

Circular No. 82 DOS 13 /2005

The Managing Directors  
All State Co-operative Agriculture & Rural Development Banks

Dear Sir,

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

As you are aware, in the context of diversification in loans and advances and increase in business of **SCARDBs** and **PCARDBs** in various parts of the country, as also their engaging in mobilisation of deposits from the general public, there is a felt need to establish a systematic procedure for ensuring identity of **a new customer** and to ensure that banks do not enter into business relationship until the identity of **a new customer** is satisfactorily established. There is also a need to have policies, practices and procedures that promote high ethical and professional standards to prevent these banks from being used intentionally or unintentionally by criminal elements. The **SCARDBs/PCARDBs** are thus required to put in place, effective procedures to identify customers, refuse suspicious transactions and cooperate with law enforcement agencies. As part of this strategy, a concept known as "**Know Your Customer**" (**KYC**) has been introduced for banks in India by **RBI**. As part of introduction of **KYC** principle, cooperative banks are 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 from time to time advising the cooperative banks to be vigilant while opening accounts for new customers to prevent misuse of the banking system for perpetration of frauds. Taking into account recent developments, both domestic and international, it has now been decided to reiterate and consolidate the extant instructions on **KYC** norms and cash transactions also to the **SCARDBs**. Accordingly, the following guidelines have been framed with a view to safeguarding the **SCARDBs/PCARDBs** 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.

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/institution 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 individuals/institutions opening an account. The Board should also have in place policies that establish processes and procedures to monitor transaction of suspicious nature in accounts and have systems of conducting due diligence and reporting of such transactions.

## 2.2 **Customer identification** :

The objectives of **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 licence, 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 to the general public for access to services.

## 2.3 **Customer Information**

It is likely that while complying with the '**KYC**' requirements, **SCARDBs/PCARDBs** may also collect a lot of additional personal information at the time of opening accounts of the customers. It has been observed that the information collected from the customer is being used for cross selling of services of various products by some banks and their affiliates. Sometimes, such information is also provided to other agencies. As **SCARDBs/PCARDBs** are aware, the information provided by the customer for **KYC** compliance is confidential and divulging any details thereof for any other purpose would be in breach of customer confidentiality obligations. The **SCARDBs/PCARDBs** are, therefore, advised to instruct all the branches/**PCARDBs** to strictly ensure compliance with their obligations to the customer in this regard.

2.3.1 Further, wherever banks desire to collect any information about the customer for a purpose other than **KYC** requirements, it should not form part of the account opening form. Such information may be collected separately, purely on a voluntary basis, after explaining the objectives to the customer and taking his express approval for the specific uses to which such information could be put.

2.3.2 The **SCARDBs/PCARDBs** are advised to get their existing practices in this regard examined by the Board and issue suitable instructions to their branches and ensure compliance.

## 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. However, in case of any omission, the requisite **KYC** procedures for customer identification should be got completed at the earliest.

3.1 It has now been decided that **SCARDBs/PCARDBs** should draw up a time bound action plan as under, for completing this exercise of verification of the identity and address of the customer on the basis of reliable documents, in respect of all the old accounts. We may add that in the case of partnership firms, **KYC** procedures is to be applied to all the partners.

Sr.No.	Nature of Customer Accounts	Prescribed date for completion of the process
1	All types of customer accounts including borrowal accounts, of cooperatives, firms, trusts, institutions, etc.	September 30, 2005
2	All customer accounts including borrowal accounts, other than those included in category 1 above, opened during the period from January 1, 1998 till date	September 30, 2005
3	All customer accounts including borrowal accounts, other than those included in category 1 above, opened between January 1, 1993 and December 31, 1997	December 31, 2005
4	All customer accounts including borrowal accounts, other than those included in category 1 above, opened before January 1, 1993	December 31, 2005

3.2 It is further clarified that Sr.No.1 of paragraph 3.1 refer specifically to accounts of cooperatives, firms, trusts, institutions, etc. in which the **KYC** guidelines should be complied with by **September 30, 2005**. Customer accounts mentioned at Sr.Nos. 2,3 and 4 of the same paragraph refer to all accounts other than those mentioned above.

3.3 While inoperative accounts could be kept out of the current exercise, an inoperative account should be subjected to the **KYC** procedures as and when any transaction comes up and is sought to be transferred to the operative category.

3.4 However, with a view ensuring that existing small account holders are not inconvenienced and the **KYC** procedure is completed in time, it has been decided that the **SCARDBs/PCARDBs** may limit the application of **KYC** procedures to existing accounts where the credit or debit summation for the financial year ended March 31, 2005 is more than Rs. 5 lakhs for **SCARDBs** and more than Rs. 1 lakh for **PCARDBs** or where unusual transactions are suspected. This procedure may be completed by **September 30, 2005**.

3.5 All the **SCARDBs/PCARDBs** may, however, ensure that **KYC** procedures are applied to all existing accounts of trusts, cooperatives/firms, religious/charitable organisations and other institutions or where the accounts are opened through a mandate or power of attorney. The **KYC** procedures may be applied diligently to suit local conditions and completed by **December 31, 2005**.

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

The broad guidelines on the subject are as under :

- i. All cash transactions of Rs. 50,000 and above (deposit/drawals) will be subject to the requirement of furnishing Permanent Account Number (PAN).
- ii. The banks are required to keep a close watch on cash withdrawals and deposits for Rs. 5 lakh and above in all 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 SCARDB's Head Office should immediately scrutinise the same and if necessary, have them looked into by deputing officials.

## 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 System

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 Office of banks should periodically monitor strict adherence to the laid down policies and procedures by the officials at the branch level.

### 5.2 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 department in the banks.
- ii. Concurrent/internal auditors must specifically scrutinise and comment on the effectiveness of the measures taken by the branches/PCARDBs in adoption of **KYC** norms and steps towards prevention of money laundering. Such compliance report should be placed before the Board of banks at quarterly intervals.

### 5.3 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 Board of Directors.

## 6. Record Keeping

The **SCARDBs/PCARDBs** should prepare and maintain documentation on their customer relationships and transactions to meet the requirement of relevant laws and regulations and to enable reconstruction any transaction effected through them. 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 **NABARD** 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 implementing **KYC** policies consistently.

8. You are advised to put up this circular to the Board of Directors in the ensuing meeting and also bring the guidelines to the notice of your branches/Controlling Offices/PCARDBs and strictly adhere to the instructions on "KYC" norms.

9. You are advised to submit to us and local Regional Offices of **NABARD** your compliance report within one month of each of the prescribed dates for completion of the process indicated above.

10. Please acknowledge receipt to our Regional Office.

Yours faithfully,

Sd/-

**A.N. Rajwani**  
**General Manager**