

**Know Your Customer Policy**

(Issued in super-cession of previous policy)

**I. Objective**

- 1) The objective of KYC guidelines is to prevent our Bank from being used, intentionally or unintentionally, by criminal elements for money laundering activities.
- 2) KYC procedures also enable branches to know / understand their customers and their financial dealings better which in turn help them manage their risks prudently.
- 3) Our KYC policy covers the following areas:

- \* Customer Acceptance Policy
- \* Customer identification Procedures.
- \* Monitoring of Transactions and
- \* Risk Management
- \* Statutory Requirements.
- \* Dissemination of KYC Guidelines.

**II. Know Your Customer' Standards**

For the purpose of KYC policy, a 'Customer' may be defined as:

- a person or entity that maintains an account and / or has a business relationship with the bank
- one on whose behalf the account is maintained (i.e. the beneficial owner)
- beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc., as permitted under the law,
- any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank, say, a wire transfer or issue of a high value demand draft as a single transaction.

**III. Customer Acceptance Policy (CAP)**

- 1) No account is to be opened in anonymous or fictitious / benami name(s);
- 2) No Account should be opened or an existing account closed where the branch is unable to apply appropriate customer due diligence measures i.e. branch is

unable to verify the identity and / or obtain documents required as per the risk categorisation due to non-cooperation of the customer or non-reliability of the data / information furnished to the branch. In such cases, the fact must be informed to the respective Regional Managers and concurrence obtained for declining to open the account / close an existing account.

- 3) No account is to be opened for persons / entities considered as anti-social / anti-national elements.
- 4) No account is to be opened for persons having a record of fraud, misappropriation, cheating or forgery.
- 5) No account should be opened for correspondent banks which have not implemented KYC and prevention of money laundering measures.
- 6) Before opening any account it has to be verified whether the customer matches with any person with known criminal background.
- 7) (i) No accounts should be opened for persons, organizations found in the negative list circulated by Reserve Bank of India. In case they come across any transaction relating to persons / entities stated in the list, the fact must be immediately reported to law enforcing authority.  
  
(ii) For this purpose the branches shall maintain an up to date negative list readily available at the desk meant for handling of opening accounts. The Information Technology Department can also examine the feasibility of incorporating the negative list in the Core Banking Solution so that accounts are not opened even by oversight by branch level functionaries for such notified persons / entities.
- 8) No account should be opened in anticipation of submission of the account opening forms, viz documents listed in Table I for persons of doubtful identity. Account shall be opened only after the desk officer / manager is satisfied that identity and credentials of the customer is proved on the basis of documents and further enquiry, if necessary.

**Table - I**

**Customer Identification Procedure**

**Features to be verified and documents that may be obtained from customers**

<b>Features</b>	<b>Documents</b>
<b>Accounts of individuals</b> <ul style="list-style-type: none"><li>- Legal name and any other names used</li> <li>- Correct permanent address</li></ul>	(i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving licence (v) Identity card (subject to the bank's satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank  (i) Telephone bill (ii) Bank account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the bank)  (any one document which provides customer information to the satisfaction of the bank will suffice)
<b>Accounts of companies</b> <ul style="list-style-type: none"><li>- Name of the company</li><li>- Principal place of business</li><li>- Mailing address of the company</li><li>- Telephone / Fax Number</li></ul>	(i) Certificate of incorporation and Memorandum & Articles of Association (ii) Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account (iii) Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) Copy of PAN allotment letter (v) Copy of the telephone bill
<b>Accounts of partnership firms</b> <ul style="list-style-type: none"><li>- Legal name</li><li>- Address</li><li>- Names of all partners and their addresses</li><li>- Telephone numbers of the firm and partners</li></ul>	(i) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses (v) Telephone bill in the name of firm / partners
<b>Accounts of trusts &amp; foundations</b> <ul style="list-style-type: none"><li>- Names of trustees, settlers, beneficiaries and signatories</li><li>- Names and addresses of the founder, the managers / directors and the beneficiaries</li></ul>	(i) Certificate of registration, if registered (ii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders / managers / directors and their addresses

- Telephone / fax numbers	(iv) Resolution of the managing body of the foundation / association (v) Telephone bill
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**Table – II**

**Risk Categorization of customers based on various parameters**

<b>Basis</b>	<b>High Risk</b>	<b>Medium Risk</b>	<b>Low Risk</b>
<b>Type of Customer</b>	(i) Private Ltd., Company  (ii) Public Ltd Company (Closely held)  (iii) Trusts  (iii) Charities  (v) NRIs having aggregate deposit of Rs.50 lakhs & above  (vi) Politically Exposed Persons  (vii) Non-Face to face customers with aggregate deposit of Rs.10 lakhs and above.  (viii) Customers having adverse publicity. NRIs of Indian Origin.  (ix) Firms with operative transactions authorized by sleeping partner.	(i) Public Ltd companies (widely held)  (ii) NRIs with balance of Rs.25 lakhs and above, but < Rs.50 lakhs.  (iii) Firms with sleeping partners.	(i) Salaried persons.  (ii) Pensioners  (iii) Professional & Self employed persons.  (iv) Agriculturist  (v) Self Help Groups  (vi) Government companies.  (vii) Public Sector companies.  (viii) Government Departments.  (ix) NRIs with balance of less than Rs.25 lakhs and below.
<b>Source (Nationality) of funds</b>	Foreign Remittances from national of Gulf, Pakistan, Afghanistan, Libya and Syria	Foreign Remittance from national of Eastern Block Countries, Indonesia, Burma, Malaysia, Singapore and Thailand	Foreign Remittance nationals of United States and European Countries. Foreign Remittances from NRIs & persons of Indian origin.
<b>Location of Customer</b>	Developing Countries, African Countries, South American Countries	Asian Countries, Russia and China	United States and European Countries
<b>Quantum of Transaction</b>	Cash transaction of Rs. 5 lac and above  Non cash transactions of Rs.10 lacs and above	Cash transaction of Rs. 1 lac & above but less than 5 lacs.  Non cash transactions of Rs.2 lacs & above but below Rs.10 lac	Cash transactions less than Rs. 1 lac  Non cash transactions Less than Rs.2.00 lacs

	<u>One time transaction</u> Rs. 1 lac and above (cash.)	<u>One time transaction</u> Rs. 20,000 and above but below 1 lac cash	<u>One time transaction</u> Less than Rs.20,000/- Cash
	Rs.5 lac and above (non cash)	Rs.1 lac and above but less than Rs.5 lacs non cash	Less than Rs.1 lacs non cash
<b>Business Activity</b>	(1) Jewellery (2) Chit Funds (3) Finance Companies (4) Foreign Exchange, Money Market Brokers (5) Travel Agencies (6) Export / Import Trade (7) S M Es with annual turnover exceeding Rs. 25 Crores and above	(i) Commodity Trade (ii) S M Es with annual turnover Rs. 10 Crores and above, but < Rs.25 Crores	(i) Industry (ii) Hotel (iii) Plantations (iv) S M Es with turnover less than Rs. 10 Crores. (v) Retail Trade
<b>Composition of partners, directors</b>	Entirely Foreign nationality	A mix of Indian and Foreign nationals	Exclusively Indian nationals

9) In case of undesirable customers, that is in whose case cheques are invariably returned for want of requisite balance in their accounts or where even the minimum balances are not maintained continuously / repeatedly, the branch may take steps to close such accounts after obtaining approval of Regional Office and with due notice to the customer.

In the case of High Risk Customers and / or customers putting through high value transactions, it is mandatory that Manager / Officer of the branch visits the customer's premises to ascertain the real existence of such a business / industrial unit and its scale of operations commensurate with its account turnover.

It must be noted that the entire work of physical verification should not be allocated to Assistant Managers. It is imperative that the Manager should personally visit at-least 100 High value (new / existing) deposit customers and at-least 100 high value (new / existing) advance customers every quarter. The same customer should not be visited frequently unless there are reasons for making such frequent visits. Only the customers who were not visited earlier may be taken up for verification.

10) The focus of the branches should be to canvass high net worth customers, but this should not result in denial of service to low net worth customers who voluntarily approach the branch for opening accounts or other services.

11) There shall be no discrimination in opening of the accounts based on sex, caste, religion etc. However, opening of accounts of NRIs, Foreign Nationals and Charitable Institutions receiving foreign contribution shall be as per Exchange Control Guidelines.

12) Opening of Accounts of persons who have adverse reputation among business circles may be declined.

13) Whenever a person who neither resides nor has employment in the command area of the branch approaches for opening operative accounts, the need for the same is to be got clarified to the satisfaction of the branch.

**14) Fiducial Transactions:**

Extra Care must be taken where the accounts are opened through mandate. If the account is opened and operated by "A" for the sake of "B" (the account holder), the identity of "A & B" must be thoroughly checked and the underlying purpose for such an arrangement must be got satisfied by the Branch Manager that there is nothing unusual or suspicious about such arrangement.

Such operation by a person for the sake of the customer / beneficial owner is permissible in the following cases: -

(i) In the case of a family member first degree relatives i.e. father, mother, sister etc., holding letter of authority.

(ii) In the case of a near relatives authorized by a duly executed Power of Attorney.

(iii) In the case of an official of a company authorized by Board Resolution (the authorised person himself should not be a signatory to the resolution).

(iv) Investment Consultant of an NRI customer holding a properly executed power of attorney.

(v) Any partner of the firm, if a letter of partnership (in lieu of partnership deed / our printed form is taken) signed by all the partners.

(vi) If a partnership deed has been taken, the partner as authorized and to the extent authorized by the deed to be permitted to operate the account.

(vii) A Trustee in terms of the Trust Deed and to the extent permitted by the Deed.

15) **Customer Profiles:**

The branch should prepare separate profile for each account holder as far as possible, by personal interview with them at the time of opening of an account, preferably based on the disclosures made by the customer himself / herself / the authorized representatives of firm / corporate body.

The information given by the customer however is to be cross checked with documentary evidences furnished and market reports.

The profile shall include the occupation / profession / activity of the customer, the need and purpose for which the accounts are being opened, the sources of funds for the intended transactions, the annual profit and turnover for the preceding three years, firms / associate / group / subsidiary / holding companies of the customer, their performance, market standing, commonality of management and financial integration etc.

As and when new information is received regarding customer's financial position, dealings and market reports the information should be incorporated in the customer profile and thereby the profiles must be always kept updated.

Once a customer profile is prepared for a customer viz a person / firm / company, additional profiles are not needed for further accounts opened by the same customer. Instead, a reference to the original profile is to be mentioned in all further accounts.

The customer profiles are confidential documents to be used for the KYC purpose and should not be used for cross selling and not to be divulged to third parties.

16) The due diligence to be exercised in opening and conducting transactions in the accounts depends on the risk categorization of the customers. The risk categorization based on various parameters such as type of customer, source of funds etc., is stated in the **Table II.**

It is evident that great care is to be taken in respect of high risk customers on the basis stated in the **Table II** in comparison to the care taken for medium and low risk category. Higher the risk, greater the care to be taken. This is based on the Pareto principle (80:20 Principle) wherein care, concentration and time to be devoted should depend on the importance, risk perception and value of the transactions.

17) While implementing the customer acceptance policy small value customers / common persons should not be put to any difficulty.

#### **IV. Customer Identification Procedure:**

##### **1) Verification of Identity:**

The branch shall verify the identity of the customer based on documents and by obtaining introductory signature from an existing customer / very well known person and if necessary by making further enquiries in case of doubt.

(a) (i) As part of identification process, branch shall obtain photographs of customers, partners, directors, office bearers and persons authorised to operate account.

(ii) Introduction of the potential customer by:

(a) An existing customer having an account for at-least 6 months who has good balances, and / or frequent operations in the operative account or (b) a person well known to the branch and having good market reports in the area.

(b) Verification of identity, based on documents, is to be done for various types of customers as quoted out in **Table I**.

But, particular care must be taken to verify the legal existence of organizations and genuiness of the documents, signature and other particulars in the account opening forms. (For example: Telephone bill, Electricity bill, property tax receipts etc can also be verified, in case of doubt, search report may be obtained for a company)

Further, the identity of the persons managing the organization viz partners, directors, office bearers, authorised signatories must be verified by cross checking documents as required as in **Table I**.

(c) For the sake of identity verification, all the documents listed out for the purpose need not be insisted. If one document (say driving licence) is produced and if the branch is satisfied about the evidence and can prove at a later date that due diligence



has been observed in establishing the identity, the branch can go ahead and open the account. But, if the branch is not satisfied about the document furnished (say driving licence) then it can call for alternative documents till it is satisfied in order to observe due diligence.

## **2. Medium & High Risk Customers:**

In case of Medium and High Risk customers more than one document may be called for verification / cross checking depending on the risk perception of the branch.

A). Certain precautions to be observed in the case of High Risk accounts are stated in **Annexure I**. The branches shall keep them in mind while opening the account as well as allowing operations in such accounts including closure of such accounts.

B). In the case of non-face to face customers the periodical account statement shall be sent by Registered Post Acknowledgement Due. The branch shall look out for receipt of acknowledgement or return of the post in order to confirm the identity and whereabouts of such customers.

## **3.Verification of Introduction:**

(i) The branch shall cross check by means of post or in person regarding the genuineness of the introducer who has affixed introductory signature. If the introducer confirms having introduced the new customer, a remark shall be written in the account opening form under the signature of the Officer / Manager. Otherwise, the matter must be taken up with the concerned new customer and withdrawals permitted only after matter is sorted out with the new customer.

(ii) It is preferable to obtain introduction signature from parties who are in the same line of business and the potential customers may be advised accordingly.

### **For instance:**

(a) Introduction for an export client may be from another export client.

(b) Introduction for an agricultural unit may be from another agricultural unit etc.,

This way it will be easy to cross check particulars of the new customers from the introducers.

#### **4. Introduction for Relatives by staff members:**

Staff members can introduce their relatives to open accounts provided they are fully aware of the particulars of their relatives. As a matter of prudence, Manager, Officers / Staff shall not introduce outsiders unless the identity and integrity of the persons are very well known to them.

#### **5. Introduction by an NPA Customer:**

(i) Introduction by an NPA party shall be subjected to extra care. It shall be verified whether the new account is for the purpose of routing certain transactions to conceal the same from the bank i.e., whether the new account holder is a front person / firm / company for the NPA Borrower.

(ii) For the same reason, no current account shall be opened or discounting / purchase limits granted for parties who are NPA borrowers with other banks. In such cases the request from the parties must be politely declined stating that they should obtain an NOC from their main banker for the purpose.

#### **6. Other Bank(s) Borrowers:**

(i) Whenever it is found that the borrowal customer is having accounts with other banks, confidential opinion about such borrowers must be sought as a matter of routine. In case reply is not forthcoming from the other bank, for more than a fortnight, then the account may be entertained for opening (subject to observing due diligence).

(ii) In respect of parties having major borrowal accounts with other banks our Bank should exercise due diligence in ascertaining the antecedents and track record of such borrowal account before take over.

#### **7. Consortium:**

Where our Bank is a member of a consortium, our representative should call for operational information in the hands of the leader of the consortium regarding the borrower and keep the same updated in the customer profile.

#### **V. MONITORING OF TRANSACTIONS:**

Ongoing monitoring is an essential element of effective KYC procedure. Branches have to identify and be familiar with normal and reasonable activity of the customer so that they can identify any unusual / high value transaction not in line with the level of

business activity and thereby find out the true purpose of the transactions. The branches should follow the guidelines for the purpose of monitoring.

**A. Caution of New Accounts:**

All newly opened accounts must be kept under constant check for a period of, at-least, 6 months to ensure that no fraudulent instruments are tendered for collection / clearing / discount.

**B. General:**

1) Any transactions of a high value nature which does not seem to have any logical / business purpose should attract the attention of the officer handling the concerned desk. The Manager of the branch should also be aware of all the high value transactions in a branch on any working day.

2) The real purpose of the aforesaid transactions must be ascertained, with due courtesy. The Manager and the desk Officer shall make discreet enquiries to verify the genuineness of the party's statement. If such verification shows a contrary position the matter shall be reported to the Regional Office. In the meantime the Manager and the desk Officer shall exercise caution and continue to monitor / verify all the transactions in the respective accounts and other accounts of the same customer.

3) The branch shall maintain a record of all high value transactions in the format prescribed by RBI and also mention therein, in remarks column, whether the Manager / Desk Officer has verified directly with the customer or Indirectly, the purpose of the transactions in order to ensure that it is not for tax evasion, terrorism financing or to finance unlawful and undesirable activities.

4) Whenever a high value transaction is noticed in an account, it is mandatory on the part of the Manager of the branch to go back to a/c. opening records and make sure that KYC Norms have been complied with in respect of that account.

5) The Manager shall keep track of all (high value) deposit accounts as well as advance accounts who invariably resort to cash transactions, whether their nature of activity justifies such cash based transactions. If not, the need for purely cash based transactions especially of large amounts shall be discreetly enquired into and recorded.

6) The branches should identify the normal and reasonable activity of the customer. Any Transactions that falls outside the normal activity is an unusual transaction.

Branches have to pay special attention to all unusual complex, large transactions which apparently do not have any visible, lawful purpose.

**Table-III**

**Level I (Intra day) Monitoring:**

Cut off Limit for High Value Transactions

<b>Area</b>	<b>Cash</b>	<b>Non-cash</b>
<b>Metro &amp; Urban</b>		
Manufactures	5	25
Trading	5	25
Service	2.5	10
Agriculture	5	10
<b>Semi Urban</b>		
Manufactures	2.5	10
Trading	2.5	10
Service	2	5
Agriculture	5	5
<b>Rural</b>		
Manufactures	1	5
Trading	2	10
Service	1	5
Agriculture	2.5	5

The intra day monitoring is done at the desk level by the desk officer handling SB / CA / OD / CC accounts. The officer has to be vigilant to notice high value transactions and find out through discreet examination and enquiry the sources of funds (in case of credits and user of the funds in case of debits). For example, if the payee of the instrument is in no way business-wise connected with the customer, then there is a need for ascertaining the genuineness of the transaction.

(a) Any transaction that is higher in value than the Average Transaction Value (ATV) (i.e) Turnover divided by No. of instruments) is to be treated as an exceptional transaction

(b) Exceptional Transactions  
Activity Threshold Limit

Trading 5 times ATV  
Business (Non-Trading) 3 ,,  
Industry 3 ,,  
Services 3 ,,

The transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer should particularly alert the attention of branches.

(c) Very high account transaction compared to the balance measured may indicate a money laundering activity.

(d) **Table II** depicts the risk perception on customers. The high risk customers should be subjected to higher due diligence measures compared to the medium risk category and so on. In other words the level of diligence in KYC measures for the account opening, monitoring etc., should be proportional to the risk perception of the customer by the branch.

Branch Managers should keep themselves well informed about market developments such as failure or adverse publicity regarding NBFCs, Chit Funds and Firms / Companies as reported in the press. If any such person / concern of doubtful reputation approaches for opening accounts (other than term deposits) the request must be declined.

## **VI. Risk Management:**

### **Risk Categorisation of Branches for the purpose of KYC norms verification.**

The risk due to default under customer KYC norms culminates into loss to the bank due to frauds,

Irregularities committed by the customers with the convenience of staff or otherwise. Further, non-compliance to KYC norms may give rise to loss to third parties giving rising to action by the regulatory authorities against the bank concerned.

Therefore, we may classify the branches in terms of their proneness to KYC violations. The following eight parameters have a high bearing on the above risk. Needless to say the KYC compliance has a bearing on Per Employee Business (PEB) etc. Higher the PEB, greater the work load for the branch level functionaries and hence greater the chance of lack of observance of Due Diligence.

### **Table - IV**

### **A risk model with scores for different parameters is designed as follows:**

#### **Risk Model**

#### **Parameter Risk Score**

1. Base : Highest Per Employee Business among all branches taken as 100%  
75% to 100% 3  
50% to 74% 2  
25% to 49% 1  
Less than 25% 0
2. Base : Highest Per Branch Business among all branches taken as 100%  
75% to 100% 3  
50% to 74% 2

25% to 49% 1

Less than 25% 0

3. Base : Highest aggregate of top 100 current accounts balance among all branches taken as 100%

75% to 100% 3

50% to 74% 2

25% to 49% 1

Less than 25% 0

4. Base : Highest volume of cash transactions among all branches taken as 100%

75% to 100% 3

50% to 74% 2

25% to 49% 1

Less than 25% 0

5. Base : Highest volume of Corporate and Trust Accounts among all branches taken as 100%

75% to 100% 3

50% to 74% 2

25% to 49% 1

Less than 25% 0

6. Number of High Value Cash Transactions Rs.10 lakhs and above reported among all transactions taken as 100%

75% to 100% of average of the above number 3

50% to 74% 2

25% to 49% 1

Less than 25% 0

7. Fraud Perpetrated within one year by a customer due to laxity in observance of KYC norms.

Amount of Fraud Rs.5 lacs & above 3

> 25000 & < 5 lacs 2

<25000 1

No Fraud 0

8. Comments regarding compliance to KYC Norms in Annual Inspection Reports

Highly adverse 3

Adverse 2

Unsatisfactory 1

Satisfactory 0

The aggregate of score for a branch under evaluation will range from 0 to 24. The branch may thus be classified as High Risk, Medium Risk and Low Risk by splitting the aggregate into three bands. However, marginal relief of 2 scores may be given to the Low Risk band and Medium Risk band in order to narrow down and concentrate more on really worse cases of high risk categories.

Thus the risk score structure may be as follows

High Risk 18 - 24  
Medium Risk 11 - 17  
Low Risk 1 - 10  
No Risk 0

### **Test Checks**

**High Risk branches:** - The high risk branches should be subjected to Test Checks on a monthly basis. The concurrent auditor attached to the branch shall check all operative / non operative, newly opened Corporate & Trust Accounts. In the case of Partnership and Individual accounts with balances and monthly turnover as below are to be subjected to Test Check.

### **Table IV**

#### **Choice of Test Check samples**

Cut off limits for selecting accounts for Test Check by audit officials, i.e., those accounts with the balance indicated or above shall be selected and those with monthly turnover as indicated or more.

(i) Current/OD/CC Accounts

(Rs.in lacs)

<b>Category</b>	<b>Monthly Turnover</b>	<b>Balance Equal to or more than</b>
Metro	5.00	2.00 or / and
Urban	2.50	1.00 or / and
Semi Urban	1.00	0.50 or / and
Rural	0.50	0.25 or / and

(In the case of OD/CC accounts basis is on monthly turnover)

(i) Savings Bank Accounts

(Rs.in lacs)

<b>Category</b>	<b>Balance</b>	<b>Monthly Turnover</b>
Metro	0.50	2.00 or / and
Urban	0.25	1.00 or / and
Semi Urban	0.10	0.50 or / and

Rural	0.05	0.25 or / and
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(iii) FD / Cash Certificates etc opened / renewed during the month  
(Rs.in lacs)

Category	Amount
Metro	10.00
Urban	5.00
Semi Urban	2.50
Rural	1.00

In addition any account wherein a cash transaction of Rs.10 lacs and above or a non-cash transaction of Rs.25 lacs and above has been found during the coverage period, test check should be applied for verification.

Further, all high value transactions (Rs.10 lacs and above) in respect of Demand Drafts, Traveller Cheques should be examined and reported.

The cut off date for ascertaining the balances is the preceding 1<sup>st</sup> of June every year. The Test Check must be conducted by the concurrent auditor of the branch. In case the branch is not under concurrent audit, the concurrent auditor of a nearby branch or another Branch Manager / an Officer from Regional office authorized by the Regional manager for the purpose can conduct the check.

The periodicity of Test check is as follows,

Risk Category	Periodicity
High Risk	Monthly
Medium Risk	Quarterly
Low Risk	Half Yearly
No Risk	Annually (Routine Inspection)

The test check reports are to be marked by the Regional Office and The Inspection Department. The Regional Office has to obtain the rectification reports for the features pointed out in the test checks. The rectification report for the region as a whole maintaining the individual branches shall be sent to Inspection department.

The Inspection Department in turn shall place a consolidated note to the bank's Board once in a quarter for high risk branches, once in a half year for medium risk branches and once in a year for the low risk branches.



The inspecting officers sent for annual inspection to branches must carry with them the data on deviations pointed in the test checks and verify whether corrective action has been taken for the features stated in the verification reports.

## **VII. KYC for the Existing Accounts**

However, transactions in existing accounts should be continuously monitored and any unusual pattern in the operation of the account should trigger a review of the Customer Due Diligence (CDD) measures. All the existing accounts of companies, firms, trusts, charities, religious organizations and other institutions are subjected to minimum KYC standards which would establish the identity of the natural / legal person and those of the 'beneficial owners'. Branches may also ensure that term / recurring deposit accounts or accounts of similar nature are treated as new accounts at the time of renewal and subjected to revised KYC procedures.

Where the branch is unable to apply appropriate KYC measures due to non-furnishing of information and / or non-cooperation by the customer, the branch may consider closing the account or terminating the banking / business relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions should be referred to the respective Regional Manger and approval obtained.

## **VIII. Appointment of Principal Officer**

The General Manager (Inspection Division) shall be the Principal Officer located at the Head / Corporate office of the bank and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with enforcement agencies, banks and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

### **Annexure-I**

#### **Customer Identification Requirements – Indicative Guidelines**

##### **1. Trust / Nominee or Fiduciary Accounts**

There exists the possibility that trust / nominee or fiduciary accounts can be used to circumvent the customer identification procedures. Branches should determine whether the customer is acting on behalf of another person as trustee / nominee or any other intermediary. If so, branches may insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place. While opening an account for a trust, branches should take reasonable precautions to verify the identity of the trustees and the settlers of trust (including

any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries should be identified when they are defined. In the case of a 'foundation', steps should be taken to verify the founder managers / directors and the beneficiaries, if defined.

## **2. Accounts of companies and firms**

Banks need to be vigilant against business entities being used by individuals as a 'front' for maintaining accounts with banks. Branches should examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception e.g. in the case of a public company it will not be necessary to identify all the shareholders.

## **3. Client accounts opened by professional intermediaries**

When the bank has knowledge or reason to believe that the client account opened by a professional intermediary is on behalf of a single client, that client must be identified. Branches may hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds. Banks also maintain 'pooled' accounts managed by lawyers / chartered accountants or stockbrokers for funds held 'on deposit' or 'in escrow' for a range of clients.

Where funds held by the intermediaries are not co-mingled at the bank and there are 'sub-accounts', each of them attributable to a beneficial owner, all the beneficial owners must be identified. Where such funds are co-mingled at the bank, the branch should still look through to the beneficial owners. Where the branches rely on the 'customer due diligence' (CDD) done by an intermediary, they should satisfy themselves that the intermediary is regulated and supervised and has adequate systems in place to comply with the KYC requirements. It should be understood that the ultimate responsibility for knowing the customer lies with the bank.

## **4. Accounts of Politically Exposed Persons (PEPs) resident outside India**

Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government / judicial / military officers, senior executives of state-owned corporations, important political party officials, etc. Branches should gather sufficient information on any person / customer of this category intending to establish a relationship and check all the information available on the person in the public domain. Branches should verify

the identity of the person and seek information about the sources of funds before accepting the PEP as a customer. The decision to open an account for PEP should be taken at a senior level which should be clearly spelt out in Customer Acceptance policy. Branches should also subject such accounts to enhanced monitoring on an ongoing basis. The above norms may also be applied to the accounts of the family members or close relatives of PEPs.

#### **5. Accounts of non-face-to-face customers**

With the introduction of telephone and electronic banking, increasingly accounts are being opened by branches for customers without the need for the customer to visit the branch. In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, Certification of all the documents presented may be insisted upon and, if necessary, additional documents may be called for. In such cases, branches may also require the first payment to be effected through the customer's account with another bank which, in turn, adheres to similar KYC standards. In the case of cross-border customers, there is the additional difficulty of matching the customer with the documentation and the branch may have to rely on third party certification / introduction. In such cases, it must be ensured that the third party is a regulated and supervised entity and has adequate KYC systems in place.

#### **6. Correspondent Banking**

Correspondent banking is the provision of banking services by one bank (the "correspondent bank") to another bank (the "respondent bank"). These services may include cash / funds management, international wire transfers, drawing arrangements for demand drafts and mail transfers, payable-through-accounts, cheques clearing, etc. Branches should gather sufficient information to understand fully the nature of the business of the correspondent / respondent bank. Information on the other bank's management, major business activities, level of AML/CFT compliance, purpose of opening the account, identity of any third party entities that will use the correspondent banking services, and regulatory / supervisory framework in the correspondent's / respondent's country may be of special relevance. Similarly, branches should try to ascertain from publicly available information whether the other branch has been subject to any money laundering or terrorist financing investigation or regulatory action.

While it is desirable that such relationships should be established only with the approval of the Board, in case the Boards of some banks wish to delegate the power to an administrative authority, they may delegate the power to a committee headed by the Chairman / CEO of the

bank while laying down clear parameters for approving such relationships. Proposals approved by the Committee should invariably be put up to the Board at its next meeting for post facto approval. The responsibilities of each bank with whom correspondent banking relationship is established should be clearly documented. In the case of payable-through-accounts, the correspondent bank should be satisfied that the respondent branch has verified the identity of the customers having direct access to the accounts and is undertaking ongoing 'due diligence' on them. The correspondent bank should also ensure that the respondent branch is able to provide the relevant customer identification data immediately on request.

Banks should refuse to enter into a correspondent relationship with a "shell bank" (i.e. a bank which is incorporated in a country where it has no physical presence and is unaffiliated to any regulated financial group). Shell branches are not permitted to operate in India. Branches should also guard against establishing relationships with respondent foreign financial institutions that permit their accounts to be used by shell banks. Branches should be extremely cautious while continuing relationships with respondent banks located in countries with poor KYC standards and countries identified as 'non-cooperative' in the fight against money laundering and terrorist financing. Branches should ensure that their respondent branches have anti money laundering policies and procedures in place and apply enhanced 'due diligence' procedures for transactions carried out through the correspondent accounts.

## **IX. Statutory Requirements & Regulatories:**

### **1.I.T.Regulations:**

- (i) Permanent Account Number must be quoted in all account opening forms. In the absence of PAN formalities required by I.T. dept. are to be gone through.
- (ii) No time deposit is to be accepted in cash exceeding Rs.50,000/- on any one day.
- (iii) DD s should not be issued against cash exceeding Rs.50,000/- on any day.
- (iv) No Deposit in cash aggregating Rs.50,000/- is to be accepted in any account on any one day.

### **2. Prevention of Money Laundering Act:**

Branches should ensure that a record of transactions in the accounts is preserved and maintained as required in section 12 of PML Act 2002. It is also to be ensured that transactions of suspicious value and any other type of transaction notified under section 12 of PML Act 2002 is reported to the appropriate law enforcement authorities.

### **3. High Value Transactions Branches:**

Branches should ensure to maintain proper record of all cash transactions (Deposits / Withdrawals) of Rs.10 lakhs and above. The information monitoring system should have an inbuilt procedure for reporting of such cash transactions and those of suspicious nature to the respective Regional Office controlling / head office on a fortnightly basis.

4. Maturity proceeds of deposits in aggregate (principal+Interest) for an amount of Rs.20,000/- and above should be repaid only by means of an account payee DD / pay order or by credit to the depositors operative account with the branch.

**X. Dissemination of KYC Policy:**

The KYC policy can be implemented only if the need for the policy and the procedures involved are correctly understood by functionaries at all levels.

1. The Training college of our bank at Nagercoil shall include sessions on KYC policy in all credit, general banking and Foreign Exchange programmes.

2. The Regional Managers, during their visits to the branches, shall discuss with the staff members and ascertain the level of knowledge on KYC policy of the bank and then and there correct deficiencies, if any.

3. Branch Managers shall invariably include a discussion on KYC measures as a part of the agenda of the staff meetings.

4. Inspecting officers, who visit the branches on routine inspection, must incorporate a comment on their reports regarding the level of knowledge of KYC policy among the clerks and officers of the branch.

5. The KYC Policy documents should be widely discussed in all Manager's conferences and all Review Meetings with a view to create perfect understanding of the bank's expectations regarding implementation of the KYC norms.

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