



Tiered KYC - Simplified Due Diligence



KNOW YOUR CUSTOMER

- The Know Your Customer (KYC) guidelines in financial services dictate that professionals make an adequate effort to verify the identity, suitability, and risks involved with maintaining a business relationship.
- KYC procedures fit within the broader scope of a financial institution's Anti-money laundering/ combating the financing of terrorism (AML/CFT) policies.
- Disadvantaged segments of the population may not have the resources or opportunities to secure all the requirements dictated by an institution's KYC policy and as such these segments remain unbanked or underbanked.
- Access to basic banking facilities and other financial services is essential to participation in formal processes in the economy and society, and so **Tiered KYC**, where flexible KYC policies can be implemented on the foundation of a risk-based approach to each customer, is crucial in the construction of a financially inclusive economy.
- The linchpin of Tiered KYC is the existence of an accessible, reliable means of identification for all a country's citizens.



Customer Risk Ratings (CRR)

- A robust Tiered KYC program utilizes customer risk ratings to segment customers into different risk profiles, which determine the level of *due diligence* required from the financial institution to maintain the business relationship.
- Customer risk ratings (CRR) support the financial institution's decision whether to enter, continue, or terminate the business relationship and determine the level of controls needed to be employed to manage the risk, including the type of ongoing suspicious activity monitoring.
- Customer risk ratings can be developed at either the individual customer level or for groups of customers displaying similar characteristics

CURRENT REQUIREMENTS



Current Requirements to Open an Individual Account

	Two (2) References	Valid Photo identification	TRN (if not on ID)	Proof of address	Source of income	Account Minimum
FGB	✓	✓	✓	✓	✓	\$2,000 JMD
Scotiabank	✓	✓	✓	✓	✓	\$5,000 JMD
NCB	✓	✓	✓	✓	✓	\$2,000 JMD
Sagicor	✓	✓	✓	✓	✓	\$1,000 JMD
JMMB	✓	✓	✓	✓	✓	\$1,000 JMD
JN	✓	✓	✓	✓	✓	\$2,500 JMD
CIBC	✓	✓	✓	✓	✓	\$5,000 JMD



Current Requirements to Open a Business Account – Sole Trader

	SOLE TRADER						
	FGB	Scotiabank	NCB	Sagicor	JMMB	JN	CIBC
Certificate of Registration/Business Name certificate	✓	✓	✓	✓	✓	✓	✓
Purpose of account/nature of business			✓				
Valid photo identification of owner		✓	✓				✓
Identification for authorized signatories on account	✓	✓		✓	✓	✓	
Business name TRN				✓	✓	✓	
TRN for all signatories on account	✓		✓	✓	✓	✓	
TRN of owner			✓				✓
Proof of residential address of owner	✓		✓		✓		✓
Proof of address for the entity	✓		-		-	✓	
Proof of residential address for each signatory	✓					✓	
References for owner		✓	✓				✓
Audited financial statements/in-house financial statements	✓		✓				
Financial Projections		✓					
Tax Compliance Certificate (TCC)			✓				
Source of funds					✓	✓	
References for each signatory	✓			✓			
Bank statements (last 2-3 months)	✓			✓			
In-branch/accompanying documents	✓	✓	✓	✓	✓	✓	✓
Written authorization from entity authorizing opening of account						✓	
Copy of valid ID for persons likely to business on the account						✓	



Current Requirements to Open a Business account - Partnership

	PARTNERSHIP						
	FGB	Scotiabank	NCB	Sagicor	JMMB	JN	CIBC
Certificate of Registration/Business Name certificate	✓	✓	✓	✓	✓	✓	✓
Partnership Deed/Partnership Agreement	✓	✓	✓	✓	✓	▪	✓
Identity/Proof of General Partner	▪	▪	▪	✓	▪	▪	▪
Partnership mandate authorizing the establishment of the business relationship	▪	▪	▪	▪	✓	▪	▪
Purpose of account/intended nature of business relationship	▪	▪	✓	▪	▪	▪	▪
Valid identification for each signatory	✓	✓	✓	✓	✓	✓	✓
TRN for each signatory	▪	▪	✓	✓	▪	✓	✓
Proof of address for each signatory	✓	▪	✓	✓	✓	✓	✓
Two references for each signatory	✓	▪	✓	✓	▪	✓	✓
Audited financial statements/in-house financial statements	▪	✓	✓	▪	▪	✓	▪
Financial Projections	✓	✓	▪	▪	▪	▪	▪
Tax Compliance Certificate	▪	✓	✓	▪	✓	✓	▪
In-branch/accompanying documents	✓	✓	✓	✓	✓	✓	✓
Valid License for the operation of business where applicable	▪	▪	▪	▪	✓	✓	▪
Proof of address for partnership	✓	▪	▪	▪	✓	✓	▪
Proof of address for each partner	✓	▪	▪	▪	✓	▪	▪
Source of funds information	▪	▪	▪	▪	✓	▪	▪
TRN of Partnership	✓	✓	▪	✓	✓	✓	▪
List of Authorized Signers and specimen signatures	▪	▪	▪	▪	✓	▪	▪
Bank statements (2 - 3 months)	▪	▪	▪	✓	▪	▪	▪
List of names, addresses and nationalities of partners	✓	▪	▪	▪	▪	▪	▪
Copy of valid ID for persons likely to business on the account	▪	▪	▪	▪	▪	✓	▪



Current Requirements to open a business account – Incorporated Companies

INCORPORATED COMPANIES							
	FGB	Scotiabank	NCB	Sagicor	JMMB	JN	CIBC
Proof of address for each signer/directors/majority shareholders	✓	✓	✓	✓	✓	✓	✓
Two references for each signer, director, principal owner	✓	✓	✓	•	•	•	•
Audited financial statements/in-house financial statements	•	✓	✓	✓	✓	✓	•
Current Certificate of Registration/Incorporation	✓	✓	✓	✓	✓	✓	✓
Previous bank references where applicable/letter of good standing	•	✓	✓	•	•	•	•
Description of line of business and major suppliers (if applicable)	•	•	✓	•	✓	•	•
Names, addresses and nationalities of principal owners, directors, shareholders, management officers etc.	✓	✓	✓	✓	•	•	✓
Tax Compliance Certificate	✓	✓	✓	✓	✓	✓	✓
Group/corporate structure	•	•	✓	•	•	•	•
Proof of Address and location of business operations	✓	•	✓	•	✓	✓	✓
Address of registered office if different	•	•	✓	•	•	•	•
Source of funds/wealth	•	•	✓	•	✓	•	•
Dollar value of anticipated monthly turnover	•	•	✓	•	•	•	•
Purpose of account	•	•	✓	•	•	•	•
Name and address of any other person with a beneficial interest in the account	•	✓	✓	✓	✓	✓	•
Name and identification details for personal accounts of any agent likely to conduct business on account	•	✓	✓	✓	✓	✓	•
Information and documentation for beneficial owners and shareholders/authorized signers and directors	•	✓	✓	✓	✓	•	•
TRN for beneficial owners and shareholders/authorized signers and directors	✓	✓	✓	✓	✓	✓	•
References for Beneficial Owners/Shareholders	•	✓	✓	✓	•	✓	✓
Information and documentation for all directors (name, address, identification, TRN)	✓	✓	✓	✓	✓	✓	•
Letter of introduction from company	•	•	✓	•	•	•	•
Memorandum and Articles of Association/Articles of Incorporation	✓	✓	•	✓	✓	✓	✓
Company TRN	✓	✓	•	✓	✓	✓	✓
Resolution of the Board of Directors/Authorization of business relationship and signing instructions on account	•	•	•	•	✓	✓	•
Valid License for the operation of the business where applicable	•	•	•	•	✓	✓	•
List of Authorized signers/directors with specimen signatures for each	•	•	•	•	✓	•	•
Financial projections	✓	✓	•	•	•	•	•
Authorized bank statements	•	•	•	✓	•	•	•



The Value of Tiered KYC

- The number of requirements to open a business account creates burden and complexity for both the financial institution and the SME;
- The verification and re-verification process adds significant cost for opening and maintenance of account for the Financial Institution;
- Tiered KYC effectively designed will lead to improved customer service and lower the cost to serve;
- The amendments to the POCA legislation allows for effective Tiered KYC.

POCA AMENDMENTS



There are 3 Levels of Customer Information & Due Diligence

- Reasonable Due Diligence is a general level of customer information required by the new POCA amendments;
- Simplified Due Diligence allows for less information than is required generally;
- Enhanced Due Diligence will require the general level of customer information **plus** some additional information/requirements.



Customer Information Required for Reasonable Due Diligence

This is the general customer information requirement for reasonable due diligence:

- The applicant's full name,
- Current address,
- Taxpayer registration number or reference number,
- Date and place of birth
- Mother's maiden name (in the case of an individual)
- Any other information used to verify the applicant for business' identity or the nature of the applicant for the business' trade, profession or source of funds;



Risk Profile Varies Along a Few

Dimensions

- Business products offered;
- Distribution channels;
- The national, regional and international environment in which the regulated business operates;
- The size and nature of its operations; and
- The applicant (owner/individual).


Depending on the level of risk for each element, the bank needs to establish ways to identify and mitigate the risk.



Risk Profile - High Risk Persons

Relationships or transactions which are high-risk include any case where the applicant for business concerned is-

- a) Specified Persons;
- b) A person who is not ordinarily resident in Jamaica;
- c) A person acting as a trustee for another in relation to the business relationship or one-off transaction concerned;
- d) A company having nominee shareholders, or shares held in bearer form;
- e) Not the ultimate beneficial owner of the assets concerned in the business relationship or one-off transaction;



See next slide
with list of
specified
high-risk
persons)



Specified Persons

- a) Any individual who, in relation to any State, carries out functions analogous to the functions of any of the following persons-
- i. A head of State;
 - ii. A head of Government;
 - iii. member of any House of Parliament;
 - iv. A Minister of Government;
 - v. A member of the judiciary;
 - vi. A military official above the rank of captain;
 - vii. A member of the police of or above the rank of Assistant Commissioner;
 - viii. A permanent secretary, Chief Technical Director or chief officer in the charge of the operations of a Ministry, department of Government, executive agency or statutory body, as the case may be;
 - ix. A director or chief executive of any company in which the Government owns a controlling interest;
 - x. Any official of any political party; and
- b) An individual who holds or has held a senior management position in an international organization; and
- c) An individual who is a relative or is known to be a close associate of a person.



Specified Persons: Close Associates/Relatives

Close Associate

- Business partner or associated in any other form whether as beneficial owner or otherwise, in a common commercial enterprise.

Relative

- Spouse- Includes man or woman cohabiting for a period of not less than five years;
- Child- including step-child and adopted child;
- Spouse of his child;
- Siblings.



Simplified Due Diligence

Where a business relationship is determined to be low- risk, the financial institution may apply simplified due diligence procedures when certain conditions
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are met.



Simplified Due Diligence

The conditions are that-

- (a) a proper evaluation of the risk was conducted by the regulated business, which justifies the adoption of the simplified due diligence procedures;

- (b) The regulated business has identified and documented the risks of money laundering involved and-
 - i) Implements appropriate controls and systems to reduce or mitigate those risks; and
 - ii) Reviews the risks identified, and the controls and systems to reduce or mitigate those risks, on an ongoing basis,



Simplified Due Diligence

c) Taking into account the product features of the relevant business, such as-

- Threshold limits for the value of transactions;
- Whether or not cross border transactions are permitted;
- The existence of features that do not permit or facilitate anonymous use of the product; and
- Whether or not face to face transactions are permissible;
- And any other factors that the competent authority and designated authority consider relevant.



Simplified Due Diligence

Simplified due diligence procedures include any one or more of the following –

- Only one form of Government-issued identification, or accepting forms of identification other than Government-issued identification- this could include a student ID;
- Accepting identification verification from other parties who are under analogous obligations with respect to customer identification and transaction verification procedures as concerns the prevention of money laundering e.g. verification from another bank such as evidence of an account.
- Collecting only basic information, such as names, addresses and dates of births or, or in the case of bodies corporate, dates and places of incorporation;
- Reliance on publicly available documents or such other documents as the competent authority may specify; or



Low Risk Customers

- Low risk individuals would qualify for *Simplified Customer Due Diligence*, allowing them to open an account with relatively few requirements.
- Same logic applies for companies.
- Alternatively, AML/CFT risk can be minimized through the type of product offering. Low risk accounts with limited features enable financial institutions to go forward with Simplified Customer Due Diligence.

Low Risk	Qualification Characteristics
Individuals	<ul style="list-style-type: none"> • Extended time at a particular address • Relatively clear source of funds • Relatively consistent income over a particular period of time
Companies	<ul style="list-style-type: none"> • Extended period at current address • Stable, low revenue • Price and numbers matching revenue • Purchases matching business needs • Simple income statements
Accounts	<ul style="list-style-type: none"> • Maximum balances • Maximum amounts in individual and monthly transactions • Maximum numbers of transactions • No cross-border transactions • Limited means to access funds



Tiered KYC: Mexico

- A prime example of innovation KYC lies in Mexico, where banks that want to serve low-income customers often find that the cost of opening traditional bank accounts through traditional channels are just too high. Additionally, poor people often find the requirements for onboarding difficult to meet.
- In August 2011, Mexico approved a tiered scheme for opening deposit accounts at credit institutions. This scheme implements risk-based account opening requirements for low-value accounts. The innovation here is that it incorporated several “levels” of simplified accounts – requirements increase progressively as restrictions on transactions and channels are eased.
- In addition to simplifying account opening, authorities wanted to achieve two other goals: (1) formalize and bring into closer oversight the issuance of prepaid cards, particularly “open” ones which allowed usage across a number of businesses affiliated with the issuer; and (2) define different ways in which cell phones could be used across different types of accounts. The final scheme has four levels – three low-risk accounts, and the traditional current account.



Tiered KYC: Mexico

	Level 1	Level 2	Level 3	- Traditional Bank Account
Max Amount in monthly transactions USD/Month	280 + Max Balance of 370 USD	1,110 ¹	3,700	No limit imposed by regulation
Customer information required to open account	None	<u>Basic:</u> Name, date and place of birth, gender and address	<u>Complete</u> customer information	<u>Complete</u> customer information
Hard copy required?	Not applicable	No	No	Yes
Face to face account opening required?	No ²³	No ²	Yes	Yes
Means to access funds	Only debit card (for national use). No mobile.	Any electronic means (mobile, card, bank transfers)	Any electronic means (mobile, card, bank transfers)	Any electronic means (mobile, card, bank transfers), and cheques

Notes:



Low risk account: Nigeria

THREE TIERED KNOW YOUR CUSTOMER (KYC) REQUIREMENTS			
	Description and characteristics	Amount /Threshold Limitation	Customer Identification requirements
LEVEL 1	<p>Low-Value Accounts</p> <p>i. They are subject to close monitoring by the financial institutions and less scrutiny by Bank Examiners.</p> <p>ii. <i>The accounts can be opened at branches of financial institutions by the prospective customer or through banking agents.</i></p> <p>iii. <i>No amount is required for opening of accounts.</i></p> <p>iv. <i>Such accounts cover Mobile Banking products (issued in accordance with the CBN Regulatory Framework for Mobile Payments Services in Nigeria).</i></p> <p>Main characteristics:</p> <p>i. <i>Deposits can be made by account holder and 3rd parties while withdrawal is restricted to account holder only.</i></p> <p>ii. Be linked to mobile phone accounts.</p> <p>iii. Operation valid only in Nigeria.</p> <p>iv. <i>ATM transactions are allowed.</i></p> <p>v. International funds transfer is prohibited.</p> <p>vi. <i>Accounts are strictly savings.</i></p>	<p>It is limited to a maximum single deposit amount of N20,000 and maximum cumulative balance of N200,000 at any point in time.</p> <p>Mobile Banking Products</p> <p>Level One Mobile Banking Products Are Allowed:</p> <ul style="list-style-type: none"> Maximum transaction limit of N3, 000 and daily limit of N30, 000. <i>Such products are subject to the CBN Regulatory Framework for Mobile Payments Services in Nigeria.</i> 	<p>i. Basic customer information required to be provided are:</p> <ul style="list-style-type: none"> Passport photograph; Name, place and date of birth; Gender, address, telephone number, etc. <p>ii. This information <i>may be sent electronically or submitted onsite in bank's branches or agent's office.</i></p> <p>ii. <i>Evidence of information provided by customer or verification of same is not required.</i></p>



Sample Form Requirements

Customer	Form Requirements
Individuals	<ul style="list-style-type: none"> • Name: Verified by one Government Issued ID or other form of ID • Gender: • Address: No verification • Date of Birth: No verification
Registered Business Name	<ul style="list-style-type: none"> • Name of Owner • Address of Owner • Address of Business • Date Business registered • Business Descriptions (Lines of Products/Industry/Basic Unaudited Income Statement)
Company	<ul style="list-style-type: none"> • Name of Business: • Date of Incorporation: • Place of Incorporation: • Registered Address: • Directors: Verified by ID of One Director • Shareholders: • Business Descriptions (Lines of Products/Industry/Basic Unaudited Income Statement)