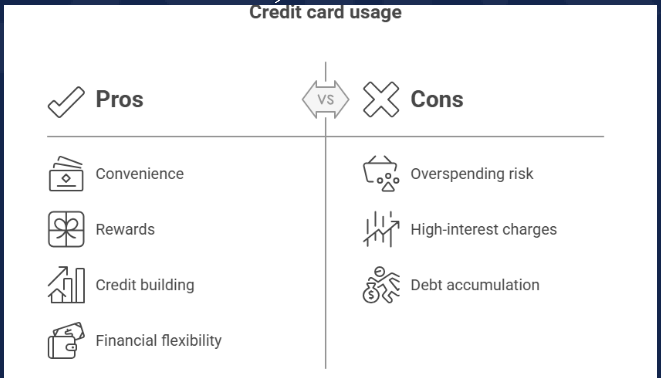
(i) Charge Cards

- ✓ A charge card is an electronic payment card, where the cardholder is not charged interest but needs the user to pay the balance due in full upon receipt of the statement, usually every month.
- ✓ Holders of these cards may have to pay a high annual fee.
- ✓ There are very few issuers of charge cards.
- ✓ Charge cards usually do not have a preset spending limit and the amount allowed to be drawn varies depending on the usage and payment record built up.
- ✓ There are no charges levied on the amount spent apart from the annual fee. Late fee is charged on delayed payments.

TOPIC

(ii) Credit Cards

- ✓ Credit card facilitates the card holder to utilize sanctioned credit limit primarily for making purchases of goods and services.
- ✓ The difference between a credit card and a charge card is that in case of charge card, the entire outstanding amount is to be paid within the specified period.
- ✓ In case of credit cards, the cardholder has the option to pay only part amount on due date.



TOPIC

(iii) Debit Cards

Debit cards are similar to credit cards in functionalities, except that the transaction amount is debited to the cardholder's account as soon as it is notified to the issuer. Hence it is an instrument facilitating debit to a savings or current account.

Trustee

Executor

Debit Card Functionalities

Characteristic	Debit Card
Functionalities	Similar to credit cards
Transaction	Debited immediately
Account	Facilitates debit to account

PPB

Module-A

AML-KYC Guidelines

Unit - 2

TOPIC

INTRODUCTION

- Money laundering (ML) is a process whereby the origin of funds generated from criminal activities (drug trafficking, gun smuggling, corruption etc.) is concealed and these funds are infused in the financial system appearing as if these originated from legitimate sources. Often such funds are deployed in legal activities or in legitimate assets.

TOPIC

- Corruption, tax evasion, Ponzi schemes, other financial crimes, cybercrimes are closely connected with money laundering.
- Funds from these crimes now form a substantial portion of money laundering funds. Financial crimes (FC) now constitute a significant part of criminal activities.
- Third component of the triad today is Terrorist financing (TF).
- With growth of several terrorist organisations, big and small, Terrorist financing has assumed large proportions.
- Terrorist financing has developed linkages with money laundering as for both purposes similar modalities are used.

TOPIC

- Thus ML, TF and FC are interconnected. Another aspect is that certain criminals have organized into Organised Crime Groups (OCGs) and Professional Money Launderers (PMLs).
- OCGs and PMLs together form the network that propagates criminal activities and launders the funds generated from such activities.
- Financial Action Task Force (FATF), a global organization, was set up for evolving measures to be taken by financial sector businesses and certain non-financial businesses and professions for prevention of money laundering.

watchdog

TOPIC

- FATF issued certain recommendations that serve as anti-money laundering (AML) and combating financing of terrorism (CFT), and are known as FATF Standards 2012, Money laundering and terrorism financing are considered as criminal activities across the world.

TOPIC

Stages of Money Laundering

Funds from criminal activities are typically generated outside the financial system, and are placed in it to give them legal form.

TOPIC

This money laundering cycle comprises three stages stated below.

(a) Placement: In this stage the funds from criminal activity are introduced into the financial system. Typically, this is done through deposits in multiple bank accounts.

(b) Layering: Next, those funds are passed through numerous financial transactions in these accounts creating several layers of funds transfers. This helps in hiding the source of these funds.

TOPIC

(c) Integration: Next step is collecting the funds lying in multiple accounts in one or few accounts that are then deployed for investing in some legal business activity or for acquiring some asset in legitimate manner.

TOPIC

Stages of Financing of Terrorism

There are numerous terrorist outfits, in the world. These have financial cycles similar to commercial entities, and use banks and financial institutions. **Financing of Terrorism comprises following stages:**

(a) Raising: Terrorist organisations source funds from their sympathisers both individuals and organisations. Sometimes, terrorist outfits also engage in various income generating activities, legal or criminal. Channeling funds from both such sources is done in a clandestine manner so that the purpose for which these are collected is not known.

TOPIC

Stages of Financing of Terrorism

(b) Moving: Contributors to the terrorist organisations can be located anywhere not only in their home country but across the world. These funds are therefore required to be moved to the places of their establishments of the terrorist organisations.

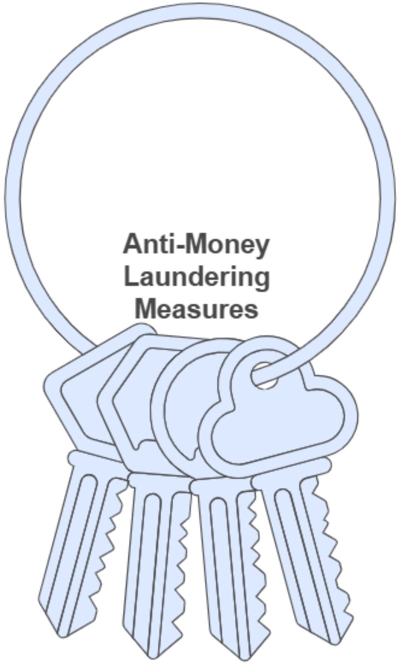
(c) Storing: As the funds raised may be deployed for terrorism related activities including the regular activities for running the outfits with a gap of time and spread over a period, these are parked in the interim in bank accounts or any other financial investment.

(d) Using: Finally, the raised funds are used for the purposes of carrying out the terrorism act or for various organisational related activities.

TOPIC

Objectives of Prevention of Money Laundering

Objectives of Anti-Money Laundering Measures



Preventing Criminal Use

Aims to block criminals from exploiting the financial system for illicit activities.

Preventing Criminal Spread

Focuses on curbing the expansion of criminal activities within society.

Safeguarding the Economy

Protects the economy from the destabilizing effects of financial crimes.

Preventing Terrorist Financing

Ensures terrorists cannot access financial resources to fund their operations.

TOPIC

AML FRAMEWORK IN INDIA

- Based on FATF Recommendations, in India Prevention of Money Laundering Act, 2002 (PMLA) was enacted under which, inter alia, few obligations for all financial sector players and certain non-finance businesses have also been stipulated.
- These entities in the financial sector and the designated businesses in non-financial sector are termed as Reporting Entities (RE).
- Detailed legal provisions for REs, have been included in Prevention of Money Laundering (Maintenance of Records) Rules (PMLR). Besides, specific institutional framework has also been put in place for dealing with money laundering crime.

TOPIC

AML FRAMEWORK IN INDIA

- **Based on FATF Recommendations, in India Prevention of Money Laundering Act, 2002 (PMLA) was**

(i) Financial Intelligence Unit-India (FIU-Ind) has been set up for receiving information about various financial transactions from certain businesses, including banks and financial institutions. FIU-India also has supervisory powers over the business entities that are subject to PMLA.

(ii) Enforcement Directorate (ED) is the investigation and prosecuting authority for money laundering crime. The powers of ED include tracking and attaching assets related to money laundering.

(iii) Special Courts are set up for adjudication of cases pertaining to money laundering crime. The adjudicating authority has powers to freeze the assets and even confiscate the assets proved to be related to money laundering.

TOPIC

Money Laundering Offence

The offence of money laundering has been defined in Sec. 3 of the PMLA as:

"whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming it as untainted property shall be guilty of offence of money laundering."

TOPIC

Money Laundering Offence

Sec. 45 of PMLA stipulates that all offences under the PMLA are to be deemed to be cognizable and non-bailable offences.

Sec. 4 of PMLA stipulates the punishment for money laundering offence, which is rigorous imprisonment for not less than 3 years but up to 7 years and fine as per the gravity of the offence. In cases connected with offences under the Narcotics Drugs and Psychotropic Substances Act the imprisonment may extend up to maximum 10 years.

TOPIC

Measures to Mitigate Money Laundering Risk

The obligations under PMLA require the banks to mitigate ML/FT risks. Banks are required to take appropriate measures for the following purposes:

(a) To know/understand the customers and their financial dealings better.

(b) To detect and report suspicious activities to FIU-Ind as per the laid down procedures.

(c) To comply with applicable laws and regulatory guidelines.

(d) To adequately train the staff in KYC/AML procedures.

These make it difficult for criminals to abuse banks for ML/FT as their activities are closely monitored. They mitigate ML/FT risks as criminals would avoid vigilant banks.

TOPIC

KNOW YOUR CUSTOMER POLICY

Practice of Introduction

- Prior to the introduction of "Know Your Customer (KYC)" guidelines by the RBI in 2002, the banking practice was to obtain introduction for a new customer from an existing account holder of satisfactory standing and for certain period or from a staff member who knows the customer properly.
- The purpose of this practice was for getting protection provided under the Negotiable Instruments Act to a collecting banker.
- After RBI guidelines on KYC the banks have been advised not to obtain introduction.
- Every bank is required to have a KYC Policy laying down the KYC/AML norms.

TOPIC

Key Elements of Know Your Customer (KYC) Policy

KYC Policy is a major policy for managing a bank in prudent and compliant manner mitigating ML/TF risks effectively and efficiently. Key requirements for KYC Policy are:

(i) It is to be approved by the Board of Directors or any committee of the Board (if delegated).

(ii) It should be reviewed regularly, at least once in a year, besides based on any event impacting it, viz, changes in PMLA/ PMLR/ Regulations of RBI, etc., entering new business line, entering a new jurisdiction, etc.

TOPIC

Key Elements of Know Your Customer (KYC) Policy

Reporting FIU-IND

(iii) Usually, the Principal Officer is responsible for keeping the KYC Policy updated and relevant. KYC Policy is a comprehensive document that contains norms related to handling of the customer's business, organization set-up for various responsibilities, creating awareness among customers and staff.

Reporting Off-

TOPIC

The key elements of KYC Policy are:

Some banks may have two distinct documents covering KYC Policy (pertaining to Customer Identification and Customer Due Diligence) and AML/CFT Policy (pertaining to Monitoring of Transactions and Reporting to FIU).

4

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MOT
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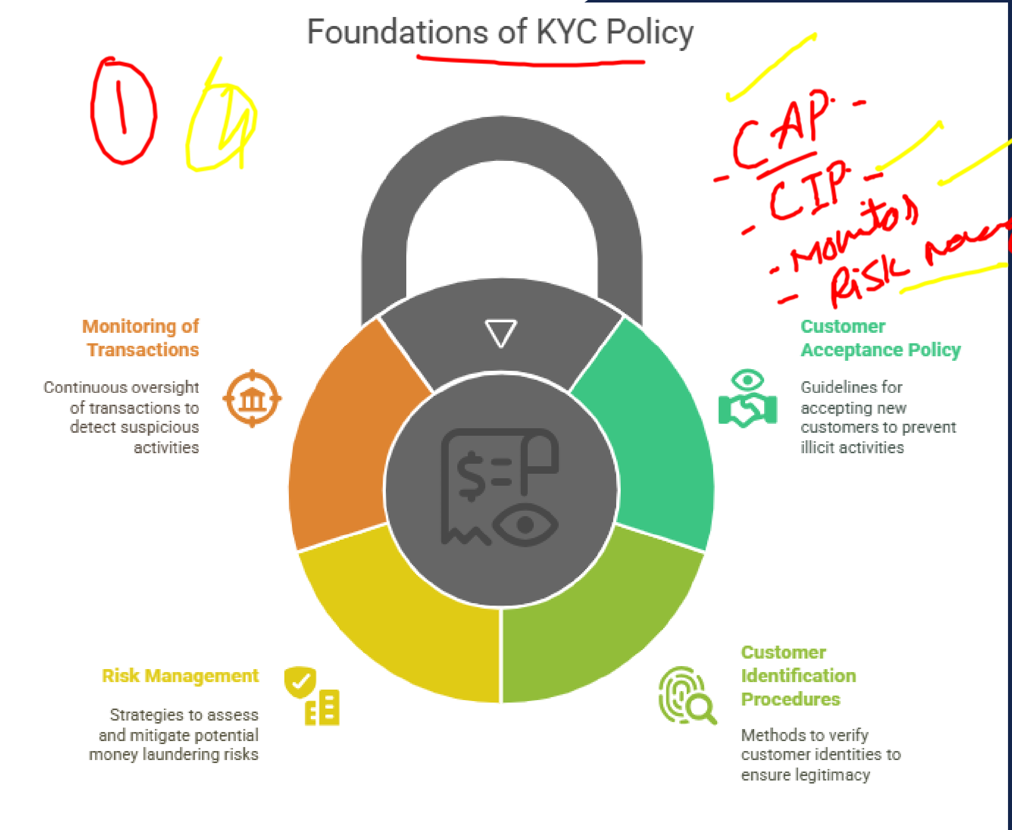

TOPIC

ORGANISATIONAL SET-UP FOR AML

- PMLR stipulate that banks must designate following functionaries for meeting PMLA obligations:

(a) Designated Director, and

(b) Principal Officer.

- Besides, each bank has a distinct function to discharge responsibilities of monitoring and reporting under PMLA. Other functional units have to discharge respective functions pertaining to KYC/AML obligations.

TOPIC

(a) Designated Director:

RE

- A Designated Director (DD) is responsible for overall compliance with the obligations of the bank as spelt out in the PMLA (Sec. 11A, 12, 12A and 12AA), PMLR and the regulatory guidelines of regulators concerned. DD shall be a functionary, who is:

i) the Managing Director or a whole-time Director, duly authorized by the Board of Directors, if the RE is a company.

ii) the Managing Partner, if the RE is a partnership firm.

iii) the Proprietor, if the RE is a proprietorship concern.

iv) the Managing Trustee, if the RE is a trust.

TOPIC

OBLIGATIONS UNDER PMLA

- PMLA lays down the following primary obligations for RE's, including banks:

(i) To verify the identity of customers and their beneficial owners through any of the specified modes. These include authentication/ offline verification of Aadhaar, or passport, or any of the specified officially valid documents.

(ii) To maintain records of all transactions as specified, furnish the information of prescribed transactions, including attempted transactions. These records shall be kept for a period of 5 years from the date of transaction.

TOPIC

(iii) To maintain records of identity documents (of clients and beneficial owners), and account files and business correspondence of clients. These are to be maintained for a period of 5 years from the date of closure of accounts or end of relationship, whichever is later.

(iv) Keep all information maintained and furnished confidential.

5 years

TOPIC

REPORTING OBLIGATIONS

- Banks are required to furnish to FIU-IND reports pertaining to transactions of prescribed type and value at prescribed frequency.

(a) Monthly Reports

- Following four reports are required to be submitted for each calendar month by the 15th of the following month.

2-3 Marks

Oct. 15th Nov

May- 15th June

Rep
Reporting obj
Principal officer

TOPIC

S.No.	Report	Nature of Transactions
1	Cash Transactions Report (CTR)	(a) Cash transactions of ₹10 lakh or more or equivalent (b) Series of cash transactions in a month integrally connected to each other (i.e. all deposits or all withdrawals taken separately) aggregating ₹10 lakh or more or equivalent
2	Cross Border Wire Transfer Report (CBWTR)	Cross border wire transfers of more than ₹5 lakh or equivalent where either the origin or destination of fund is in India
3	Non-Profit Organisation Report (NTR)	Receipts by non-profit organisations of more than ₹10 lakh or equivalent
4	Counterfeit Currency Report (CCR)	All counterfeit currency notes received

TOPIC

(b) Suspicious Transactions Report (STR)

Zero

- Banks are required to report to FIU-IND any suspicious transaction noticed by them, within 7 days of establishing suspicion. This is the key report for FIU-IND to enable it to provide useful intelligence to the law enforcement agencies. A transaction is considered as suspicious if to a person acting in good faith, it appears to satisfy any of the following:

(i) A reasonable doubt that it may involve proceeds of an offence specified in the Schedule to PMLA, i.e. likely to be for money laundering.

(ii) Appears to be made in circumstances of unusual or unjustified complexity.

(iii) Appears to have $\boxed{\text{no economic rationale}}$ or bonafide purpose.

(iv) A reasonable doubt that it may involve financing of the activities relating to terrorism.

For reporting suspicious transactions the value of transactions is not relevant. Even non-monetary transactions are to be reported.

pass book

TOPIC

IMPLICATIONS OF NON-COMPLIANCE OF PMLA OBLIGATIONS

- Banks face risk of penal actions by RBI and Director, FIU-IND for non-compliance with obligations cast on them under PMLA and PMLR.
- PMLA has empowered the Director, FIU to take any of the following punitive measures, against a bank, any of its employees, managers, or directors:

(i) Issue a written warning.

(ii) Direct to take specific remedial measures and to submit the action taken report on these.

(iii) Impose monetary penalty with a minimum of 10,000/- to maximum of 1 lakh per violation.

Each day of delay in submission of some information or a transaction or a report or in rectification of information/ report is reckoned as one violation.

PPB

Module-A

Operational Aspects of KYC

Unit-3

TOPIC

INTRODUCTION

- PMLA and PMLR lay down the legal requirements for measures to be taken by various types of Reporting Entities stipulated under PMLA. RBI has laid down certain operational norms for banks and other entities regulated by it, in Master Directions - "Know Your Customer (KYC) Directions 2016.
- The provisions of these Directions also apply to the branches and majority owned subsidiaries located abroad, to the extent they are not contradictory to the local laws in the host country.

KYC AML

Indian comp

sub- → foreign.

CAP

KNOW YOUR CUSTOMERS (KYC) NORMS

RBI instructions cover the requirements for customer acceptance and customer identification.

Customer Acceptance Policy

The customer acceptance policy of a bank lays down the criteria for accepting a customer from the perspective of ML/TF risks. Customer acceptance policy should include the following norms:

(a) No account is opened in anonymous or fictitious/benami name.

(b) No account is opened where appropriate customer due diligence measures cannot be applied either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.

TOPIC

(c) No transaction or account-based relationship is undertaken without following the CDD procedure.

(d) Circumstances in which, a customer is permitted to act on behalf of another person/entity, is clearly spelt out.

(e) To ensure that the identity of the customer does not match with any person or entity, whose name appears in the sanction lists circulated by RBI.

(f) To verify Permanent Account Number (PAN) obtained through the facility of the issuing authority. ITD

(g) To verify the digital signature of an e-document given by the customer,

TOPIC

(h) The mandatory information to be obtained for KYC purpose during on-boarding/ periodic updation should be specified in the KYC Policy. Any optional/ additional information should be obtained with prior consent of the customer, and after the account is opened.

Doc

(i) In case of joint accounts, CDD procedure is to be carried out for all joint account holders.

Customer Acceptance Policy should not result in denial of banking/financial facility to members of the general public, especially those, who are financially or socially disadvantaged.

In case of non-compliance of the KYC guidelines by an existing customer, banks may decide to close the account after giving due notice to the customer.

Customer Identification Procedures (CIP)

Customer identification includes identifying and verifying the identity by using reliable, independent source documents, data or information. Customer identification is required to be done in following cases:

(i) While opening an account or establishing account based relationship.

(ii) Undertaking international transfer for non-account holders.

(iii) If a doubt arises about authenticity of an existing customer or adequacy or correctness of information about the customer.

(iv) Selling any product including third party products, loading/reloading of prepaid/ travel cards for value of over Rs.50,000/-.

TOPIC

(v) Carrying out a transaction or series of connected transactions valuing over Rs.50,000/- for a walk- in-customer.

(vi) When there is a doubt that a customer (account based or walk-in) is intentionally structuring transactions below the threshold of Rs.50,000/-.

While establishing customer identity verification of documents with the issuing authority, through any mode provided by it, should also be factored in. If a bank relies on third party for customer identification process, it has to adopt suitable precautionary measures. The ultimate responsibility is on the bank onboarding the customer,

PAN

TOPIC

Customer Due Diligence Procedure

- Customer due diligence includes customer identification, and also obtaining information about the customer's location, activity and purpose for which banking services will be used.
- Depending on the risk perceived from the customer, information on the nature or business activity, location, mode of payments, volume of turnover, social and financial status, etc., is collected for completing the profile of the customer.
- Let us look at the basic documentary requirements for various types of customer entities. Banks can ask for additional documents, if considered necessary.

TOPIC

For Individuals

(i) Individuals Requiring CDD:

Documents to be obtained from an individual associated with the bank in any of the under mentioned capacities are listed here.

- **A person entering in an account based relationship,**
- **A beneficial owner of a legal entity customer**
- **An authorised signatory of a legal entity customer**
- **A power of attorney holder of a legal entity customer**

F - sick

P2

Trust

TOPIC

6

(ii) Documents requirements:

(a) Aadhaar Number - if any benefit or subsidy from the Central Govt. is to be received in the account or the customer is voluntarily providing Aadhaar number, or

- A certified copy of any Officially Valid Document (OVD) containing details of identity and address or an equivalent e-document of any OVD.

For certified copies, the original documents are to be verified, and self-certified copy duly authenticated by the officer of the bank stating 'verified with the original' is to be obtained.

Self Attest copies

6

1. UID
2. PASSPORT
3. VID
4. DL
5. Job card
6. Letter NPR

TOPIC

-In case of Non-Resident Indians or Persons of Indian Origin a copy of the document certified by any of the specified authorities as listed below should be obtained, in original:

Authorised officials of overseas branches of scheduled commercial banks registered in India; Branches of overseas banks with whom Indian banks have relationships; Notary Public abroad; Court Magistrate; Judge; Indian Embassy/Consulate General in the country where the non-resident customer.

Judge/CM/

TOPIC

- For e-document, digital signature is to be verified,

(b) One recent photograph where an equivalent e-document is not submitted,

(c) Permanent Account Number or Form No. 60 as defined in Income-tax Rules, 1962, or its equivalent e-document, and

(d) Such other documents including in respect of the nature of business and financial status of the customer, or the equivalent e-documents thereof as may be required by the RE

MOA
Included

TOPIC

(iii) Officially Valid Documents:

① OVD

PAN is not OVD

ID Add

Official Valid Documents for KYC purpose

6

NPR Letter
Letter issued by National Population Register

Passport
Identification document issued by a country

Job Card
Job card issued by NREGA

Driving Licence
Official document that permits individual driving

Voter ID
Identity card issued by Election Commission

Aadhaar Proof
Proof of possession of Aadhaar number

(iv) Updated Address:

In case any of the aforesaid documents does not have updated address of a customer, for the limited purpose of address following are considered as OVD:

i) Utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);

ii) Property or Municipal tax receipt;

iii) Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address; and

TOPIC

(v) Change in name.

Where there has been a change in name, an OVD with previous name along with the marriage certificate or the Gazette Notification indicating the change in name can be accepted.

2 < marriage
Name change

Gazette

old doc + marriage cert +

A. Norms for use of Aadhaar

Following norms are applicable where Aadhaar number is used for KYC purposes:

(a) To be used only with the written consent of the customer.

(b) Must be redacted on the bank's records, physical and electronic, retaining only the last 4 digits.

(c) A customer wanting credit of benefit/ subsidy under a notified scheme: Biometric authentication of Aadhaar is mandatory.

Under this method demographic details and photograph are provided by the UIDAI.

TOPIC

case study

If due to illness, injury, etc. biometric authentication is not feasible then offline-verification of Aadhaar number or a certified copy of any OVD may be obtained. The reasons and the name of the official permitting should be recorded, and subjected to concurrent audit.

(d) For a customer voluntarily using Aadhaar number for identification purpose: banks may carry out e-KYC Authentication or offline verification. Other financial institutions can also use e-KYC authentication, if authorised.

(e) If a customer provides a current address different from that in Aadhaar records, a self-declaration is to be obtained.

V1 DA2.

TOPIC

#

2 marks.

B. Accounts of non-face-to-face customers - OTP based Aadhaar Verification

Restrictions for accounts of non-face-to-face customer with OTP based e-KYC of Aadhaar:

i) aggregate balance of all the deposit accounts of the customer shall not exceed 1 lakh (on exceeding the threshold, the account to be made non-operational till submission of an OVD);

ii) the aggregate of all credits in a financial year, in all the deposit accounts taken together, shall not exceed 2 lakh;

iii) for borrowal accounts, only term loans shall be sanctioned and the aggregate amount of term loans sanctioned shall not exceed rs. 60,000/- in a year;

TOPIC

iv) both deposit and borrowal accounts shall not be allowed for more than one year within which normal mode identification is to be done;

v) if OVD is not submitted/ CDD procedure not completed within a year, a deposit account will be closed and no disbursals will be made on the borrowal account; and

vi) a declaration to be obtained that no other account using this mode has been opened nor will be opened at any other financial institution or a bank.

TOPIC

For Other Forms of Entities

For other forms of entities enumerated below banks need to obtain certified copies of each of the documents indicated against these:

A. Companies:

i) Certificate of Incorporation;

ii) Memorandum and Articles of Association;

iii) Permanent Account Number of the company;

iv) Particualrs of the Beneficial Owners (where applicable),

v) Resolution of the Board of Directors and Power of attorney granted to its managers, officers or employees to transact business on its behalf, and

TOPIC

vi) KYC Documents (as specified for individuals) of the beneficial owners, the authorised signatories and the managers, officers or employees, as the case may be, holding an attorney to transact on the company's behalf.

TOPIC

B. Partnership Firms (Registered):

i) Registration Certificate;

ii) Partnership Deed;

iii) Permanent Account Number of the partnership firm;

iv) KYC Documents (as specified for individuals) of the Partners, the Beneficial Owners, and the persons holding power of attorney to transact on its behalf.

Partners:

TOPIC

C. Trusts:

(i) Certificate of registration;

(ii) Trust deed;

iii) Permanent Account Number or Form No.60 of the Trust;

iv) Documents (as specified for individuals) of the Beneficial Owners the person holding an attorney to transact on its behalf.

TOPIC

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D. Unincorporated Association or Body of individuals:

i) Resolution of the managing body of such association or body of individuals; ii) Permanent Account Number or Form No. 60 of the unincorporated association or a body of individuals; iii) Power of attorney granted to transact on its behalf, iv) KYC Documents (as specified for individuals) of the Members of Managing Body, the Beneficial Owners, and the persons holding an attorney to transact on its behalf, and v) Such information as may be required by the bank to collectively establish the legal existence of such an association or body of individuals. Unregistered trusts/partnership firms shall be included under the term "unincorporated association". Term 'body of individuals' includes societies.

TOPIC

Type of Constitution	Criteria and Threshold Level
Company*	(i) More than 25% share in capital/ profit (ii) Control rights: Appointing majority of directors/ Control management/ Policy decisions
Partnership (Registered)*	More than 15% share in capital/ profit
Body of Individuals/ Association of Persons (Including unregistered Partnsership/ Scoieties/ Trusts)*	More than 15% Capital/ Profit/ Property
Trusts (Registered)	Author, Trustees, Beneficiaries having 15% or more interest, and any other person exercising effective control

* If no natural person fulfilling the criteria can be determined, the individual holding senior managing position to be considered as a beneficial owner.

TOPIC

25% or more

E. Other Juridical Persons

(Not specifically covered above) (such as Societies, Universities and Local Bodies like Village Panchayats, etc.):

i) Document showing name of the person authorised to act on behalf of the entity;

ii) Documents (as specified for individuals) of the beneficial owners and the persons holding an attorney to transact on its behalf, and

iii) Such documents as may be required by the bank to establish the legal existence of such an entity/juridical person.

TOPIC

Enhanced Due Diligence Requirements

(a) For Accounts of non-face-to-face Customers (other than Aadhaar OTP based on-boarding) Where the customer is not met in person for KYC process, the first payment should be effected through the customer's KYC-complied account with another RE, for enhanced due diligence.

TOPIC

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10 - Dud

Simplified Due Diligence Requirements

(a) For Accounts of Self-Help Groups:

For Savings Bank account: CDD of all the office bearers shall suffice. CDD of all the members is not required.

For Credit Linking of SHGS: CDD of all the members to be undertaken.

(b) For Accounts of Foreign Students

a) To open NRO accounts for foreign students, based on:

(i) Passport (with visa & immigration endorsement) bearing the proof of identity and address in the home country,

(ii) Photograph, and

(iii) Letter offering admission from the educational institution in India.

b) To obtain declaration about local address, within 30 days of opening the account, and the address verified.

c) During this period, foreign remittances not exceeding USD 1000 or equivalent can be credited, not to exceed Rs.50,000/-.

d) Prior RBI approval is required to open account of students with Pakistani nationality.

TOPIC

Customer Level KYC/ Monitoring

- AML Measures viz. KYC and transaction monitoring are required to be applied at the customer level on holistic basis taking into account various products/services availed by the customer.
- A customer should not have multiple identities within a bank.
- To achieve this objective a unique identification code for each customer has to be allotted.

KYC

CKYC

- The Unique Customer Identification Code (UCIC) will help a bank to identify customers, track the facilities availed by them, monitor their financial transactions in a holistic manner, and enable banks to have a better approach to risk profiling of customers.
- Besides, this enables the $\boxed{\text{KYC/ CDD}}$ processes at the customer level, thus avoiding these procedures to be repeated for a customer separately for each product/service availed by the customer.

UCIC

TOPIC

Low Risk Category – 10 years
Medium – 8 years.
Higher – 2 years.

Periodic Updation

TOPIC

E-KYC Service of UIDAI - Aadhaar

Bank is required to sign KYC User Agency (KUA) Agreement with the UIDAI.

1. Banks need to provide facility for e-KYC service across various delivery channels viz. bank branches/ micro ATMs/ BC points.
2. Procedure for sharing e-KYC data with the bank is to be put in place.

TOPIC

KYC

CENTRAL KYC RECORDS REGISTRY (CKYCR)

- Central KYC Records Registry (CKYCR) is an entity authorised to receive, store, safeguard and retrieve the KYC records of a customer in digital form.
- Government of India has authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), to act as, and to perform the functions of the CKYCR, Banks are required to capture the KYC information for sharing with the CKYCR in the manner mentioned in the PMLR, as per the revised KYC templates (different formats for individuals and legal entities), following the operational guidelines issued by CKYCR.

TOPIC

- "Know Your Client (KYC) Identifier" means the unique number or code assigned to a customer by the Central KYC Records Registry. Certain operational aspects related to CKYCR are discussed below.

(a) Banks are required to upload regularly on CKYCR the KYC data pertaining to all individual accounts opened on or after January 1, 2017. Banks are required to upload KYC records pertaining to accounts of legal entities (LE's) opened on or after April 1, 2021.

(b) In case of accounts of Individuals opened prior to January 1, 2017, and those of LES opened prior to April 1, 2021, the KYC records are to be uploaded on to CKYCR during periodic updation.

TOPIC

(c) The KYC information should be uploaded within 10 days of commencement of account based relationship with the customer.

(d) Banks should communicate KYC Identifier to the customer.

(e) If for establishing an account based relationship, a customer submits a KYC Identifier to a bank with an explicit consent to download records from CKYCR, the bank shall retrieve the KYC records online.

10

oliveboard

PPB

Module-A

Operational aspects

case study - 2-3

Opening Accounts of Various types of Customers

Unit-4

TOPIC

PERSONAL ACCOUNTS

Accounts of Individuals

- An account can be opened for a single individual or for two or more individuals jointly.
- An individual should be major by age, of sound mind and should not be un-discharged insolvent or disqualified from contracting by any law which he is subjected to.
- The account opening form should be signed by the individual(s) in whose name(s) the account is to be opened.

18+

TOPIC

- In certain situations, like when an individual is not of sound mind or is a minor the form may be signed by her court appointed guardian or natural guardian, as the case may be.
- KYC documents should be obtained for the guardian also, since as per AML regulations, the guardian falls in the definition of 'a customer'.

Father or Mother

18

TOPIC

Joint Account Holders

- A joint account is an account opened in the names of two or more individuals.
- These are opened when the funds belong to more than one person and they desire to exercise joint control on their use, or though the funds are earned by one person but for convenient access to another person, or to provide easy access to the funds in the event of death of the person owning the funds.

TOPIC

- Depending on the need and the situation, different operational modalities are opted for by the customers.
- When a joint account is opened, the relationship among the joint holders and the purpose of having a joint account should be ascertained.
- It is also advisable to know the nature of expected funds inflows in the account.

EOS
AOS
FOS

Joint -

TOPIC

- Joint accounts are generally opened with all the account holders being resident in India. Joint accounts of residents with a non-resident Indian (NRI) is permitted only where the NRI is a close relative of all the resident account holders.
- For a joint account, the account opening form should be signed by all the account holders. It should also contain instructions regarding the mode of operations on the account.

TOPIC

Accounts of Illiterate Persons

1 case study

(a) The rules relating to the account have to be clearly explained to an illiterate person in a language understood by her.

She should be advised that for withdrawing money from the account, she has to personally come to the bank with the Pass Book, every time.

A current account should not be opened in the name of an illiterate person.

(b) Cheque Book should not be issued to her under any circumstances, even in case of joint accounts.

TOPIC

(c) Left hand thumb impression of the account holder is obtained on the account opening form in the presence of an authorised bank officer and a person well known to the bank who will attest her thumb impression on the account opening form.

(d) Passport size photographs of the customer have to be obtained-one to be attached to account opening form and another to the pass book.

TOPIC

(e) Every withdrawal should be orally confirmed by the account holder to the authorized official.

(f) If the illiterate depositor intends to allow a literate person to operate his account, he has to submit an authorisation cum indemnity letter in the prescribed format, with the condition that it can be operated only jointly by both.

No illiterate persons' account should be opened with operation facility of $\boxed{\text{E or S}}$ or by "literate person only".

x.

Jointly by both

TOPIC

50% — 100%

Accounts of Blind persons

(a) There is no legal bar for a blind person to open a bank account.

(b) Due care must be exercised in accounts of blind persons as there may not be consistency in their signature. As they always depend on someone, the chance for their being cheated is greater. The account holder may send a messenger for transaction, whose reliability may not be known to the bank.

(c) Passport size photographs of the blind person have to be obtained-one to be attached to the account opening form and another to the pass book.

(d) The signature/ thumb impression of the blind person has to be attested by a person well known to the bank.

TOPIC

(e) Where the Branch Manager is satisfied, he may allow a blind person to operate the account by herself, or by a next of kin of the blind customer after taking proper letter of authority" from the blind customer.

(f) Whenever inconsistency in the signature of a blind customer is noticed, her left hand thumb impression also may be obtained.

(g) Entries and the balance must be made up to date in the passbook at the time of each transaction and should also be read out to her, when no other person is in hearing distance.

Case Study

II

Accounts of Minors

- According to the Indian Majority Act, 1875, every person domiciled in India, including a minor for whom, a guardian for the person or property is appointed by a court, attains the age of majority on his/ her completing the age of 18 years.
- As per Section II of the Indian Contract Act, 1872, "when the age of maturity has been provided by law to be 18 years, any person less than that age, even by a day, would be a minor in law".

TOPIC

- It further states that "every person is competent to contract who is of the age of maturity according to the law he is subject and who is of sound mind and is not disqualified from contracting by any law to which he is subject."
- The essence of this is that a minor is not competent to enter into a contract. This affects his capacity to hold, acquire or dispose of property.
- A contract for the supply of the necessities of life, as per status of the party, to a minor, is a valid contract.

TOPIC

- In the same way, a minor can also recover money from others, if advanced, since a minor can be a beneficiary.
- In case of all other contracts, a minor may repudiate his promise or consent.
- With a view to inculcating the habit of thrift and savings, banks allow minors above the age of 10 years to open and operate deposit accounts, subject to certain conditions. Opening of minor's accounts needs completion of KYC formalities of both the minor and her guardian, and ascertaining and recording in the bank's systems her date of birth.

TOPIC

- The father is the natural guardian for opening the account, but RBI has permitted banks to open minor's account with the mother as a guardian. The term natural guardian does not include step mother or step father. The minor should be literate.
- Two minors cannot open a joint account.
- RBI has allowed banks to offer facilities like internet banking, ATM, and debit card to a minor, ensuring that the minor's account will not be overdrawn.
- Banks can decide on the documents that will be needed to open accounts by minors.

10 yrs.

Rules for Operations - Accounts of Minors

(i) The minors' accounts should not be allowed to be overdrawn.

(ii) Section 26 of the N.I, Act provides that a minor may draw, endorse, deliver and negotiate a negotiable instrument and as such, a minor can draw a cheque.

(iii) On the minor attaining majority, the guardian is not allowed to operate the account any further, without confirmation from the minor (who is now a major).

TOPIC

(iv) Banks are free to fix the minimum age at which they will allow minors to operate savings bank accounts independently,

(v) Ordinarily, balances in such accounts are subject to a maximum amount, as decided by the bank.

(vi) In the event of death of the minor, the guardian has to close the account.

TOPIC

ACCOUNTS OF OTHER CUSTOMERS

Hindu Undivided Family (HUF)

- In a HUF, the business is inheritable.
- Where a Hindu dies, leaving a business, it passes on to the legal heirs.
- If he leaves male children, it descends to them and the property becomes a HUF property.
- The members of the family are called coparceners and the eldest male child is the manager or the Karta. Since 2005 amendment to Hindu Succession Act daughters whether married or unmarried are recognised as coparceners.

TOPIC

- Further, Delhi High Court held that the eldest female member of the family can be its "karta" in a HUF (Case Law: Mrs. Sujata Sharma vs. Shri Manu Gupta, Delhi High Court Judgment dated 22/12/2015).
- When an account is opened in the name of a HUF, all the adult members have to sign even though the Karta would operate on the account. When the business is ancestral, the coparceners are liable to the extent of their share in the family property and have no personal liability.

Documents for Opening of a HUF's Account

- Account opening form signed by all the adult members of the HUF.
- Specimen signature card signed by the Karta.
- Joint Hindu Family letter signed by all the adult members of the HUF.
- In case HUF has a minor member, the natural guardian should sign on her behalf.

Besides above, the documents required from KYC perspective as detailed in Unit 3 need to be obtained. The account is operated by the Karta (Head of the family). If it consists of various branches, the other major coparceners are allowed to operate on the accounts.

TOPIC

Partnership Firms

- Sec. 4 of the Indian Partnership Act, 1932 defines a partnership as a relationship subsisting between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
- Registration of a partnership is optional except in the states of Gujarat and Maharashtra.

Rules for Opening and Operations - Partnership Firm's Account

(a) In case of registered partnerships a copy of the registration certificate should be obtained.

(b) The partners should sign for and on behalf of the firm and not as an individual.

(c) Cheques payable to the firm should not be credited to the account of any partner/employee.

(d) In case of any dispute among partners, if any partner gives notice of stoppage of operation, all operations must be stopped under intimation addressed as a joint letter sent to all the partners as well as the firm. Then the account would be operative only by all partners jointly.

TOPIC

(e) Partners are mutual agents and can bind the firm by their acts. It applies to a sleeping or secret partner also. (Case Law: M.M. Abbas Bros. and Others vs. Chetandas Fatehchand AIR 1979 Mad.)

(f) Even when the powers of management restricts the rights of other partners and is entrusted in one partner, it is a partnership. (Case Law: K.D. Kamath Co. vs. C.I.T. 1972 ITR(SC))

TOPIC

A+B → C

10

7

Where two of the partners of a firm executed a promissory note in favour of a third partner, agreeing to pay him a certain sum due to him, it was held that the remaining partners are not bound. (Hoshiar Singh vs.Udairam AIR 1929.)

(i) Death of a partner dissolves the partnership firm automatically, in the absence of anything to the contrary. The operations in the account should be stopped. In order to determine the liability of the deceased partner, the banker should close the account of the firm and secure a letter of administration from the court.

(ii) The account would henceforth be styled as "R.K. Dhoble (deceased) Ritesh Mittal (executor/administrator)."

TOPIC

(j) **No partner has powers to do the following:** Open a bank account on behalf of the firm in his own name; Withdraw a legal suit filed by the firm; Admit any liability in a suit or proceed against the firm; and Acquire or transfer immovable property on behalf of the firm.

(k) **Any partner can countermand the payment of a cheque drawn by another partner.**

Retirement of a partner needs stoppage of the bank account operations because the liability of the retiring partner towards the bank and third parties ceases (if a public notice is given in a local newspaper) in respect of transactions undertaken subsequent to the date of retirement. A new account should be opened.

TOPIC

Documents for Opening of a Partnership Firm's Account

- Current account opening form signed by all the partners.
- Specimen signature cards signed by all the partners.
- Partnership letter signed by all the major partners in their personal capacity and not under the seal of
- the Firm, stating the nature of business, names and addresses of all partners along with instructions for mode of operations in the account.
- Original Partnership Deed (for verification & return) with a certified copy.
- Certificate of Registration, in case of a registered partnership firm.
- Complete instructions regarding the person(s) authorised to operate the account with

TOPIC

specimen signatures of the authorised persons with their designation or capacity in which they will operate the account.

- Permanent Account Number of the partnership firm.

Besides above, the documents required from KYC perspective as detailed in Unit 3 need to be obtained.

Thank You

Comment Your Feedback