

Note

RBI simplifies norms for Periodical updation of KYC



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Note

Introduction

The essential element of KYC for Banks was to effectively control and reduce their risks by having an understanding of customer's activities, which could help Banks in identifying transactions that fell outside the regular pattern of activity. Banks were required to ensure periodic review of risk categorization of accounts and accordingly apply enhanced due diligence measures in case of customers with higher risk perception. Earlier, Banks were instructed to introduce the system of periodic updation of customer identification data after the account is opened with the bank. The periodicity being atleast once in five years in case of low risk category customers and not less than once in two years in case of high and medium risk categories

Simplification of KYC periodical updation Norms

The periodic updation of KYC faced several practical difficulties by bankers/ customers' viz. documents submitted earlier remaining unchanged. In the light of several recommendations received, RBI vide RBI/2013-14/161 RPCD.RRB.RCB.BC.No.84/07.51.018/2013-14 dated July 25, 2013¹ issued circular (the Circular) simplifying the norms for KYC updation.

As per the Circular banks are to ensure the following:

On going due diligence	<ul style="list-style-type: none">• Banks to have consistent knowledge of the client, his business, risk profile and the source of funds (if needed).
High risk individuals and entities	<ul style="list-style-type: none">• Full KYC exercise once in every two years
Low risk individuals and entities	<ul style="list-style-type: none">• Full KYC exercise once in every ten years
Medium risk individuals and entities	<ul style="list-style-type: none">• Full KYC exercise once in every eight years
Positive confirmation - obtaining KYC related updates	<ul style="list-style-type: none">• To be completed in every 2 yrs & every 3 yrs for medium and low risk individuals and entities respectively.
Fresh Photographs	<ul style="list-style-type: none">• To be obtained from minor customers becoming major.

¹ <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=8270&Mode=0>



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Conclusion

Banks can ensure monitoring transaction of clients only if they have an understanding of the normal and reasonable activity of the customer. However, frequent updation of customer identification data proved cumbersome. In view of the same, the changes in periodicity of updation of KYC will prove as a sigh of relief for the Banks/customers. RBI permits Banks to make revision in their internal KYC policies in order to ensure strict adherence to instructions of the Circular.