

# **THE SARVODAYA CO-OP.BANK LTD., MUMBAI**

## **Know Your Customer Policy**

### **1.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 M.D., DGM & AGM 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>	
Proof of Identity and Address	(1) Passport (2) Driving License (3) PAN Card (4) Voter Identity card issued by ECI. (5) Job card issued by NREGA duly signed by an officer of State Government. (6) Letter issued by the UIDAI containing details of name, address and Aadhaar number.
<b>Accounts of companies</b>	
	a) Certificate of incorporation; b) Memorandum and Articles of Association; c) A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf; and d) An officially valid KYC document in respect of managers, officers or employees holding an attorney to transact on its behalf. e) PAN number of the Company.
<b>Accounts of partnership firms</b>	
	a)Registration certificate. b)Partnership deed; and c) An officially valid KYC document in respect of the person holding an attorney to transact on its behalf. d) PAN number of the Firm

<b>Accounts of trusts</b>	<ul style="list-style-type: none"> <li>a) Registration certificate.</li> <li>b) Trust deed.</li> <li>c) An officially valid KYC document in respect of the person holding a power of attorney to transact on its behalf.</li> <li>d) PAN number of the Trust.</li> </ul>
<b>Accounts of Unincorporated Association or body of individuals</b>	
	<ul style="list-style-type: none"> <li>a) Resolution of the managing body of such association or body of individuals;</li> <li>b) Power of attorney granted to him to transact on its behalf;</li> <li>c) An officially valid document in respect of the person holding an attorney to transact on its behalf; and</li> <li>d) Such information as may be required by the bank to collectively establish the legal existence of such an association or body of individuals.</li> <li>e) PAN number of the Unincorporated Association or body of individuals.</li> </ul>
<b>Accounts of Proprietorship Concerns</b>	
Proof of name, address and activity of the concern	<p>Apart from customer identification procedure as applicable to the proprietor any two of the following documents in the name of the proprietary concern would suffice:</p> <ul style="list-style-type: none"> <li>(i) Registration certificate (in the case of a registered concern)</li> <li>(ii) Certificate / licence issued by the Municipal authorities under Shop &amp; Establishment Act,</li> <li>(iii) Sales and income tax returns</li> <li>(iv) CST / VAT certificate</li> <li>(v) Certificate / registration document issued by Sales Tax / Service Tax / Professional Tax authorities</li> <li>(vi) Licence / certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute.</li> <li>(vii) The complete Income Tax return (not just the acknowledgement) in the name of the sole Proprietor where the firm's income is reflected, duly authenticated/acknowledged by</li> </ul>

	<p>the Income Tax Authorities.</p> <p>Though the default rule is that any two documents mentioned above should be provided as activity proof by a Proprietary concern, in cases where the branches are satisfied that it is not possible to furnish two such documents, they would have the discretion to accept only one of those documents as activity proof. In such cases, the branches, however, would have to undertake contact point verification, collect such information as would be required to establish the existence of such firm, confirm, clarify and satisfy themselves that the business activity has been verified from the address of the proprietary concern.</p>
<p><b>Accounts of Limited Liability Partnerships</b></p>	
<p>Proof of name, address and activity of the concern</p>	<p>(i) Certified copy of incorporation documents filed with Registrar of Companies.</p> <p>(ii) Certificate issued by the Registrar of Companies.</p> <p>(iii) Copy of LLP Agreement signed by all the partners. In case, there is no LLP agreement, Schedule I of the LLP Act signed by all the partners will prevail.</p> <p>(iv) An officially valid KYC document in respect of the person holding an attorney to transact on its behalf.</p> <p>(v) PAN number of the Firm.</p>
<p><b>Relaxation for Accounts of low risk customers</b></p>	
<p>'Simplified measures' may be applied in the case of 'Low risk' customers taking into consideration the type of customer, business relationship, nature and value of transactions based on the overall money laundering and terrorist financing risks involved.</p>	<p>Additional documents deemed to be OVDs for the purpose of proof of identity where simplified measures are applied:</p> <p>(i) identity card with applicant's Photograph issued by Central/ State Government Departments, Statutory/ Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial</p>

	Banks, and Public Financial Institutions; (ii) letter issued by a gazetted officer, with a duly attested photograph of the person.
	For the limited purpose of proof of address, the following additional documents are deemed to be OVDs where simplified measures are applied: (a) Utility bill which is not more than two months old of any service provider (electricity, telephone, postpaid mobile phone, piped gas, water bill); (b) Property or Municipal Tax receipt; (c) Bank account or Post Office savings bank account statement; (d) Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address; (e) Letter of allotment of accommodation from employer issued by State or Central Government departments, Statutory or Regulatory bodies, Public Sector Undertakings, Scheduled Commercial Banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation; and (f) Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India. Branches to obtain only the documents as mentioned above and not to accept any other document for KYC purpose.

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 Head 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 Officer. It is imperative that the Branch 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.

It is evident that great care is to be taken in respect of high risk customers 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.

**Risk rating of Customers:**

Bank shall ensure to classify Customers as Low Risk, Medium Risk and High Risk depending on background, nature and location of activity, country of origin, sources of funds and client profile etc.

A. An Illustrative list of Low/Medium/High Risk Customers, Products, Services, Geographies, etc., based on the recommendations of IBA Working Group on Risk Based Transaction Monitoring is detailed in Annexure II.

B. Risk rating based on the Deposits/account balance:

<b>Account Types</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
Only SB*	Rs. 2,00,000/- & above	Rs. 1,00,000/- & above but less than Rs.2,00,000/-	Less than Rs.1,00,000/-
Only Current*	Rs. 5,00,000/- & above	Rs. 2,00,000/- & above but less than Rs.5,00,000/-	Less than Rs.2,00,000/-
Only Term Deposits	Rs. 10,00,000/- & above	Rs. 5,00,000/- & above but less than Rs.10,00,000/-	Less than Rs.5,00,000/-

\*Applicable in case of accounts having completed 6 months.

For Current/SB accounts average balance for last 6 months and for Term Deposits principal amount shall be taken for consideration on the date of review.

If a customer is having more than one of the above categories of accounts, highest risk assigned for the above parameter shall be the overall risk for this parameter.

Example: A customer having a savings account with average balance of Rs.1,50,000/- (medium) and Term Deposit of Rs.4,00,000/- (low) shall have rating of Medium Risk for this parameter.

Above categorization of the Customer shall be based on all accounts linked to Customer ID irrespective of constitution of account like Joint account, Partnership account etc. However accounts linked to Customer ID where customers do not have any stake in Business/activity need not be clubbed for the above purpose.

C. Risk Categorisation of the customers shall be done according to the risk perceived while taking into account the above aspects. For instance, a salaried class individual who is generally to be classified under low risk category may be classified otherwise based on following illustrative list of parameters considered as "High Risk" such as:

- Unusual transaction/behavior (given as Annexure III – Monitoring of Customer Risk Categorisation (CRC)).

- Submitted Suspicious Transaction Reports (STR) for Customer.
- Submitted Cash Transaction Report (CTR).
- Frequent Cheque returns.

D. Risk Categorisation of customers shall be based on combination of above parameters, i.e., mentioned under A, B & C above. Among the chosen parameters, highest risk grade will be assigned as overall Risk for the customer.

Example: a Travel Agent (Medium risk) with Proprietorship account (low risk) and having Savings account with average balance of Rs.1,50,000/- (medium risk) and Term Deposit of Rs.4,00,000/- (low risk) , shall be assigned with overall rating of "Medium Risk", provided all other conditions mentioned under C above does not necessitate for assigning "High Risk".

### **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.

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) 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.

## **VII) Periodic Updation of KYC**

### **A. CDD requirements for periodic updation:**

Bank shall have a system of periodical updation of customer identification data (including photograph/s) as under:

(i) Branches should apply client due diligence measures/full KYC exercise to existing clients at least every two years for high risk customers, every eight years for medium risk customers and every ten years for low risk customers taking into account whether and when client due diligence measures have previously been undertaken and the adequacy of data obtained.

Full KYC exercise may include all measures for confirming identity and address and other particulars of the customer that the Bank may consider reasonable and necessary based on the risk profile of the customer. The time limits prescribed above would apply from the date of opening of the account/ last verification of KYC.

Branches should carry out ongoing due diligence of existing clients in order to ensure that their transactions are consistent with the Bank's knowledge of the client, his business and risk profile and where necessary, the source of funds.

Branches should undertake client due diligence measures while commencing an account-based relationship. Such measures include identifying and verifying the customer and beneficial owner on the basis of reliable and independent information and data or documentation.



The periodical verification/update of customer data shall be done irrespective of whether the account has been transferred from one branch to another and Bank shall maintain records of transactions as prescribed.

Branches other than Home (Base) Branch shall perform Full KYC exercise/ Positive confirmation, whenever the customer approaches that branch and requests the branch to complete the Full KYC exercise/Positive confirmation by submitting the required documents. Such branches should exercise due diligence in verification of the documents and updation of the details in the CBS system.

(ii) Branches need not seek fresh proofs of identity and address at the time of periodic updation from those customers who are categorised as 'low risk', in case of no change in status with respect to their identities and addresses. A selfcertification by the customer to that effect should suffice in such cases. In case of change of address of such 'low risk' customers, they could merely forward a certified copy of the document (proof of address) by mail/post, etc. Branches need not insist on physical presence of such low risk customer at the time of periodic updation.

(iii) Fresh photographs and Officially Valid Documents shall be obtained from minor customer on becoming major.

#### **B. Freezing and Closure of accounts**

It would always be open to the Bank to close the account of KYC non-compliant customers after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions need to be taken by the Branch-in-charge.

While it is absolutely necessary for banks as well as customers to comply with the measures prescribed for KYC/AML purposes, drastic measures like closing of accounts may be taken only after sending out sufficient discernible warning signals to the customers, basing on the level of customer education and public awareness on the subject. In all such cases where the account holders are either not responding over a period of time/not found at the given address, Bank may take such action as deemed necessary to comply with KYC/AML guidelines without denying basic banking facilities.

Before taking the extreme step of closing an account on account of noncompliance with the KYC/AML requirements, as an initial measure, branches are advised to place such accounts under close watch, depriving the non-compliant customers certain additional facilities, till the customer complies with such requirements.

This exercise, however, should not extend beyond a period of three months. If the customer despite such measures, shows unwillingness to comply with KYC/AML/CFT requirements, branches would be free to proceed further and close the accounts after giving due notice to him/her. It is reiterated that basic banking transactions already in force should not be disturbed for meeting KYC review requirements.

In case of non-compliance of KYC requirements by the customers despite repeated reminders by branches, branches should impose “partial freezing” on such KYC non-compliant in a phased manner. Meanwhile, the account holders can revive accounts by submitting the KYC documents as per instructions in force. While imposing “partial freezing”, branches are advised to ensure that the option of ‘partial freezing’ is exercised after giving due notice of three months initially to the customers to comply with KYC requirements and followed by a reminder for further period of three months. Thereafter, branches to impose “partial freezing” by allowing all credits and disallowing all debits with the freedom to close the accounts.

If the accounts are still KYC non-compliant after six months of imposing initial “partial freezing”, branches should disallow all debits and credits from/to the accounts, rendering them inoperative. Further, it would always be open to the branches to close the account of such customers after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions, however, need to be taken by the Branch in charge.

In the Circumstances when the Bank believes that it would no longer be satisfied about the true identity of the account holder, the Bank shall file a Suspicious Transaction Report (STR) with Financial Intelligence Unit India (FIU-IND) under the Department of Revenue, Ministry of Finance, Government of India.

**C. Simplified norms for Self Help Groups (SHGs):**

In order to address the difficulties faced by Self Help Groups (SHGs) in complying with KYC norms while opening Savings Bank accounts and credit linking of their accounts, following simplified norms shall be followed by branches:

(a) KYC verification of all the members of SHGs need not be done while opening the Savings Bank account of the SHGs and KYC verification of all the office bearers would suffice.

(b) As regards KYC verification at the time of credit linking of SHGs, no separate KYC verification of the members or office bearers is necessary.

#### **D. Walk-in Customers**

In case of transactions carried out by a non-account based customer, that is a walk-in customer, where the amount of transaction is equal to or exceeds rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected, the customer's identity and address shall be verified. If the Bank has reason to believe that a customer is intentionally structuring a transaction into a series of transactions below the threshold of Rs. 50000/-, the Bank shall verify identity and address of the customer and also consider filing a Suspicious Transaction Report to FIU-IND. The identity and address of the Walk-in customer shall be verified by obtaining KYC documents and records are to be maintained/ updated in the system. Bank shall also verify the identity of the customers for all international money transfer operations.

#### **E. Issue of Demand Drafts, etc., for more than Rs. 50,000/-**

Any remittance of funds by way of Demand Draft, mail/telegraphic transfer or any other mode and issue of Traveller's cheques for value of Rs. 50,000/- and above shall be effected by debit to the customer's account or against cheques and not against cash payment.

Bank shall not make payment of cheques/drafts/pay orders/banker's cheques if they are presented beyond the period of three months from the date of such instrument.

#### **F. Unique Customer Identification Code**

A Unique Customer Identification Code (UCIC) will help the Bank to identify customers, track the facilities availed, monitor financial transactions in a holistic manner and enable the Bank to have a better approach to risk profiling of customers. Branches are required to strictly avoid creating multiple customer IDs while opening new accounts and in case of existing multiple IDs, branches have to carry out the process of de-duplication.

#### **3.3 Monitoring of Transactions:**

Ongoing monitoring is an essential element of effective KYC/AML procedures. Branches should exercise ongoing due diligence with respect to every customer and closely examine the transactions to ensure that they are consistent with the customer's profile and source of funds as per extant instructions. The ongoing due diligence may be based on the following principles:

(a) The extent of monitoring will depend on the risk category of the account. High risk accounts have to be subjected to more intensified monitoring.

(b) Branches should pay particular attention to the following types of transactions:

(i) large and complex transactions, and those with unusual patterns, which have no apparent economic rationale or legitimate purpose.

(ii) transactions which exceed the thresholds prescribed for specific categories of accounts.

(iii) transactions involving large amounts of cash inconsistent with the normal and expected activity of the customer.

(iv) high account turnover inconsistent with the size of the balance maintained.

(c) Bank shall put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures. Such review of risk categorisation of customers shall be carried out at a periodicity of not less than once in a year.

(d) Branches should closely monitor the transactions in accounts of marketing firms, especially accounts of Multi-level Marketing (MLM) Companies. Branches should analyse data in cases where a large number of cheque books are sought by the company, there are multiple small deposits (generally in cash) across the country in one bank account and where a large number of cheques are issued bearing similar amounts/dates. Where such features are noticed by the branches and in case they find such unusual operations in their accounts, the matter should be immediately reported to Reserve Bank and other appropriate authorities such as FIU-IND.

e) Supervisors should keep a vigil over the transactions involving huge amounts. Transactions should generally have a bearing with the occupation and /or line of business of the account holders. In case of any doubt necessary enquiries be made with the account holders.

f) While accepting the cheque for collection, it is to be ensured that the name mentioned in the challan and name of the beneficiary of the instrument are same.

g) Branches are advised to mandatorily obtain either PAN or Form 60/61 (if PAN is not available) for opening of accounts and also at the time of accepting cash receipt for Rs. 50,000/- and above. If the customer appears to be structuring the transactions into a series of transactions below the threshold of Rs.50,000/-, branches are required to obtain PAN or Form 60/61 (if PAN is not available) from the customer. Branches are advised to aggregate the split transactions across accounts of same customer to decide on the matter of obtention of PAN or Form 60/61, wherever the aggregate amount of transactions is Rs. 50,000/- and above.

h) All the staff members are instructed to maintain the standards of good conduct and behaviour expected of them and not to involve in any activity that would bring disrepute to the institution and not to advise potential customers on the lines that would be an infringement of the legal process/ could facilitate money laundering/ could defeat the KYC norms or the norms of due diligence prescribed by RBI from time to time.

#### **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.

\*\*\*\*\*

Revised KYC Policy of the Bank for the year 2016-17 is palced before the Board of Directors meeting dated 01.07.2016\_for consideration and approval.

Chariman

Vice-Chairma

Managing Director