

# KYC / AML / CFT POLICY

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Presented by,



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**ANTI-MONEY LAUNDERING**

**(Prevention of Money  
Laundering Act, 2002)**

**&**

**KNOW YOUR CUSTOMER**

**(KYC Policy)**

**GUIDELINES IN BANK**

# INTRODUCTION

- ❖ Banks were advised to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature.
- ❖ The Prevention of Money Laundering Act (PMLA), 2002 is an Act of the Parliament of India enacted in January, 2003. The Act has come into force w.e.f. 1<sup>st</sup> July, 2005.
- ❖ KYC Guideline revisited on recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating the Financing of Terrorism (CFT).
- ❖ PMLA (Amendment) Act, 2012 as passed by Lok Sabha on 29/11/2012 has come into force w.e.f. 15<sup>th</sup> February 2013.
- ❖ Ministry of Finance vide its Gazette notification dated 13.02.2019 has amended PMLA Act.

# MONEY LAUNDERING

“Any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources”.

In other words, it is the process used by criminals through which they make “**dirty**” money appear “**clean**”

# **DIFINATION AS PER PMLA 2002**

Sec.3 of PML Act defines 'money laundering' as:

**“whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of the offence of money-laundering”.**

# **PUNISHMENT FOR MONEY-LAUNDERING**

- ❖ Punishment for non-adherence of the Act would be rigorous imprisonment for not less than 3 years but up to 7 years.**
- ❖ But in case of offences done under Narcotic Drugs and Psychotropic Substance Act 1985 the maximum punishment may extend to 10 years.**

# **OBJECTIVE OF ANTI-MONEY LAUNDERING POLICY**

- ❖ To prevent banks from being used, intentionally or unintentionally, by criminals for Money Laundering activities or terrorist activities.
- ❖ To enable banks to know/ understand their customer and their financial dealings better.
- ❖ To put in place a proper control mechanism for detecting and reporting suspicious transaction.
- ❖ It will also enhance fraud Prevention.
- ❖ To ensure compliance with guidelines issued by the regulators including FIU-IND & RBI.

# OBLIGATIONS UNDER PMLA 2002

1. Appointment of Principal Officers and designated Director,
2. Maintaining record of prescribed transactions,
3. Furnishing information of transaction to the specified authority,
4. Verifying & maintaining record of the identity of its clients,
5. Preserving records for **5 yrs** from the date of each transactions between bank & clients or for **5 years after business relationship ended.**



# MONEY LAUNDERING RISKS

Bank is exposed to the following risks:

- **Reputational Risk:** Risk of loss due to severe impact on bank's reputation which is most valuable asset of the organization.
- **Compliance Risk:** Risk of loss due to failure to comply with key regulations governing the bank's operations.

# MONEY LAUNDERING RISKS

- **Operational Risk:** The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
- **Legal Risk:** Risk of loss due to any legal action the bank or its staff may face due to failure to comply with the law resulting in adverse judgments, unenforceable contracts, fines and penalties, generating losses, increased expenses for an institutions or even closure of such institutions.

# WAY OF MONEY LAUNDERING

Money laundering generally refers to 'washing' of the proceeds or profits generated from:

- (i) Drug trafficking
- (ii) Arms, antique, gold smuggling
- (iii) Prostitution rings
- (iv) Financial frauds
- (v) Corruption, or
- (vi) Illegal sale of wild life products and other specified predicate offences.

# MONEY LAUNDERING PROCESS

- ❖ **Placement:-** Entry of funds in to the system at this stage, the launderer inserts the dirty money into a legitimate financial institution.
- ❖ **Layering:-** Making a series of transactions to distance fund from the point of entry. Layering involves sending the money through various financial transactions to change its form and make it difficult to know.
- ❖ **Integration:-** At the integration stage, the money re-enters the mainstream economy in legitimate-looking form. it appears to come from a legal transaction.

**PLACEMENT**

**LAYERING**



Collection of Dirty Money



Dirty Money Integrates into the Financial System

# A TYPICAL MONEY LAUNDERING SCHEME



Purchase of  
Luxury Assets  
Financial Investments  
Commercial/Industrial Investments

Payment by "Y" of False Invoice to Company "X"

Transfer on the Bank Account of Company "X"



Loan to Company "Y"

Wire Transfer



**BANK**  
Offshore Bank

**INTEGRATION**

# STEPS OF MONEY LAUNDERING

**Smurfing:** In banks, large cash transaction requires reporting. To avoid such reporting, large deposit are divided into multiple smaller transactions. After deposit, the smurfer purchases draft at other places which is deposited into other accounts.

**Front Companies:** Front companies are used to place and layer illicit proceeds. A front company can be used to protect a parent company, thus concealing illegal activities.

# STEPS OF MONEY LAUNDERING

**Shell and Nominee company:** Shell nominee companies are anonymous corporate structures that provide for anonymous ownership. These companies have various combination of nominee directors and ownership of stock by bearer shares. They do not have commercial manufacturing business.

**Black salaries:** A company may have unregistered employees without a written contract and pay them cash salaries. Dirty money might be used to pay them.

# INDICATORS OF MONEY LAUNDERING

- Turn over in dormant account;
- Receipt/payment of large sums of cash;
- Reluctance to provide normal information;
- Depositing high value third party cheques;
- Large credits from abroad;
- Employees leading lavish life style;
- Hawala Transaction.



# COMBATING THE FINANCING OF TERRORISM (CFT) MEASURES

- ❖ Money to fund terrorist activities moves through the global financial system via wire transfers and in and out of personal and business accounts.
  - ❖ It can sit in the accounts of illegitimate charities and be laundered through buying and selling securities and other commodities, or purchasing and cashing out insurance policies.
  - ❖ Before opening of the new account branches should ensure the name is not listed in:-
    - I. Al-Qaida sanction list
    - II. 1988 sanction list
- N.B.:- Banks are regularly putting in **KRISH MENU** updated list.

# KYC STANDARDS

The key elements of policy are as under :

- CAP ( Customer Acceptance Policy )
- Risk management
- CIP ( Customer Identification Procedure )
- Monitoring of transactions

# CUSTOMER ACCEPTANCE POLICY

## NOT TO OPEN ACCOUNTS OF FOLLOWING PERSONS

- ❖ Anonymous /Fictitious/Benami Names and with Criminal Background.
- ❖ Branch should prepare a profile for each new customer based on risk categorization Risk categorization should be reviewed once in a 6 months.
- ❖ Occupation code field made Mandatory in the system.
- ❖ No account should be opened where bank is unable to apply due diligence measures. Bank can close those a/c where customer is not co-operating in submission of documents ( decided by DZM or AGM after giving notice to customer).

# **PARTIAL FREEZING/CLOSURE OF NON-KYC COMPLIANCE ACCOUNT**

**In the case of non-compliance of KYC and/or undertaking Re-KYC exercise guideline account, RBI advised the bank to take the following steps:**

- 1. Initially, a notice of 3 months should be given for KYC compliance,**
- 2. It should be followed reminder for further 3 months,**
- 3. Thereafter, Partial freeze the debit and allowing credit only,**
- 4. If partial freeze continue for 6 months and accounts are still non- KYC complaint, both credit and debit freeze and may be close the account.**
- 5. Closer of account shall be approved by Branch Manager.**
- 6. Reason for partial freeze and closure should be communicated to account holder.**

# **CUSTOMER ACCEPTANCE POLICY**

**Bank have introduced a Customer Profile Sheet (CPS) which is required to be obtained at account opening time. Indicative parameters of CPS are:**

- a) Constitution: Individual, Proprietorship, Partnership, Society, public/private limited company, Trust etc,**
- b) Product Subscription: Salary A/c, Business, NRI etc;**
- c) Nationality;**
- d) Social status;**
- e) Financial status, Volume of turn over etc;**
- f) Nature of business;**
- g) Activity engaged;**
- h) Clients and their geographical location.**

# CUSTOMER RISK RATING/CATEGORIZATION

## ❖ Low Risk category: (Full KYC in 10 years)

1. Salaried employed whose salary structure is well defined, Pensioners, benefit recipients.
2. People belonging to lower economic strata of society showing small balances.
3. Govt. department and govt. owned companies, Regulators, Statutory Bodies etc.
4. Customer with a long term and active business relationship.
5. Customer other than High & Medium risk.

# RISK CATEGORY

## ❖ Medium Risk Customer: (Full KYC in 8 years)

1. NBFC,
2. Builders,
3. Stock Brokers.

## ❖ High Risk Customer : (Full KYC in 2 years)

1. Non resident customer,
2. HNI, Non-face to face customer,
3. Trust, Charities, NGOs, Sleeping Partner firms, Investment Company,
4. Donation receiving organization, Religious institution,
5. Shopping malls, Jewelers, Petrol pump, Liquor stores,
6. Antique dealers, Arms dealer, Agent, Brokers, Bullion dealers,
7. Politically Exposed Persons,
8. Customer with dubious reputation etc,
9. Companies having close family share holding etc.
10. Person living in High Risk Countries

# **CUSTOMER IDENTIFICATION PROCEDURE (CIP)**

- **Making every reasonable efforts to determine the true identity and beneficial ownership of accounts.**
- **Knowing the source of funds.**
- **Knowing the correct location, address and nature of customer`s business.**
- **Knowing who are your customer`s customer.**
- **Customer identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data & information.**
- **KYCDT menu in finacle for type of documents.**
- **KYCRPT menu in finacle for list of accounts due for KYC Updation as per risk profile.**



# CLIENT DUE DILIGENCE

- ❖ Undertake Client Due Diligence measures while commencing an account based relationship.
- ❖ Sufficient information is obtained on nature of business that he expects to undertake, and any expected or predictable pattern for transaction.
- ❖ Bank should periodically update customer identification data ( **once in 10 years for low risk, 8 years for medium risk and 2years for high risk customers**).

# **CUSTOMER DUE DILIGENCE (CDD) PROCEDURE IN CASE OF INDIVIDUALS**

For undertaking CDD, Bank shall obtain the following from an individual while establishing an account-based relationship or while dealing with the individual who is a beneficial owner, authorised signatory or the power of attorney holder related to any legal entity:

- a) a certified copy of any OVD containing details of his identity and address
- b) one recent photograph
- c) the Permanent Account Number (PAN) or Form No. 60 as defined in Income-tax Rules, 1962, and
- d) Such other documents pertaining to the nature of business or financial status specified by the Bank in their KYC policy.

Provided that,

- i. Banks shall obtain the Aadhaar number from an individual who is desirous of receiving any benefit or subsidy under any scheme.

# **CUSTOMER DUE DILIGENCE (CDD)**

## **PROCEDURE IN CASE OF INDIVIDUALS**

ii. Banks may carry out Aadhaar authentication/  
offline-verification of an individual

who voluntarily uses his Aadhaar number for  
identification purpose.

iii. For non-DBT beneficiary customers, the Bank shall  
obtain a certified copy of any OVD containing details  
of his identity and address along with one recent  
photograph.

In cases where successful authentication has been  
carried out, other OVD and photograph need not be  
submitted by the customer.

# **PAN (FORM 60/61) REQUIREMENT**

**Accounts / Transactions in which PAN OR Form 60/61 required Rule 114B of the Income Tax Rules, 1962 has made it mandatory for the customer to quote the PAN for certain banking transactions, which have been detailed as below;**

- 1. Opening of an account (other than basic saving);**
- 2. An application for issuing Credit/Debit Card;**
- 3. Opening of Demat account;**
- 4. Deposit/payment of cash exceeding Rs.50,000/day;**
- 5. Payment of cash by way of DD/PO aggregating more than Rs. 50,000/- in a financial year.**

# CUSTOMER DUE DILIGENCE (CDD)

If there is change in name due to marriage- for this clause, a document shall be deemed to be an OVD even if there is a change in the name subsequent to its issuance provided it is supported by a marriage certificate issued by the State Government Gazette notification, indicating such a change of name.

KYC verification once done by one branch/office of the Bank shall be valid for transfer of the account to any other branch/office in the Bank, provided full KYC verification has already been done for the concerned account and the same is not due for periodic updation.

# OFFICIALLY VALID KYC DOCUMENT

**“Officially valid KYC document”:-** The below mentioned six officially valid documents will serve the purpose for both identification and address proof of customer.

- 1) Passport (within validity)**
- 2) Driving License (within validity)**
- 3) proof of possession of Aadhaar number**
- 4) Voter’s Identity Card**
- 5) Job Card issued by NREGA**
- 6) The letter issued by the National Population Register containing details of name & address.**

# PROFF OF ADDRESS (OVD)

In case the OVD furnished by the customer does not contain updated address, the following documents shall be deemed to be OVDs for the limited purpose of proof of address :-

- a) Utility Bill not more than 2 months old ( electricity, telephone, postpaid mobile, piped gas, water bill);
- b) Property or Municipal Tax Receipt;
- c) Bank or Post Office savings bank a/c statement;
- d) PPOs issued by Govt. dept. or PSU having address;
- e) Letter of allotment of accommodation from employer by Govt. Dept, PSU, Bank, Regulatory body;
- f) Documents issued by Govt. department of foreign jurisdiction & by Foreign Embassy or Mission in India.

**Provided further that the customer shall submit Aadhaar number voluntarily or provide OVD updated with current address within a period of three months of submitting the above documents."**

# ENHANCED DUE DILIGENCE

- (A) Accounts of NON —Face to Face customers:** Whenever any account is opened without visit of the customer to the Branch, e.g. NRI accounts, Branches should ensure that all the documents presented are certified to Bank's satisfaction, call for additional documents, if necessary.
- (B) Accounts of Politically Exposed Persons (PEPs) resident outside India:** PEPs 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. Sufficient information should be gathered on any person/customer of this category intending to establish a relationship with the Bank and all the information available on the person in the public domain should be checked.



# e-KYC

**Bank, at the time of receipt of the Aadhaar number submitted by the customer voluntarily, shall carry out, with the explicit consent of the customer, e-KYC authentication (biometric or OTP based) or Yes/No authentication. The e-KYC service of Unique Identification Authority of India (UIDAI) shall be accepted as a valid process for KYC verification under the PML Rules, and**

- i. the information containing demographic details and photographs made available from UIDAI as a result of e-KYC process is treated as an 'Officially Valid Document', and**
- ii. Transfer of KYC data, electronically to the Bank from UIDAI, is accepted as valid process for KYC verification.**

# KYC OF WALKING CUSTOMERS

In case of transactions carried out by a non-account based customer, i.e. 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 should be verified and documentary proof of the same should be obtained and held on record.

## **TRANSACTION ABOVE RS.50000/-**

**Banks are required to issue DD/MT/TT/ Travelers cheques for Rs.50000/- & above by following the proper due diligence and only by debit to customers' accounts or against payee's account cheques and not in cash.**

**The same rule applied for sale of Third Party Products, Gold Coins, and sale of Foreign Exchange.**

# CASH TRANSACTION REPORT

- Cash transactions of above Rs. 10 lakhs or its equivalent in foreign currency .
- Series of cash transactions connected to each other, of below Rs 10 lakhs or its equivalent in foreign currency within a month and the aggregate value of such transactions in cash or otherwise.
- Doubtful transactions in cash or otherwise.
- Non profit organization report to be submitted by 15<sup>th</sup> of succeeding month if receipt value more than 10 lakhs.

# SUSPICIOUS TRANSACTIONS REPORT(STR)

## CROSS BORDER WIRE TRANSFER (CBWT)

- ❖ A comprehensive Anti Money Laundering Package AMLOCK has been installed for scrutinized the transactions and generating alerts after end of the day operation in finacle system. The data is uploaded on daily basis.
- ❖ The transactions will be scrutinized keeping in view the nature of the account, Activity/business, amount etc.
- ❖ Bank has to submit to FIU-IND all Cross Border Wire Transfer (CBWT) for the value of more than five lakhs rupees or its equivalent in foreign currency either the origin or destination of funds in India.

## **COUNTERFEIT CURRENCY REPORT(CCR)**

- **CCR (counterfeit currency report) to be submitted within 7 working days from the date of occurrence of transaction (Process same as STR). Branch to ZO 2 days. Up to 4 pieces FIR need not be filed. Instead a consolidated monthly statement is send to police with counterfeit current notes.**
- **For 5 pieces and above FIR has to be filed.**

## **KYC/AML COMPLIANCE RULES (CR-12)**

- **Branch has to be updated Compliance Rules i.e. CR-12 for KYC/AML/CFT. The same is required to be submitted on a monthly basis.**
- **The level of compliance is required to be assessed in each area of bank's functioning based on Statutory & Regulatory guidelines and our own internal guidelines.**
- **Non compliances to these rules, if any are to be reported in Form CR-12 (A).**

# REPORTING OF TRANSACTIONS TO FIU-IND (FINANCIAL INTELLIGENCE UNIT-INDIA)

Transaction coverage	Name of Report	Period
Large Cash Transaction of above Rs. 10 lakhs /month	CTR	Within 15 days of close of each month
Suspicious Transactions	STR	Within 7 days of confirmation of suspicion
Counterfeit Currency Notes	CCR	Within 7 days of detection
<b>Cross Boarder Wire Transfer</b>	<b>CBWT</b>	Within 15 days of close of each month
Non profit organization report Receipt > 10 lakhs	NPOTR	Within 15 days of close of each month
KYC/AML/CFT Compliance Updation Rules	CR-12 CR-12(A)	Monthly submission



# **MONEY MULE**

- **In a money mule transaction , an individual with a bank account is recruited to receive cheque deposits or wire transfers and then transfer these funds to accounts held on behalf of another person or to other individuals, minus a certain commission payment.**
- **When caught, they face legal action for being part of such fraud.**
- **Many a times the address and contact details of such mules are found to be fake or not up to date.**
- **Which makes it difficult to locate the Account Holder.**
- **RBI has desire that banks should strictly adhere to the guidelines on KYC/AML/CFT to avoid money mules.**

# FINANCIAL INTELLIGENCE UNIT- INDIA

- ❖ FIU-IND is a central agency. It is an independent body and report directly to the Economic Intelligence Council headed by Finance Minister.
- ❖ FIU-IND receives CTR, STR, CCR, NPOTR, CBWT reports. It analyze information received by banks and suggest AML related crime.
- ❖ It monitors and identifies strategic key areas on AML trends, typologies & developments.
- ❖ The Director of FIU-IND is vested with the power of a **civil court** under the code of civil procedure.
- ❖ He has the power to seize, direct, penalize reporting entities and its employee for breach or violation of PML Act.

## **PRINCIPAL OFFICER/DESIGNATED DIRECTOR**

- **Bank should appoint Senior Management Official as Principal Officer to act independently and report directly to Designated Director.**
- **One General Manager at Head Office shall be responsible for monitoring and reporting of all transaction and sharing of information as required under law.**
- **Principal Officer shall be responsible for overall compliance with regulatory guideline on KYC/AML/CFT.**
- **Principal Officer shall be responsible for timely submission of CTR, STR, CCR, NPOTR, CBWT**

**reports**

# Thanks



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