

भारतीय रिजर्व बैंक
RESERVE BANK OF INDIA
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UBD. CO. BPD. PCB.Cir. No.9/12.05.001 / 2009-10

September 16, 2009

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

Dear Sir/Madam

**Adherence to KYC/AML guidelines while opening and conduct of the accounts of
Multi Level Marketing firms**

It has come to our notice that certain firms posing as Multi Level Marketing (MLM) agencies for consumer goods and services have been actually mobilizing large amounts of deposits from the public with promise of high returns. The names of some of these firms are:

- i. Fine India Sales Pvt. Ltd.
- ii. Lakshya Levels Marketing
- iii. Eve Industries
- iv. Trident Advertising & Trade Links Pvt. Ltd.
- v. Super Life Link Distributors
- vi. Lue Brain Education Society
- vii. Manya Mantra Marketing

2. The representatives of the above firms had opened accounts at various bank branches at different locations in the country and numerous small cash deposits were being made in those accounts. The firms and their agents had reportedly promised very high returns on deposits and lured common people to part with funds in the name of certain investment/deposit schemes. These funds, running into crores of rupees, were being pooled at the Principal Accounts of the MLM firms and the funds were eventually flowing out of those Principal Accounts for purposes apparently illegal or highly risky. These firms had managed to get very large number of cheque books issued from the banks and they have, in turn, issued to the depositors, post dated cheques for small amounts representing future interest dues and deposit payments. The small depositors

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बैंक हिन्दी में पत्राचार का स्वागत करता है ।

were depositing the money in the accounts of MLMs at places far away from the places where the accounts were actually opened which was facilitated by Core Banking Solution (CBS) offered by the banks. Since the operations of the firms are essentially deposit taking activities involving unusually high returns, the ongoing repayments of interest and deposit amounts in respect of existing deposits would depend on continuous and uninterrupted flow of fresh deposits with increasing volumes. Therefore, at some stage, the flow of deposits is bound to be stifled and post dated cheques tendered thereafter would bounce, due to inadequate funds available in the accounts.

3. Some of the above firms were advertising their deposit schemes through websites. A few such website addresses are:

http://www.alaskaindia.net/business_plan.html

<http://www.fineindia.net/>

Preliminary reports reveal that the names of the banks, where the MLM firms or their agents were maintaining accounts were getting associated with such operations of MLM firms. This has potential reputational risk for the banks, especially in the event of the firms failing to repay the depositors. Incidentally, as it appears, during personal contacts with the prospective depositors some of these MLM firms or their agents had used the name of the banks where they had accounts.

4. In view of the above, we advise that banks should be careful in opening accounts of the marketing/trading agencies etc. Especially, strict compliance with KYC and AML guidelines contained in circulars [UBD.CO.BPD \(PCB\) No. 1/12.05.001/2008-09](#) dated July 02, 2008 and [UBD.PCB. Cir. 30/09.161.00/2004-05](#) dated December 15, 2004 issued by RBI should be ensured in the matter.

5. In cases where accounts have already been opened in the names of the marketing agencies, retail traders, investment firms, the banks may undertake quick reviews. Wherever large number of cheque books has been issued to such firms, the relative decision may be reviewed in the light of the following:

- Whether the cheque books have been issued to customers on the basis of their express request and after following the internal processes laid down in the matter.
- Whether the number of cheque books is consistent with/matching the profile of the customers as also their nature of business operations.

6. Even where the volume of transactions/profile of the customers apparently justify the number of cheque books issued, special ongoing monitoring of the operations in the accounts of such types of firms should be made especially if large volumes of small cash deposits are being made in those accounts and withdrawals are being made there from, through cheques written for small amounts, either across the counters or through clearing. In respect of such account holders banks may, in specific cases, call for the

data from the account holders on the number and aggregate amount of post dated cheques issued. The data/information so collected should be analysed in select cases to rule out the possibility of the firms being engaged in deposit taking activities. Certain indicative parameters for selecting accounts for further scrutiny and action are the bunching of dates of the post dated cheques, the uniformity in the amounts of cheques etc. These data should be analysed together with data on cash deposits of small amounts on previous distant dates resembling the deposit contracting/mobilizations dates in terms of similar bunching and uniformity of amounts.

7. Please acknowledge receipt. Also, unusual operations noticed during the above review may be immediately reported to us and other appropriate authorities, such as, Financial Intelligence Unit (FIU-IND), Department of Revenue, Ministry of Finance, Government of India, Hotel Samrat (6th Floor), Chanakyapuri, New Delhi - 110 021.

Yours faithfully,

(A. K. Khound)
Chief General Manager-in-Charge