

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3001
ANSWERED ON:19.08.2011
SMUGGLING THROUGH CREDIT/ATM CARDS
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Will the Minister of FINANCE be pleased to state:

- (a) whether smugglers of Indian currency are withdrawing money through credit cards/ATM cards by opening accounts in Indian banks;
- (b) if so, the details thereof;
- (c) the rules for opening accounts in Indian banks by the foreign citizens;
- (d) whether the assessment/study of the issue is proposed to be conducted by the Government; and
- (e) if so, the details thereof and if not, the reasons therefor?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a)&(b): The FIU-India, Department of Revenue, has reported that they have not received any specific information that smugglers of Indian Currency are withdrawing money through credit cards/ATM cards by opening accounts in Indian Banks.

Department of Banking Operations and Development (DBOD), Reserve Bank of India (RBI) has reported that instructions have been issued to banks vide Master Circular on 'Know Your Customer (KYC)/Anti Money Laundering (AML)/Combating of Financing of Terrorism (CFT)' dated July 1, 2011 on use of electronic cards from KYC/AML/CFT perspective. Relevant para of the Master Circular is as given below :

2.13 Introduction of New Technologies – Credit cards/debit cards/smart cards/gift cards Banks should pay special attention to any money laundering threats that may arise from new or developing technologies including internet banking that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes. Many banks are engaged in the business of issuing a variety of Electronic Cards that are used by customers for buying goods and services, drawing cash from ATMs, and can be used for electronic transfer of funds. Banks are required to ensure full compliance with all KYC/AML/CFT guidelines issued from time to time, in respect of add-on/ supplementary cardholders also. Further, marketing of credit cards is generally done through the services of agents. Banks should ensure that appropriate KYC procedures are duly applied before issuing the cards to the customers. It is also desirable that agents are also subjected to KYC measures.

(c) The Foreign Exchange Department of RBI has reported that the rules for opening accounts in Indian banks by foreign citizens are as under :

In terms of Regulation 1 (a) of Schedule 3 to FEMA 5/2000-RB dated May 3, 2000 (viz. Foreign Exchange Management (Deposit) Regulations, 2000), as amended from time to time, any person resident outside India may open Non-Resident Ordinary Rupee (NRO) account with an authorized dealer or an authorized bank for the purpose of putting through bonafide transactions in rupees not involving any violation of the provisions of the Act, rules and regulations made thereunder. Opening of accounts by individuals/entities of Bangladesh/Pakistan nationality/ownership requires approval of the Reserve Bank.

For the purpose of these regulations, a 'Person of Indian Origin' (PIO) is also a foreign citizen.

A PIO can open Foreign Currency (Non-resident) Account (Banks) Scheme (FCNR(B) and Non-Resident (External) Rupee Account accounts (NRE) also. The Non-resident Indians (NRIs) and PIOs are permitted to open and maintain NRE accounts with authorized dealers, and with banks (including co-operative banks) authorized by the RBI to maintain such accounts. Opening of NRE accounts in the names of individuals/entities of Bangladesh/Pakistan nationality/ownership requires approval of the RBI.

The Non-resident Indians (NRIs) and PIOs are eligible to open and maintain FCNR(B) accounts with authorized dealers. Opening of FCNR(B) accounts in the names of NRIs of Bangladesh/Pakistan nationality/ownership requires approval of the RBI.

The Department of Banking Operations and Development (DBOD), RBI has reported that it has not issued specific rules /guidelines for opening accounts in Indian banks by foreign citizens. However, Para 2.5

(vii) of the Master Circular dated July 1, 2011 which contains instructions to banks on opening of account by non-face-to-face customers is as given below :

2.5

(vii) Accounts of non-face-to-face customers With the introduction of telephone and electronic banking, increasingly accounts are being opened by banks for customers without the need for the customer to visit the bank branch. In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, there must be specific and adequate procedures to mitigate the higher risk involved. Certification of all the documents presented should be insisted upon and, if necessary, additional documents may be called for. In such cases, banks may also require the first payment to be effected through the customer's account with another bank which, in turn, adheres to similar KYC standards. In the case of cross-border customers, there is the additional difficulty of matching the customer with the documentation and the bank may have to rely on third party certification/introduction. In such cases, it must be ensured that the third party is a regulated and supervised entity and has adequate KYC systems in place.

As regards existing customers, RBI vide letter dated 21/4/2004 issued guidelines to all Scheduled Commercial Banks to ensure application of KYC procedures to all existing accounts of trusts, companies/firms, religious/charitable organizations and other institutions or where the accounts are opened through a mandate or power of attorney and also in respect of individual account holders, where the credit or debit summation for the financial year ended march 31, 2003 is more than 10 lakh or where unusual transactions are suspected.

(d) RBI has reported that it has no information to furnish the matter.

(e) Does not arise.