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Banks form the nerve center of an economy. They channelise the funds for nation's development. The primary motive of any bank is to widen its customer base. Of late, attempts are made to misuse the banking channels for the violation of fiscal laws and evasion of taxes. The RBI has initiated the principle of **"Know Your Customer"(KYC)** 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 terrorism.

The RBI, as part of its KYC principle, issued several guidelines relating to the identification of customers and advised the banks to place systems and procedures to control financial frauds, identify money laundering and suspicious activities and for scrutiny/ monitoring of large value cash transactions. The guidelines are applicable to both domestic and foreign currency accounts and transactions. These guidelines are issued under Section 35A of the Banking Regulation Act, 1949.

KYC Guidelines for New Accounts:

- ❖ Banks should obtain all necessary information to establish the identity of each new customer based on documents such as passport, driving license, voter identity card etc.
- ❖ When such documents are not available, then the customer identification can be verified through an introductory reference from an existing account holder or a person known to the bank.
- ❖ Banks have to obtain photographs of the depositors/account holders authorized to operate new accounts. Photograph is a must both for residents and non- residents.

KYC Guidelines for Existing Customers:

- ❖ Banks have to debit customer's account while issuing and transmitting funds through travellers' cheques/ demand drafts/ mail transfers/ telegraphic transfers for Rs. 50,000/= and above. Banks are permitted to perform these functions against cheques only and not against cash.
- ❖ Bankers have to ensure that there is no diversion of working funds.
- ❖ Banks have to exercise extra care while collecting cheques of large amounts and ensure that joint accounts are not used for 'benami' transactions.
- ❖ Banks have to closely watch the remittances and withdrawals of Rs. 5 lakh and above in the case of new accounts. Branches have to keep record of details of these large cash transactions in a separate register and to send full details to their head offices fortnightly. Transactions of suspicious nature are to be informed to head offices.
- ❖ Bank's systems and procedures should be strengthened so as to monitor the account opening, custody of documents, loans against deposits, internal control and monitoring, use of middlemen etc.

- ❖ Banks should keep a watchful eye on the transactions of the terrorist organizations. Violations of the extant acts or normal banking operations must be reported to the appropriate authorities under advice to the RBI. Banks have to undertake " due diligence" in respect of this principle.
- ❖ Accounts of individuals and entities listed by the United Nations Security Council should be immediately frozen.

Measures to be Undertaken by the Bank :

♣ All records incorporating financial transactions including wire transfer transactions such as electronic payments and messages should be made available by the branch for perusal and scrutiny by audit functionaries as well as regulators as and when required. Branches have to maintain such records for a minimum period of 5 years.

♣ Banks must have an ongoing training programme to adequately train their staff members for their roles and responsibilities as appropriate to their hierarchical level for implementing KYC policies consistently.

♣ Bank managements have to bring these guidelines to the notice of their personnel and any contravention of the same will attract penalties under the relevant provisions of the Act.

To conclude, these guidelines yield expected results only when customers extend the required support to banking channels. Field level bankers as implementors have to understand the purpose behind these guidelines. Hence bank managements have to create an awareness among people at the branch level not by mere issuance of circulars but by interactions at various levels and at periodical intervals.