

PPB

Crash course

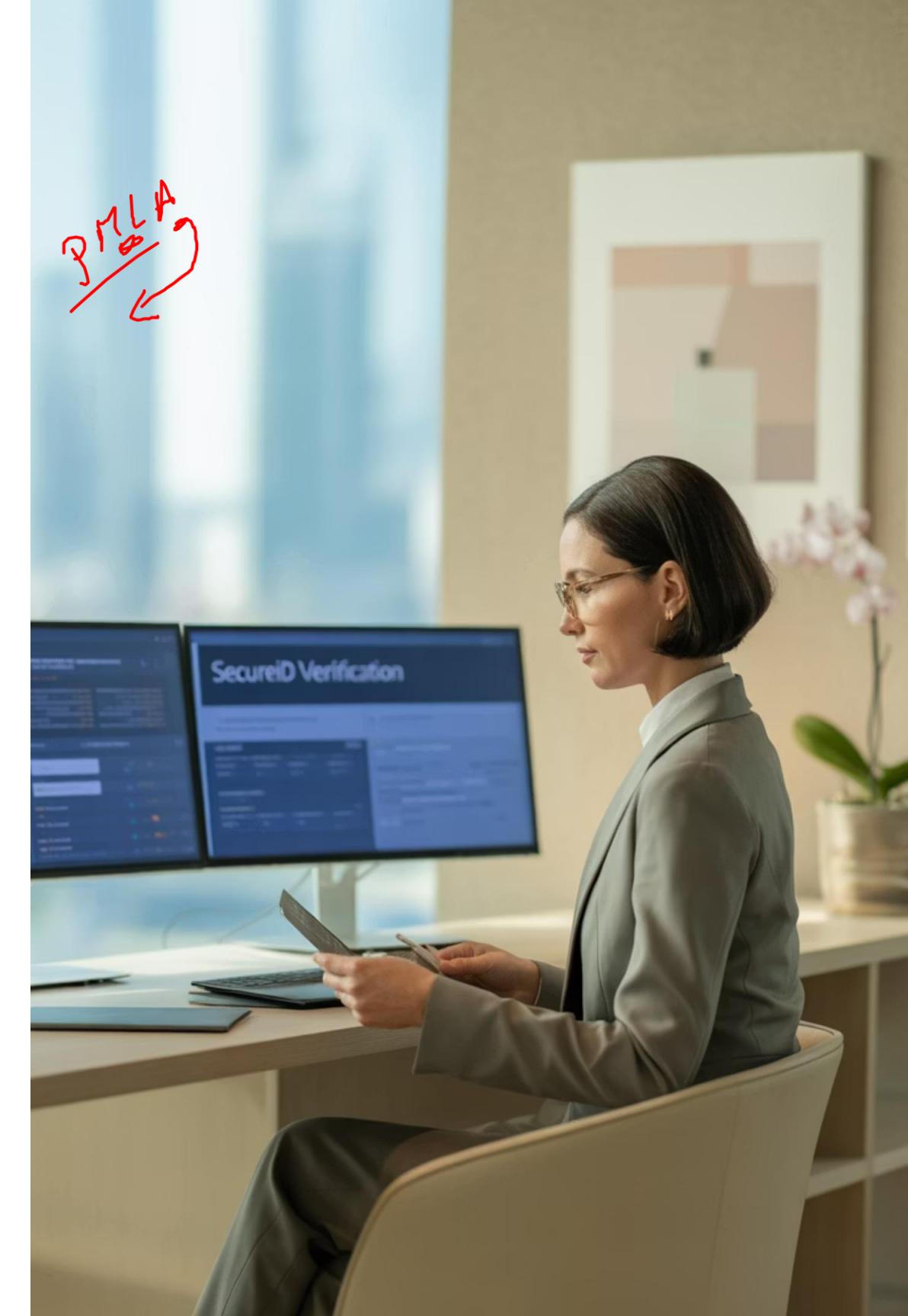
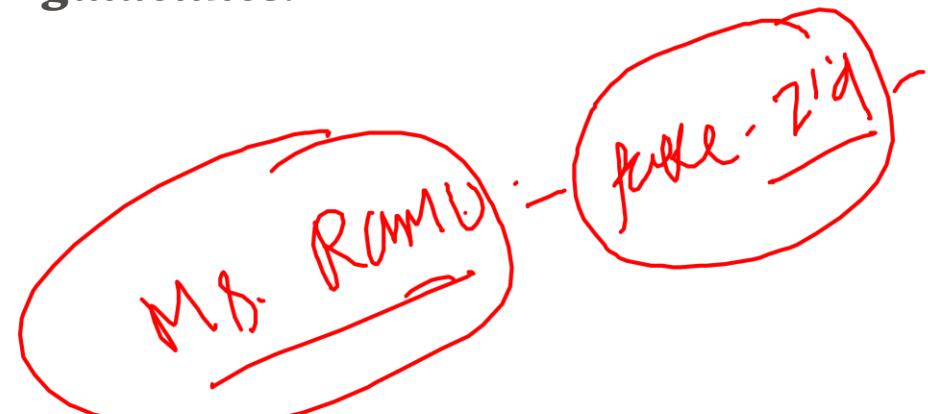
Module- A

Lec-2

Unit-3 Operational aspects of KYC

Know Your Customer (KYC) & Anti-Money Laundering (AML) Compliance Framework

A comprehensive guide for bank compliance officers and risk managers on implementing effective KYC/AML procedures in accordance with RBI guidelines.



Agenda

1 Regulatory Framework

Jurisdictional considerations and compliance hierarchy

2 Customer Acceptance Policy

Essential criteria for risk-based customer onboarding

3 Customer Identification Procedures

Documentation requirements and verification processes

4 Entity-Specific Requirements

Customized approaches for different customer types

5 Due Diligence Variations

Enhanced, simplified, and alternative approaches

Regulatory Framework

Financial institutions must navigate a complex matrix of overlapping KYC/AML regulations. Understanding the hierarchy of compliance requirements is essential to developing robust systems.

Cross-Border Compliance

When variance exists between RBI standards and host country regulations, branches and subsidiaries must adopt the more stringent regulation of the two jurisdictions.

Foreign Banks in India

Branches/subsidiaries of foreign incorporated banks operating in India must comply with the stricter of the two standards between RBI guidelines and their home country regulations.



Customer Acceptance Policy

A robust Customer Acceptance Policy (CAP) forms the foundation of your KYC program. This policy must establish clear criteria for accepting customers while addressing Money Laundering and Terrorist Financing (ML/TF) risks.

The CAP must be designed to mitigate risks without denying banking services to the financially or socially disadvantaged. Non-compliance with KYC guidelines by existing customers may result in account closure after providing due notice.

CAP

CAP

Core Elements of Customer Acceptance Policy



Prohibit anonymous, fictitious, or benami accounts



Reject customers who prevent proper due diligence or provide unreliable documentation



Mandate Customer Due Diligence (CDD) completion prior to relationship establishment



Define circumstances permitting customers to act on behalf of others



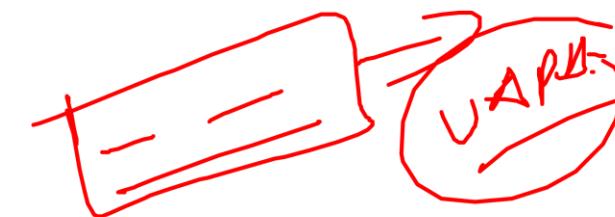
Screen against sanction lists circulated by RBI



Verify PAN through issuing authority and digital signatures of e-documents



Obtain consent for optional information; conduct CDD for all joint account holders



When Customer Identification Is Required

Customer identification is not just a one-time activity at account opening. Financial institutions must implement a comprehensive approach covering multiple scenarios.

① Account Opening

When establishing any account-based relationship

② International Transfers

When facilitating international transfers for non-account holders

③ Authentication Concerns

When doubts arise about an existing customer's authenticity or information accuracy

④ High-Value Transactions

When selling products or handling transactions over ₹50,000 for walk-in customers

⑤ Structured Transactions

When a customer appears to be intentionally structuring transactions below the ₹50,000 threshold

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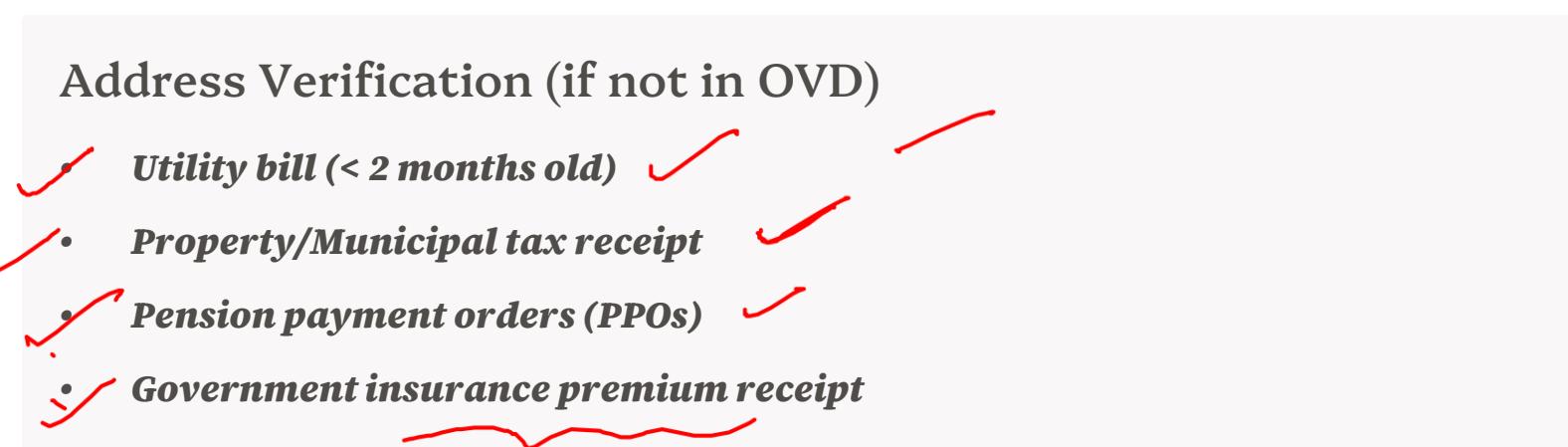
⑥

⑥ Third-Party Reliance

When utilizing third parties for identification, the bank retains ultimate responsibility

Officially Valid Documents (OVDs)

RBI has designated specific documents as Officially Valid Documents (OVDs) for KYC purposes. These documents provide reliable verification of customer identity and address.



Aadhaar-Specific Protocols

Aadhaar has emerged as a critical identification document, but its use is subject to specific regulatory guidelines to protect customer privacy and data security.

0 Fundamental Requirements ✓

- Obtain written consent before using Aadhaar for KYC
- Redact all but last 4 digits in records
- Implement biometric authentication for government benefit schemes
- Allow e-KYC or offline verification for voluntary use
- Accept self-declaration for address changes

OTP-Based Verification Limits

For non-face-to-face customers using OTP-based e-KYC:

- Maximum ₹1 lakh aggregate balance across deposit accounts
- Maximum ₹2 lakh aggregate annual credits
- Maximum ₹60,000 in term loans annually
- One-year validity requiring standard KYC completion



Entity-Specific Documentation Requirements

Different legal entities require distinct approaches to KYC. Compliance officers must understand the specific documentation requirements for each entity type.

-  **Sole Proprietorships**
Individual CDD plus any two from: registration certificate, shop license, tax returns, GST certificate, or professional tax registration
-  **Companies**
Certificate of Incorporation, Articles, PAN, beneficial owner details, board resolution, and KYC of signatories
-  **Partnerships**
Registration Certificate, Partnership Deed, PAN, and KYC of partners, beneficial owners, and POA holders
-  **Trusts**
Registration Certificate, Trust Deed, PAN/Form 60, and KYC of beneficial owners and authorized persons

Due Diligence Variations

Risk-Based Approach

Effective KYC frameworks implement varying levels of due diligence based on risk profiles. This allows for appropriate resource allocation while maintaining regulatory compliance.



Enhanced Due Diligence

For non-face-to-face customers (other than Aadhaar OTP-based), the first payment must be routed through the customer's KYC-compliant account with another regulated entity, providing an additional verification layer.



Simplified Due Diligence

For Self-Help Groups (SHGs), only office bearers require CDD for savings accounts (though all members need CDD for credit linking). Foreign students can open NRO accounts with limited documentation and transaction capabilities.

*high risk
2 years*

*med
8 years*

*low
10 years*

Periodic Updation Requirements

KYC is not a one-time activity. Regular updates ensure customer information remains current and accurate, reflecting any changes in circumstances or risk profiles.

Individual Customers

No changes: Self-declaration via registered email/mobile, ATMs, digital channels, or letters

✓ Address change: Self-declaration with verification within two months

✓ Minor to adult: Fresh photographs and verification of existing information

Non-Individual Customers

No changes: Self-declaration with authorization letter and board resolution

Beneficial ownership: Verify and update BO information

KYC changes: Complete full CDD process as for new customers



Alternative CDD Methodologies

To accommodate technological advancements and improve customer experience, RBI has permitted several alternative approaches to Customer Due Diligence while maintaining stringent verification standards.

Third-Party CDD

Allows reliance on KYC performed by other regulated entities, subject to specific conditions and ultimate responsibility

E-KYC via Aadhaar

Provides biometric or OTP-based electronic verification through the UIDAI database



Video-based Identification (V-CIP)

Enables remote customer verification through secure video interactions with appropriate safeguards

Digital KYC

Facilitates paperless KYC using electronic means with geo-tagging and live photographs



E-KYC Service Implementation

E-KYC services provide a secure, efficient method for customer verification. Financial institutions must establish proper infrastructure to leverage these capabilities.

Implementation Requirements

- Execute KYC User Agency (KUA) Agreement with UIDAI
- Deploy e-KYC capabilities across multiple channels (branches, micro ATMs, BC points)
- Establish secure data sharing protocols
- Train staff on e-KYC procedures and compliance requirements
- Implement audit trails for all e-KYC transactions

Customer Experience Benefits

- Streamlined onboarding process
- Reduced documentation burden
- Faster account opening and service activation
- Enhanced security through biometric verification
- Improved accessibility for remote customers

Central KYC Records Registry (CKYCR)

The CKYCR serves as a centralized repository of KYC records, reducing duplication of effort and enhancing the efficiency of the KYC process across the financial sector.



Key Takeaways



Implementing a robust KYC/AML framework requires a comprehensive understanding of regulatory requirements and operational best practices.

100%

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Compliance Coverage

Ensure full adherence to the more stringent of RBI and host/home country regulations

Anonymous Accounts

Zero tolerance for anonymous, fictitious, or benami accounts

Day Window

Maximum timeframe for uploading KYC data to CKYCR after account opening

OVD Types

Primary officially valid documents recognized for identity verification

Effective KYC is not just about compliance—it's about protecting your institution from financial crimes while ensuring legitimate customers have access to banking services.

Unit-4 Opening Accounts of Various types of Customers

The Complete Guide to KYC and Account Opening Procedures

This comprehensive guide provides bank staff and compliance officers with essential knowledge and procedures for opening accounts for various types of customers. Following these guidelines ensures regulatory compliance while providing excellent customer service.



Agenda

01

Introduction to Account
Opening

Legal requirements and KYC basics

02

Personal Accounts

*Individuals, joint accounts, special
cases*

03

Business Accounts

*Proprietorships, partnerships, LLPs,
companies*

04

Non-Business Entities

Clubs, associations, HUFs

05

Compliance Requirements

Documentation, LEI, and best practices

We'll explore each category in detail, providing you with practical guidance for handling various account types while maintaining full regulatory compliance.

Introduction to Account Opening

Banks interact with diverse customer types including:

- *Individuals*
- *Partnership firms*
- *Companies*
- *Co-operative societies*
- *HUFs (Hindu Undivided Families)*
- *Clubs and associations*

Each customer type is governed by specific laws and regulations that bank staff must understand and apply correctly.



The account opening process involves obtaining the appropriate form from

*Support
@diveboard:uy*

Individual Accounts: Basic Requirements

Eligibility Criteria

- Must be of legal age (18 years or older)
- Of sound mind
- Not an undischarged insolvent
- Not disqualified by any applicable law

Documentation

- Signed account opening form
- Valid identification documents (6)
- Address proof
- Photographs as required (2)
- PAN or Form 60/61

Special Cases

- Guardian may sign for minors
 - Court-appointed guardian for persons of unsound mind
- (*) KYC required for both account holder and guardian

Always verify original documents and retain certified copies for bank records. Ensure all forms are completely filled with no blank fields.

Joint Accounts: Purpose and Operations

For
Ex:

Common Purposes

- Funds belonging to multiple individuals
- Convenient access for family members
- Easy access in event of account holder's death
- Shared financial responsibilities

Key Considerations

Ascertain the relationship among joint holders and the purpose of having a joint account. Understanding expected fund inflows helps with compliance monitoring.

Top

Operational Modes

- Joint accounts can be operated in several ways:
- Either or Survivor (E or S): Any account holder can operate independently (2)
 - Former or Survivor: Only the first named person can operate during their lifetime
 - Jointly: All account holders must sign together
 - Anyone or Survivor: For accounts with more than two holders

Important: Residents can open joint accounts with NRIs only when the NRI is a close relative of all resident account holders.

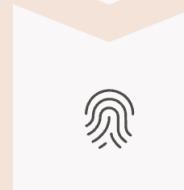


Special Cases: Illiterate Persons



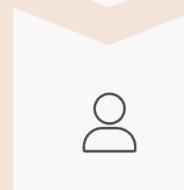
Clear Explanation ✓

Rules must be explained in a language understood by the customer



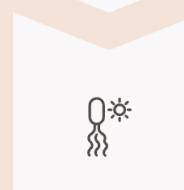
Thumb Impression

Left thumb impression obtained in presence of bank officer and a witness



Personal Visits ✓

Customer must personally visit with passbook for all withdrawals



Photographs

Multiple photos required - one for account form, another for passbook

(Case Study)



Important Restrictions: Never issue cheque books to illiterate persons.

Current accounts should not be opened for illiterate persons. If they authorize a literate person to operate the account, it must be operated jointly by both.

Special Cases: Blind Persons

Legal Status

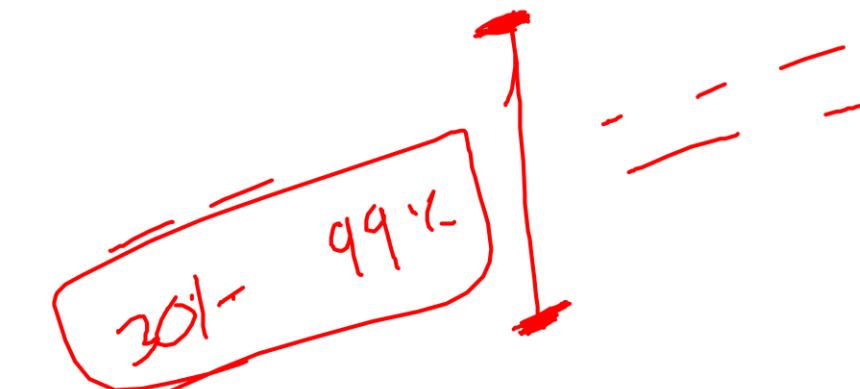
*There is no legal prohibition against blind persons opening bank accounts.
They have full legal capacity to contract.*



Special Precautions

- *Exercise extra care due to potential signature inconsistency*
- *Obtain passport-sized photographs for account form and passbook*
- *Signature/thumb impression must be attested by someone known to the bank*
- *Branch Manager may permit self-operation or next of kin operation with proper authorization*
- *Obtain left thumb impression if signature inconsistency is noticed*
- *Update passbook entries at each transaction and read aloud privately*

These measures balance accessibility with security to protect blind customers from potential fraud.



19- Use study

1

Accounts of **Minors**: Legal Framework

Legal Definition

As per Indian Majority Act, 1875,
a person attains majority upon
completing 18 years of age

A minor cannot legally enter into
contracts (Indian Contract Act,
1872)

Banking Exceptions

Banks allow minors above 10
years to open and operate
accounts to encourage savings

Minors can draw, endorse, deliver
and negotiate negotiable
instruments (Section 26, N.I. Act)

cheque

Guardian Role

Father is natural guardian, but
RBI permits mother as guardian
for banking

KYC formalities required for both
minor and guardian

Banks can offer internet banking, ATM, and debit card facilities to minors, but must ensure accounts cannot be overdrawn. On attaining majority, the guardian can no longer operate the account without confirmation from the now-adult account holder.

needs to be
of minor

two minors
cannot open joint
AC

Accounts of Minors: Operational Guidelines

Allowed

- Banks may set minimum age for independent operation.
- Minors can legally draw cheques.
- Internet banking, ATM, debit card facilities permitted.
- Multiple deposit options available.

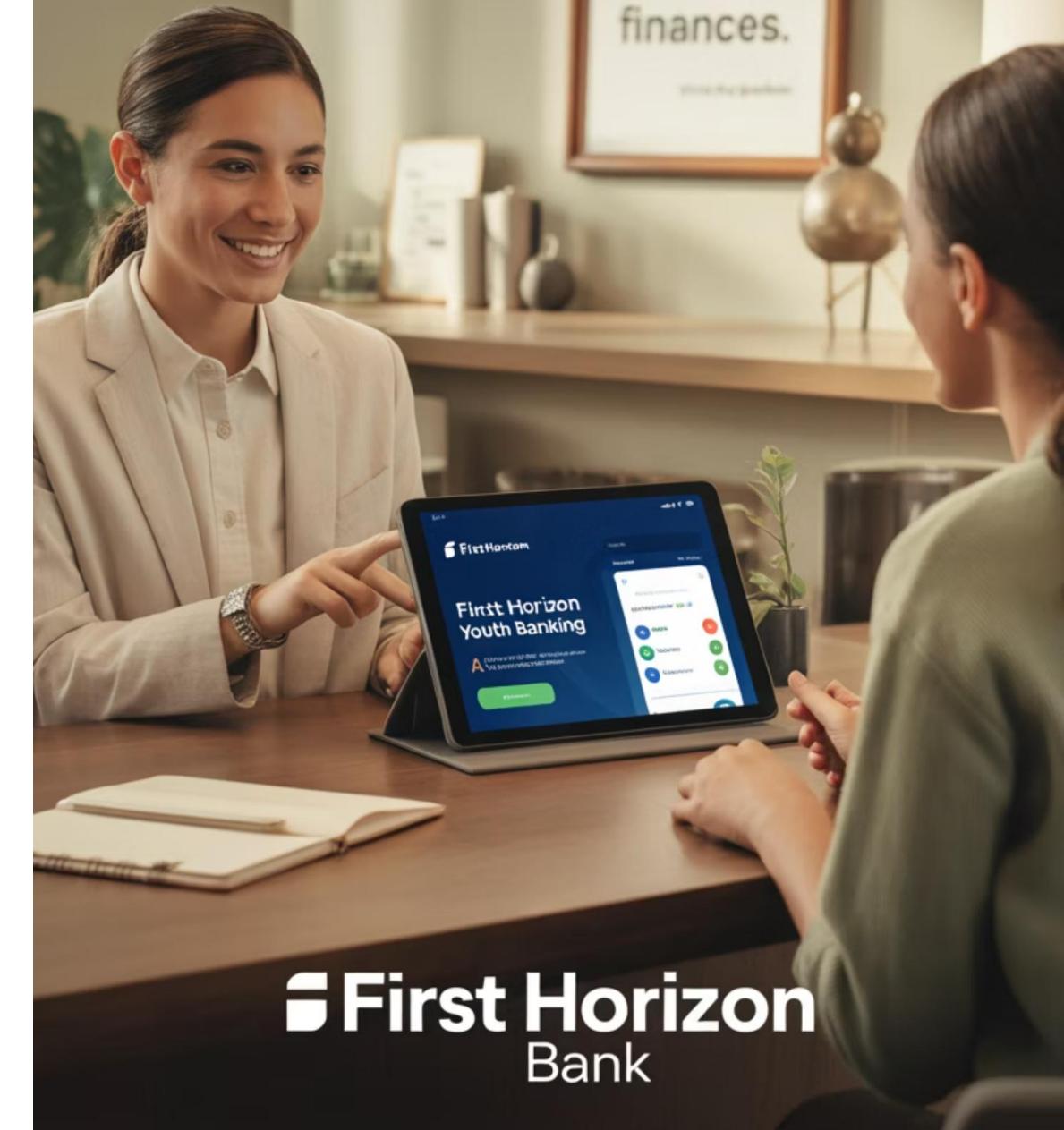
Prohibited

- Accounts must never be overdrawn.
- Two minors cannot open a joint account.
- Guardian cannot operate account after minor attains majority.
- Step-parents are not considered natural guardians.



In Event of Death: If a minor account holder dies, the guardian must close the account. Banks typically set maximum balance limits for minor-operated accounts.

Youth Forizor. Youth Banking



First Horizon
Bank

Hindu Undivided Family (HUF) Accounts

HUF Structure

A Hindu Undivided Family is a unique legal entity under Hindu law where:

- Business is inheritable and passes to legal heirs
- Family members are called coparceners
- Eldest male member is typically the Karta (manager)
- Since 2005 amendment, daughters (married or unmarried) are recognized as coparceners

Account Opening Requirements

- Account opening form signed by the Karta
- Declaration from Karta stating names of coparceners
- KYC documents of the Karta
- Separate PAN for the HUF (distinct from Karta's personal PAN)
- Address proof of the HUF



Proprietorship Firm Accounts

Legal Status

A proprietorship is not legally separate from its owner. The proprietor and the business are considered the same legal entity for banking purposes.

Required Documents

Current account opening form signed by the proprietor
Specimen signature card signed by the proprietor
Proprietorship declaration/letter as per bank's format
Business proof documents (registration certificates, licenses)
KYC documents of the proprietor

Operational Considerations

The proprietor has unlimited liability for business debts
The account should be monitored for business-related transactions
No separate KYC is required for the business entity

A proprietorship account is among the simplest business accounts to open, but proper documentation of the business-customer relationship remains essential for compliance.

Partnership Firm Accounts: Legal Framework

Definition

Section 4 of the Indian Partnership Act, 1932 defines 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."

Key Characteristics

- *Partners are mutual agents who can bind the firm*
- *Registration is optional (except in Gujarat and Maharashtra)*
- *Partners have unlimited liability*
- *Partnership dissolves upon death of a partner (unless specified otherwise)*



Partners act as agents of the firm and can bind it through their actions. This applies even to

Partnership Firm Accounts: Operational Guidelines



Proper Signing

Partners must sign for and on behalf of the firm, not as individuals

Cheque Handling

Cheques payable to the firm must not be credited to partners' personal accounts



Partner Disputes

If any partner gives notice to stop operations, halt all transactions and inform all partners

Partnership Changes

For new partners: continue account if in credit; open new account if in debit to avoid Clayton's Rule



Partner Limitations: Partners cannot: open bank accounts in their own name for the firm, withdraw legal suits filed by the firm, admit liability in suits against the firm, or transfer immovable property without specific authorization.

Partnership Documentation Requirements

1

Core Documents

- *Current account opening form signed by all partners*
- *Specimen signature cards from all partners*
- *Partnership letter signed by all major partners in personal capacity*
- *Original Partnership Deed (for verification) with certified copy*

2

Additional Requirements

- *Certificate of Registration (for registered partnerships)*
- *Complete operating instructions with specimen signatures*
- *Permanent Account Number (PAN) of the partnership firm*
- *KYC documents for all partners*

3

Special Situations

- *For partner retirement: Stop operations and open new account*
- *For partner death: Close account and determine liability*
- *For partnership dissolution: Obtain formal dissolution deed*



Limited Liability Partnership (LLP)

Legal Framework

Formed under the Limited Liability Partnership Act, 2008

Combines the flexibility of partnership with limited liability protection of a company

Key Requirements

- *Minimum two Designated Partners*
- *Designated Partner Identification Number (DPIN) required*
- *Written LLP agreement determining mutual rights and duties*
- *Each partner acts as agent of LLP but not of other partners*

Small LLP Definition

Contribution does not exceed ₹25 lacs

Turnover does not exceed ₹40 lacs per financial year



Limited Companies: Types and Characteristics



Public Limited

Minimum seven members for incorporation

No upper limit on number of members

Shares freely transferable

Can invite public to subscribe for securities



Private Limited

Minimum 2 members, maximum 200 members

Restricts right to transfer shares

Cannot invite public to subscribe for securities

Requires minimum paid-up share capital as prescribed



One Person Company

Only one person as member

Another person named as Nominee

Functions on footing of private limited company

Introduced under Section 2(62) of Companies Act, 2013

Government Companies are those where 51% or more shares are held by Central/State governments. These companies don't require "limited" to follow the company name. (Section 2(45) of Companies Act, 2013)

Company Accounts: Operational Guidelines

Key Operational Rules

- *Cash withdrawals permitted only with specific company authorization*
- *Operations typically require two or more authorized signatories jointly*
- *Death of authorized signatory doesn't stop payment of cheques they signed*
- *Trading companies have implied borrowing powers; non-trading companies must specify in their Memorandum*
- *Cheques payable to company must never be deposited in personal accounts*



Required Documentation for Company Accounts



Corporate Documents

- *Certified copy of Memorandum and Articles of Association*
- *Certified copy of Certificate of Incorporation*
- *Names of directors as stated in Articles/Forms filed with Registrar*

Operational Documents

- *Board resolution appointing the bank and authorizing signatories*
- *Specimen signatures of all authorized officials*
- *List of beneficial owners (if applicable)*
- *PAN of the company*

Special Requirements

- *Certificate of Commencement of Business (for older public companies)*
- *KYC documents of authorized signatories and principal officers*
- *Beneficial ownership declaration for shareholders holding >25% shares*

Additional documents may be required for foreign companies, Section 8 companies (non-profit), or listed companies. Always consult current regulatory guidelines.

Clubs, Associations, and Unregistered Bodies

Documentation Requirements

- *Current account opening form signed by all Managing Committee members*
- *Specimen signature cards from authorized signatories*
- *Copy of Bye Laws/Rules*
- *Resolution of Managing Committee authorizing account opening*
- *List of beneficial owners (if any)*
- *Memorandum of Understanding or similar documents*



Operational Considerations

Legal Entity Identifier (LEI): A Critical Compliance Requirement

What is LEI?

A 20-digit alpha-numeric code that uniquely identifies parties to financial transactions worldwide

Developed after the Global Financial Crisis to improve financial data accuracy and risk management

In India, LEI code can be obtained from Legal Entity Identifier India Ltd. (LEIL), a subsidiary of CCIL

Implementation Status

Mandatory for all participants in OTC markets for:

- Rupee Interest Rate derivatives*
- Foreign currency derivatives*
- Credit derivatives in India*

LEI requirements are expanding to cover more entity types and transaction categories as part of global financial reform.

- ⓘ **Key Takeaway:** Banks must ensure that eligible entities obtain and maintain valid LEI codes as per regulatory requirements. This is crucial for transaction reporting and risk management across the financial system.

Thank You



Comment Your Feedback

