

SEMINAR ON

ANTI-MONEY LAUNDERING

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R. Muralidharan

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- ▲ Post Graduate in Agriculture with CAIIB from Indian Institute of Banking and Finance
- ▲ Senior Banker with over 34 years of experience in Bank of Maharashtra in various capacities in the field and Corporate Office
- ▲ Headed Integrated Risk Management Department of the bank with additional charge as Chief Compliance officer of the Bank
- ▲ Instrumental in seamless migration of Bank to Basel II as per deadline
- ▲ Introduced various techniques for assessing Pillar 2 risks and constructed Stress Tests for liquidity Risk, Interest Rate Risk, Forex and Credit Risk
- ▲ Prepared and presented maiden ICAAP document to the Bank's Board of Directors
- ▲ Developed a strong team of Risk Professionals in the bank
- ▲ Headed Financial management & Accounts dept at Bank's Head office
- ▲ Received extensive training in India and abroad
- ▲ Empanelled as Banking expert by IBPS, Mumbai
- ▲ Freelance corporate trainer in Banking Finance and Risk management

Programme Coverage

- ▶ What is Money Laundering
- ▶ Impact of money laundering on the economy
- ▶ What is terrorist financing?
- ▶ Money laundering process
- ▶ AML non-compliance recent violations
- ▶ National and international bodies involved in Anti Money laundering
- ▶ Prevention of Money Laundering Act (PMLA) 2002
- ▶ AML Framework
- ▶ Know Your Customer
- ▶ Customer Due Diligence
- ▶ Customer Risk Categorisation
- ▶ Reporting Requirements under PMLA

Money Laundering - Introduction



Money Laundering -Definitions

- ▶ Money laundering is “the processing of criminal proceeds to disguise their illegal origin in order to legitimize the ill-gotten gains of crime.”- **Financial Action Task Force (FATF)**
- ▶ Any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources”- **Interpol**

Money Laundering -Definitions

- ▶ “Money laundering is the conversion of profits of illegal activities into financial assets which appear to have legitimate origins “– **The US senate’s Subcommittee on Narcotics and terrorism**
- ▶ “The concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from serious crime” – **Article 1 of EC directive, March 1992**

Money Laundering -Definitions

Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the (proceeds of crime and projecting – 2002) “proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming” (amended 2012) it as untainted property shall be guilty of offence of money-laundering’ - **Prevention of Money Laundering Act 2002.**

What is Terrorist Financing?

- ▶ The United Nations International Convention for the Suppression of the Financing of Terrorism broadly defines an act of terror as:
- ▶ (a) An act which constitutes an offence within the scope of and as defined in one of the treaties listed by the United Nations (UN); or
- ▶ b) Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organisation to do or to abstain from doing any act.
- ▶ ***The act of financing such an act of terror can be termed as Terrorist Financing.***

Do We Know How Much Money is Laundered?

**USD 2
Trillion**

**2 to 5%
of Global
GDP**



Impact of money laundering on the economy

- ▶ If the bank personnel are involved knowingly, it shows that the bank is corrupt and customers perceive the bank as corrupt institution. The reputation of banks and financial institutions which is the most important asset is tarnished and weakens them.
- ▶ Being party to acts of money laundering knowingly or unknowingly banks will be penalized by the regulator by way of monetary fines, restricting the bank to stop a particular business line, stopping the bank from operating in some jurisdictions, prosecuting key personnel of the bank etc.
- ▶ Purchase of real estate (properties) from laundered money creates artificial demand

Impact of money laundering on the economy

- ▶ Deprives the government of the revenue by way of taxes
- ▶ Weakens the financial stability of a country
- ▶ Increase of crimes across borders with enormous amounts involved disrupt the fabric of social order
- ▶ Makes crime a profitable enterprise
- ▶ increases volatility of international capital flows and exchange rates due to unanticipated cross-border transfers
- ▶ Perpetuates corruption, crime and undermines governance

Some important traits of professional money launderers

- ▶ He / She/They are sophisticated, technically savvy and financially astute
- ▶ Actively assess emerging value transfer methods
- ▶ Are finance and IT savvy
- ▶ Have complex and well organised structures in place
- ▶ Are capable of moving considerable value in short periods of time
- ▶ Can guarantee value transfer as instructed
- ▶ Are capable of defeating known AML monitoring
- ▶ Undertake detailed research on existing and new business products
- ▶ Continually reassess its structures for vulnerabilities
- ▶ Are capable of withstanding cursory scrutiny by regulators and law enforcement
- ▶ Has a significant amount of flexibility
- ▶ Is able to change without notice
- ▶ Operate easily in both the domestic and international arena

How is Money laundered?

▶ **THREE STAGES:**

▶ ***Placement (Immersion/Soaking)***

- ▶ The physical disposal of bulk cash proceeds derived from illegal activity

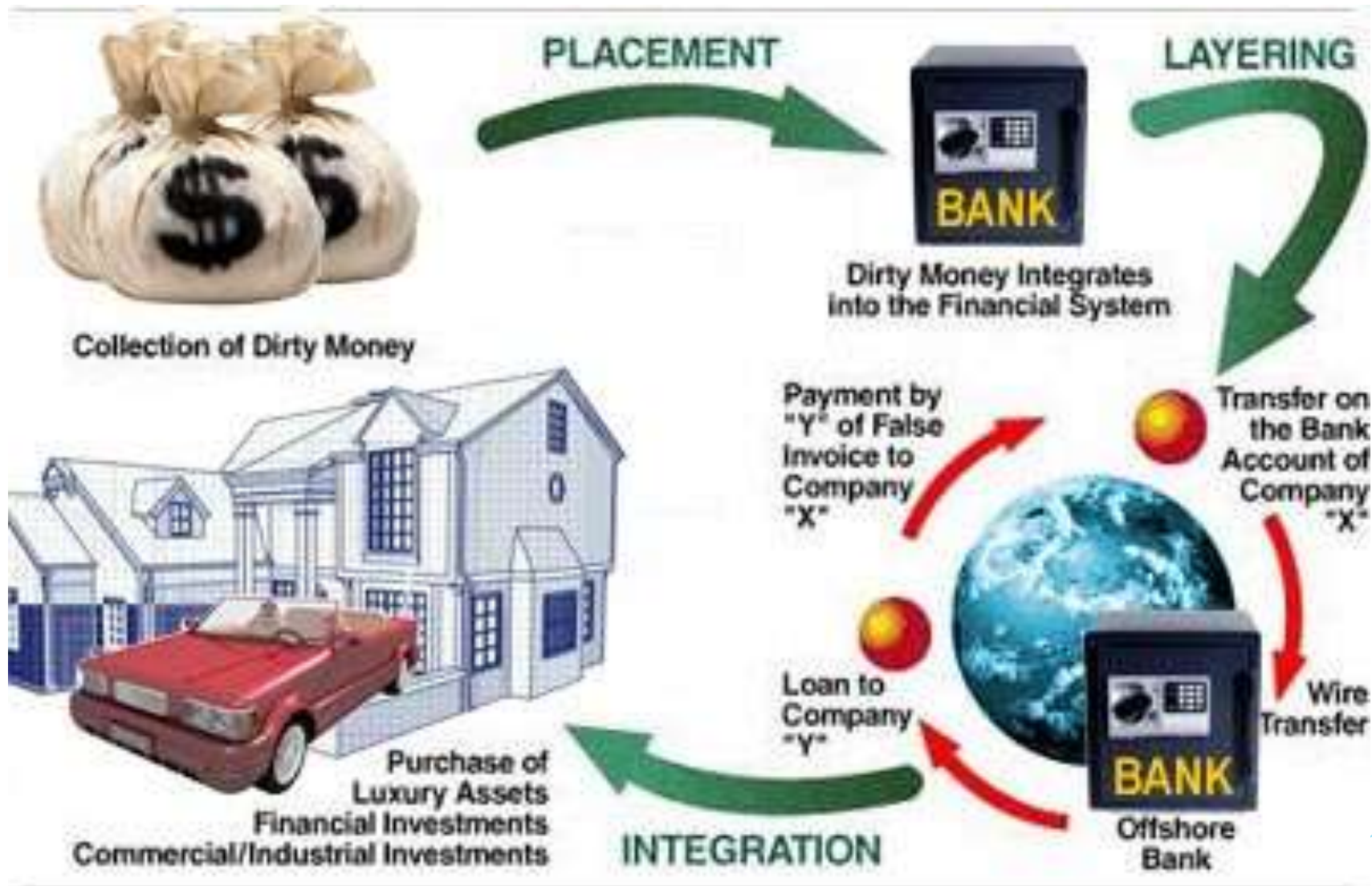
▶ ***Layering (Soaping/Scrubbing)***

- ▶ The separation of illicit proceeds from their source by creating complex layers of financial transactions to avoid audit trail and tracking

▶ ***Integration (Repatriation/Spin Dry)***

- ▶ Re-injecting laundered proceeds into economy so that they reenter financial system as normal business funds, legitimatizing criminally derived wealth

The Process



International & National bodies driving AML & CFT practices



International AML & Terrorist Financing Initiatives

United Nations

- United Nations Security Council Resolutions
- United Nations Security Council Resolution 1267,1373(2001) 1390(2002)
- UN International Convention for the Suppression of the Financing of Terrorism
- UN Convention against Transnational Organized Crime
- UN Convention against Corruption
- United Nations Global Program against Money Laundering
- UN Security council resolutions on Iran (RBI Cir.Sep 10,2007 and Sep 19,2008)

FATF-Style Regional Bodies

- Caribbean Financial Action Task Force (CFATF)
- Eurasian Group (EAG)
- Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)
- Intergovernmental Action Group against Money-Laundering in Africa (GIABA)
- Middle East and North Africa Financial Action Task Force (MENAFATF)
- ***The World Bank and the International Monetary Fund***
- ***Basel Committee on Banking Supervision***

Recommendations of Financial Action Task Force (FATF)

- ▶ The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions.
- ▶ The mandate of the FATF is to set standards and to promote effective implementation of legal, regulatory and operational measures for combating ML/TF and the financing of proliferation, and other related threats to the integrity of the international financial system.
- ▶ In collaboration with other international stakeholders, the FATF also works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse.



FATF - Forty + Nine recommendations

- ▶ The original FATF Forty Recommendations were drawn up in 1990
- ▶ In 1996 revised to reflect evolving ML trends and techniques, and to broaden their scope well beyond drug-money laundering.
- ▶ In October 2001 the FATF expanded its mandate, and took the important step of creating the Eight (later expanded to Nine) Special Recommendations on Terrorist Financing.
- ▶ The FATF Recommendations were revised a second time in 2003, and these, together with the Special Recommendations, have been endorsed by over 180 countries, and are
- ▶ ***Universally recognised as the international standard for anti-money laundering and countering the financing of terrorism (AML/CFT)***

US PARTIOT ACT



- ▶ ***Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, 2001*** enacted October 2001, in response to 9/11
- ▶ Strengthens the CDD obligations of US financial institutions significantly
- ▶ Obliges USD clearing banks to ensure that their correspondent banks apply appropriate CDD. Correspondent banks that fail in this risk lose access to USD clearing
- ▶ Imposes extraterritorial provisions on money laundering involving USD even if committed outside the US

AML Non Compliance Recent violations.

- ▶ A U.S. bank regulator has fined Citibank \$70 million for failing to address shortcomings in its anti-money laundering policies. January 2018 - compliance shortcomings
- ▶ US Bancorp to pay \$613 million for poor anti-money laundering controls, which put the bank repeatedly at risk of being used as a conduit for criminals - February 2018
- ▶ The Monetary Authority of Singapore (MAS) imposed penalties of S\$5.2 million on the Singapore branch of Standard Chartered Bank (SCBC) and S\$1.2 million on Standard Chartered Trust (Singapore) Ltd (SCTS) for anti-money laundering breaches and countering financing of terrorism (AML/CFT) requirements.

AML Non Compliance Recent violations.

- ▶ Big accountancy Deloitte was fined \$10 million by New York state for its actions in advising Standard Chartered Bank over money laundering.
- ▶ Deloitte has agreed to a one-year suspension from providing consulting work to hundreds of financial institutions, and will pay \$10m to New York state

RBI penalises 22 Banks

for violation of its instructions, among other things,
on Know Your Customer/Anti Money Laundering



Monetary Penalty (in ₹ Crores)

Andhra Bank	2.50	Kotak Mahindra Bank Ltd.	1.501
Bank of Baroda	3.00	Oriental Bank of Commerce	2.00
Bank of India	3.00	Punjab and Sind Bank	2.50
Canara Bank	3.001	Punjab National Bank	2.50
Central Bank of India	3.00	State Bank of India	3.00
Deutsche Bank A.G.	1.00	The Federal Bank Ltd.	3.00
Development Credit Bank Ltd.	1.00	The Lakshmi Vilas Bank Ltd.	2.50
Dhanlaxmi Bank Ltd.	2.00	The Ratnakar Bank Ltd.	0.50
Indian Overseas Bank	3.002	United Bank of India	2.50
ING Vysya Bank Ltd.	1.50	Yes Bank Ltd.	2.00
Jammu & Kashmir Bank Ltd.	2.501	Vijaya Bank	2.00

Cautionary Letter

Barclays Bank PLC	Standard Chartered Bank
BNP Paribas	State Bank of Patiala
Citibank N.A.	The Bank of Tokyo
Royal Bank of Scotland	Mitsubishi UFJ Ltd.



Penal Action by regulator (Economic Times - August 24, 2013)

- ▶ Penalties ranging from Rs.50 lakh to Rs.3.00 crore imposed on PSBs
- ▶ Allahabad bank Rs.50 lakh Bank of Maharashtra Rs.50 lakh, Corporation Bank Rs.1.50 crore, IDBI Bank Rs.1.00 crore, Dena Bank Rs.2.00 crore Indian Bank Rs.1.00 Crore
- ▶ Cautionary letter issued to Indusind bank

What the Regulator found in these Banks?

- ▶ Non-adherence to guidelines like
- ▶ customer identification procedure,
- ▶ risk categorisation,
- ▶ periodical review of risk- profiling of account holders,
- ▶ periodical KYC up dation

A hand is visible on the left side of the image, holding a white rectangular card. The card is positioned in the center-left of the frame. The background is white with blue geometric shapes on the right side. The text on the card is in a dark blue, serif font.

Prevention of Money Laundering Act (PMLA) 2002

Prevention of Money Laundering Act, 2002

Prevention of Money laundering Act 2002 forms the core of legal framework to fight money laundering in India.

The Act and the rules thereunder came into force with effect from **July 1, 2005**. The authority to implement the provisions of the Act are vested in Director FIU-Ind and Director (Enforcement)

PMLA, 2002 and rules notified thereunder impose obligations on various reporting entities viz. Banks, Financial institutions, intermediaries and others to ;

- (i) identify the clients**
- (ii) maintain records and**
- (iii) furnish information to FIU-Ind.**

Prevention of Money Laundering Act, 2002 -Provisions

- ▶ The Act has provisions for the following:
- ▶ Attachment of the illegally obtained property
- ▶ Acquisition of tainted money kept outside the country
- ▶ Extradition of the accused
- ▶ Mandating banks to assist tax enforcement authorities

Punishment under PMLA 2012: The persons committing money laundering is punishable with Rigorous imprisonment for a term not less than 3 years but which may extend to 7 years and shall also liable to fine.

In case of offences related to narcotic drugs and psychotropic substances, the maximum punishment is 10 years

Prevention of Money Laundering Act, 2002

- Appointment of Principal Officer by every reporting entity
- Scheduled offences under PMLA are listed in the Act
- KYC guidelines : Customer acceptance, customer identification, monitoring transactions and risk management
- Furnishing information by reporting entities to FIU-Ind Preservation of records

Acts related to PMLA 2002.

- 1.The Unlawful Activities Prevention Act 1967
- 2.The National Security Act,1980
- 3.The Income tax Act 1961
- 4.The Indian Penal code and Code of Criminal Procedure
- 5.The Conservation of Foreign Exchange and Prevention of Corruption Act (1974)
- 6.The narcotics drugs and psychotropic substances Act (1985)
- 7.The Prevention of Illicit Traffic in Narcotic Drugs and psychotropic Substances Act(1988)
- 8.The Benami Transactions (Prohibition) Act 1988
- 9.The Foreign Exchange Management Act (1999) (FEMA



Prevention of Money Laundering Act -Amendments

- **Amendments 2005**
- **Amendments 2009**
- **Amendments 2012**

PMLA (Amendment Act) 2012



The Act

Prevention of Money Laundering (Amendment) Act, 2012

Amendment

Under Section 3 of the Act, mere "possession" of proceeds of crime is now an offense

What It Means

If X deposits tainted money in accounts of Y, then Y will also be punished

Amendment

₹30 lakh threshold limit for initiating money laundering cases for economic offences is done away with

What It Means

A person can be booked for laundering even ₹10,000 if the offence violates any of the 30 acts listed under the Act

The Penalty

Rigorous imprisonment of at least 3 years and up to 7 years

No upper limit on fines (earlier it was up to ₹ 5 lakh)

PMLA (Amendment Act) 2012 - Reporting Entities (REs)

Prevention of Money Laundering Act (PMLA) and the Rules notified thereunder impose obligation on

- ▶ banking companies
- ▶ financial institutions
- ▶ intermediaries of the securities market
- ▶ Designated Non - Finance Business & Profession to
 - ▶ appoint principal officer
 - ▶ verify identity of clients
 - ▶ maintain records
 - ▶ furnish information

Banking

Public sector banks , State Bank of India
Private sector banks, Private foreign banks
All Co-operative banks Regional rural banks

Financial Institutions

- FI as defined under Section 45-I of the RBI Act
- NABARD, EXIM Bank, IFCI Ltd., IDFC Limited, IIBI Ltd,. TFCI Ltd,
- NHB,SIDBI, Insurance Companies
- Hire purchase companies , leasing companies
- Chit fund Companies
 - Housing Finance institutions NBFC

Designated Non Finance Business and Profession

Department of Posts, Commodity Exchanges, Entities registered with PFRDA, Real estate agents, Dealers in precious metals/stones, high value goods and safe deposit keepers

Intermediaries under section 12 of SEBI ACT

Stock Brokers	Underwriters	Portfolio managers
Depositories/DPs		Credit Rating Agencies
MFs/VCFs		Stock exchanges
Sub-brokers		Share-transfer agents
Bankers to an issue		Trustees to trust deed
Registrar to an Issue		Merchant Bankers

National agencies enforcing Anti-Money Laundering in India



About FIU-Ind



- FIU India was set up by Govt. of India in November, 2004. The functions of FIU IND are
- co-ordinating and strengthening collection of financial intelligence and sharing the same through an effective national, regional and global network to combat money laundering and related crimes.
- It is a multi-disciplinary unit headed by a Director. It is headquartered in New Delhi.
- FIU-Ind is an independent body reporting directly to the Economic Intelligence Council headed by Finance Minister

Functions of FIU-IND

Collection of information	Central point for receipt of CTRs and STRs from reporting entities periodically
Analysis of information	analyse the information received to find out patterns of transactions suggesting money laundering and related crimes
Sharing of information	share information with national intelligence/law enforcement agencies national regulatory authorities and foreign FIUs
Acting as Central repository	maintain national database on cash transactions and suspicious transactions on the basis of reports received from reporting entities
Co-ordination Research and analysis	coordinate strengthen and collection and sharing of intelligence received through an effective national regional and global network to combat money laundering and related crimes

Enforcement Directorate

Directorate of Enforcement is a specialized financial investigation agency under the Department of Revenue, Ministry of Finance, Government of India, which enforces the following laws: -

Foreign Exchange Management Act, 1999 (FEMA) - A Civil Law, with officers empowered to conduct investigations into suspected contraventions of the Foreign Exchange Laws and Regulations, adjudicate, contraventions, and impose penalties on those adjudged to have contravened the law.

Prevention of Money Laundering Act, 2002 (PMLA) - A Criminal Law, with the officers empowered to conduct investigations to trace assets derived out of the proceeds of crime, to provisionally attach/ confiscate the same, and to arrest and prosecute the offenders found to be involved in Money Laundering.

Enforcement Directorate

- ▶ The main functions of the Directorate are as under
- ▶ 1. Investigate contraventions of the provisions of Foreign Exchange Management Act, 1999(FEMA) which came into force with effect from 1.6.2000.
- ▶ Contraventions of FEMA are dealt with by way of adjudication by designated authorities of ED and penalties upto three times the sum involved can be imposed.
- ▶ 2. Investigate offences of money laundering under the provisions of Prevention of Money Laundering Act, 2002(PMLA) and to take actions of attachment and confiscation of property if the same is determined to be proceeds of crime derived from a Scheduled Offence under PMLA, and to prosecute the persons involved in the offence of money laundering.
- ▶ There are 156 offences under 28 statutes which are Scheduled Offences under PMLA.

Enforcement Directorate

- ▶ 3. Adjudicate Show Cause Notices issued under the repealed Foreign Exchange Regulation Act, 1973 (FERA) up to 31.5.2002 for the alleged contraventions of the Act which may result in imposition of penalties. Pursue prosecutions launched under FERA in the concerned courts.
- ▶ 4. Processing cases of fugitive/s from India under Fugitive Economic Offenders Act, 2018. The objective of this Act is to provide for measures to deter fugitive economic offenders from evading the process of law in India by staying outside the jurisdiction of Indian Courts and to preserve the sanctity of the rule of law in India.
- ▶ 5. Sponsor cases of preventive detention under Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA) in regard to contraventions of FEMA.
- ▶ 6. Render cooperation to foreign countries in matters relating to money laundering and restitution of assets under the provisions of PMLA and to seek cooperation in such matters.

Enforcement Directorate

ENFORCEMENT DIRECTORATE: PERFORMANCE FROM 2012 TO 2018.

A. UNDER PREVENTION OF MONEY LAUNDERING ACT(PMLA), 2002.

Action	1.7.2005 Up to 31.03.2012	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	As on 31.03.2018
No. of cases registered	1437	221	209	178	111	200	148	881
No. of Provisional Attachment Orders (PAOs) issued	131	65	130	166	105	180	196	973
Value OF Assets under attachment (Rs. in crore)	1214.66	2358.1	1773.4	3657.1	2000.7285	11032.28	7432.04	29468.31
No. of PAOs confirmed	108	52	57	138	117	118	179	769
Value of assets under PAO confirmed by Adjudicating Authority(Rs. in crore)	960.77	325.98	1395.4	2150.8	2951.89	9188.63	5086.23	22059.7
No. of Persons Arrested	22	3	7	19	32	31	38	152
No. of Prosecution Complaints filed	38	11	55	69	74	101	103	451

Definitions

Regulator has furnished the definitions of customer, designated director, person, officially valid document and person in the circular carrying guidelines

- ▶ The definition is “a statement expressing the essential nature of something”.
- ▶ A definition is so important because definitions enable us to have a common understanding of a word or subject;
- ▶ They allow all of us to be on the same page when discussing or reading about an issue.
- ▶ In case of legal disputes, these definitions assume great significance.

CDD requirements for different customers

Rule 9 of the Prevention of Money Laundering (Maintenance of Records) Rules 2005)

- Accounts of Non face to face customers
- Accounts of foreign students
- Accounts of Politically Exposed Persons (PEPs) resident outside India
- Accounts of companies
- Accounts of Trusts and foundations
- Accounts of unincorporated associations or body of individuals
- Accounts of Proprietary concerns
- Accounts of Foreign Portfolio investors
- Professional intermediaries
- Self Help Groups (SHGs)
- Walk in customers

Customer Due Diligence (CDD)

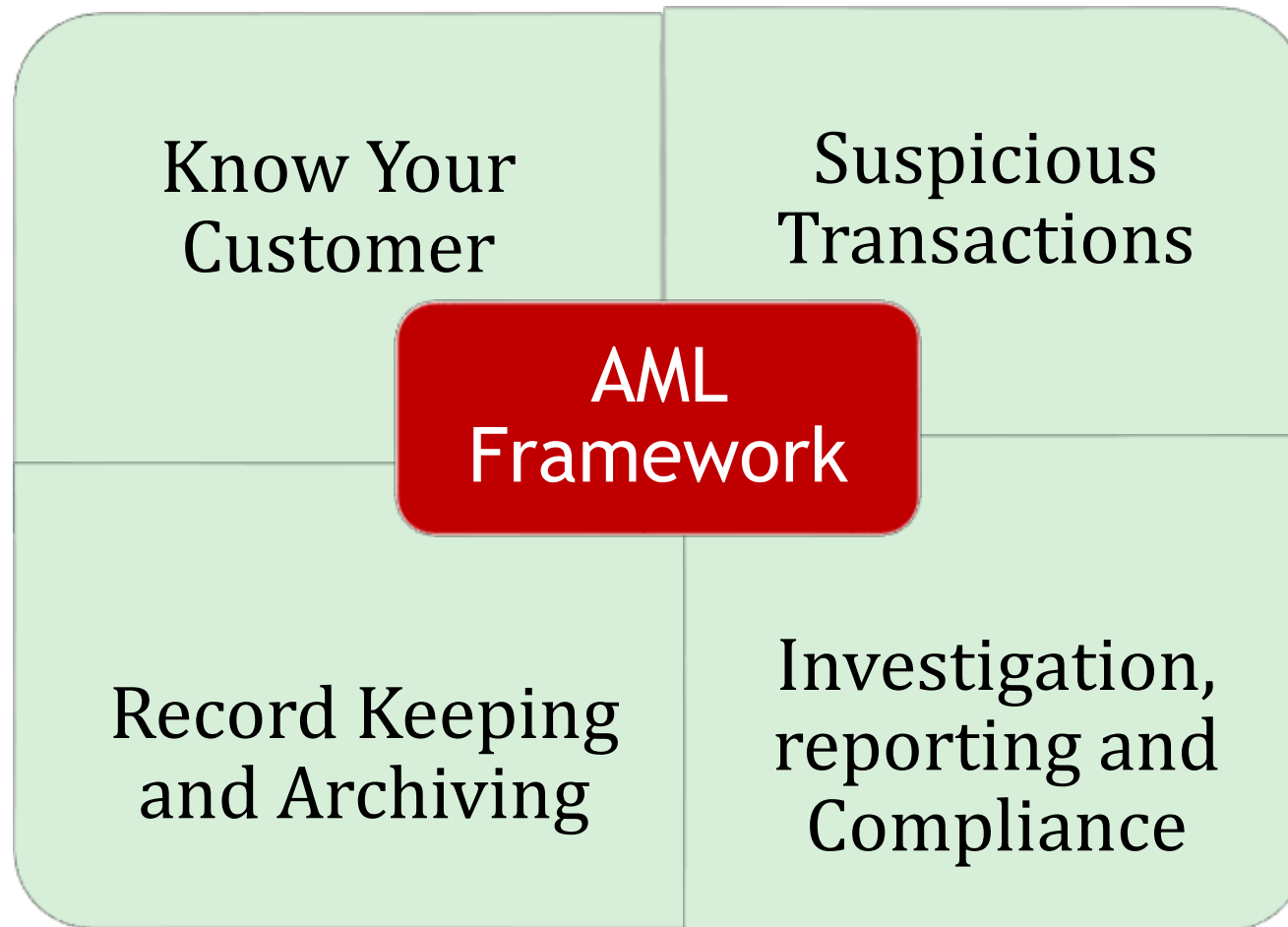
CDD can be defined as any measure undertaken by a financial institution to collect and verify information and positively establish the identity of a customer.

- ▶ The base of CDD would be the board approved Customer Acceptance Policy of a bank. Based on Customer Acceptance Policy, the customer Identification Procedures needs to be drawn.
- ▶ CDD should be conducted as a part of the Customer Identification Procedures. A bank should apply Customer Due Diligence measures when it:
 - I. establishes a business relationship;
 - II. carries out an occasional transaction;
 - III. suspects money laundering or terrorist financing; or iv. doubts the veracity of documents, data or information previously obtained for the purpose of identification or verification

CDD by Third party

- ▶ Rule 9
- ▶ For the purpose of identifying and verifying the identity of customers at the time of commencement of an account-based relationship, reporting entity may rely on a third party; subject to the conditions that-
- ▶ a) the reporting entity immediately obtains necessary information of such client due diligence carried out by the third party;
- ▶ b) the reporting entity takes adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the client due diligence requirements will be made available from the third party upon request without delay;

AML Framework



Know Your Customer (KYC)

Rule 9 of the Prevention of Money Laundering (Maintenance of Records) Rules 2005)

KYC is a process of reasonable efforts to verify true identity and beneficial ownership of accounts, the nature of customer's business, source of funds , reasonableness of operations in the account in relation to the customer's business etc.,. This helps the banks to manage risks properly.

Know Your Customer (KYC)

- KYC has two components viz, identity and address. While identity of a customer remains the same throughout, the address of the customer may change and hence banks are required to periodically update their records.
- Verifying the identity of the customers is a legal requirement as RBI issued these guidelines under section 35 A of Banking Regulation Act,1949 and **Rule 7** of PMLA rules 2005

Know Your Customer (KYC)

Objective of KYC is to:

- To comply with PMLA and prevent money laundering
- To prevent identity theft fraud,
- To prevent terrorist financing
- Also to control the risk in business of lending and transactions between banks and their customers

Know your Customer (KYC) is an important procedure that enables Banks, insurance companies and financial intermediaries to understand their customers better by verifying the customer's true identity and the nature of financial transactions expected in the dealing with the customer.

"Know Your Customer" (KYC) is the guiding principle behind the Anti-Money Laundering (AML) measures

AML

Money Laundering is Risk

KYC

KYC is a Risk Mitigation procedure

Documents for KYC

- ▶ There are two aspects of CIP:
 - ▶ a) Establishing identity
 - ▶ b) Establishing present residential address.
- ▶ For a), the bank requires a document carrying photo of the customer such as driving licence/ passport/ pan card/ voters' card etc. These documents may or may not carry the present residential address of the customer
- ▶ To establish the present address of the customer, the bank may ask for utility bills such as Telephone / Electricity bill etc.

KYC guidelines

- ▶ Objective of KYC guidelines is to prevent banks and financial institutions being used intentionally or unintentionally by criminal elements for money laundering.
- ▶ Guidelines on KYC have been issued by all regulators in India viz. Reserve Bank of India (RBI), Securities & Exchange Board of India (SEBI), and National Housing Bank (NHB) National Bank for Agriculture & Rural Development (NABARD) and IRDAI for the institutions coming under their jurisdictions.
- ▶ KYC guidelines stipulate that the banks and financial institutions follow the below mentioned guidelines.

Customer acceptance - to ensure that only legitimate and bona-fide customers are accepted

Customer identification - to know the risks they may pose to the bank

Transaction monitoring of customer account - to prevent /detect illegal activities

Risk management processes - to effectively manage the risks posed by customers trying to misuse the facilities.



Central KYC Registry

- ▶ A centralized repository of KYC records of customers in the financial sector with uniform KYC norms and facilitates inter-usability of the KYC records across the financial sector.
- ▶ Its objective is to reduce the burden of producing KYC documents and getting those verified every time when the customer creates a new relationship with a financial entity.
- ▶ keeps records of all customers in financial sector which can be used by all bank/FIs/intermediaries to verify and download KYC data. The financial institutions need to upload digital copies of all client KYC data on this platform within three days after onboarding a client.
- ▶ It helps institutions find out if the client is KYC compliant based on Aadhaar, PAN and other identity proofs.

Central KYC Registry

- ▶ Once the KYC details are updated on this platform by one entity, all other institutions get update on real time basis. Thus CKYCR helps firms cut down costs substantially by avoiding multiplicity of registration and data upkeep.
- ▶ The KYC data uploaded on this platform will be de-duplicated on the basis of demographics viz Customer name, maiden name, gender, date of birth ,mother's name, father's/spouse name , address, mobile number, e mail id etc.
- ▶ The Central Government have amended the Prevention of Money laundering (Maintenance of Records) Rules, 2005 vide Notification dated 7th July, 2015 for the purpose of establishment of Central KYC Registry.

KYC Updation

KYC Updation

To update the customer identification documents periodically



Customer Profiling

To categorize a customer as High Risk, Medium Risk or Low Risk

- ▶ RBI guidelines require banks in India to "introduce a system of periodical updation of customer identification data (including photograph/s) after the account is opened.
- ▶ Periodicity
 - ▶ **low risk category** – Every ten years
 - ▶ Medium Risk Category – Every eight years
 - ▶ High Risk – Every 2 years
- ▶ Positive confirmation (obtaining KYC related updates through e-mail/ letter/ telephonic conversation/ forms/ interviews/ visits, etc.), may be completed at least every two years for medium risk and at least every three years for low risk individuals and entities.
- ▶ Since the KYC updation is to be carried out based on the risk category of the customer; it becomes essential that all customers of the bank have been given a **risk category** before proceeding for KYC updation.

KYC Updation methods

Method	Details
Customer Contact	<ul style="list-style-type: none">• Contact customers for confirmation directly through various means such as branch walk-ins, letters, e-mails, phone, etc.• Requires resources and high costs
Relationship KYC	<ul style="list-style-type: none">• Existing account holders require additional accounts.• If existing outdated, can ask for fresh set that will serve purpose for new and old account
Surrogate Methods	<ul style="list-style-type: none">• verified with independent and authentic public sources and confirmed – PAN from Income Tax website, Company details from MCA, scanned copies through secured channel emails instead of physical documents
Account Transfer – Branch to Branch	<ul style="list-style-type: none">• KYC once done by one branch of the bank, the customer should be allowed to transfer his account from one branch to another branch without restrictions

NOTE:

Identity of the customer **does not change** over the lifetime of the customer. The identity verification needs to be done only to confirm his current existence, and validity of the identity document

Beneficial Ownership

Rule 9 of the Prevention of Money Laundering (Maintenance of Records) Rules 2005)

- ▶ Every banking company, and financial institution, as the case may be, shall identify the beneficial owner and take all reasonable steps to verify his identity
- ▶ *The term "beneficial owner" has been defined as the natural person who ultimately owns or controls a client and/or the person on whose behalf the transaction is being conducted, and includes a person who exercises ultimate effective control over a juridical person.*



Beneficial Ownership Details

Rule 9 of the Prevention of Money Laundering (Maintenance of Records) Rules 2005)



Trust

Identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.



Partnership or Company

Natural person with controlling ownership

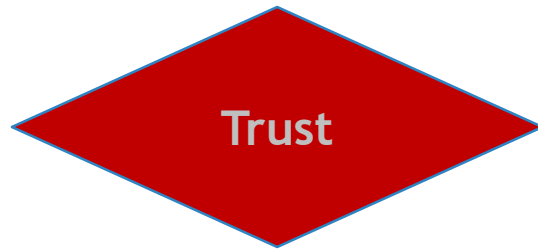
- More than 25% of shares/capital profits
- 15% of capital/profits/property for partnership or AOP etc

Beneficial Ownership - Points for Consideration

Rule 9 of the Prevention of Money Laundering (Maintenance of Records) Rules 2005)

- ▶ A beneficial owner is always an individual (a natural person). Therefore the beneficial owner can only be an individual, not a company or organisation.
- ▶ Each time you apply the test of beneficial ownership to a customer you must apply three elements. These elements are:
 - ▶ who owns more than certain percent of the customer / client
 - ▶ who has effective control of the customer / client
 - ▶ the persons on whose behalf a transaction is conducted

Beneficial Ownership Details



Identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.



Natural person with controlling ownership

- More than 25% of shares/capital/profits
- 15% of capital/profits/property for partnership or AOP etc

Identity of the natural person exercising control over the juridical person through other means. E.g: voting rights, agreement, arrangements, etc.

If no natural person identifiable from above two, the identity of the relevant natural person who holds the position of senior managing official

Listed Company, or is a majority-owned subsidiary of such a company, not necessary to verify any shareholder or BO

Beneficial Ownership - Points for Consideration

- ▶ It is crucial to know who the beneficial owner(s) are so that you can make appropriate decisions about the level of money laundering and terrorist financing risk associated with your customer
- ▶ Effective control of a customer is part of the beneficial ownership definition. An example is an individual who exercises responsibility for senior management decisions,
- ▶ Acting on behalf of a customer is not part of the beneficial ownership definition.

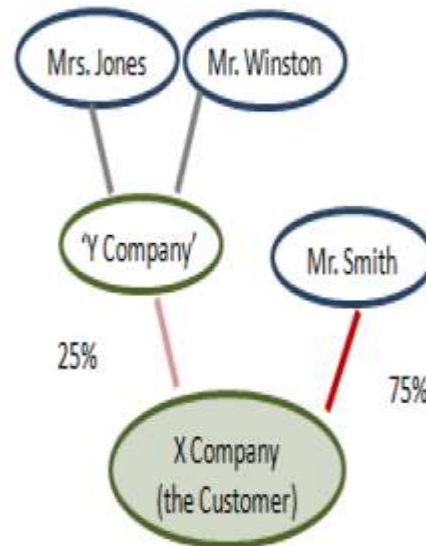
Beneficial ownership - Examples

Rule 9 of the Prevention of Money Laundering (Maintenance of Records) Rules 2005)

"I control over 25% of the shares."

— Ownership of more than 25% of the customer

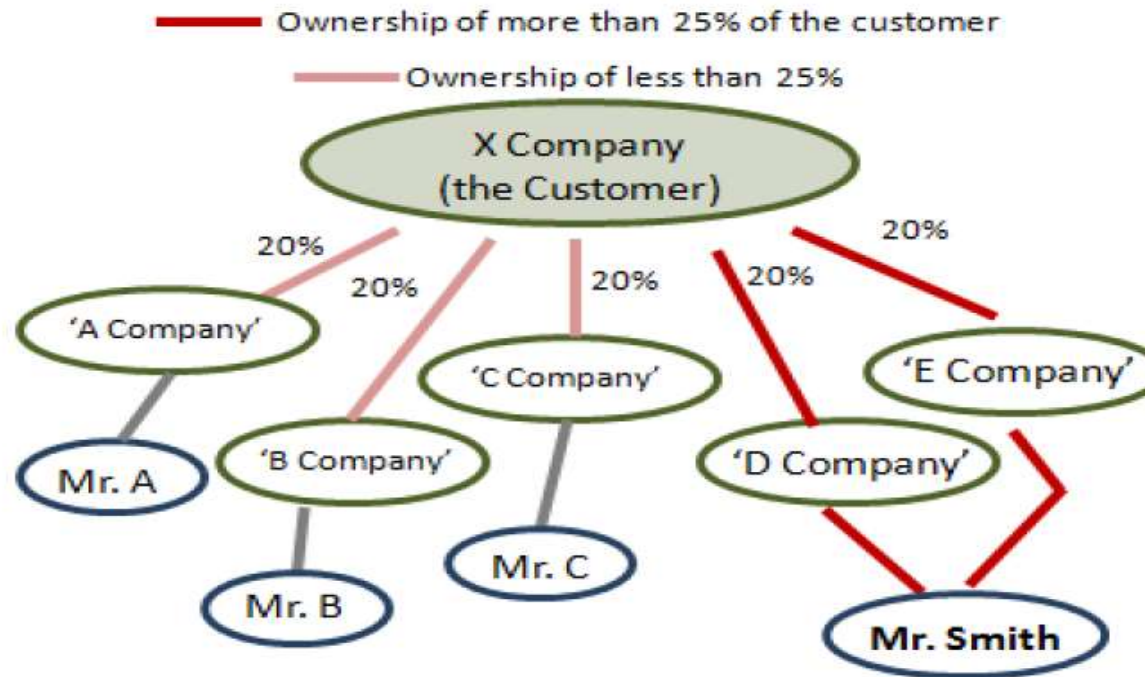
— Ownership of less than 25%



X Company is directly owned by an individual, Mr. Smith who owns 75% and Y Company which owns 25% and is owned equally by two individuals – Mrs. Jones and Mr. Winston. Establish that this ownership structure is correct. You identify and verify the identity of the individuals who own more than 25% of X Company. In this case, only Mr. Smith owns more than 25% of the customer.

Beneficial ownership - Examples

Rule 9 of the Prevention of Money Laundering (Maintenance of Records) Rules 2005)



X Company has five direct owners each owning an equal amount. Establish that this ownership structure is correct. Two of the five direct owners (D Company and E Company) are wholly owned by Mr. Smith. Identify and verify the identity of Mr. Smith as only he owns more than 25% of the customer.

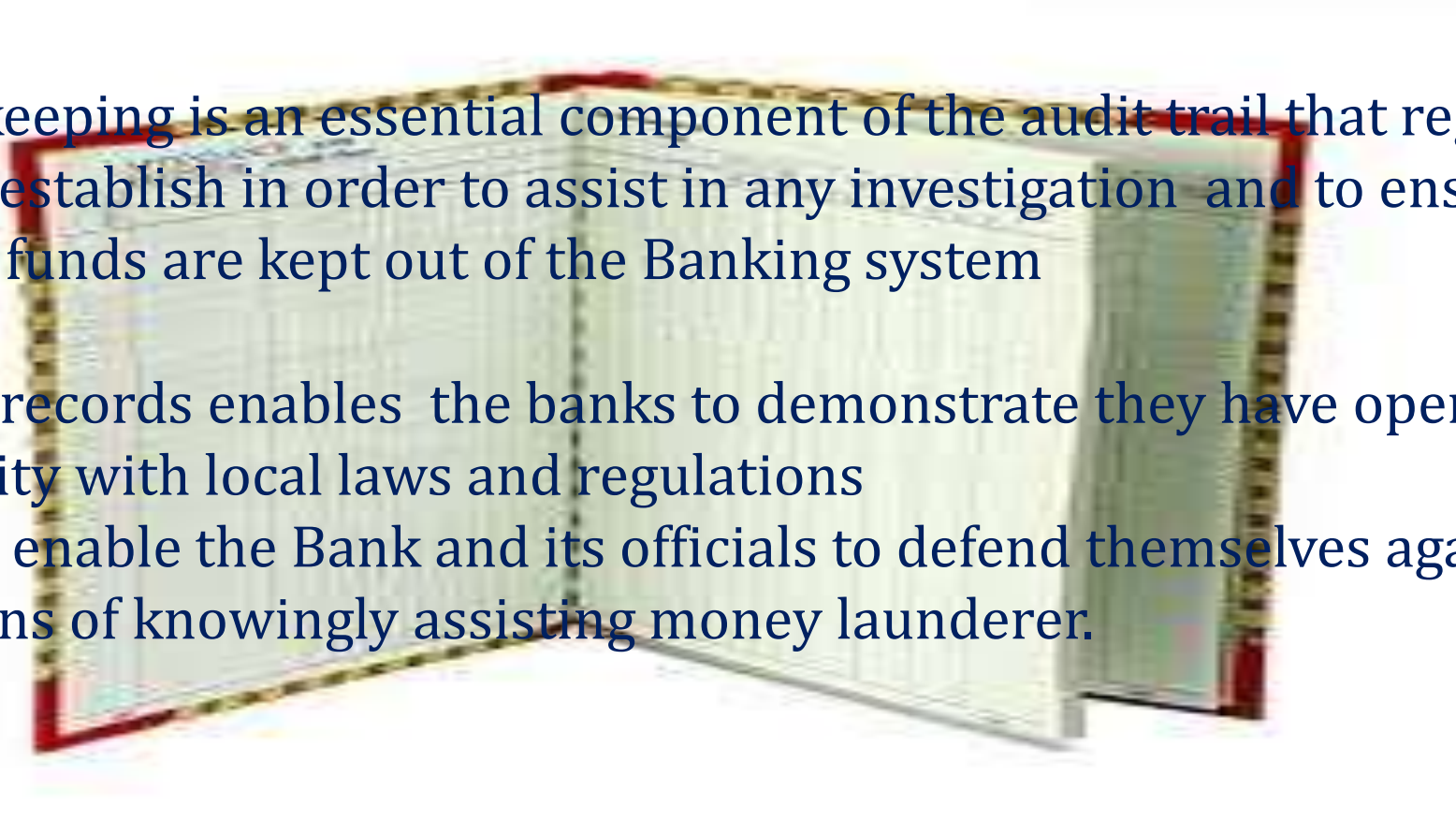
Maintenance of records of transactions

Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005

Record keeping is an essential component of the audit trail that regulator seeks to establish in order to assist in any investigation and to ensure that criminal funds are kept out of the Banking system

Keeping records enables the banks to demonstrate they have operated in conformity with local laws and regulations

This will enable the Bank and its officials to defend themselves against any allegations of knowingly assisting money launderer.



Maintenance of records of transactions

- ▶ The records must be retained concerning customer identification and transaction as evidence of the work they have undertaken in complying with their legal and regulatory obligations as well as for use as evidence in any investigation conducted by law enforcement
- ▶ The bank should be capable of retrieving the relevant information without undue delay

Maintenance of records of transactions

Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005



Banks/FIs should have system of maintaining proper record of transactions as mentioned below:

- (i) All cash transactions of the value of more than Rupees Ten Lakh or its equivalent in foreign currency;
- (ii) Cash transactions which are individually valued below Rupees Ten Lakh or its equivalent in foreign currency that have taken place within a month and the monthly aggregate exceeds rupees ten lakh or its equivalent in foreign currency. For determining 'integrally connected transactions' 'all accounts of the same customer' should be considered.

Maintenance of records of transactions

Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005

- ▶ (iii) In respect of Non-Profit Organisations receipts more than rupees ten lakh or its equivalent in foreign currency
- ▶ (iv) cases involving use of forged or counterfeit currency notes or bank notes as genuine and
- ▶ (v) cases where a valuable security or a document is forged to facilitate the transaction records of these transactions should be maintained.
- ▶ (v) All suspicious transactions, whether made in cash or other than cash.

Maintenance of records of transactions

- ▶ (Rule 4 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005)
- ▶ ***Records containing Information***
- ▶ The records referred to in rule 3 shall contain all necessary information specified by the Regulator to permit reconstruction of individual transaction including* the following information:-
 - ▶ (a) the nature of the transactions;
 - ▶ (b) the amount of the transaction and the currency in which it was denominated;
 - ▶ (c) the date on which the transaction was conducted; and
 - ▶ (d) the parties to the transaction.

Preservation of Records

- ▶ **Preservation of Records :**
- ▶ Section 12 of PMLA 2002 makes it mandatory for every bank, Financial Institution and intermediary to maintain a record of all transactions, the nature and value of which may be prescribed.
- ▶ Banks and FIs should have a system in place for proper maintenance and preservation of information of customer accounts. (Rule 5)
- ▶ The system should be capable of retrieving data easily and quickly whenever required by the bank/FI or whenever the same is requested by competent authorities



Preservation of Records

- Banks/FIs should maintain all necessary records of transactions (both domestic and international) for **at least five years** from the date of transaction between the bank/FI.
- This will help reconstruction of individual transactions, provide evidence for prosecution of persons involved in criminal activity.
- The records pertaining to the identity of the customers and transactions may be maintained by banks/FI in hard copy or soft copy. (Rule 10)
- Special attention of Banks/FIs needed to all complex, unusual large transactions and all unusual patterns of transactions, which apparently has no economic or visible lawful purpose.

Designated Director

- ▶ Rule 7 (New addition)
- ▶ The name, designation and address of the Designated Director is to be communicated to the Director, FIU-IND.
- ▶ In addition, it shall be the duty of every reporting entity, its Designated Director, officers and employees to observe the procedure and manner of furnishing and reporting information on transactions referred to in Rule 3

Cash Transaction Report

- ▶ Money launderers use large volume of cash for their activities. Banks/FIs/intermediaries should submit cash transaction report to FIU (IND). This will help FIU India to analyse these transactions and find out illegal transactions, if any, and initiate action against offenders.
- ▶ **Cash Transaction Report (CTR)**
 - (i) Cash transaction reports should be submitted by branches to their controlling offices on monthly basis and for the bank as a whole the CTR should be submitted by 15th of succeeding month to FIU-IND. (Rule 8)
- ▶ **Counterfeit Currency Report(CCR)**
 - (ii) Cash transactions involving use of forged or counterfeit currency notes as genuine should be reported to FIU-IND in the format specified by 15th day of next month.(Rule 8) Transactions where forgery of valuable security or documents has taken place should form part of the above report. This should be reported to FIU- IND in plain text form.

Cash Transaction Report (CTR)

- ▶ iii) Details of individual transactions below Rupees Fifty thousand need not be furnished in CTR.
- ▶ (iv) CTR should contain only the transactions carried out by the bank on behalf of their clients/customers. Transactions between the internal accounts of the bank should be excluded.
- ▶ (v) The Principal Officer of the Bank should compile a summary of cash transaction reports for the bank as a whole every month in physical form in the format specified. The summary should be signed by the Principal Officer and submitted to FIU-IND.

Cash Transaction Report (CTR)

- ▶ For branches under CBS, Banks may generate centralised CTRs in the format prescribed by FIU-IND and transmit the same to FIU-IND.
- ▶ (vi) Branches should make available to auditors/inspectors a copy of the monthly CTR submitted pertaining to them to FIU-IND when asked for.
- ▶ **Non-Profit Organisation:** Report of all transactions involving receipts by NPOs of value more than Rs.10 lakh or its equivalent in foreign currency should be submitted by 15th of succeeding month.
- ▶ **Cross border Wire Transfer:** All cross border wire transfer of value more than Rs.5 lakh or its equivalent in foreign currency where either origin of transfer or destination of transfer is India.

Cash Transaction Report (CTR)

- ▶ **Reporting – Cash Transaction – Example**
- ▶ Total of Debit transactions during the month exceeds Rs 1,000,000
- ▶ Bank should report debit transactions on 02/5/2016 and 23/05/2016, not the one on 07/05/2016 being less than 50k
- ▶ In the following example as the sum total of the credit transactions during the month does not exceed Rs.10 lakh they would not be treated as “integrally connected” and hence credit transaction dated 02, 07 & 23/05/2016 should not be reported by banks.

Date	Mode	Dr (Rs)	Cr (Rs)	Bal (Rs) BF 800,000
02/05/2016	Cash	500,000	300,000	600,000
07/05/2016	Cash	40,000	200,000	760,000
23/05/2016	Cash	470,000	100,000	390,000
Month	Total	1,010,000	600,000	

Suspicious transaction reports

- ▶ In order to determine whether a particular transaction can be termed as a suspicious transaction, the definition of suspicious transactions given in the PMLA 2002 will be helpful. Further one can also get an idea from a number of examples of suspicious transactions given elsewhere in these lessons.
- ▶ (ii) Sometimes when the bank official asks some questions or documents, some customers with criminal mind get alert and abandon the transactions. Banks have to report such abandoned transactions also under STR, irrespective of the amount of the transaction.
- ▶ (iii) If Banks/FIs, believe based on certain reasoning, the transactions involve illegitimate/crime proceeds such transactions should be reported as STRs irrespective of the amount of transactions.



Suspicious transaction reports

iv) Once the bank concludes that a transaction is suspicious transaction, the same should be reported within 7 days from that date. **(Rule 8)** Such suspicious transactions may be in cash or other than cash also or a series of integrally connected transactions .

The Principal Officer of the Bank/FI should record the reasons as to why such transactions are treated as suspicious transactions. Whenever STRs are received from branch or any other office, the Principal Officer should conclude whether to treat them as STRs or not. Whenever the competent authorities require such reports the same should be made available to them.

(v) Indian Banks' Association has issued guidance notes on AML/KYC for use by banks where indicative list of suspicious activities is given. This can be used to create awareness among staff and generate alerts for suspicious transactions.

Suspicious transaction reports

- ▶ vi) Banks/FIs may continue to permit the transactions in customer's accounts even though STR has been filed involving transactions in the account. Filing of STRs pertaining to an account should be kept confidential and customers should not be informed of the same at any level.
 - ▶ Report all suspicious transactions whether or not transacted in cash
 - ▶ The reasons for treating any transaction or a series of transactions as suspicious should be recorded by the Principal officer. There should not be undue delay in deciding whether the transaction is suspicious.
 - ▶ FIU-IND has provided a utility at its website for generation of STRs in electronic formats. While furnishing the STR care needs to be exercised on drafting of the grounds of suspicion **(GOS) which is the 'Soul'** of the STR as it answers the essential question of why the STR is being filed.

Suspicious transaction reports

- a. Aspects like the customer's profile, apparent financial standing, past activity in account, rationale/purpose behind the transactions, business profile and general transaction pattern etc. should be taken into account
- b. Once STRs are filed with FIU-IND, the STRs are forwarded to other agencies by FIU-IND. The other agencies may also ask for all documents such as KYC documents/account opening documents which should be kept ready for submission.



Suspicious transaction reports

Type of Reporting Entity	STRs Received 2007-08	STRs Received 2008-09	STRs Received 2009-10	STRs Received 2010-11	STRs Received 2011-12	STRs Received 2012-13	STRs Received 2013-14	STR Receipt till 31st March 2014
Banks	1,183	2,826	7,394	12,287	14,949	16,284	51,765	1,07,125
Financial Institutions	288	841	1,655	7,006	14,712	12,637	8,321	45,548
Intermediaries	445	742	1,018	1,405	1,656	2,810	1,867	10,235
Total	1,916	4,409	10,067	20,698	31,317	31,371	61,953	1,62,908

Cases where FIU-Ind levied penalty for PMLA violations

- ▶ FIU has slapped a penalty of Rs.9 crore on Bank of Baroda for failing to adhere to AML norms and not having effective system to report suspicious transactions linked to the Rs.6000 cr scam in its Delhi branch.
- ▶ FIU also levied the maximum penalty of Rs.1 lakh stipulated under PMLA **for each instance of “delayed “ filing** of STRs by Bank of Baroda.
- ▶ Bank failed to carry out CDD in respect of 73 accounts, delayed filing of 8822 EFT reports in respect of transactions in two accounts. Also failed to file 63 integrally connected cash transactions in seven accounts.

Cases where FIU-Ind levied penalty for PMLA violations

- ▶ in exercise of the powers conferred under section 13(2)(d) of the Act imposed monetary penalty of **Rs. Two Crore Eighty Seven Lakh and Eighty Thousand only (Rs. 2,87,80,000/-)** for non-compliances of sections 12 and 12A of the Act read with rules 3, 4, 5, 7 and 8 of the Rules by the Bank, viz. failure to file certain threshold based reports, failure to file certain threshold based reports accurately and/or within timeline prescribed by the Rules, and failure to implement effective internal mechanism for threshold based reports, etc.

No civil or criminal proceedings against reporting entity



- ▶ **No civil or criminal proceedings against reporting entity, its directors and employees in certain cases.-**
- ▶ Save as otherwise provided in section 13, the reporting entity, its directors and employees shall not be liable to any civil or criminal proceedings against them for furnishing information under clause (b) of sub-section (1) of section 12.

Interpretation of Rules



*((Rule 11 of the Prevention of Money laundering(maintenance of records)
Rules 2005)*

If any question arises relating to the interpretation of these rules the matter shall be referred to the Central government and the decision of the Central government shall be final.

Some high profile cases booked under PMLA

- ▶ Commonwealth games scam 2010 – 70,000 crores
- ▶ Bellary Mining case
- ▶ 2G Spectrum case
- ▶ Ramalinga Raju - Satyam Computers

Customer Risk Profiling



Customer Risk Categorisation

- ▶ **What is Customer Risk:** 'Customer risk ' in the present context refers to the money laundering risk associated with a particular customer from a perspective. This risk is based on the risk perceptions associated with the parameters comprising a customer's profile, and the level of risk associated with the product and channels being used by him.
- ▶ **Need for Customer Risk Categorization:** The RBI master circular dated July 01, 2015 on Know Your Customer (KYC) Norms/Anti Money Laundering Standards, which consolidates all guidelines issued on the subject, requires the banks to categorise customers into low, medium, & high risk categories and have differential due diligence and monitoring standards based on the risk assessment.

Approach to Customer Risk categorisation

- ▶ Customers may be classified into **low, medium and high risk**. Customers requiring higher level of monitoring may if considered necessary be classified even higher.
- ▶ Banks may choose to carry out either Manual Classification or Automated Classification using technology systems or a combination of both
- ▶ **CRC and Transaction Monitoring:** A risk based approach on AML requires the CRC to be linked to transaction monitoring process, Customers with a high risk account requiring a more enhanced monitoring by way of lower thresholds and periodical reviews, as compared to a low risk account.
- ▶ **Risk Categorisation of Existing Customers:** The main challenge of CRC for the legacy customers is the availability and accuracy of available data. Banks may therefore need to categorise customers based on available information.

Customer Risk Categorisation (CRC)

- ▶ Some indicative parameters, which can be used to determine the profile & risk category of a customer, are as follows:
 - ▶ Customer constitution: Individual, proprietorship, partner-ship, private limited, etc
 - ▶ Business segment: Retail, Corporate, etc
 - ▶ Country of residence/ Nationality: Whether India or any overseas location/ Indian or foreign national.
 - ▶ Product subscription: Salary account, NRI products, etc.
 - ▶ Economic profile: HNI, public limited company, etc.
 - ▶ Account status: Active, inoperative, dormant.
 - ▶ Account vintage: less than six months old, etc.
 - ▶ Presence in regulatory negative/PEP/defaulters/fraudster lists.
 - ▶ Suspicious Transaction Report (STR) filed for the customer.
 - ▶ AML Alerts

CRC should be periodically reviewed and updated.

Factors to consider when building rating model

▶ Customer Types

- ▶ Not enough to just say Resident, NRI, HNI etc .How about saying Resident Urban, NRI – Gulf, NRI – Africa etc,
- ▶ Not enough to say proprietorship. More bucketing required – Eg cash intensive business
- ▶ Customer identification and CDD procedures to be aligned to different customer types (more than regulatory requirements)
- ▶ Where to apply these customer type
- ▶ Not enough if just in AML system, because the source data is CBS.
 - ▶ What about Lending systems, Treasury systems .Complete sync required

▶ **Account Types** : Business accounts riskier than savings account

- ▶ **Activity Types** : List of all activities that can possibly be conducted in the account.
 - ▶ Example International remittances

Factors to consider when building rating model

▶ **Customer Relationship factors**

- ▶ Occupation (for individuals)
- ▶ Length of relationship
- ▶ Relationship history
- ▶ Cash
- ▶ $\text{activity volume} / \text{Wire activity volume} / \text{Total volume}$
- ▶ Country of residency
- ▶ Country of Incorporation

Risk based Approach To Money Laundering

The potential risk that a customer carries depends on:

- a) Identity of the customer including beneficial ownership
- b) The nature of customer's business and his product profile-
jewels, precious metals, arms, antiques
- c) Location of business
- d) Products and services offered
- e) Customer's customer or clients; their location & business

High Risk Countries (FATF February 2018 Report)

Geography

- Drug producing nations
- Drug transshipment countries
- Drug using countries
- Secrecy jurisdictions and tax havens, particularly those that grant offshore banking licenses.
- Countries with high degree of public *corruption*
- *Countries linked to terrorist financing*
- *Non Cooperative Countries and Territories*

High Risk & Non Co-operative jurisdictions

Call for Action

- 1.DPRK
- 2.Iran

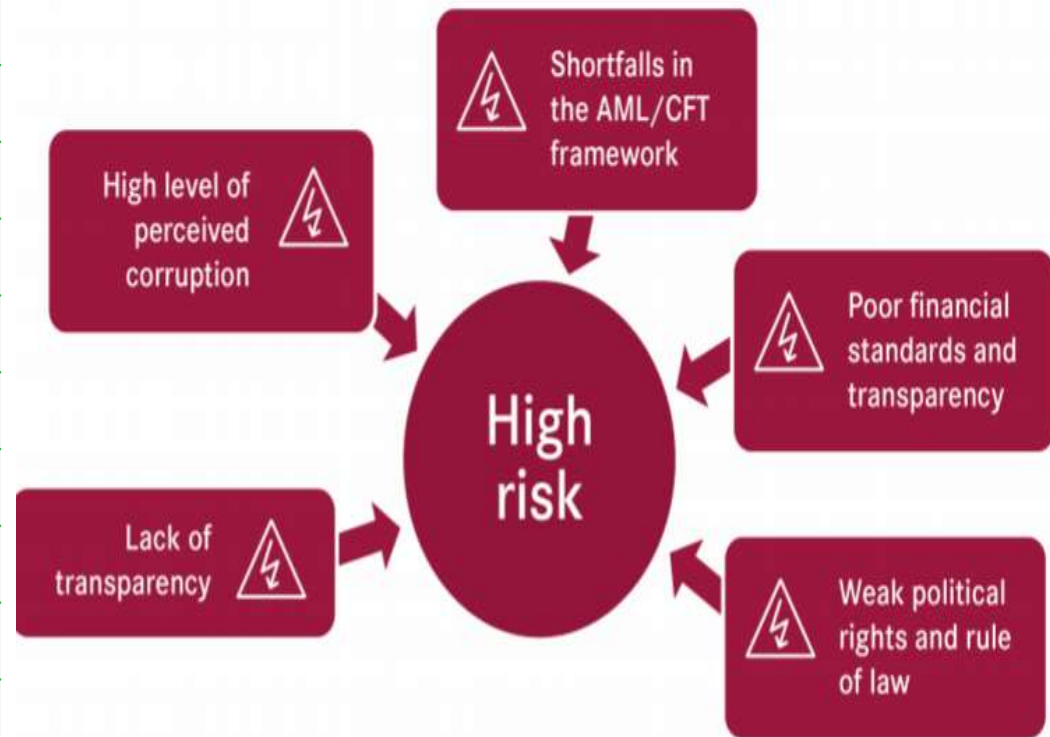
Other Monitored jurisdictions

- 1.Ethiopia
2. Iraq
- 3.Serbia
- 4.SriLanka
- 5.Syria
- 6.Trinidad and Tobago
- 7.Tunisia
- 8.Vanuatu
- 9 .Yemen

Basel AML Index 2019

The Basel AML Index measures the risk of ML/TF in countries using data from publicly available sources such as the Financial Action Task Force (FATF), Transparency International, the World Bank and the World Economic Forum

Top 10 High Risk countries	
1	Mozambique
2	Laos
3	Myanmar
4	Afghanistan
5	Liberia
6	Haiti
7	Kenya
8	Vietnam
9	Benin
10	Sierra Leone



Examples of Risk Profiling

Low Risk Customers	Medium Risk Customers	High Risk Customers
<ul style="list-style-type: none"> • Salaried employees • People with lower economic welfare with small balances and activity • Government Departments • Government owned Companies • Regulators and statutory bodies • NPOs/NGOs promoted by United Nations or its agencies 	<p>Categorize following customer as medium or high depending upon the customer's profiling</p> <ul style="list-style-type: none"> • nonresident customers; • high net worth individuals; • trusts, charities, NGOs and organizations receiving donations; • companies having close family shareholding or beneficial ownership; • firms with 'sleeping partners'; <p>PEPs of foreign origin, customers who are close relatives of PEPs and accounts of which a PEP is the ultimate beneficial owner;</p> <ul style="list-style-type: none"> • non-face to face customers • Customers with dubious reputation as per public information available • cash intensive businesses such as accounts of bullion dealers (including sub-dealers) & jewellers 	

Three types of CDD

Basic DD

- ▶ Collection and verification of identity proof, address proof and photograph to establish the identity of the customer.
- ▶ Based on documents and forms the basis of the KYC program for a bank. Different set of documents can be listed for different types of customers.

Simplified DD

- ▶ Due diligence applied to establish the identity of customer, which involves measures less stringent than basic due diligence. Simplified due diligence can be applied to accounts of people belonging to low income group, both in urban as well as rural areas, to enable 'Financial Inclusion' of this segment. Balance and Total credit not to exceed 50k and 100k

Three types of CDD

Enhanced DD

- ▶ Additional due diligence measures undertaken over and above the basic due diligence can be termed as 'Enhanced Due Diligence'.
- ▶ As per RBI guidelines, EDD needs to be undertaken for all the high-risk customers of a bank (e.g. NRIs, Foreign nationals Trust accounts, Correspondent banking, Fiduciary accounts ,Polled accounts Non face to face customers Specific type of business PEPS High risk countries).

High Risk Customers - Enhanced DD

Politically Exposed Persons

- ▶ Politically exposed persons are individuals who are or have been entrusted with prominent public functions e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc.
- ▶ Persons of foreign origin/ diplomatic missions, such as the ones listed above, located in India. Persons holding prominent positions in multilateral agencies such as the United Nations, World Bank, etc
- ▶ **Domestic PEP not included in the current law.**

High Risk Customers - Enhanced DD

High Risk Countries

- ▶ Customers who live in countries that are considered High Risk or deficient in respect of implementation of KYC and Anti Money Laundering measures should be classified by a bank as high risk.
- ▶ The list can be based on parameters such as FATF membership, advisories issued by FATF/UN on certain countries, etc. A country risk rating can be further integrated into the customer risk emanating from the country of their residence

Name Screening

- ▶ Name screening process should be performed for the following types of transactions:
 - ▶ New customers should be screened at the time of opening of accounts.
 - ▶ Screening of legacy customers, i.e. screening of the bank's existing customers at regular intervals.
 - ▶ Employees are required to be screened as a part of their pre recruitment process, besides screening the existing employees at regular intervals. Vendors and contractual staff may also be included as a part of the screening.
 - ▶ Counter parties to the cross border transactions (i.e. remitters, beneficiaries, intermediary banks, other intermediaries, etc.) in remittance or trade transactions need to be screened.
 - ▶ It also needs to be a part of the enhanced due diligence for high-risk customers or suspicious transactions review.

Negative list to be used for Name screening

- ▶ United Nations' List under Security Council Resolutions (mainly 1267 and such others) as may be specified by RBI from time to time. The updated list of such persons and entities can be accessed at the UN site <http://www.un.org/sc/committees/1267/consolist.shtml>
- ▲ Terrorist lists circulated by RBI.
- ▲ UN Security Council Resolutions on Iran - RBI Circulars dated September 10, 2007 and September 19, 2008 The terrorist lists circulated by RBI. – Bank Meli and Bank Saderat in view nuclear proliferation.
- ▲ Other lists issued by enforcement agencies may also be included in the negative lists suite, such as: Interpol Most Wanted, Central Bureau of Investigation, Lists issued under other Resolutions by United Nations, etc.
- ▲ Cautions should be exercised and reported for transactions relating to FATF NCCTs countries.
- ▲ (All the UN resolutions published by RBI should be made available at the branches or the relevant processing centres where the account opening takes place).

The next Tsunami of Money Laundering

- ▶ Mobile Banking
 - ▶ Millions of people now use their mobile phones to do their banking, especially in developing parts of the world,
 - ▶ Numbers are growing daily.
 - ▶ Easy access to criminals too

“M-Payments will be one of the next big laundering methodologies that we have to confront,” says according to John Cassara, who spent 26 years as a covert CIA case officer and US Treasury agent investigating financial crimes.

“It’s difficult for law enforcement around the world to get a handle on this problem because there is a lack of understanding and reporting about it. But sooner rather than later, we are going to be confronted with this issue.”

THANK YOU!