

Why is KYC mandatory?



Arvind dislikes paperwork, just as many of us do. Every time he opens a bank account with a new bank, the bank asks him for KYC documents. He dislikes the process, but banks seem to give him little choice. What is KYC? Why do banks insist on KYC? What is in it for him?

Know Your Customer (KYC)



The term KYC refers to 'Know Your Customer'. According to the rules notified under the Prevention of Money Laundering Act (PMLA) and Reserve Bank of India (RBI) guidelines, banks are required to establish the identity and address of a customer at the time of opening an account. Therefore, banks obtain information and documents to enable them to identify and understand their customers. This process ensures that criminals, terrorists do not get access to banking channels for routing their illegal funds. It also avoids the opening of fictitious accounts meant to defraud banks and the innocent public.

Customer Benefits



On many occasions, frauds have been unearthed, where fictitious bank accounts have been opened to encash someone else's cheques. The KYC procedure makes it difficult for one to impersonate someone else. Thus, this helps in safeguarding Arvind's hard-earned money.

For example: Arvind's relative, Kumar, sends a cheque of Rs. 10,000

to him which gets lost by the courier. Mr XYZ finds the cheque. If banks did not insist on KYC documentation, Mr XYZ could easily open a bank account in the name of Arvind, deposit the cheque and withdraw its proceeds, thereby putting Arvind to financial loss.

Identity



At the time of opening an account, banks require customers to present themselves with proof of their identity. This process requires the customer to hold an identification document along with a photograph, which can be in the form of a passport, driving licence, voter's identity card or PAN card.

Address



Banks have to verify that the address for communication provided by the customer is valid. Fraudsters tend to use the addresses of others or provide fictitious addresses. Banks would like to confirm that the customer is indeed contactable at the given address. Utility bills for the phone, gas or electricity and insurance premium receipts are used to verify the address.

SMS CONTEST

Question

The original documents have to be produced while opening an account. The bank will _____.

Answer

- Keep the originals in the safety vault.
- Verify copies and return the original documents.
- Keep the originals for a period of 30 days.

To answer, SMS DISHA A, B or C to 53030 and win a 2N 3D holiday.* Contest open for the day of publication.

*Terms and conditions apply. Visit www.dishafc.org for details and winners.

Information



Banks will inform their customers the list of documents they are willing to accept as proof of identity and address. They usually verify photocopies with the originals before returning the originals; and store the photocopies in their records.

Arvind can see the benefits of going through the KYC formalities. He is preventing potential fraud in his account by complying with the formalities. Once he is familiar with what needs to be done, he can complete the process easily. He also contributes to the safety and soundness of the banking system.

Center for Investment Education and Learning

DID YOU KNOW?

If a bank account is held jointly, the KYC process has to be completed for each joint holder of the account. If the joint holder is a minor, KYC has to be completed for the guardian of the minor.

FAQs

When I wanted to withdraw a large amount from my account, the cashier asked me the purpose of the large withdrawal. Why should he know?

Banks are instructed to keep an eye on large cash transactions. In this case, the question is asked only to ensure that someone else is not routing his money through your account. Sometimes casual questions can bring to light frauds that customers are not aware of.

Should I complete the KYC process every time I change my address?

No. If you have been a customer of a bank for a long time, you can effect a change in your address easily. Many banks enable you to do this over the phone, if your account is over six months old.

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at www.icicibank.com or send as an SMS to 53030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

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Co-operate with your bank for KYC documents.

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