

(Know Your Customer Series – 02)

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KNOW YOUR CUSTOMER – How?



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‘Know Your Customer’ or ‘Know Your Client’ (KYC)

**In the first Article, you read about WHY KYC
and WHO should do KYC?**

This Article is an attempt to address Customer Pain Points!

HOW ARE BANKS SUPPOSED TO DO KYC?

This is where the customers’ pain points start!

Though the KYC process is very simple; there is always confusion at the operating levels in the banks, mainly because of the multitude of instructions for handling variety of situations.

This article, therefore, is an attempt to present the KYC Process in its simplest form

DOCUMENTS NEEDED FOR KYC

KYC being a statutory requirement; the documents to establish KYC are mandated by the provisions of the Anti-Money Laundering Act, 2002 and Prevention of Money-laundering (Maintenance of Records) Rules], 2005.

PREVENTION OF MONEY LAUNDERING
ACT, 2002



In this documentation process, the most important aspect is documents for Individuals, because documentation for entities also involves documents from Individuals associated with the entities.

The documents that need to be taken from Individuals and different types of Entities, are explained below.

Before we proceed to describe the KYC Process, let us first understand a few basic concepts.

IMPORTANT CONCEPTS

Certified Copies:

Wherever banks are required to obtain “**Self-Certified Copies**” of documents, it would mean that the person/entity (owner) submitting the documents would sign the copies of the original documents in presence of the Bank Official.

In all other cases, where the banks are required to obtain “**Certified Copies**” of documents, the Bank Official is required to compare the copies with the original, and record the same on the copy.

In case of Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs), the bank may obtain the copies of documents certified by any one of the following:

- (a) authorised officials of overseas branches of Scheduled Commercial Banks registered in India
- (b) branches of overseas banks with whom Indian banks have relationships
- (c) Notary Public abroad
- (d) Court Magistrate
- (e) Judge
- (f) Indian Embassy / Consulate General in the country where the non-resident customer resides

What is Beneficial Ownership?



"Beneficial Owner" means an individual who ultimately owns or controls a client or the person on whose behalf a transaction is being conducted and includes a person who exercises ultimate effective control over a juridical person. Definition of Beneficial Owner varies based on the entity type.

1. Unlisted Company:

The beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means. For the above purpose,

- (a) "Controlling ownership interest" means ownership of or entitlement to more than twenty-five percent of shares or capital or profits of the company
- (b) "Control" includes the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

2. Listed Company:

There is no need to verify the identity of any shareholder or beneficial owner in respect of the following Entities:

- (a) Companies listed on a stock exchange in India, or
- (b) Companies resident in other notified countries and listed on stock exchanges in such countries, or
- (c) Subsidiaries of a listed company

3. Partnership Firm:

The beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of / entitlement to more than fifteen percent of capital or profits of the partnership.

4. Unincorporated Association or Body of Individuals:

The beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than fifteen percent of the property or capital or profits of such association or body of individuals

5. Trust

The beneficial owner(s) shall include the author of the trust, the trustee, the beneficiaries with fifteen percent or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership

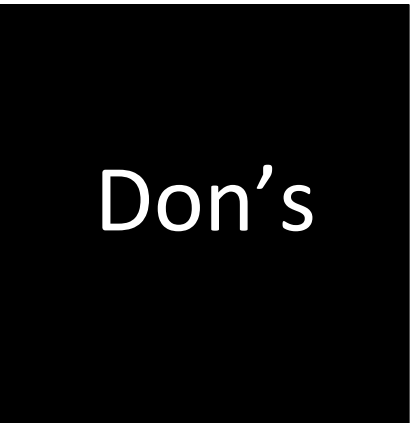
SIMPLEST POSSIBLE KYC PROCESS

Do's

- Understand the basics of banking. It is the banks who want to have more and more accounts of individuals and entities to increase their business. So, if an individual or an entity approaches a bank, be ready to welcome them with simplest possible account opening formalities for genuine customer delight and not customer flight out of frustration.
- Ensure that a Checklist of the Documents required for opening new accounts, is provided to each client and it is also available with each bank employee associated with Account Opening Process.
- Adopt, the most convenient method of establishing KYC. Simply check with the client if he/she has any account with the bank or any other bank.
 - If 'YES', request him/her to provide **KYC Identifier**. *KYC Identifier is a unique number or code assigned to a customer by Central KYC Records Registry*. In that case, do not take any other documents in the normal course.
 - However, in the above case, obtain relevant documents only in the following circumstances:
 - If there is a change in the information of the client; or
 - The bank desires to verify the current address of the client; or
 - The bank considers it absolutely necessary to verify the identity or address of the client, or perform enhanced due diligence, or to build an appropriate risk profile of the client.

But, after obtaining the additional information from the client, furnish the updated information to the Central KYC Records Registry to enable them to update the existing KYC records of the client and electronically inform all other banks & other reporting entities who have dealt with the concerned client regarding updating of KYC record of the said client.

- If 'NO', then obtain only the prescribed documents.
- Don't take fresh KYC documents, if the client already has an account (irrespective of the type of account in most cases) with the bank or the client is a joint account holder, or the client is an authorised signatory for any company, firm, trust, etc., and his/her KYC documents have been taken for that purpose by your bank.



 - Bank's own Core Banking Solution (CBS) would have provision to tag multiple accounts of a customer held in different capacities, so that multiple KYC documentation processes can be avoided.
 - If the bank's CBS does not have provision to tag same KYC documents to multiple accounts held in different capacities, then it is all the more important for the bank to be diligent enough to share the KYC information with the Central KYC Registry. Thereafter, it can always tag the KYC Identifier to multiple accounts, without any need for fresh KYC documents for each new account. This will enhance client experience, customer delight, and expedite account opening process.

INDIVIDUAL ACCOUNTS

(Including individuals who are beneficial owners, authorised signatories, power of attorney holders related to any legal entity)

Obtain following Documents:

A. KYC Identifier,

OR

B. Following 3 documents:

1. Identity Document: (Anyone of the following is **Mandatory**)

(a) Aadhaar Number, where he is desirous of receiving any benefit or subsidy under any scheme notified under section 7 of the Aadhaar (Targeted Delivery of Financial and Other subsidies, Benefits and Services) Act, 2016; OR

- (b) Aadhaar Number, where he decides to submit his Aadhaar number voluntarily; OR
 - (c) Proof of possession of Aadhaar Number, where offline verification can be carried out, OR
 - (d) Proof of possession of Aadhaar Number, where offline verification cannot be carried out, OR
 - (e) Any OVD, OR
 - (f) Equivalent e-document of OVD containing the details of his identity and address
- +
2. PAN or Form 60 (**Mandatory**)
- +
3. Such other documents including in respect of the nature of business / occupation and financial status of the Individual, or the equivalent e-documents thereof as may be required by the bank (**Mandatory**)

NOTE:

For item (3) above, depending upon the occupation of the individual, any one of the following documents should suffice:

- (a) Salary Slip, OR
- (b) Income Tax Return, OR
- (c) Pension Certificate / Pay Order, OR
- (d) Past 6 months' Statement of Bank Account with any other Bank, if any, OR
- (e) Any other document, deemed appropriate by the bank

SMALL ACCOUNTS
(ONLY SAVINGS BANK FOR INDIVIDUALS)

Obtain following documents:

- 1. Self-attested photograph
- +
- 2. Signature or thumb impression on the Account Opening Form in presence of the bank's designated officer, who is required to certify to that effect.

IMPORTANT:

- (a) Allow small accounts to be opened only at branches covered under Core Banking Solution
- (b) Do not allow foreign remittance to be credited to these accounts
- (c) Monitor prescribed Monthly and Annual Limits on aggregate of transactions and balance requirements in such accounts at the time of each transaction

- (d) Ensure that within 12 months, account holder submits any of the OVDs. In case of non-receipt of OVD, allow extension for another 12 months only if the account holder submits proof of applying for OVD.

FOREIGN STUDENTS
(NRO ACCOUNTS)

Obtain following documents:

1. Passport (with visa & immigration endorsement) bearing the proof of identity and address in the home country
+
2. Photograph
+
3. Letter offering admission from the educational institution in India.
+
4. A declaration about the local address (To be obtained within a period of 30 days of opening the account)

IMPORTANT:

- (a) Verify the local address. Pending the verification of address, allow the account to be operated with a condition of allowing foreign remittances not exceeding USD 1,000 or equivalent into the account and a cap of rupees fifty thousand on aggregate in the same, during the 30-day period.
- (b) Open accounts of students with Pakistani nationality only after prior approval of the Reserve Bank.

SOLE PROPRIETARY FIRMS

Obtain following documents:

- A. KYC Identifier

OR

- B. **Documents of the Proprietor:**

Documents as applicable to an Individual

+

- C. **Documents of the Proprietorship:**

- (i) **Any two** of the following documents or the equivalent e-documents thereof as a proof of business / activity in the name of the proprietary firm:
 - (a) Registration certificate

- (b) Certificate / licence issued by the municipal authorities under Shop and Establishment Act
- (c) Sales and income tax returns
- (d) CST / VAT / GST certificate (provisional/final)
- (e) Certificate / registration document issued by Sales Tax / Service Tax / Professional Tax authorities
- (f) IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT or Licence / certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute
- (g) 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 the Income Tax authorities
- (h) Utility bills such as electricity, water, landline telephone bills, etc.
- (ii) Where it is not possible to furnish two documents out of documents mentioned at (i) above, at bank's discretion collect only one document, **provided** :-
 - (a) Bank is satisfied about genuineness of the inability to submit two documents;
 - (b) Bank undertakes contact point verification; and
 - (c) Collects such other information and clarification as would be required to establish the existence of such firm, and to confirm and satisfy itself that the business activity has been verified from the address of the proprietary concernFor item (c) above, any one of the following documents should suffice:
 - (i) Income Tax Return along with Balance Sheet and Profit & Loss Account for the last financial year OR
 - (ii) Past 6 months' Statement of Bank Account with any other Bank, if any, OR
 - (iii) Any other document, deemed appropriate by the bank.

PARTNERSHIP FIRMS

Obtain following documents:

A. KYC Identifier

OR

A. Certified Copies of the following documents:

1. Registration Certificate

+

2. Partnership Deed#

+

3. PAN of the Partnership Firm

+

4. Following Documents relating to Beneficial Owner, Managers, Officers or Employees holding Power of Attorney to transact on behalf of the company:

(a) KYC Identifier

OR

(b) Aadhaar Number

+

(c) PAN or Form 60

+

- (d) Such other documents including in respect of the nature of business and financial status of the Individual, or the equivalent e-documents thereof as may be required by the bank.

NOTE:

For item (d) above, depending upon the occupation of the individual, any one of the following documents should suffice:

(a) Salary Slip, OR

(b) Income Tax Return, OR

(c) Pension Certificate / Pay Order, OR

(d) Past 6 months' Statement of Bank Account with any other Bank, if any, OR

(e) Any other document, deemed appropriate by the bank

In case, a Partnership is not registered, the firm will be considered as 'Body of Individuals' and related documents to be obtained.

COMPANIES

Obtain following documents:

A. KYC Identifier

OR

A. **Certified Copies of the following documents:**

1. Certificate of Incorporation

+

2. Memorandum and Articles of Association

+

3. PAN of the Company

+

4. A Board Resolution and Power of Attorney granted to its managers, officers or employees, as the case may be, to transact on behalf of the company

+

5. Following Documents relating to Beneficial Owner, Managers, Officers or Employees, holding Power of Attorney to transact on behalf of the company:

- (a) Aadhaar Number

+

- (b) PAN or Form 60

+

- (c) Such other documents including in respect of the nature of business and financial status of the Individual, or the equivalent e-documents thereof as may be required by the bank.

NOTE:

For item (c) above, depending upon the occupation of the individual, any one of the following documents should suffice:

- (a) Salary Slip, OR

- (b) Income Tax Return, OR

- (c) Pension Certificate / Pay Order, OR

- (d) Past 6 months' Statement of Bank Account with any other Bank, if any, OR

- (e) Any other document, deemed appropriate by the bank

TRUST

Obtain following documents:

A. KYC Identifier

OR

A. **Certified Copies of the following documents:**

1. Registration Certificate

+

2. Trust Deed\$

+

3. PAN or Form 60 of the Trust

+

4. Following Documents relating to Beneficial Owner, Managers, Officers or Employees, holding Power of Attorney to transact on behalf of the company:

(a) Aadhaar Number

+

(b) PAN or Form 60

+

(c) Such other documents including in respect of the nature of business and financial status of the Individual, or the equivalent e-documents thereof as may be required by the bank.

NOTE:

For item (c) above, depending upon the occupation of the individual, any one of the following documents should suffice:

(a) Salary Slip, OR

(b) Income Tax Return, OR

(c) Pension Certificate / Pay Order, OR

(d) Past 6 months' Statement of Bank Account with any other Bank, if any,
OR

(e) Any other document, deemed appropriate by the bank

\$ In case a Trust is not registered, it will be treated as 'Body of Individuals' and related documents to be obtained.

UNINCORPORATED ASSOCIATION

OR

A BODY OF INDIVIDUALS

Obtain following documents:

A. KYC Identifier

OR

A. **Certified Copies of the following documents:**

1. Resolution of the managing body of such association or body of individuals

+

2. PAN or Form No.60 of the unincorporated association or a body of individuals

+

3. Power of Attorney granted to transact on its behalf

+

4. Such information as may be required by the bank to collectively establish the existence of such association or body of individuals

+

5. Following Documents relating to Beneficial Owner, Managers, Officers or Employees, holding Power of Attorney to transact on behalf of the company:

(a) Aadhaar Number

+

(b) PAN or Form 60

+

(c) Such other documents including in respect of the nature of business and financial status of the Individual, or the equivalent e-documents thereof as may be required by the bank

NOTE:

For item (iii) above, depending upon the occupation of the individual, any one of the following documents should suffice:

(a) Salary Slip, OR

(b) Income Tax Return, OR

(c) Pension Certificate / Pay Order, OR

(d) Past 6 months' Statement of Bank Account with any other Bank, if any,
OR

(e) Any other document, deemed appropriate by the bank

JUDICIAL PERSON
(SOCIETIES, UNIVERSITIES, LOCAL BODIES)

Obtain following documents:

A. KYC Identifier

OR

A. **Certified Copies of the following documents:**

1. Document showing name of the person authorised to act on behalf of the entity

+

2. Following documents relating to the person holding an attorney to transact on its behalf:

(a) Aadhaar Number

+

(b) PAN or Form 60

+

(c) Such other documents including in respect of the nature of business and financial status of the Individual, or the equivalent e-documents thereof as may be required by the bank

+

3. Such documents as may be required by the bank to establish the legal existence of such an entity / juridical person,

BANK'S INTERNAL VERIFICATION PROVESSES

1. KYC Identifier:

- (i) If a client, has already been identified to any bank and submits a **KYC Identifier** to the bank, then retrieve the KYC records online from the Central KYC Records Registry by using the KYC Identifier and **do not** insist on the client to submit the same KYC records or information or any other additional identification documents or details in the normal course.
- (ii) However, **obtain appropriate information only if** –
 - (a) there is a change in the information of the client as existing in the records of Central KYC Records Registry;
 - (b) the bank desires to verify the current address of the client;
 - (c) the bank considers it necessary in order to verify the identity or address of the client, or to perform enhanced due diligence or to build an appropriate risk profile of the client
- (iii) If any additional information is obtained from a client, furnish the updated information to the Central KYC Records Registry to enable it to update the existing KYC records of the client and electronically inform all other banks & other reporting entities who have dealt with the concerned client regarding updating of KYC record of the said client.

NOTE: This is a very important step, which must be followed by the bank in the larger interest of customers and the banking industry.

2. Verification of Aadhar Number:

- (i) Where an individual submits Aadhaar Number in any one of the manners indicated above, carry out authentication of the customer's Aadhaar number using e-KYC authentication facility provided by the Unique Identification Authority of India.

Where, the customer wants to provide a current address, different from the address as per the identity information available in the Central Identities Data Repository, accept a **self-declaration** to that effect.

If an e-KYC authentication cannot be performed for an individual desirous of receiving any benefit or subsidy under any scheme notified under section 7 of the Aadhaar (Targeted Delivery of Financial and Other subsidies, Benefits and Services) Act, 2016 owing to injury, illness or infirmity on account of old age or otherwise, and similar causes, obtain the Aadhaar number, perform identification preferably by carrying out offline verification or alternatively

obtain the certified copy of any other OVD or the equivalent e-document thereof from the customer. Record the cases of exception handling in a centralised exception database.

- (ii) Where an individual submits the proof of possession of Aadhaar number where offline verification can be carried out, carryout offline verification.
- (iii) Where an individual submits the proof of possession of Aadhaar number where offline verification cannot be carried out, carry out verification through digital KYC as per prescribed procedure. specified under Appendix.
- (iv) In cases mentioned at (ii) and (iii) above, where the client submits a proof of possession of Aadhaar Number containing Aadhaar Number, ensure that such client redacts or blacks out his Aadhaar number through appropriate means where the authentication of Aadhaar number is not required.
- (v) Biometric based e-KYC authentication can be done by bank official / business correspondents / business facilitators.

3. Verification of Officially Valid Documents (OVDs):

- (i) Permissible Officially Valid Documents (OVDs):
 - (a) Passport,
 - (b) Driving licence
 - (c) Proof of possession of Aadhaar number
 - (d) Voter's Identity Card issued by Election Commission of India
 - (e) Job Card issued by NREGA duly signed by an officer of the State Government,
 - (f) Letter issued by the National Population Register containing details of name, address or any other document as notified by the Central Government in consultation with RBI
- (ii) Where an individual submits an OVD, carry out verification through digital KYC as per prescribed procedure. specified under Appendix.
- (iii) Where an individual submits an equivalent e-document of any OVD, verify the digital signature as per the provisions of the Information Technology Act, 2000 and any rules issues thereunder and take a live photo as specified under Appendix
- (iv) In the above two cases, if the OVD furnished by the client does not contain updated address, obtain the following documents or equivalent e-document thereof, which shall be deemed to be OVD for the limited purpose of proof of address, subject to receipt of updated OVD or equivalent e-document thereof with current address within three months:
 - (a) utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
 - (b) property or Municipal tax receipt;

- (c) pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- (d) letter of allotment of accommodation from employer issued by State Government or Central Government Departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and licence agreements with such employers allotting official accommodation

4. Verification of PAN or Form 60:

- (i) In case the client submits the PAN Card, verify the same from the verification facility of the issuing authority.

5. Verification of Other Document(s):

- (i) In case of self-certified copies, these may be compared with the originals.
- (ii) In case of other certified documents, Bank Official should compare the copies with the original and record the same on the copies under his/her signature.

6. Contact Point Verification:

- (i) In Contact Point Verification, bank is required to collect such other information and clarification as would be required to establish the existence of such firm, and confirm and satisfy itself that the business activity has been verified from the given address

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Appendix 1

Digital KYC Process

1. The reporting entities shall develop an application for digital KYC process which shall be made available at customer touch points for undertaking KYC of their customers and the KYC process shall be undertaken only through this authenticated Application of the Reporting Entities.
2. The access of the Application shall be controlled by the Reporting Entities and it should be ensured that the same is not used by unauthorized persons. The Application shall be accessed only through login-id and password or Live OTP or Time OTP controlled mechanism given by Reporting Entities to its authorized officials.
3. The client, for the purpose of KYC, shall visit the location of the authorized official of the Reporting Entity or vice-versa. The original Officially Valid Document (OVD) shall be in possession of the client.
4. The Reporting Entity must ensure that the Live photograph of the client is taken by the authorized officer and the same photograph is embedded in the Customer Application Form (CAF). Further, the system Application of the Reporting Entity shall put a water-mark in readable form having CAF number, GPS coordinates, authorized official's name, unique employee Code (assigned by Reporting Entities) and Date (DD:MM:YYYY) and time stamp (HH:MM:SS) on the captured live photograph of the client.
5. The Application of the Reporting Entities shall have the feature that only live photograph of the client is captured and no printed or video-graphed photograph of the client is captured. The background behind the client while capturing live photograph should be of white color and no other person shall come into the frame while capturing the live photograph of the client.
6. Similarly, the live photograph of the original officially valid document or proof of possession of Aadhaar where offline verification cannot be carried out (placed horizontally), shall be captured vertically from above and water-marking in readable form as mentioned above shall be done. No skew or tilt in the mobile device shall be there while capturing the live photograph of the original documents.
7. The live photograph of the client and his original documents shall be captured in proper light so that they are clearly readable and identifiable.
8. Thereafter, all the entries in the CAF shall be filled as per the documents and information furnished by the client. In those documents where Quick Response (QR) code is available, such details can be auto-populated by scanning the QR code instead of manual filing the details. For example, in case of physical Aadhaar / e-Aadhaar downloaded from UIDAI where QR code is available, the details like name, gender, date of birth and address can be auto-populated by scanning the QR available on Aadhaar / e-Aadhaar.

9. Once the above-mentioned process is completed, a One Time Password (OTP) message containing the text that 'Please verify the details filled in form before sharing OTP' shall be sent to client's own mobile number. Upon successful validation of the OTP, it will be treated as client signature on CAF. However, if the client does not have his / her own mobile number, then mobile number of his / her family / relatives / known persons may be used for this purpose and be clearly mentioned in CAF. In any case, the mobile number of authorized officers registered with the Reporting Entity shall not be used for client signature. The Reporting Entity must check that the mobile number used in client signature shall not be the mobile number of the authorized officer.
10. The authorized officer shall provide a declaration about the capturing of the live photograph of client and the original document. For this purpose, the authorized official shall be verified with One Time Password (OTP) which will be sent to his mobile number registered with the Reporting Entity. Upon successful OTP validation, it shall be treated as authorized officer's signature on the declaration. The live photograph of the authorized official shall also be captured in this authorized officer's declaration.
11. Subsequent to all these activities, the Application shall give information about the completion of the process and submission of activation request to activation officer of the Reporting Entity, and also generate the transaction-id / reference-id number of the process. The authorized officer shall intimate the details regarding transaction-id / reference-id number to client for future reference.
12. The authorized officer of the Reporting Entity shall check and verify that: -
 - (i) information available in the picture of document is matching with the information entered by authorized officer in CAF.
 - (ii) live photograph of the client matches with the photo available in the document; and
 - (iii) all of the necessary details in CAF including mandatory field are filled properly.;
13. On Successful verification, the CAF shall be digitally signed by authorized representative of the Reporting Entity who will take a print of CAF, get signatures / thumb-impression of customer at appropriate place, then scan and upload the same in system. Original hard copy may be returned to the customer.

NOTE: Banks may use the services of Business Correspondents (BC) for this process.