

Standard Guidelines for Application of Know Your Customer Principles

Table of Contents

Standard Guidelines for Application of Know Your Customer Principles

	Page
Table of Contents	i
Foreword	ii
I. Introduction	1
II. General Policies	3
A. Organizational Policy	3
B. Customer Acceptance and Identification	5
C. Monitoring and Reporting	6
D. Risk Management	7
III. Procedures for Customer Acceptance and Identification	10
A. Acceptance of Customers	10
1. Acceptance of Individual Customers	10
2. Acceptance of Corporate Customers	12
B. Identification and Verification	20
1. Individual Customers	20
2. Corporate Customers	21
C. Approval Procedure for Acceptance of Customers	22
IV. Monitoring and Reporting Procedures	23
A. Documentation of Customer Profiles	23
B. Account Monitoring and Identification of Transactions	23
C. Identification of Suspicious Transactions	25
D. Internal Reporting and Reporting to Bank Indonesia	25
V. Employee Training	27
Appendix: Glossary	

FOREWORD

One of the obligations mandated for Banks following the issuance of Bank Indonesia Regulation Number 3/10/PBI/2001 dated June 18, 2001, concerning Application of Know Your Customer Principles, is the preparation of policies and procedures for application of Know Your Customer Principles. For some Banks, application of Know Your Customer Principles is something new and for this reason a guide is necessary for the principles to be put into effect.

Aware of this need, Bank Indonesia together with representatives of Banks established a task force for preparation of a Standard Guidelines. When putting together this guide, the task force made frequent reference to international best practices and various comments and suggestions contributed by representatives of Banks and other sources. The guide is expected to enable Banks to put together practical guidelines that satisfy the minimum requirements stipulated in the provisions concerning application of Know Your Customer Principles.

Jakarta, December 2001

CHAPTER I INTRODUCTION

As is widely known, on June 18, 2001, Bank Indonesia issued Bank Indonesia Regulation No. 3/10/PBI/2001 concerning Application of Know Your Customer Principles. This is one of several measures designed to prevent the banking system from being directly or indirectly used by criminals for money laundering. In the Regulation, Banks are required to apply Know Your Customer Principles consisting of policies and procedures for acceptance and identification of customers, monitoring of customer accounts, monitoring of customer transactions, and risk management. The aim of the application of these policies and procedures is to enable Banks to ascertain customer profiles and the characteristics of each customer transaction so that in turn the Bank is able to identify suspicious transactions and then report these transactions to Bank Indonesia. By applying the Know Your Customer Principles, Banks will also be able to minimize exposure to risk, in particular operational risk, legal risk, concentration risk, and reputational risk.

One of the prerequisites for improving the effective application of Know Your Customer Principles is a common perspective and understanding among the banking system, the public using banking services, competent agencies, and law enforcement agencies concerning the importance of application of these principles. One effort currently under way is intensive and sustained communication and socialization of these principles not only for the banking community but also the public. Within the banking community, it is necessary for this common perception to be achieved from the level of policy down to implementation. For this purpose, it is necessary to have ***Standard Guidelines for Application of Know Your Customer Principles*** that can serve as a primary reference for each Bank in putting together ***Practical Guidelines for Application of Know Your Customer Principles***. These practical guidelines

Standard Guidelines for Application of Know Your Customer Principles

must comply with the minimum requirements stipulated in the Standard Guidelines according to the needs of each Bank as reflected in the complexity of its business operations, with the effect that the practical guidelines will be more detailed and comprehensive.

This Standard Guidelines describes the general policies and procedures for customer acceptance and identification, monitoring and reporting, and employee training. Terminology pertaining to the application of Know Your Customer Principles is defined in the Appendix.

CHAPTER II

GENERAL POLICIES

A. ORGANIZATIONAL POLICY

To support the implementation of Know Your Customer Principles, Banks are required to establish a Know Your Customer Principles Unit (UKPN) or appoint a Bank officer responsible for application of Know Your Customer Principles.

1. Establishment of Know Your Customer Principles Unit

A Know Your Customer Principles Unit shall be established if the Bank requires a dedicated unit for this purpose.

If in view of operating costs and complexity of business operations the Bank deems that a Know Your Customer Principles Unit is not needed, the Bank may appoint at least one Bank officer to perform the duties of such unit. A Bank officer may hold this position concurrently with another duties as long as the other duties are not part of operational duties such as the risk management unit.

2. Organizational Structure

Banks are required to establish the Know Your Customer Principles Unit as a structural unit within the Bank organizational structure. In the course of its duties, this unit shall report to and be responsible directly to the Compliance Director. If the Bank has not established a Know Your Customer Principles Unit and has only appointed a Bank officer, for the specific purpose of application of Know Your Customer Principles the officer shall report and be directly responsible to the Compliance Director.

Like other operational units in a Bank head office, the branch offices of a Bank and sub-branch offices are also required to apply the Know Your Customer Principles under the coordination of the Know Your Customer Principles Unit in the Bank head office. If deemed necessary, the Know Your

Standard Guidelines for Application of Know Your Customer Principles

Customer Principles Unit may appoint one or more Bank officers responsible for carrying out its duties in these units.

3. Duties of the Know Your Customer Principles Unit

The principal duties of the Know Your Customer Principles Unit or the Bank officer appointed to perform the duties of such unit are:

- a. Ensuring the development of systems for identification of customers and suspicious transactions;
- b. Monitoring the updating of customer profiles and customer transaction profiles, including identification and monitoring of high risk customers as stipulated in Bank Indonesia Regulation Number 3/10/PBI/2001;
- c. Coordinating and monitoring the implementation of Know Your Customer Principles by the concerned units;
- d. Receiving and analyzing reports on suspicious transactions provided by the concerned units;
- e. Preparing reports on suspicious transactions for Bank Indonesia;
- f. Monitoring, analysis, and preparation of recommendations on training needs for Bank officers and staff concerning Know Your Customer Principles.

4. Duties of the Compliance Director

The duties of the Compliance Director pertaining to the application of Know Your Customer Principles cover at least the following:

- a. Monitoring the performance of duties by the Know Your Customer Principles Unit;
- b. Conveying reports on suspicious transactions to Bank Indonesia, as put together by the Know Your Customer Principles Unit.

5. Duties of Board of Directors

The duties of the Board of Directors pertaining to application of Know Your Customer Principles cover at least the following:

- a. Establishment of a Know Your Customer Principles policy;
- b. Ensuring that the Know Your Customer Principles policy is consistently applied and implemented by the concerned units;
- c. Establishment of criteria for high risk countries, high risk businesses, and high risk customers.
- d. Establishment of authority for final decisions concerning suspicious transactions.

6. Duties of Board of Commissioners

The duties of the Board of Commissioners pertaining to application of Know Your Customer Principles cover at least the following:

- a. Approval of the Policy for Application of Know Your Customer Principles;
- b. Oversight of implementation of Know Your Customer Principles by the Bank.

B. CUSTOMER ACCEPTANCE AND IDENTIFICATION

Banks are required to have a policy for acceptance and identification of prospective customers covering at least the following:

1. Requesting information on prospective customers including but not limited to:
 - a. identity of prospective customer;
 - b. purpose and objectives of dealings to be conducted by the prospective customer with the Bank;
 - c. other information enabling the Bank to ascertain the profile of the prospective customer;

Standard Guidelines for Application of Know Your Customer Principles

- d. identities of other parties, in the event that the prospective customer is acting on behalf of and in the name of other parties.
2. Requesting the prospective customer to furnish proof of identity and supporting documents for the information provided by the prospective customer.
3. Examination of authenticity of identification and supporting documents provided by the prospective Customer.
4. Meeting with a prospective Customer at least at the time of account opening, including any account opening by electronic means.
5. If necessary, a prospective customer may be interviewed to examine and verify the authenticity of information, proof of identity, and supporting documents provided by the prospective customer.
6. Refuse any prospective customer failing to provide the information, proof of identity, and other supporting documents and/or if the authenticity of such information and documents is in doubt.

The policy and procedures for customer acceptance shall also apply to any walk-in customer conducting transactions with a value of more than Rp 100,000,000 (one hundred million rupiahs) or equivalent per transaction.

C. MONITORING AND REPORTING

Banks are required to have a policy on the monitoring of customer accounts and transactions covering at least the following:

1. Administration of documents pertaining to customer identity, including any intermediary and/or proxy for a beneficial owner, for a period of not less than 5 (five) years after the customer closes the account;

Administration of documents for walk-in customers for not less than 5 (five) years after execution of the transaction.

Standard Guidelines for Application of Know Your Customer Principles

2. Updating of data in the event of any change in the stipulated documents as referred to in the above number 1;
3. Development of an effective information system capable of assisting Bank staff in identification, analysis, monitoring, and reporting of transactions conducted by customers. This information system shall enable the Bank to trace individual transactions for Bank internal use and/or Bank Indonesia, and in respect of any case before court.
4. Maintenance of customer profiles covering at least information pertaining to:
 - i Identity of customer;
 - ii Occupation or line of business;
 - iii Total income;
 - iv Accounts held;
 - v Normal transaction activity; and
 - vi Purpose for opening of account.
5. Reporting of suspicious transactions to Bank Indonesia shall be confidential and shall not be disclosed to the customer concerned.

D. RISK MANAGEMENT

1. The risk management policy and procedures pertaining to Know Your Customer Principles shall constitute an integral part of the overall risk management policy and procedures of the Bank.
2. The risk management policy and procedures in place at a Bank shall include elements of risk management policy pertaining to the application of Know Your Customer Principles covering at least the following:

a. Management Oversight

- The Board of Commissioners shall have the duty of oversight of the Bank's implementation of Know Your Customer Principles.

Standard Guidelines for Application of Know Your Customer Principles

- The Board of Directors of a Bank shall be responsible for application of Know Your Customer Principles.
- Oversight of application of Know Your Customer Principles shall be maintained by the Board of Directors through the Compliance Director and/or the Internal Audit Unit of the Bank.
- The Board of Directors and management of the Bank must be able to understand, identify, and minimize any risks that may arise during application of Know Your Customer Principles, including but not limited to operational risk, legal risk, concentration risk, and reputational risk.
- The Board of Directors and management of the Bank shall ensure that Bank officers and employees possess the necessary knowledge and expertise for application of Know Your Customer Principles.

b. Delegation of authority

- The Board of Directors shall be required to delegate authority covering at least the following:
 - Authority for approval of customer acceptance;
 - Special authority pertaining to acceptance and monitoring of high risk customers, high risk countries, and high risk businesses;
 - Authority for determination of suspicious transactions;
 - Authority for execution of customer transactions within an established scale of limits.
- In determining a scale of limits, it is necessary for a Bank to take into consideration such limits as:
 - (1) product limit;
 - (2) currency limit;

Standard Guidelines for Application of Know Your Customer Principles

- (3) turnover limit; and
- (4) individual and counterparty limit

- Transactions in excess of any limit may only be executed with written authorization from an authorized officer.

c. Separation of Duties and Responsibilities

- Banks are required to institute separation of operational functions and internal oversight.
- The application of Know Your Customer Principles requires separation of duties and responsibilities between those implementing transactions and those making decisions on transactions.

d. Internal Control System

- Banks must have a proper internal control system, both functional and built-in, capable of ensuring that application of Know Your Customer Principles by concerned units complies with established policies and procedures.
- Application of the Internal Control System must be capable of fostering the effective and efficient monitoring and reporting of Know Your Customer Principles, compliance with prevailing regulations, and the implementation of Bank policies with the objective of minimizing the risk exposure of the Bank.

e. Employee Training

Effective application of Know Your Customer Principles depends to a great extent on the integrity and competence of officers/employees, and especially their understanding of the implications of failure to apply these principles properly. In this regard, Banks must implement regular and ongoing employee training programs to build the knowledge and skills of officers/employees responsible for application of Know Your Customer Principles.

CHAPTER III

PROCEDURES FOR ACCEPTANCE AND IDENTIFICATION OF CUSTOMERS

A. ACCEPTANCE OF CUSTOMERS

1. The procedure for acceptance of individual customers shall cover:

- a. Completion of standard forms as determined by the Bank with at least the following information:
 - name, place and date of birth, address and nationality as proven by Identity Card (KTP), Driving License (SIM), or passport, complete with information on permanent residential address if different from the address stated in document. For proof of identity, a foreign national shall in addition to passport produce the Temporary Residence Card (KIMS/KITAS) or Permanent Residence Card (KITAP);
 - address and telephone number of place of work, with information on line of business/activity of the company/agency of employment;
 - information on the work/job title and income of the prospective customer. In the case that a prospective customer does not have an occupation, the required data is source of income;
 - information on the source and purpose of use of funds;
 - specimen signature.
- b. If necessary, a Bank may request other information including but not limited to major credit cards, identity of the prospective customer's employer, telephone bill, and electricity bill.
- c. In the specific case of a prospective customer opening an account by telephone, correspondence, or electronic banking, the Bank staff shall be

Standard Guidelines for Application of Know Your Customer Principles

required to arrange a face-to-face meeting with the prospective customer prior approval for account opening.

- d. The requirements in the above letters a, b, and c shall also apply to:
- any prospective customer opening a joint account; and
 - any prospective customer acting as intermediary or proxy for a beneficial owner.

In the event that a prospective customer is an intermediary or proxy for a beneficial owner, the Bank shall be required to ask information pertaining to the beneficial owner as follows:

- For an individual beneficial owner:
 - relevant information as per the procedure for acceptance of individual customers;
 - legal relationship, such as proof of assignment, power-of-attorney, or authority to act as intermediary;
 - statement from the prospective customer that examination has been made of the authenticity of identity and sources of funds of the individual beneficial owner.
- For a corporate beneficial owner
 - relevant information as for the procedure for acceptance of corporate customers, other than for government institutions, international agencies, and diplomatic representation of foreign countries;
 - legal relationship, such as proof of assignment, power-of-attorney, or authority to act as intermediary;

Standard Guidelines for Application of Know Your Customer Principles

- identity documents of management authorized to represent the company;
- identity documents of the controlling shareholders of the company;
- statement from the prospective customer that examination has been made of the authenticity of identity and sources of funds of the corporate beneficial owner.

2. Procedure for acceptance of corporate customers encompasses:

a. *Legal Entity*

i. Companies classified as small-scale enterprises

- Completion of standard forms as determined by the Bank with at least the following information:
 - legal status of the business, proven by deed of establishment and articles of association;
 - business license or other license issued by the competent agency, proven by such documents as SIUP, SITU;
 - name, specimen signature, and empowerment of parties appointed to act on behalf of and in the name of the company. Empowerment for acting on behalf of and in the name of the company shall be proven by power-of-attorney issued by the Board of Directors and/or General Meeting of Shareholders;
 - company address, telephone number, and/or facsimile number;
 - information on the source and purpose for use of funds;
 - country of origin if the company is incorporated as a foreign legal entity.

Standard Guidelines for Application of Know Your Customer Principles

- If necessary, the Bank may request other documents, for example, the financial statement of the prospective customer or information on its main customers.
- The Bank may request the prospective customer for information on its dealings with other Banks.
- The requirements for documents as stated above shall apply to any prospective customer opening a joint account and any prospective customer acting as an intermediary or proxy for a beneficial owner.

If the prospective customer is an intermediary or proxy for a beneficial owner, the Bank shall be required to request information pertaining to the beneficial owner:

- For an individual beneficial owner:
 - relevant information as per the procedure for acceptance of individual customers;
 - legal relationship, such as proof of assignment, power-of-attorney, or authority to act as intermediary;
 - statement from the prospective customer that examination has been made of the authenticity of identity and sources of funds of the individual beneficial owner.
- For a corporate beneficial owner:
 - relevant information as required by the procedure for acceptance of corporate customers, except for government institutions, international agencies, and diplomatic representation of foreign countries;

Standard Guidelines for Application of Know Your Customer Principles

- legal relationship, such as proof of assignment, power-of-attorney, or authority to act as intermediary;
- identity documents of management authorized to represent the company;
- identity documents of the controlling shareholders of the company;
- statement from the prospective customer that examination has been made of the authenticity of identity and sources of funds of the corporate beneficial owner.

ii. Companies not classified as small-scale enterprises

- Completion of standard forms as determined by the Bank with at least the following information:
 - legal status of the business, proven by deed of establishment and articles of association;
 - operating license or other license issued by the competent agency, proven by such documents as SIUP, SITU;
 - name, specimen signatures, and empowerment of parties appointed to act on behalf of and in the name of the company. Empowerment to act in the name of a company shall be proven by power-of-attorney from the Board of Directors and/or proceedings of a General Meeting of Shareholders;
 - company address, telephone number, and/or facsimile number;
 - country of origin if the company is incorporated as a foreign legal entity.

Standard Guidelines for Application of Know Your Customer Principles

- Approval from an authorized Bank officer, including any special official in charge of corporate customers deemed as operating in high risk business or owned by bearers of state office.
- Taxpayer's Identification Number (NPWP) for any customer required to hold an NPWP under prevailing regulations. If at the time of submitting the application to be a customer, the customer does not hold an NPWP, the customer may present a photocopy of an application for NPWP. As soon as the customer has obtained an NPWP, the Bank shall ask the customer to provide the NPWP.
- In the event that a prospective customer does not hold an NPWP, the prospective customer shall be required to furnish a statement that he/she is not required to hold an NPWP.
- Financial statement of the company or description of company's line of business. Description of company's line of business encompasses information on line of business, customer profile, address of place of business, and company telephone number.
- Management structure of the company.
- Identity documents of management authorized to represent the company, e.g., ID card (KTP), passport, or driving license (SIM).
- Name, specimen signatures, and empowerment of parties appointed to act on behalf of and in the name of the company. Empowerment to act in the name of a company shall be proven by power-of-attorney from the Board of Directors and/or proceedings of a General Meeting of Shareholders.
- information on the source and purpose for use of funds. In this case, a prospective may be asked to fill in an account opening form or transaction form stating among others information on

Standard Guidelines for Application of Know Your Customer Principles

the source of funds and purpose for use of funds, or to furnish a written statement.

- The Bank may ask the prospective customer for information on his/her dealings with other Banks.
- The requirements for documents as stated above shall apply to any prospective customer opening a joint account and any prospective customer acting as an intermediary or proxy for a beneficial owner.

If the prospective customer is an intermediary or a proxy for a beneficial owner, the Bank shall be required to request information pertaining to the beneficial owner as follows:

- For an individual beneficial owner:
 - relevant information as per the procedure for acceptance of individual customers;
 - legal relationship, such as proof of assignment, power-of-attorney, or authority to act as intermediary;
 - statement from the prospective customer that examination has been made of the authenticity of identity and sources of funds of the individual beneficial owner.
- For a corporate beneficial owner:
 - relevant information as per the procedure for acceptance of corporate customers, other than government institutions, international agencies, and diplomatic representation of foreign countries;
 - legal relationship, such as proof of assignment, power-of-attorney, or authority to act as intermediary;

Standard Guidelines for Application of Know Your Customer Principles

- identity documents of management authorized to represent the company;
- identity documents of the controlling shareholders of the company;
- statement from the prospective customer that examination has been made of the authenticity of identity and sources of funds of the corporate beneficial owner.

iii. Government institutions, international agencies, and diplomatic representation of foreign countries

Completion of standard forms as determined by the Bank with at least the following information:

- name and specimen signature, which must be supported by proof of identification in the form of ID Card (KTP), passport, or driving license (SIM);
- letter of appointment for parties authorized to represent the agency in its dealings with the Bank;
- information pertaining to the country of origin of the agency and information pertaining to the source and purpose of use of funds, if required.

iv. Banks

- Completion of standard forms as determined by the Bank with at least the following information:
 - deed of establishment or articles of association of the Bank or other similar document;
 - operating license issued by a competent agency or other similar document;

Standard Guidelines for Application of Know Your Customer Principles

- name, specimen signature, and authorization or letter or appointment for the parties appointed to act on behalf of and in the name of the Bank;
- business address.
- If the prospective customer is a Bank acting as intermediary empowered by a beneficial owner:
 - for a domestic Bank:

it is sufficient for verification or confirmation of the beneficial owner to be made by the intermediary Bank.
 - for an overseas Bank:
 - Applying Know Your Customer Principles:

A written statement shall be requested to the effect that the identity of the beneficial owner has been obtained and is administered by the overseas Bank.
 - Not applying Know Your Customer Principles

The Bank shall be required to obtain proof of identity of the beneficial owner, source of funds, purpose for use of funds, and other information pertaining to the beneficial owner of the prospective customer as follows:

 - a. For an individual beneficial owner:
 - relevant information as per the procedure for acceptance of individual customers;
 - legal relationship, such as proof of assignment, power-of-attorney, or authority to act as intermediary;

Standard Guidelines for Application of Know Your Customer Principles

- statement from the prospective customer that examination has been made of the authenticity of identity and sources of funds of the individual beneficial owner.

b. For a corporate beneficial owner

- relevant information as per the procedure for acceptance of corporate customers, other than government institutions, international agencies, and diplomatic representation of foreign countries;
- legal relationship, such as proof of assignment, power-of-attorney, or authority to act as intermediary;
- identity documents of management authorized to represent the company;
- statement from the prospective customer that examination has been made of the authenticity of identity and sources of funds of the corporate beneficial owner.

b. other entities

- Other entity is defined as including but not limited to political party, non-government organization (NGO), foundation, or other organization.
- Completion of standard forms as determined by the Bank with at least the following information:
 - operating license or other license or deed/documents of establishment or legalization issued by a competent agency;
 - party appointed to act on behalf of and in the name of the entity. Name and specimen signature in particular must be supported by

Standard Guidelines for Application of Know Your Customer Principles

proof of identity, such as ID card (KTP), passport, or driving license (SIM). For a proxy acting in the name of the entity, proof required is a power-of-attorney issued by legally appointed management;

- address of the legal entity;
 - information on source and purpose of use of funds;
 - Taxpayer's Number (NPWP) (if any).
- If necessary, the Bank may request other information on field of activity, financial statement, management structure, and identity of the management authorized to represent the entity.

B. IDENTIFICATION AND VERIFICATION

Based on the supporting documents provided by the prospective customer, the Bank shall conduct identification and verification, both for an individual and a corporate customer.

1. Individual Customer

- a. Examine authenticity of documents and identify any possibilities of irregularities or matters calling for suspicion.
- b. Administer photocopies of documents after authentication with valid originals of these documents.
- c. Meet face-to-face with the prospective customer prior to approval of account opening for any prospective customer using electronic media, telephone, or correspondence. A face-to-face meeting of the Bank with the prospective customer may take place through a special officer or another party representing the Bank to verify the identity of the prospective customer and assess the plausibility of information provided by the prospective customer.
- d. Conduct cross-checks to ascertain the consistency of various items of information presented by the prospective customer.

Standard Guidelines for Application of Know Your Customer Principles

- e. Conduct extensive due diligence of any prospective customer from a country classified as a high risk country or a country that has not adopted provisions for Know Your Customer Principles.
- f. Conduct extensive due diligence of any prospective customer operating in a high risk business, namely any line of business that may potentially be used for money laundering.
- g. Conduct extensive due diligence of any prospective customer deemed a high risk customer, including bearer of state office.

2. Corporate Customer

- a. Examine the authenticity of documents and identify any possibilities of irregularities or matters calling for suspicion.
- b. Administer photocopies of documents after authentication with valid originals of these documents.
- c. Meet face-to-face with the prospective customer prior to approval of account opening for any prospective customer using electronic media, telephone, or correspondence. A face-to-face meeting of the Bank with the prospective customer may take place through a special officer or another party representing the Bank to verify the identity of the prospective customer and assess the plausibility of information provided by the prospective customer.
- d. Conduct cross-checks to ascertain the consistency of various information presented by the prospective customer.
- e. Conduct extensive due diligence of any prospective customer from a country classified as a high risk country or a country that has not adopted provisions for Know Your Customer Principles.

Standard Guidelines for Application of Know Your Customer Principles

- f. Conduct extensive due diligence of any prospective customer operating in a high risk business, namely any line of business that may potentially be used for money laundering.
- g. Conduct extensive due diligence of any prospective customer deemed a high risk customer, including any company owned by a bearer of state office, shell company, and trust company.
- h. Assess the plausibility of information pertaining to the line of business of the company, financial statement, description of business operations, transaction profile, business turnover, company location, and so on.

C. APPROVAL PROCEDURE FOR ACCEPTANCE OF CUSTOMERS

- 1. Approval shall be granted by a Bank officer in accordance with the stipulated level of authority after having ascertained the authenticity of identity and completeness of documents submitted by the prospective customer.
- 2. Approval for acceptance of prospective customers from high risk countries, involved in high risk business, or comprising high risk customers shall be issued by a Bank officer holding authority at one level higher than the officer authorized to issue approval for acceptance of non-high risk customers.

CHAPTER IV

MONITORING AND REPORTING PROCEDURES

A. DOCUMENTATION OF CUSTOMER PROFILES

1. The customer profile database shall cover at least data on identity, occupation/line of business, total income, accounts held, normal transaction activity, and purpose for account opening.
2. Data shall be stored using storage media appropriate to the needs of the Bank and accessible at any time by the concerned units.
3. The database shall be updated if there is any new information on customer data. The updating is intended to assist in the analysis and tracing of transactions on an individual basis for the internal needs of the Bank and for Bank Indonesia.
4. The database must be capable of supporting the preparation of reports and provision of information required for internal use in the Bank and for Bank Indonesia.
5. Banks are required to maintain documents/data pertaining to customer identity not less than 5 (five) years after closure of the customer account. On the other hand, data storage pertaining to financial documents is subject to Law Number 8 of 1997 concerning Corporate Documents.

B. MONITORING OF ACCOUNTS AND IDENTIFICATION OF TRANSACTIONS

1. Banks shall institute a monitoring system capable of operating manually or automatically to enable Bank officers to identify suspicious transactions.
2. During the course of daily operations, Bank officers are required to monitor and report any suspicious activity for further evaluation.

Standard Guidelines for Application of Know Your Customer Principles

3. Monitoring activities shall encompass at least the following:

a. Account monitoring

This encompasses the periodic monitoring of account entries to identify any possibility of entries not compatible with customer profile. More intensive monitoring is necessary in the case of accounts of high risk customers.

b. Transaction monitoring

This covers the monitoring of all cash and non-cash transactions at the time that the transaction takes place in order to identify any possibility of transactions not compatible with the customer profile.

c. Monitoring of transactions for walk-in customers

This covers the monitoring of transactions by walk-in customers with a transaction value greater than Rp 100,000,000 (one hundred million rupiahs) or equivalent in order to identify any possibility of suspicious transactions.

4. Evaluation of findings from account and transaction monitoring.

a. Banks are required to evaluate the findings of the monitoring of customer accounts and transactions to ascertain the existence of any suspicious transactions for which a customer is unable to furnish a convincing explanation and to report these findings to Bank Indonesia.

b. For confirmation of suspicious transactions, the Know Your Customer Principles Unit or the authorized officer may analyze various periodic reports prepared by the concerned units or branch offices.

5. Follow up to monitoring of customer accounts and transactions

Banks are required to report any suspicious customer transactions on a case-by-case basis not later than 7 (seven) days after having ascertained that the transaction is a suspicious transaction.

Standard Guidelines for Application of Know Your Customer Principles

6. Documentation of findings of monitoring and evaluation of accounts and transactions

Banks are required to administer findings of monitoring and evaluation of customer accounts and transactions, whether reported or not reported to Bank Indonesia.

There is no need to report findings of monitoring and evaluation to Bank Indonesia if the Bank is unable to ascertain whether the transaction is a suspicious transaction.

C. IDENTIFICATION OF SUSPICIOUS TRANSACTIONS

1. A transaction shall be categorized as a suspicious transaction in the event that:
 - the transaction is not normal or compatible with the characteristics and profile of the customer; and
 - the Bank is unable to ascertain the propriety of the transaction after further verification.

Thus the principal factor in determining a suspicious transaction is assessment of the propriety and customary nature of a transaction conducted by a customer.

2. It is necessary for Banks to document and update information on types, red flags, and examples of suspicious transactions that may arise at various concerned units.

D. INTERNAL REPORTING AND REPORTING TO BANK INDONESIA

1. Banks shall report suspicious transactions both for internal purposes and for reporting to Bank Indonesia.

Standard Guidelines for Application of Know Your Customer Principles

2. Internal report is defined as a report from one concerned unit concerning the application of Know Your Customer Principles to the Know Your Customer Principles Unit (UKPN) or appointed officer.
3. Reports on suspicious transactions shall be put together by the Know Your Customer Principles Unit and conveyed to Bank Indonesia by the Compliance Director of the Bank.
4. Reporting of suspicious transactions to Bank Indonesia shall follow the reporting format stipulated in Bank Indonesia Regulation No. 3/10/PBI/2001 concerning Application of Know Your Customer Principles.

CHAPTER V

EMPLOYEE TRAINING

1. Banks are required to provide training to all Bank employees on Know Your Customer Principles, with implementation of the principles adjusted to the needs of each Bank.
2. To ensure that employees consistently benefit from the latest information, Banks are required to provide periodic and continuous training, provide the latest information, or conduct case studies of identified suspicious transactions.
3. In determining the type of training to be provided, Banks need to take account of employee groups requiring specific training, including but not limited to:

a. Front Office Staff/Front Liners

Front office staff/front liners are required to undergo training according to their area of work, with focus on:

- Understanding of policy and procedures for acceptance of customers according to their area of duties;
- Understanding of duties and responsibilities in identifying transactions that are not normal or compatible with the customer profile;
- Understanding of follow up measures necessary in cases of suspicious transactions;
- Understanding of the need for updating customer profiles.

b. Back Office Staff

Back office staff are required to undergo training according to their area of duties, with focus on:

Standard Guidelines for Application of Know Your Customer Principles

- Understanding of the policy and procedures for monitoring of customer profile;
- Understanding of duties and responsibilities in identifying transactions that are not normal or compatible with the customer profile;
- Understanding of the follow up measures necessary in cases of suspicious transactions;
- Understanding of the need for updating customer profiles.

c. New Employees

New employees shall be required to undergo training in order to gain proper understanding of know your customer principles.

Glossary

Other Entity: Other entity is a legal entity other than a company, Government agency, international agency, diplomatic representation of foreign country, and bank. These entities include but are not limited to foundations, political parties, and Non-Government Organizations (NGOs).

Beneficiary Owner: A party granting authority for opening an account at a bank.

Concentration Risk: The risk incurred when a bank accepts large sums of third party funds concentrated in the hands of a few customers.

Electronic Banking: Banking transactions conducted electronically, for example, by computer, telephone, or other electronic means.

High Risk Business: Line of business classified at high risk of use as front for money laundering.

High Risk Countries: Countries classified as high risk for money laundering, including but not limited to countries that have not adopted Know Your Customer principles.

High Risk Customer: Customer classified at high risk of involvement as perpetrator/accomplice in money laundering activities.

Legal Relationship: relationship or connection between party granting authority and party receiving authority, for example: family relationship and employment relationship.

Joint Account: account held collectively by two or more customers having the same rights and obligations in respect of the account.

Proxy of Other Party: Individual Person/Legal Entity granted authority by another party to open an account in the name of the party granting the authority.

Legal Risk: Risk arising from a lack of attention by a bank to legal or judicial

aspects of agreements or commitments made by the bank.

International Agency: Representative of an international agency placed in Indonesia, such as the Representative of the IMF, World Bank, and United Nations (UN).

Government Institution: State/government institutions consisting of legislative, executive, and judicial institutions such as the People's Consultative Assembly, Parliament, the Government, and Ministry of Justice.

Major Credit Card: Credit card actively used by a customer for conducting transactions.

Management Oversight: Maintenance of supervision by bank management.

Money Laundering: method for concealing, transferring, and appropriating proceeds of a crime, activities of criminal organizations, economic crime, corruption, narcotics trafficking, and other activities that constitute crimes, and converting these proceeds into financial assets purportedly originating from legal sources/activities.

Customer: a party using the services of a bank.

Non Face to Face Customer: customer that conducts transactions without meeting face-to-face/in the physical presence of bank staff. In such arrangements, transactions are commonly conducted by telephone, correspondence, or by electronic means.

Operational Risk: risk that a bank may be unable to conduct normal operations because of errors and abuse of authority (malfeasance), uncertainty over regulations, weakness of internal control structures, inadequate procedures, disruption to the management information system and communications, disruption of the bank's payment system, and/or any event of the nature of force majeure, such as natural disaster, fire, etc.

Practical Guidelines for Application of Know Your Customer Principles:

technical guidelines used by a bank as guidance in application of Know Your Customer Principles.

Standard Guidelines for Know Your Customer Principles: guide issued by Bank

Indonesia to assist banks in putting together their Practical Guidelines for Application of Know Your Customer Principles.

Controlling Shareholder: shareholder deemed to exercise substantial influence in the control of a company. In the event that the company is a bank, the definition of Controlling Shareholder is as stipulated in Bank Indonesia Regulations.

Bearer of State Office: bearer of state office is defined as a bearer of state office as referred to in Act Number 28 of 1999 concerning Clean Bearers of State Office Free of Corruption, Collusion, and Nepotism, namely bearers of state office performing executive, legislative, and judicial functions, and other officials whose functions and primary duties are related to the duties of state in accordance with prevailing laws and regulations, such as companies owned or managed by bearers of state office, and relatives and parties having close ties to bearers of state office. Included in this category are bearers of state office of equivalent standing from foreign countries.

Intermediary: Individual Person/Legal Entity acting as intermediary in dealings with a bank.

Diplomatic Representation of Foreign Country: Diplomatic representation of foreign country opened in the territory of the State of Indonesia, such as embassy of another country in Indonesia.

Back Office Staff: staff performing administrative tasks in follow up to the tasks performed in the front office.

Front Office Staff: bank staff dealing directly with customers in need of banking services.

Know Your Customer Principles: principles applied by a bank to establish the identity of a customer and monitor customer transaction activity, including reporting of suspicious transactions.

Customer Profile: description of customer including but not limited to identity, occupation/line of business, transaction profile, and business profile of the customer.

Transaction Profile: profile of the normal transactions ordinarily carried out by a customer, including but not limited to type of transactions, transaction means and instruments, size of transactions, and frequency of transactions.

Business Profile: configuration/overview of the business of the customer, including but not limited to line of business, categories of customers, and normal business volume.

Reputational Risk: Risk of loss or damage to the reputation of a bank.

Shell Companies (Corporations): Companies established without significant assets or operations. Such companies are commonly established to raise funds before commencing operation.

Suspicious Transactions: Unusual (not normal) transactions or transactions not compatible with the customary characteristics and profile of the customer, not supported by convincing explanation.

Trust Company: Company founded with the objective of receiving and managing trust funds on order of the owner of funds.

Know Your Customer Unit: Dedicated unit responsible for the application of Know Your Customer Principles. This unit does not constitute part of the risk management unit.

Concerned Units: units implementing the Know Your Customer Principles.

Small-scale Enterprises: enterprises that satisfy criteria as referred to in Act Number 9 of 1995 concerning Small-scale Enterprises.

Walk-in Customer: customer using the services of a bank without holding an account at the bank. An example of a service used by such customer is transfer to another bank, paid for in cash.