



*POLICY ON
KNOW YOUR CUSTOMER*

*BANK OF CEYLON
CHENNAI BRANCH*



'KNOW YOUR CUSTOMER' (KYC) POLICY

1.0. Introduction

- 1.1. KYC Policy is a requirement of the circumstances and the need of the hour, to have a proper functioning of banking system and to prevent abuse of banking channel. Needless to mention that, the unhealthy competition among the banking sectors, due to the development of innovative banking, leads to disastrous results – in certain cases, endangering the safety/ security of the country.
- 1.2. This policy guidelines have been spelt-out, for governing the client portfolio of BOC – Chennai, in tune with RBI directives. Basically, BOC – Chennai should meticulously follow, all the KYC norms stipulated by RBI, from time to time. This policy guidelines encircles the guidelines on selection and acceptance of clients, categorisation of clients, norms for accepting different types of clients vis-à-vis individuals, partnership firms etc. and risk management on customers.

2.0. KYC Norms – A Definition

KYC norms, primarily relates to the Customer Identification and Acceptance policy of the bank. The word '**KNOW YOUR CUSTOMER**', has a wide meaning, which does not restrict to the physical identity alone. It penetrates to the root of all the proposed transactions, which the customer is going to have with the bank. There are certain times, physically known customers, may indulge in fraudulent activities and it can be identified only through various parameters, that should be followed by the bank. KYC procedures have two fold objectives.

- To prevent fraud, affecting individuals
- To prevent any offences, against the State vis-à-vis money laundering, as a AML tool on conservation of Foreign Exchange.

The KYC policy, which has to be followed by BOC – Chennai, has been framed, taking into account of the following four major factors.

- Customer Acceptance Policy
- Customer Identification Procedure
- Monitoring of Transactions
- Risk Management

2.1. Customer Acceptance Policy (CAP)

There is no statutory definition for the term '**Customer**'. To constitute customer of a bank, a person had to satisfy two main criteria.

- There is to be some recognisable course or habit or dealing between him and the bank
- Transactions are to be in the nature of regular banking business.

The nature of relationship between a Banker and a Customer, varies from transaction to transaction, based on the legal provisions, which invariably results in contractual obligations and legal bindings.

BOC – Chennai, to have a fair Customer Acceptance Procedures, should adapt the following measures.

- When a person approaches, to have banking dealings with BOC – Chennai, proper introduction should be obtained. BOC can accept him as a Customer, only when the Bank finds that, it will not be put to abnormal risk in future, in allowing the customer. Namesake enquiries, with regard to identity of a person, would defeat the purpose of ensuring risk free transactions.

- The officer interrogating the person, should satisfy himself, the following:
 - a. *Purpose* : When a person approach the bank, for having banking relation, the purpose of the same should be ascertained, viz whether he wants to deposit for savings purpose or whether he intends to borrow from the bank etc. If he is coming for deposit, for investment purpose, the amount and the source (if the amount is large), should be ascertained.

Eg. If a salaried person approaches for opening deposit of Millions, then the Bank should ascertain the source, from which he receives the funds, as normally such huge deposits are not made by the salaried group. He can be accepted for depositing the amount, only if the bank is fully convinced about the source of such large deposits. This highlights that, BOC – Chennai should not stick on to the physical identity alone. A person should be taken on board, as a Customer, only if the person has clearly indicates the purpose of approaching the bank, in clear terms.

- b. *Types of Organisations* : The Interrogating Officer, should satisfy himself, whether the person approaching the bank, for having dealings, should intend for the same, in his

Individual Capacity

or

As a Partner of a Firm

or

As a Director of a Company

or

As a Trustee of a Trust etc.

or

Any other Organisation.

By interrogation, the official should select the type of dealing, suitable for the person approaching for banking dealings. If a person approaches for opening a partnership account, as well as a personal account in his name, then the Interrogating Officer should be very careful, in ascertaining the purpose for the same. It may lead to misuse of all partnership funds, to his personal account and may impose some legal problems for the bank, in handling both accounts.

- c. *Accounts of Foreign Nationals* : The Interrogating Officer should exercise abundant precaution, in the accounts of foreign nationals. Apart from discrete enquiries, the Interrogating Officer should satisfy that, the account opening procedures, should be in conformity with RBI Directives, Government Statutes and the banking rules and regulations, laid out in this regard. Under no circumstances, any compromise can be made, on the laid out procedures, in accepting foreign customers.

Similarly, the accounts of foreign companies, should be handled carefully, as these may, at a later stage, be a tool for money laundering activities. Accounts of Foreign Embassies, Consulates, High Commissions are low risk accounts, where the account can be accepted, subject to the RBI regulations.

- d. *Accounts of Non Residents* : A Non-Resident can be accepted for banking dealings, subject to the compliance of the respective regulations, for opening such accounts. Passport copies and Visas should be sought and verified and a copy shall be filed with the Application Forms. The purpose of opening the account, for Non Residents, is very important. The officer, who opens the account, should be careful of getting the proof, to prove the purpose of opening and control should be imposed, to receive the genuine credits, which are directly connected with the purpose. Again, care should be taken, when abnormal large size bulk deposits are made.

For example, a software engineer, who is working abroad, sends initial deposit of Rs.100 M, to the credit of his account, to be opened with us. The remittance is disproportionate with the proposed income. Under these circumstances, the bank should satisfy that, the remittance is genuine. Remittance of suspicious nature, shall be referred to the appropriate Governmental authorities, for further investigation. Omissions, if any, on the side of the bank, may pose the bank and the bank officials, serious problems, at a later stage, where there cannot be any valid defense, for such officials and the bank.

- e. *Acceptance of Indian Nationals* : Normally, the following are the types of accounts, maintained by persons with the bank.
- Individual Names and Joint Names
 - Accounts of Sole Proprietors
 - Accounts of Partnership Firms

- Company Accounts
- Hindu Undivided Family (HUF)
- Trust and Charitable Institutions
- Government Department Accounts and Board
- Correspondent Banking

2.1.1. Accounts of Individuals

Accounts of individual/ individuals, can be accepted, after satisfying with their legal names, sub or sur names and to be identified by any one, or all of the following documents.

- PAN Card
- Ration Card
- Voters Identity Card
- Driving Licence
- Identity Card given by the Employer (subject to verification)
- Letter from a Gazetted Officer, identifying the individual

In no case, photocopies alone should be accepted. The originals of these should be verified and an attested copy shall be filed, along with the account opening documents. This enables to prevent, manipulation of photocopies.

The above documents will provide the permanent address of the person, who is approaching us for banking relation. For the proof of address, the following additional documents, may also be called for.

- Copy of Telephone Bills
- Bank Account Statement
- Letter of identification from Gazetted Officer
- Ration Card or any Card, issued by Public Distribution Authorities

In case of accounts of Minors, necessary precaution has to be taken, as applicable to Minors. Their age proof should be obtained. Signatures of their Guardians – natural/ legal guardians, should be obtained. Under no circumstances, any sort of credit facilities, shall be disbursed to the Minors directly, in his name, as the Minors cannot have contractual obligations, by virtue of law.

When an individual is an illiterate, who is approaching us for banking association, his/her left hand thumb impression should be obtained, duly attested by any of the outsiders or responsible bank officials, along with their photographs.

2.1.2. Joint Accounts in the name of more than one individual

The documents required for the individuals, should be insisted for all individuals, before accepting them, as Customers. The nature of operation in the account, should be clearly demarcated, whether joint operation or Single (i.e) E or S (Either or Survivor), F or S (Former or Survivor) or L or S (Later or Survivor).

2.1.3. Accounts of Partnership Firms

Accounts of Partnership Firms can be accepted, only with the joint request, made by all the partners, along with the Partnership Deed copy and copy of Registration Certificate issued by Registrar of Firms, together with the required documents for individuals, in case of partners, as spelt in para 2.1.1 above. With regard to Partnership Firm, care should be taken that, only registered firms, should be taken on board, as there are certain legal impediments, that may arise in future, with regard to the unregistered firms. Care should be

taken, about the nature of trade that, the firm is carrying and going to carry on. Accounts of firms, indulging in illicit trade or any profession, prohibited by law, shall never be allowed to open, even though they satisfy all the other parameters, spelt-out above. While accepting partnership accounts, care should be taken that, the maximum number of partners, spelt by Indian Partnership Act – 1932.

2.1.4. Accounts of Companies/ Corporate Bodies

The formation of the Company, functioning of the Company and the dissolution of the Company, are governed by Government Statute. A Company is said to be an artificial person, created by law, with common seal and perpetual succession. The Company has a separate legal entity, independent of its constituents. Hence, the Certificate of Incorporation, Certificate of Commencement of the Business, Memorandum and Articles of Association, are the documents essential for identification of the name of the company, registered office of the company and administrative office of the company, if any, all the communication systems like Telephone, Fax, Swift, e – mail etc. A specific Resolution should be insisted upon, before accepting the corporate clients.

The authorisation given by the Board of Directors, to any of the employees of the company, indicating the authority levels of authorised signatories, to operate the account, shall be obtained and filed, for bank's records. Such authorisation should be made specific to the operation of the bank accounts.

2.1.5. Hindu Undivided Family (HUF)

Accounts of HUF, shall be allowed to open, after getting the necessary details, as applicable to individuals, along with the Affidavit, from the Kartha of the HUF.

2.1.6. Trusts and Charitable Institutions

The Bank should verify the Trust Deed and should satisfy itself, the purpose of the Trust, details of the Trustees, their powers, along with their identification. The bank should also verify, whether the Trust is recognized by Income Tax Act.

If it is a charitable institution, no account shall be opened, for trading purpose.

2.1.7. Government Department and Board

Accounts of Governmental departments may be accepted, for opening account with proper authority, from the respective departments and the orders by the competent authority, authorising the department, to open account in BOC – Chennai. Nature of authority of the signatories, should be specifically spelt-out in the authorisation.

2.1.8. Correspondent Banking

Correspondent Banking relates to the interbank arrangements, with regard to funds management, international wire transfers, DD drawing arrangements, mail transfers, clearing arrangements etc. Before accepting any banking relations with other banks, particularly foreign banks, it is necessary to see,

- a. Whether the Bank is a branch banking or unit banking
- b. Status of the Bank
- c. Regulations governing the Correspondent Banks, in their country
- d. Correspondent Banks level of Anti Money Laundering.

For having Correspondent Banking relationship, only the Head Office can grant approval and the Country Manager of BOC – Chennai, cannot take an unilateral decision, when getting specific approval from the Head Office.

2.2. Customer Identification Procedure (CIP)

The Bank, after obtaining of the necessary information, to establish the identity, through the documents, mentioned under CAP, are only illustrative, but not exhaustive. The Bank shall establish the identity of the customer, along with the documents, such as Passport, Driving Licence etc. or by verification of existing account holders or introduction by person, known to the bank.

While following the KYC procedures, in accepting and identifying the customers, care should be taken that, the general public are not denied of banking service. Based on the information obtained from the customers and proper identification has been made, the customers have to be categorised, based upon the risk factor, attached to their association, with the bank. Based on the risk level, the categorisations is done as follows.

- *Low Risk*
- *Medium Risk*
- *High Risk*

2.2.1. Customers under Low Risk Category

- Accounts of individuals, having ordinary networth and having meager transactions.
- Accounts which have been opened by the salaried group or low income group
- Accounts which are opened for small investment purpose.

In such cases, the bank would not be put to any risk of apprehension of money laundering or any anti-social activities. Moreover, there may not be any withdrawal or remittance of substantial amount, in those accounts and the

bank's liquidity may not get affected, by such closure or withdrawal of the balance held.

2.2.2. Customers under Medium Risk Category

These type of accounts, do normally have the normal banking risk, whether there will not be any transactions of suspicious nature. However, there may be large deposits and large sum of withdrawals, based on the business requirements, for which the bank has clear knowledge, about the type of business and the need of such transactions.

2.2.3. Customers under High Risk Category

The Bank should exercise abundant precaution on those accounts, which are having high risk element, like bulk deposits and huge transfers to different places, not backed by any business transactions, frequent receipts of inward remittances in foreign currencies, outward remittances in one pretext or another. Such type of high risk accounts, should be closely monitored and their transactions should be questioned, to find the genuineness of the transactions, as a method of preventing any money laundering or any anti-social activities. BOC – Chennai should not accept any bulk deposits, from unknown persons, in the pretext of bank marketing. Similarly, BOC – Chennai should not open accounts in the name of fictitious persons, for any reason, as a matter of promoting bank's business.

This categorisation exercise should be reviewed, atleast half-yearly, with effect from 1st January 2008.

2.3. Monitoring of Transactions

As a tool of KYC policy, the Bank has to monitor the transactions in their constituents' accounts, closely. The transactions of any customer, may be either in cash or by transfer entries.

2.3.1. Ceiling & Monitoring of Cash Transactions

Based on RBI guidelines, BOC – Chennai should follow the following process of monitoring cash transactions.

- BOC – Chennai should not issue Demand Drafts, Mail Transfers and Telegraphic Transfers, amounting to Rs.50,000/- and above by way of cash remittances. Such transfers can be made, only to the debit of the respective customers' account.
- Cash remittances in any account, for an amount of Rs.50,000/- and above, PAN (Permanent Account Number), granted by Income Tax authorities, should invariably mentioned.
- BOC – Chennai should have a close watch of cash withdrawals and deposits of Rs.10 Lacs and above, in Deposit Accounts, Cash Credit Accounts or Overdraft Accounts and a separate register shall be maintained, for such withdrawals/ deposits.
- BOC – Chennai should maintain records of withdrawals or deposits, amounting to Rs.10 Lacs and above, on a cumulative basis, during a particular month and such information shall be passed on to Finance Intelligence Unit – Ministry of Finance and/ or concerned law enforcing authorities, for necessary investigation and action.

2.3.2. Monitoring of Transfer Entries

BOC – Chennai should maintain a record of all transfer entries, both debit and credit of Rs.20 Lacs and above and it has to be monitored on daily basis. Suspicious nature of any debit or credit will be reported to the Country Manager, for initiating appropriate remedial measures. The KYC Compliance Officer shall alone be held personally accountable, for any omissions.

2.4. Operational Guidelines and Risk Management

The implementation of KYC Policy will not *ipso-facto* be a remedy, for controlling money laundering and anti-social activities, or any transactions of fraudulent nature. The whole exercise of KYC would be successful, only if proper risk management is attached with the same. With the sole intention of having cheques and controls, on the implementation of the KYC norms, the following risk management measures are envisaged.

2.4.1. For Deposit Accounts

The Assistant Vice President (Operations) of the Bank, will be designated as the Compliance Officer, for KYC norms. His primary duty is to interrogate, as per CAP of the Bank, all the persons who are to be the deposit account holders. After satisfying the genuineness and after ensuring that, the person approaching for opening deposit accounts, can be accepted and he shall be taken to the Deputy Manager, for his final approval. The opening and closing of Deposit Accounts, except Current Accounts, shall be duly authorised by the Deputy Manager only, at the recommendation of the Compliance Officer. With regard to the Current Accounts, at the recommendation of the Compliance Officer, the Country Manager alone can approve the opening of new Current Accounts.

This dual approval system – one at the Compliance Officer level and the other at the approval stage, ensures that the KYC norms are followed up properly, in the Bank.

2.4.2. For Advance Accounts

New advance accounts, shall be opened by the Vice President (Credit), but before opening such accounts, the CAP procedures, should be complied with, by the Credit Committee and it should be got approved by competent

authorities (i.e) up to the Country Manager's delegation, he should approve and above his delegation, it has to be approved by the Head Office, by competent authorities. In case, if the Country Manager exceeds his delegation, it has to be referred to Head Office, for ratification.

As per the Credit Policy Manual, generally new clients are not granted with immediate credit facilities. Only after observing the operations of the account, for about six months, loan accounts will be opened. However, it is stipulated that, in exceptional cases, the Country Manager may allow, to open new advance accounts, even to the new comers, if their credit rating is **'A'** or **'B'**.

2.5. Control by External Officials

The aforesaid controls are exercised by the officials of the bank, whereas the following are the outsiders, apart from the bank officials and will monitor the compliance of KYC policy.

- Concurrent Auditors
- Bank's External Auditors
- Head Office Internal Auditors
- Regulatory Authorities

The deficiencies pointed out by the external authorities, should be properly attended and rectified by the BOC – Chennai officials and a certificate to the effect of such compliance, shall be submitted to the appropriate authorities, including the Head Office.

All these measures are, to be invariably followed by BOC – Chennai, as a part of risk management.

Above all, all the employees should be apprised of the KYC norms, procedures and the need, for such policies, which will enable to implement the KYC policy, smoothly. This will form a part of training to the employees and such exercise should be carried on, on an on-going basis.

2.6. Adherence to RBI Directives/ Statutes

BOC – Chennai, should strictly adhere to, all the statutory laws, RBI directives and directives issued by Head Office, in having customers accounts. In particular, the provisions of Foreign Contribution Regulation Act – 1976, should be verified whether they are in the list of banned organisations, under this Act, for which accounts cannot be opened by the Banks in India.

2.7. Record Control

Though all the KYC norms are complied with, the documentary evidence in compliance with the KYC norms, including the account opening forms, shall be kept under lock and key. The Compliance Officer shall be given single custody of the account opening forms and other relevant records and he is to be held accountable, for any omissions or lapses. He should ensure that, such account opening forms are not available for others, without his knowledge, for any other purposes, which may facilitate manipulation. All the financial transaction records, should be retained atleast for five years.

If in case, any of the original documents have been delivered to any other law enforcing authorities/ courts, a photocopy of the same shall be kept in-lieu of the original, mentioning the details to whom the original has been delivered, along with the certificate thereof.

2.8. Customer Education

The details of KYC procedures and the need of KYC norms, are to be well explained to the persons, coming for banking association and to the existing customers also, so that, the customers do not feel that, the Bank is imposing so many conditions, in having banking dealings. Once when they are accepted as customer, both the Bank and the Customer, will be in a secured position, against any Frauds, by following the KYC norms.

2.9. Conclusion

Whatever policies, rules, guidelines are made, it can only elucidate the broad guidelines and the rules, for implementation. The true success of implementation of any norms, particularly the KYC norms, depends upon the prudence of the official.

The sense of prudence with diligence, will make the implementation of the policy, a success and BOC – Chennai should aim at achieving the same.

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