



STATE BANK OF PAKISTAN
BANKING POLICY DEPARTMENT
I. I. CHUNDRIGAR ROAD, POST BOX NO. 4456,
KARACHI

BPD Circular No. 10

March 29, 2003

The Presidents/ Country Heads
All Banks/DFIs

Dear Sir/Madam

PRUDENTIAL REGULATION XI: KNOW YOUR CUSTOMER (KYC)

In view of recent heightened global efforts to prevent the possible use of the banking sector for money laundering, terrorist financing, transfer of illegal/ill-gotten monies and as a conduit for white collar crime etc., the importance of 'Know Your Customer (KYC)'/'customer due diligence' has increased. In line with the international best practices, the existing instructions issued vide PR XI need to be further strengthened to reinforce the checks and controls already developed by banks as also to ensure due diligence is done while starting relationship with a new customer and maintaining and continuing relationship with existing customers. Although, overall PRs are being revised and will be issued shortly, the sensitivity and importance of the subject (KYC) requires that revised PR XI be issued straightaway and implemented immediately. This revised PR XI will be included in the overall Prudential Regulations when the latter are issued. Accordingly the existing PR XI is being substituted with following minimum guidelines to be followed while opening /dealing with the accounts of the customers. Banks are, however, free to obtain any further information/documents as they deem fit, provided the same are reasonable and applied across the board to all of their customers.

GUIDELINES

a) All reasonable efforts shall be made to determine true identity of every prospective customer. The following minimum set of documents must be obtained from various types of customers/ account holder(s).

S.No.	Nature of Account	Documents/papers to be obtained
I	Individuals	(i) Attested photocopy of national identity card or passport of the individual. (ii) In case the NIC does not contain a photograph, the bank should also obtain, in addition to NIC, any other document such as driver's license etc that contains a photograph. (iii) In case of a salaried person, attested copy of his service card, or any other acceptable evidence of service, including, but not limited to a certificate from the employer. (iv) In case of illiterate person, a passport size photograph of the new account holder besides taking his right and left thumb impression on the specimen signature card.
II	Partnership	(i) Attested photocopies of identity cards of all partners. (ii) Attested copy of "Partnership Deed" duly signed by all partners of the firm. (iii) Attested copy of Registration Certificate with Registrar of Firms. In case the partnership is unregistered, this fact should be clearly mentioned on the Account Opening form.

		(iv) Authority letter, in original, in favor of the person authorized to operate on the account of the firm.
III	Joint Stock companies	<p>Certified copies of:</p> <ul style="list-style-type: none"> (i) Resolution of Board of Directors for opening of account specifying the person(s) authorized to operate the company account. (ii) Memorandum and Article of Association (iii) Certificate of Incorporation. (iv) Certificate of Commencement of Business. (v) Attested photocopies of identity cards of all the directors.
IV	Clubs, Societies and Associations	<ul style="list-style-type: none"> (i) Certified copies of <ul style="list-style-type: none"> (a) Certificate of Registration. (b) By-laws/Rules & Regulations. (ii) Resolution of the Governing Body/Executive Committee for opening of account authorizing the person(s) to operate the account and attested copy of the identity card of the authorized person(s). (iii) An undertaking signed by all the authorized persons on behalf of the institution mentioning that when any change takes place in the persons authorized to operate on the account, the banker will be informed immediately.
V	Agents Accounts	<ul style="list-style-type: none"> (i) Certified copy of "Power of Attorney". (ii) Attested photocopy of identity card of the agent.
VI	Trust Account	<ul style="list-style-type: none"> (i) Attested copy of Certificate of Registration. (ii) Attested copies of NIC of all the trustees. (iii) Certified copies of Instrument of Trust.
VII	Executors and Administrators	<ul style="list-style-type: none"> (i) Attested photocopy of identity cards of the Executor/Administrator. (ii) Certified copy of Letter of Administration or Probate.

b) The Banks shall obtain "Introduction" on the new account to assess the prospective customer's/account holder's integrity, respectability and the nature of business etc. Any laxity in this regard may result in serious consequences for the banker. The following guidelines are to be followed in this regard:

- (i) Where the introducer is an existing account holder of the same branch, his introduction should be accepted, after due verification of signature by the official of the branch. In case the introducer is an account holder of another branch of the same bank, the account should only be opened after proper verification of the signature from the concerned branch.
- (ii) Where the introducer happens to be an account holder of another bank, the introduction should be accepted after complete verification of the signature and other particulars of the introducer from that bank.
- (iii) The introduction by the employees of the bank may also be acceptable. However, he or she will have to establish that sufficient information has been collected on the new account holder for making the introduction and that they believe that "Introduction" from a person other than the bank's employee is not necessary. (The introduction of a person other than by the branch employee is being stressed to ensure maximum authenticity on the status of the

would-be accountholder/customer, beside minimizing the chances of undesirable accounts which may be opened on the introduction of the bank employees in their pursuit to achieve targets of opening maximum number of accounts and treating the “Introduction” a mere formality in the process).

c) The Bank/branch shall obtain satisfactory evidence duly verified/authenticated by the branch manager and shall be placed on record in respect of (i) the true identity of the beneficial owners of all accounts opened by a person, entity etc, (ii) the real party in interest or controlling person/entity of the account(s) in case of nominee or minors account.

d) The Banks are also advised that KYC/customer due diligence is not a one time exercise to be conducted at the time of entering into a formal relationship with customer/account holder. KYC/Customer due diligence is an on-going process for prudent banking practices, therefore the banks are encouraged to: -

- (i) Set up a compliance unit with a full time Head.
- (ii) Put in place a system to monitor the accounts and transactions on a regular basis.
- (iii) Update customer information and records, if any, at reasonable intervals.
- (iv) Install an effective MIS to monitor the activity of the customers' accounts.
- (v) Chalk out plan of imparting suitable training to the staff of bank periodically.
- (vi) Maintain proper records of customer identifications and clearly indicate, in writing, if any exception is made in fulfilling the due diligence procedure.
- (vii) Monitor and check unusually large cash transactions, especially those which are out of character/ inconsistent with the history, pattern etc of the individual account(s).

e) The banks shall develop guidelines for customer due diligence, including a description of the types of customers that are likely to pose a higher than average risk to a bank. In preparing such policies, factors such as customers' background, country of origin, public or high profile position, nature of business etc should be considered. Enhanced due diligence shall be applied:

- (i) To high-risk customers such as those belonging to countries where KYC and money laundering regulations are lax, those with links to offshore tax havens, customers in cash based businesses in high-value items, and high net worth customers with no clearly identifiable source of income etc.
- (ii) Where they have reason to believe that the customer has been refused banking facilities by another bank.
- (iii) For opening of correspondent banks' accounts, and taking appropriate measures to obtain all relevant information about the respondent bank.
- (iv) In dealing with non-face-to-face/ on-line customers. Adequate measures in this regard should also be in place, e.g. independent verification by a reliable third party, client report from the previous bank of the customer etc.

2) Each Bank shall formulate and keep in place, in writing, a comprehensive Know-Your-Customer policy duly approved by their Board of Directors and in case of branches of foreign banks, approved by their head office, and cascade the same down the line to each and every branch/office/ concerned officers for strict compliance.

3) State Bank of Pakistan, during the course of inspection, would particularly check the efficacy of the KYC system put in place by the banks and its compliance by all the branches and the staff. Appropriate action shall be taken against the bank and the concerned staff members for non-compliance and negligence in this area under the provisions of Banking Companies Ordinance 1962.

Please acknowledge receipt.

Yours faithfully

(Muhammad Kamran Shehzad)
Director