KYC

KYC (Know Your Customer) is the platform on which the company operates to avoid shortcomings in operational, legal and reputation risks to the institution and the consequential losses by scrupulously following various procedures laid down for opening and conduct of accounts. Money laundering is involvement in any transaction or series of transactions seeking to conceal or disguise the nature or source of proceeds derived from illegal activities including drug trafficking, armed robbery, tax evasion, smuggling, etc. KYC guidelines are accepted internationally as an important anti-money laundering measure.

When does KYC apply?

KYC will be carried out at the following stages:

- Opening a new account.
- Opening a subsequent account where documents as per current KYC standards have not been submitted while opening the initial account.
- Opening a Locker facility where these documents are not available with the bank for all the Locker facility holders.
- When the bank feels it necessary to obtain additional information from existing customers based on conduct of the account.
- When there are changes to signatories, mandate holders, beneficial owners etc.

Importance of KYC

KYC is the means of identifying and verifying the identity of the customer through independent and reliance source of documents, data or information. For the purpose of verifying the identity of:

- Individual customers, bank will obtain the customer’s identity information, address and recent photograph. Similar information will also have to be provided for joint holders and mandate holders.
- Non-Individual customers - banks will obtain identification data to verify the legal status of the entity, operating address, the authorized signatories and beneficial owners.

Information is also required on the nature of employment/business that the customer does or expects to undertake and the purpose of opening of the account with the bank.

Key Elements of KYC Policy

a) Customer Acceptance Policy;

b) Customer Identification Procedures;

c) Monitoring of Transactions; and

d) Risk Management.

1. Customer Acceptance Policy

The Customer Acceptance Policy must ensure that explicit guidelines are in place on the following aspects of customer relationship in the bank.

- No account is opened in anonymous.
- Parameters of risk perception are clearly defined.
- Documentation requirements and other information to be collected.
- Circumstances, in which a customer is permitted to act on behalf of another person/entity, should be clearly spelt out.
- Necessary checks before opening a new account.
- Not to open an account or close an existing account where the bank is unable to apply appropriate customer due diligence.

2. Customer Identification Procedures

- The policy approved by the Board of banks should clearly spell out the Customer Identification Procedure to be carried out at different stages i.e. while establishing a banking relationship i.e. while establishing a banking relationship; carrying out a financial transaction or when the bank has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data.
- Identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information.

Customer Identification – Individuals

Features	Documents
Accounts of Individuals • Legal Name and any other name used (any one document)	1) Passport 2) PAN Card 3) Voter's Identity Card 4) Driving License 5) Identity Card (subject to the bank's satisfaction) 6) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank
• Correct permanent address (any one document)	1) Telephone Bill 2) Bank account statement 3) Letter from a recognized public authority 4) Electricity Bill 5) Ration Card 6) Letter from employer (subject to the bank's satisfaction)

Customer Identification – Companies and Partnership Firms

Features	Documents
Accounts of Companies • Name of the company • Principal place of business • Mailing address of the company • Telephone / Fax number	1) Certificate of incorporation, MOA and AOA 2) Resolution of the board of directors to open an account and identification of those who have authority to operate the account 3) Power of attorney granted to its mangers, officers or employees to transact business on its behalf 4) Copy of PAN allotment letter 5) Copy of telephone bill
Accounts of Partnership Firms • Legal Name • Address • Name of all partners and their addresses • Telephone number of the firm	1) Registration Certificate 2) Partnership Deed 3) Power of attorney granted to a partner or employee of the firm to transact business on its behalf 4) Any officially valid document identifying the partners

3. **Monitoring of Transactions**

- Banks can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer –to identify transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the account.

- The bank may prescribe threshold limits for a particular category of accounts and pay particular attention to the transactions which exceed these limits.

4. **Risk Management**

- The Board of Directors of the bank should ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation.

- Responsibility should be explicitly allocated within the bank for ensuring that the bank's policies and procedures are implemented effectively.

- Apart from the key elements the other things that a bank should look into customer education, introduction of new technologies, applicability to branches outside India and appointment of principal officer.

RBI Guidelines on KYC Policy

As per the Prevention of Money Laundering Act, 2002 and the rules mentioned therein, every banking company, financial institution and intermediary, as the case may be, are required to, at the time of commencement of an account-based relationship and/or carrying out a financial transaction as specified under regulations, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship.

Accordingly, Reserve Bank of India (RBI) has advised banks to follow the (KYC)'Know Your Customer guidelines', wherein certain personal information of the account-opening prospect or the customer is obtained. Objective of doing so is to enable the Bank to have positive identification of its customers. KYC also ensures making reasonable efforts to determine true identity and beneficial ownership of accounts, source of funds, the nature of customer's business, reasonableness of operations in the account in relation to the customer's business, etc. which in turn helps the banks to manage their risks prudently. Objective of the KYC guidelines is to prevent banks being used, intentionally or unintentionally by criminal elements for money laundering.

KYC guidelines of RBI mandate banks to collect three types of proofs from their customers. They are:

a) Recent Photograph

b) Proof of identity

c) Proof of address

One of the following documents can be obtained to establish the identity of the customer:

a) Passport

b) Election ID card

c) PAN Card

d) Aadhaar Card

e) Government/ Defense ID card

f) ID cards of reputed employers

g) Driving license

One of the following documents can be obtained to establish the present address of the customer:

a) Credit Card statement

b) Utility bill

c) Ration card