ANTI MONEY LAUNDERING

CUSTOMER DUE DILIGENCE/ KNOW YOUR CUSTOMER



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SESSION OBJECTIVES

Briefing on:

- Customer Due Diligence (CDD)
- Know Your Client (KYC)
- CDD/KYC and Financial Institutions
- Customer Acceptance Policy
- FATF Recommendations
- Customer Identification
- CDD and Tipping Off
- On-going Monitoring of Accounts and Transactions
- Risk Management



CUSTOMER DUE DILIGENCE

a) Identifying the customer on the basis of documents, data or information obtained from a reliable and independent source

b) Identifying, where applicable, the beneficial owner and taking risk-based and adequate measures to understand the ownership and control structure of the customer

c) Obtaining information on the purpose and intended nature of the business relationship

d) Conducting ongoing monitoring of the business relationship including ensuring that the transactions being conducted are consistent with the knowledge of the customer, the business and risk profile, including, where necessary, the source of funds and ensuring that documents, data or information held are kept up-to-date.

The EU Third AML Directive

CUSTOMER ACCEPTANCE POLICY

"Banks should develop clear acceptance policies and procedures, including a description of the types of customer that are likely to pose a higher than average risk to a bank".

In preparing such policy, following factors should be included:

- Customers' background
- Country of origin
- Pubic or high profile position
- Linked accounts
- Business activities
- Other risk indicators



FATF RECOMMENDATION 5

- *Customer due diligence*
- *No anonymous accounts or accounts in obviously fictitious names.*
- *Need for CDD measures, including identifying and verifying the identity of their customers.*
- *Application of CDD on a risk sensitive basis.*
- *Application of CDD both to all new customers and existing customers.*



FATF RECOMMENDATIONS

- *FATF Recommendation 6 (politically exposed persons)*
- *FATF Recommendation 7 (correspondent banking)*
- *FATF Recommendation 8 (non-face-to-face customers)*
- *FATF Recommendation 9 (intermediaries)*
- *FATF Recommendation 10 (Record Keeping)*
- *FATF Recommendation 11 (complex/large transactions)*
- *FATF Recommendation 12 (DNFBPs)*



CDD/KYC AND FINANCIAL INSTITUTIONS

- KYC – information gathering
- CDD – continuous checks and monitoring of the information gathered and subsequent monitoring

CDD/KYC THE BEST INTERNATIONAL STANDARD PRACTICE IN AML/CFT

CDD/KYC AND FINANCIAL INSTITUTIONS

- CDD - Customer Due Diligence
- KYC - Know Your Customer
  - Identification, Address, Location, etc.
- KYCB - Know Your Customers' Business
  - Transaction Profile, Type & Nature of business, Sources of Funds etc.
- KYT - Know Your Customers' Transaction
  - Transaction Monitoring
- KYE - Know Your Employee
  - Staff background checks and a continuous monitoring system for reliability
- CM - Continuous Monitoring
  - changes in customer behavior through transaction monitoring and other activities

CORE ELEMENTS OF CDD PROGRAMME

- Full identification of customer and business entities, source of funds and wealth
- Development of profiles of each customer's activity
- Definition and acceptance of the customer's products and services
- Assessment and grading of risks that the customer or the account present
  - Lower risk
  - Medium risk
  - High risk
- The risk level will determine the KYC information required and the subsequent intensity of management and monitoring of the account (Enhanced Due Diligence)

CORE ELEMENTS OF CDD PROGRAMME

- Account and transaction monitoring based on the risks presented
- Appropriate internal and external reporting
- Auditing of the KYC system
- Staff training about the importance of KYC
- Proper record keeping and statutory reporting

CUSTOMER IDENTIFICATION

- Collecting the identification information
- Screening the customer
- Assessing the customer's risk profile
- Obtaining additional information
  - (if enhanced due diligence is believed to be required)
- Reconfirming the identification information

CUSTOMER IDENTIFICATION NATURAL PERSONS



- Identification Information
- Legal name
- Correct permanent address
- Telephone number, fax number, and e-mail address
- Date and place of birth
- Nationality
- Occupation, public position held and/or name of employer
- An official personal identification number from unexpired official documents
- Signature
- Evidence of an individual's permanent address sought through a credit reference agency search or through independent verification by home visits (when EDD is applied)

CUSTOMER IDENTIFICATION LEGAL PERSONS

- Identify the legal persons
  - Verification of the lawful existence of the company
  - Verification of the license if it is required in operating such business
  - Is the legal person regulated?
  - Is the legal person required to observe AML/CFT controls?
  - Verification of the type of legal form and business purposes
  - Location of the headquarter, branches, plants, warehouses, overseas offices.

- Verify that any person acting on behalf of the legal person/arrangement is so authorized.

It is important to obtain sufficient documentation to prove or establish that the business exist.

CUSTOMER IDENTIFICATION LEGAL PERSONS

- Identify any person acting on behalf of the legal persons.
  - Directors: A directors exercises control over the business and thus over funds passing through the account
  - Signatories: A signatory to an account is able to exercise control or authority over funds passing through the account

- Identify the beneficial owners
  - Share holder/beneficial owners: Any person who owns a significant proportion of shares in the business (say more than 20 percent) is able to exercise control in other way
  - Note: bearer shares, corporate vehicles

ENHANCED DUE DILIGENCE

- Customers belonging to NCCTs/Offshore tax heavens, etc.
- Customers in cash based businesses or high value items
- Customers with no clearly identifiable sources of income
- Customers who have been refused by another bank
- Correspondent banks
- Non-face-to-face/on-line customers
- Verification of walk-in customers
  - Senior management knowledge on clients
  - policy and guidelines

CUSTOMER IDENTIFICATION SPECIFIC IDENTIFICATION ISSUES

- Private Banking Customers
- Intermediaries (FATF Rec 9)
- Politically Exposed Persons(FATF Rec 8)
- Non-face-to-face customers
- Corresponding Banking

CONSEQUENCES ASSOCIATED WITH FAILURE TO CONDUCT CDD

- Reputation risk
- Operational risk
- Legal risk
- Concentration risk



SUMMING UP

- What is know your customer?
- What is Customer Due Diligence?
- Why is Due Diligence Conducted?
- Who Conducts Due Diligence?
- When is Due Diligence Conducted?
- How is Due Diligence carried out?
- How Much Due Diligence Needs to Be Conducted?
- How Much Time is allocated for Due Diligence Completion?
- When do you need to perform enhanced due diligence?
- How does this fit into the FATF 40+9 recommendations?
- Difference between natural person and legal person in customer identification.
- What CDD will prevent?
- Can I Be Sued for Failing to Conduct Adequate Due Diligence?
- What to do when CDD fails?

QUESTIONS!!!

