



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
www.rbi.org.in

UBD.No.DS.PCB.Cir.17/13.01.00/2002-03

September 18, 2002

The Chief Executives of  
All Primary (Urban) Co-operative Banks

Dear Sir / Madam,

**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 adopt 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 UBD.No.21/12.05.00/93-94 dated 21 September 1993, para 1.7 of the annexure). 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 on cash withdrawals and deposits for Rs.5 lakh and above in deposit, cash credit or overdraft accounts and keep record of details of these large cash transactions in a separate register and report such transactions as well as transaction of suspicious nature with full details in fortnightly statements to their Head Office. The Head Office should immediately scrutinise the same and, if necessary, have them looked into by deputing officials (Circular UBD.No.I&L.PCB.65/12.05.00/94-95 dated 28 June 1995) read with (Circular UBD.I&L.PCB.28/12.05.00/95-96 dated 10 November 1995) and (Circular UBD.No.I&L.PCB.44/12.05.00/95-96 dated 22nd February 1996).

### 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. Head 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 (one such list was enclosed to Circular UBD.DS.PCB.Cir.27/13.01.00/2001-02 dated 16 January 2002). 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 UBD.No.Plan.PCB11/09.08.00/94-95 dated 2 August 1994.

#### 5.4 Identification and Reporting of Suspicious Transactions

Banks should ensure that the branches and Head 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 Head Office. Being matters of sensitive nature, there must be a quarterly reporting of such aspects and action taken thereon 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 associations 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 organisations 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 35A of the Banking Regulation Act, 1949 (AACS) 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.

9. Please acknowledge receipt, and advise the steps initiated in compliance with the various guidelines contained in the circular, to the concerned Regional Office of the Urban Banks Department, Reserve Bank of India, within a month from the date of receipt of this circular.

Yours faithfully,

Sd/-

**(S. Karuppasamy)**

Chief General Manager-in-Charge

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## Annexure

**"Know Your Customer" and Monitoring of Cash Transactions"**

Sr. No.	Circular No. Date	Subject	Gist of Instructions
1.	<u>UBD.No.21/12.05.00/93-94</u> dt. 21-9-1993 (Para 1.7 of the Annexure)	Misuse of banking channels for violation of fiscal laws and evasion of taxes - issue and payment of demand drafts for Rs. 50,000 and above	Banks to issue travellers cheques, demand drafts, mail transfers, telegraphic transfers for Rs. 50,000/- and above by debit to customers accounts or against cheques only and not against cash.
2.	<u>UBD.No.21/12.05.00/93-94</u> dt. 21-9-1993 (Para 1.10 of the annexure)	Committee to enquire into various aspects relating to frauds and malpractices in banks	Banks advised to adhere to the prescribed norms and safeguards while opening accounts etc.
3.	<u>UBD.No.I&amp;L.40/J.1-92/93</u> dt. 9 Feb 1993	Diversion of working capital funds	Banks to ensure that withdrawals from cash credit / overdraft accounts are strictly for the purpose for which the credit limits were sanctioned by them. There should be no diversion of working capital finance for acquisition of fixed assets, investments in associate companies / subsidiaries and acquisition of shares, debentures, units of UTI and other mutual funds and other investments in the capital market
4.	<u>UBD.No.138/12.05.00/93-94</u> dated 30 Sept. 1993	Frauds in banks Encashment of Interest / Dividend Warrants, Refund Orders etc.	Banks to be vigilant in opening new accounts without proper introduction, new accounts with fictitious names and addresses. Banks instructed to strictly adhere to the instructions issued on opening and operating of bank accounts.
5.	<u>UBD.No.I&amp;L.74/12.05.00/ 93-94</u> dt. 27 May 1994	The Committee to enquire into various aspects relating to frauds and malpractices in banks	Clarifications given to banks regarding obtaining photographs of the depositors / account holder authorised to operate new accounts with effect from 1.1.1994. Obtention of photographs would apply to residents and non-residents and all categories of deposits including fixed / recurring / cumulative deposit accounts and also to those persons authorised to operate the accounts
6.	<u>UBD.No.I&amp;L.PCB.24/12.05. 00/93-94</u> dt. 19 Oct. 1994	Fraudulent operations in deposit accounts opening and collection of cheques / pay orders etc.	Banks to examine every request for opening joint accounts very carefully, look into the purpose, other relevant aspects relating to business, the financial position of the account holders and whether number of account holders are large. "Generally crossed" cheques and those payable to order should be collected only on proper endorsement by the payee. Banks to exercise care in collection of cheques of large amounts and ensure that joint accounts are not used for benami transactions.
7.	<u>UBD.No.I&amp;L.PCB.65/12.05. 00/94-95</u> dt. 28 June 1995 and <u>UBD.No.I&amp;L.PCB.28/12.05. 00/95-96</u> dt. 10 November 1995	Frauds in banks - Monitoring of deposit accounts	Banks to introduce system of close watch of new deposit accounts and monitoring of cash withdrawals and deposits for Rs. 1 lakh and above in deposit, cash credit and overdraft accounts. Banks to keep record of details of these large cash transactions in a separate register Head Office to look into such transaction, if necessary.

8.	<u>UBD.No.I&amp;L.PCB.44/12.05. 00/95-96</u> dt. 22 Feb 1996	Frauds in banks - Monitoring of deposit accounts	The limit for above monitoring of cash deposits and withdrawals for monitoring was raised to Rs. 5 lakh and above
9.	<u>UBD.No.I&amp;L.PCB.44/12.05. 00/95-96</u> dt. 22 Feb 1996	Monitoring of Deposit Accounts	Reporting of all cash deposits and withdrawals of Rs. 5 lakh and above with full details in fortnightly statements by bank branches to their Head Offices. Transactions of suspicious nature to be apprised to Head Office. RBI to look into these statements at the time of inspections.
10.	<u>UBD.No.I&amp;L.PCB.44/12.05. 00/95-96</u> dt. 22 Feb 1996	Monitoring cash deposits and withdrawals of Rs. 5 lakh and above in deposit / other accounts	Banks asked to submit feedback on implementation of the system of close monitoring of large cash deposits and withdrawals of Rs. 5 lakh and above
11.	<u>UBD.No.BSD.I/8/12-05.00/ 2000-2001</u> dt. 9 Nov. 2000	Frauds - Preventive measures	Instructions have been reiterated for strengthening the systems and procedures to be followed relating to account opening, custody of documents, loans against deposits, internal control and monitoring use of middleman, etc.
12.	<u>UBD.No.DS.PCB.Cir.27/13/01.00/2001-02</u> dt. 16 January 2002	Prevention of Terrorism Ordinance, 2001 Implementation thereof.	Banks should keep a watchful eye on the transactions of the 23 terrorist organisations listed in the Schedule to the Ordinance. Violations of the extant Acts or normal banking operations must be reported to the appropriate authorities under the Ordinance under advice to RBI. Banks to undertake 'due diligence' in respect of the 'KYC' principle.
13.	<u>UBD.No.BSD.I/PCB.4/12.05.00/2002-03</u> dt. 20 July 2002.	Monitoring of accounts compliance with instructions.	Banks to strictly adhere to the extant guidelines regarding opening and monitoring of accounts. Banks to confirm having issued instructions for immediate compliance by the branch.
14.	<u>UBD.No.DS.PCB.Cir.16/13.01.00/2002-03</u> dated 17 Sept. 2002	Freezing of funds pursuant to United Nations Security Council Resolution, 1390.	Accounts on individuals and entities listed should be immediately frozen as informed by the Security Council Sanctions Committee of the UN. If any transaction is detected involving any of these entities, banks to report to RBI promptly for necessary action.