

**Guidelines on "Know Your Customer"
norms and "Cash transactions"**

DBOD.AML.BC.18/14.01.001/2002-03

August 16, 2002

To
The Chief Executives of
All Commercial banks.

Dear Sir,

**Guidelines on "Know Your Customer"
norms and "Cash transactions"**

As part of 'Know Your Customer' (KYC) principle, RBI has issued several guidelines relating to identification of depositors and advised the banks to put in place systems and procedures to help control financial frauds, identify money laundering and suspicious activities, and for scrutiny/monitoring of large value cash transactions. Instructions have also been issued by the RBI from time to time advising banks to be vigilant while opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds. A gist of the past circulars issued on the subjects under reference are listed in the Annexure. Taking into account recent developments, both domestic and international, it has been decided to reiterate and consolidate the extant instructions on KYC norms and cash transactions. The following guidelines reinforce our earlier instructions on the subject with a view to safeguarding banks from being unwittingly used for the transfer or deposit of funds derived from criminal activity (both in respect of deposit and borrowal accounts), or for financing of terrorism. The guidelines are also applicable to foreign currency accounts/transactions.

2. "Know Your Customer" (KYC) guidelines for New accounts

The following KYC guidelines will be applicable to all new accounts with immediate effect.

2.1 KYC Policy

- (i) "Know Your Customer" (KYC) procedure should be the key principle for identification of an individual/corporate opening an account. The customer identification should entail verification through an introductory

reference from an existing account holder/a person known to the bank or on the basis of documents provided by the customer.

- (ii) The Board of Directors of the banks should have in place adequate policies that establish procedures to verify the bonafide identification of individual/corporates opening an account. The Board should also have in place policies that establish processes and procedures to monitor transactions of suspicious nature in accounts and have systems of conducting due diligence and reporting of such transactions.

2.2 Customer identification

- (i) The objectives of the KYC framework should be two fold, (i) to ensure appropriate customer identification and (ii) to monitor transactions of a suspicious nature. Banks should obtain all information necessary to establish the identity/legal existence of each new customer, based preferably on disclosures by customers themselves. Typically easy means of establishing identity would be documents such as passport, driving license etc. However where such documents are not available, verification by existing account holders or introduction by a person known to the bank may suffice. It should be ensured that the procedure adopted does not lead to denial of access to the general public for banking services.
 - (ii) In this connection, we also invite a reference to a Report on Anti Money Laundering Guidelines for Banks in India prepared by a Working Group, set up by IBA, for your guidance. It may be seen that the IBA Working Group has made several recommendations for strengthening KYC norms with anti money laundering focus and has also suggested formats for customer profile, account opening procedures, establishing relationship with specific categories of customers, as well as an illustrative list of suspicious activities.

3. **"Know Your Customer" procedures for existing customers**

Banks are expected to have adopted due diligence and appropriate KYC norms at the time of opening of accounts in respect of existing customers in terms of our extant instructions referred to in the Annexure. However, in case

of any omission, the requisite KYC procedures for customer identification should be got completed at the earliest.

4. **Ceiling and monitoring of cash transactions**

The extant RBI guidelines on the subject are as under :

- (i) Banks are required to issue travellers cheques, demand drafts, mail transfers, and telegraphic transfers for Rs.50,000 and above only by debit to customers' accounts or against cheques and not against cash (Circular DBOD.BP.BC.114/C.469 (81)-91 dated April 19, 1991) Further, the applicants (whether customers or not) for the above transactions for amount exceeding Rs.10,000 should affix permanent (Income tax) account number on the applications (Circular DBOD.BP.BC.92/C469-76 dated August 12, 1976). Since KYC is now expected to establish the identity of the customer and as the issue of demand draft etc. for Rs.50,000 and above is by debit to account, the requirement for furnishing PAN stands increased uniformly to Rs.50,000/-.
- (ii) The banks are required to keep a close watch of cash withdrawals and deposits for Rs.10 lakhs and above in deposit, cash credit or overdraft accounts and keep record of details of these large cash transactions in a separate register. (Circular DBOD.BP.BC.57/21.01.001/95 dated May 4,1995).
- (iii) Branches of banks are required to report all cash deposits and withdrawals of Rs.10 lakhs and above as well as transactions of suspicious nature with full details in fortnightly statements to their controlling offices. Besides, controlling offices are also required to apprise their Head offices regarding transactions of suspicious nature. (Circular DBOD.BP.BC.101 /21.01.001/95 dated September 20, 1995). Early computerization of branch reporting will facilitate prompt generation of such reports.

5. **Risk management and monitoring procedures**

In order to check possible abuse of banking channels for illegal and anti-national activities, the Board should clearly lay down a policy for adherence to the above requirements comprising the following:

5.1 Internal Control Systems

Duties and responsibilities should be explicitly allocated for ensuring that policies and procedures are managed effectively and that there is full commitment and compliance to an effective KYC programme in respect of both existing and prospective deposit accounts. Controlling offices of banks should periodically monitor strict adherence to the laid down policies and procedures by the officials at the branch level.

5.2 Terrorism Finance

RBI has been circulating lists of terrorist entities notified by the Government of India to banks so that banks may exercise caution if any transaction is detected with such entities. There should be a system at the branch level to ensure that such lists are consulted in order to determine whether a person/organization involved in a prospective or existing business relationship appears on such a list. The authority to whom banks may report accounts suspected to belong to terrorist entities will be advised in consultation with Government.

5.3 Internal Audit / Inspection

- (i) An independent evaluation of the controls for identifying high value transactions should be carried out on a regular basis by the internal audit function in the banks.
- (ii) Concurrent/internal auditors must specifically scrutinize and comment on the effectiveness of the measures taken by branches in adoption of KYC norms and steps towards prevention of money laundering. Such compliance report should be placed before the Audit Committee of the Board of banks at quarterly intervals. This may be included in the Calendar of Reviews advised in our Circular DBOD.No.BP.BC.3/21.03.038/2000 dated 14th July 2000.

5.4 Identification and Reporting of Suspicious Transactions

Banks should ensure that the branches and controlling offices report transactions of suspicious nature to the appropriate law enforcement authorities designated under the relevant laws governing such activities. There should be well laid down systems for freezing of accounts as directed by such authority and reporting thereof to the controlling office and head office. Being matters of sensitive nature, there must be a quarterly reporting of such aspects to the audit committee of the board or the board of directors.

5.5 Adherence to Foreign Contribution Regulation Act (FCRA), 1976

- (i) Banks should also adhere to the instructions on the provisions of the Foreign Contribution Regulation Act, 1976 cautioning them to open accounts or collect cheques only in favour of association which are registered under the Act ibid by Government of India. A certificate to the effect that the association is registered with the Government of India should be obtained from the concerned associations at the time of opening of the account or collection of cheques.
- (ii) Branches of the banks should be advised to exercise due care to ensure compliance and desist from opening accounts in the name of banned organizations and those without requisite registration.

6. **Record Keeping**

Financial intermediaries should prepare and maintain documentation on their customer relationships and transactions to meet the requirements of relevant laws and regulations, to enable any transaction effected through them to be reconstructed. In the case of wire transfer transactions, the records of electronic payments and messages must be treated in the same way as other records in support of entries in the account. All financial transactions records should be retained for at least five years after the transaction has taken place and should be available for perusal and scrutiny of audit functionaries as well as regulators as and when required.

7. **Training of staff and management**

It is crucial that all the operating and management staff fully understand the need for strict adherence to KYC norms. All institutions must, therefore, have an ongoing training programme so that staff are adequately trained for their roles and responsibilities as appropriate to their hierarchical level in complying with anti-money laundering guidelines and for implementing KYC policies consistently.

8. These guidelines are issued under Section 35 (A) of the Banking Regulation Act, 1949 and any contravention of the same will attract penalties under the relevant provisions of the Act. Banks are advised to bring the guidelines to the notice of their branches and controlling offices.

9. The steps initiated in compliance with the various guidelines contained in the circular may be advised to The Chief General Manager, Anti Money Laundering Cell, Department of Banking Operations & Development, Reserve Bank of India, Central Office, Centre 1, World Trade Centre, Cuffe Parade, Mumbai 400 005 within a month from the date of receipt of this circular. The implementation of the instructions contained in the circular will be reviewed by RBI in a meeting with bankers after a period of six months and issuance of a Master Circular will be considered thereafter.

10. Please acknowledge receipt.

Yours faithfully,
(C.R.Muralidharan)
Chief General Manager