

AML & KYC Interview Questions and Answers for Freshers (India)

This document provides 50 commonly asked interview questions and answers for AML (Anti-Money Laundering) and KYC (Know Your Customer) roles in India, ideal for fresher-level positions such as KYC Analyst, AML Executive, or Compliance Associate.

1. What is KYC and why is it important in the financial industry?

KYC stands for 'Know Your Customer'. It is the process of verifying the identity of customers to prevent financial crimes such as money laundering and fraud. It ensures that banks and financial institutions deal with legitimate individuals or entities.

2. What does AML stand for?

AML stands for Anti-Money Laundering. It refers to laws, regulations, and procedures aimed at preventing criminals from disguising illegally obtained funds as legitimate income.

3. What are the main objectives of AML laws and regulations?

The main objectives are to detect and prevent money laundering, report suspicious activities, and protect the financial system from misuse.

4. Can you explain what Customer Due Diligence (CDD) means?

CDD is the process of collecting and verifying a customer's identity, business activities, and risk level before establishing a financial relationship.

5. What is the difference between CDD and Enhanced Due Diligence (EDD)?

CDD is standard verification for low- or medium-risk customers, while EDD involves deeper checks for high-risk customers such as politically exposed persons (PEPs).

6. What are the three key stages of money laundering?

The three stages are: (1) Placement – introducing illegal money into the system; (2) Layering – concealing its source through transactions; and (3) Integration – reintroducing it as legitimate funds.

7. What is the purpose of KYC norms under the Prevention of Money Laundering Act (PMLA) in India?

To ensure that financial institutions identify and verify their customers to prevent misuse of financial systems for laundering illegal money.

8. Who regulates AML and KYC practices in India?

The Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and the Financial Intelligence Unit – India (FIU-IND).

9. What are the RBI KYC Master Directions?

These are comprehensive guidelines issued by RBI that define KYC norms, due diligence processes, and reporting standards for banks and financial institutions.

10. What is the difference between identity verification and address verification?

Identity verification confirms who the customer is, while address verification confirms where they live or operate their business.

11. What is the full form of PMLA?

Prevention of Money Laundering Act.

12. When was the PMLA Act enacted in India?

PMLA was enacted in 2002 and came into force in 2005.

13. What is FIU-IND and what is its role?

Financial Intelligence Unit – India collects, analyzes, and disseminates information related to suspicious financial transactions to law enforcement agencies.

14. Name some global AML regulatory bodies.

Examples include FATF (Financial Action Task Force), FinCEN (U.S.), and FCA (UK Financial Conduct Authority).

15. What is FATF and what is its main function?

FATF is the Financial Action Task Force, an inter-governmental body that sets global AML standards and monitors countries' compliance.

16. What are Suspicious Transaction Reports (STRs)?

STRs are reports filed by institutions to FIU-IND when they suspect transactions may involve money laundering or criminal activity.

17. What is a Cash Transaction Report (CTR)?

A CTR is a mandatory report of all cash transactions above a specified limit, typically ₹10 lakh in India, filed with FIU-IND.

18. What is the threshold limit for reporting cash transactions under Indian law?

₹10 lakh (Rupees ten lakh) and above, in a single transaction or series of connected transactions.

19. What are the penalties for non-compliance with AML laws?

Non-compliance can lead to heavy fines, license suspension, and imprisonment of responsible individuals.

20. Which institutions are required to follow KYC and AML guidelines?

All banks, NBFCs, mutual funds, insurance companies, and other financial intermediaries.

21. What are the main documents collected during the KYC process in India?

PAN card, Aadhaar, Passport, Voter ID, or any officially valid document (OVD) for ID and address proof.

22. What is e-KYC and how is it different from traditional KYC?

e-KYC uses Aadhaar-based online verification for faster and paperless authentication, while traditional KYC involves physical documentation.

23. What is a beneficial owner?

A beneficial owner is a person who ultimately owns or controls an account or entity, even if not directly named as the account holder.

24. How is KYC different for individuals and corporates?

For individuals, KYC involves personal ID and address proof; for corporates, it involves company incorporation documents, ownership details, and authorized signatories.

25. What are the risk categories for customers in KYC?

Customers are categorized as low, medium, or high risk based on their profile, business activity, and geography.

26. Give an example of a high-risk customer.

Examples include politically exposed persons, non-resident customers, or clients from high-risk jurisdictions.

27. What is the periodic KYC update and why is it important?

Periodic updates ensure that customer data is current and risks are reassessed regularly, as per RBI guidelines.

28. What are politically exposed persons (PEPs)?

PEPs are individuals who hold prominent public positions, such as politicians or judges, and are at higher risk of corruption or money laundering.

29. How do financial institutions identify PEPs?

Through screening databases, self-declarations, and public information sources.

30. What is the difference between onboarding KYC and ongoing KYC?

Onboarding KYC occurs at account opening, while ongoing KYC involves continuous monitoring throughout the relationship.

31. What are some common red flags for money laundering?

Unusually large or complex transactions, inconsistent customer profiles, and transactions with high-risk countries.

32. How would you identify a suspicious transaction?

By checking for unusual patterns, inconsistent customer behavior, or lack of clear business rationale.

33. What actions should be taken when a transaction appears suspicious?

Report to the compliance team and file an STR (Suspicious Transaction Report) with FIU-IND.

34. What is transaction monitoring?

It's a process where transactions are continuously reviewed to detect unusual or suspicious patterns.

35. What are sanctions lists, and why are they important?

Sanctions lists identify individuals or entities restricted from financial dealings. Screening ensures compliance with international and national laws.

36. Name some well-known global sanctions lists.

OFAC (U.S.), UN Sanctions List, and EU Consolidated List.

37. How do you screen customers against sanctions lists?

Using automated screening tools that match customer data against updated sanction lists.

38. What is adverse media screening?

Checking customer names in public news or media sources for negative or criminal associations.

39. What is name screening and what tools are used for it?

Name screening involves comparing customer names against watchlists using tools like World-Check or Dow Jones.

40. What steps should be taken if a customer is found on a sanctions list?

Immediately block the transaction, escalate to compliance, and report to authorities as required.

41. A customer refuses to provide PAN or Aadhaar — what should you do?

Politely inform them that KYC is mandatory and the account cannot be opened without valid documents.

42. What will you do if the name of the customer closely matches a person on the sanctions list?

Conduct further verification to confirm if it's the same person before taking action.

43. How would you handle a case where multiple small deposits are made just below the reporting threshold?

Flag it as a potential structuring attempt and escalate to compliance for review.

44. A corporate client has a complex ownership structure. What will you do?

Perform Enhanced Due Diligence to identify the ultimate beneficial owner (UBO).

45. How do you verify the source of funds during onboarding?

By requesting supporting documents such as salary slips, tax returns, or bank statements.

46. What is a KYC remediation project?

A project aimed at updating, validating, and standardizing customer KYC records as per latest regulations.

47. How do you maintain confidentiality while reporting suspicious activity?

By following a need-to-know policy and never disclosing STR details to the customer.

48. What would you do if a senior manager asks you to ignore a potential red flag?

Politely refuse, document the incident, and report it to the compliance officer or whistleblower channel.

49. What tools or software have you heard of that are used in AML/KYC processes?

Common tools include Actimize, SAS, Oracle Mantas, World-Check, and Dow Jones Risk & Compliance.

50. What do you understand by the “risk-based approach” in AML/KYC?

It means applying different levels of due diligence depending on the customer's risk profile focusing more resources on higher-risk customers.