KYC Harmonisation Study

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MicroSave
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Objectives of the study

Study and critique prevalent Know Your Customer (KYC) processes for a range of service providers**, to* ***identify needs and opportunities for harmonisation.*** *Made* ***recommendations to RBI and DOT/TRAI*** *to enable greater efficiency and harmonisation of KYC processes and systems, and to realise significant cost savings.*

** First time successful individual/non-institutional customer on- boarding from acquiring, verifying, digitising, moving and storing KYC documents/ data. Form rejections or repeat KYC has not been considered.*

*** The study covered KYC processes for financial service providers such as Banks, Mobile Network Operators (MNOs) and Pre-paid Payment Instrument (PPI) issuers, and for SIM card issuance and activation by Mobile Network Operators (MNOs).*

Contours of the study

1. Existing KYC practices of different service providers were studied with respect to the prevailing regulatory landscape.
2. Key challenges were identified from regulatory, service provider and end-consumer perspectives.
3. Recommendations are made towards improvement and harmonisation of the existing KYC practices through e-KYC and related digital eco-system.

Coverage of the study – aspects analysed

Service providers covered under the study

- Banks
- BCNM-Banks
- PPI Issuers (Semi-closed)
- PPI Issuers (Open)
- MNOs

Product offerings under the models

Savings Bank Account

Mobile Wallet, Pre-paid Card

Pre-paid SIM (mobility)

Geographical distribution

- Metro
- Urban
- Semi-urban
- Rural

Activities covered under KYC processes

Acquisition

Filling of CAF, collection of KYC, OSV with signature and date

Verification

Verification of KYC documents and customer details by supervisor, digitisation of data on CBS / IT platform

Activation and Storage

Account activation, filing / tagging of documents and storage

Data points analysed

Days	Number of ***calendar days*** involved in the process
Time	***Activity-wise*** time involved in minutes
Cost	***Major costs*** associated with the activities covered under the KYC process

Transformational journey of KYC over the years

1989

Establishment of Financial Action Task Force (FATF)

2002

Legal framework established for Prevention of Money Laundering (PML) Act

First Circular on KYC by RBI

2004

Government of India established Financial Intelligence Unit (FIU) - India

Government of India established Vigilance and Telecom Monitoring (VTM) Cells (later renamed as Telecom Enforcement, Resource and Monitoring (TERM) Cells)

2012

DOT issues stringent guidelines for subscriber verification

2013

RBI accepts Aadhaar as a valid e-KYC for opening bank accounts

2014

Simplified norms for KYC of basic/entry level bank accounts issued by RBI

DOT issues guidelines to five telcos to carry out a proof of concept for using eKYC service for issuing SIM connections

2015

Master Circular by RBI on KYC, AML and CFT (latest)

CKYCR guidelines announced

2016

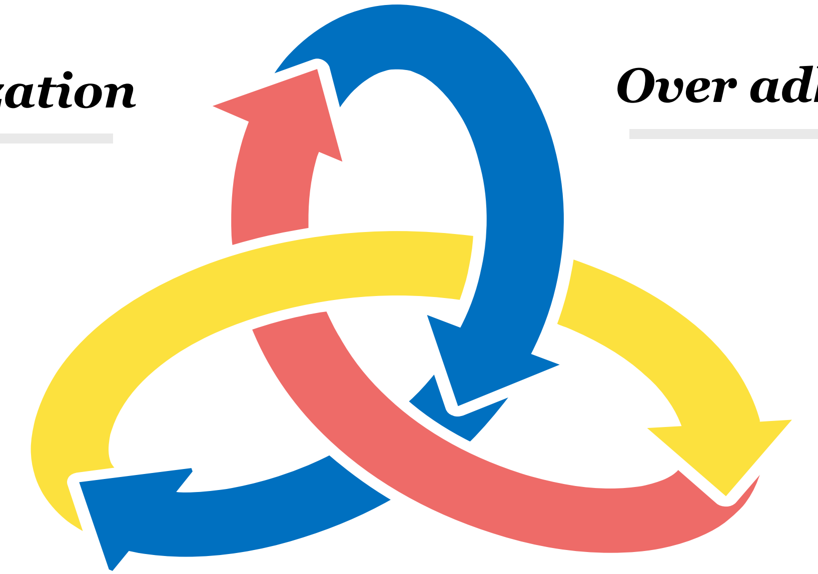
CKYCR live-run to commence

Challenges of existing KYC practices

Different interpretation of regulations

Lack of staff sensitization

Over adherence of regulations



Redundant practices

Reliance on physical documents

High human intervention

High costs and inconvenience to customers

- These challenges have a direct impact on customer acquisition, leading to process inefficiency for service providers; a poor on-boarding experience for customers; and higher costs for everyone.
- It takes a typical consumer 3 to 6 days to open an account at a bank branch. The total processing time for banks can be as high as 30 days, with costs ranging from Rs. 341 to 575. For MNOs, the costs for SIM card issuance using paper based KYC are in the range of Rs. 145 to 175.

Impact of inefficient and disharmonised KYC processes

	Banks	BCNM-Banks	PPI Issuers (Semi Closed)	PPI Issuers (Open)	MNOs
End to end (Acquisition, Verification, Activation and Storage/Archival)					
Days	14 - 30	10 - 30	1 - 2	1* - 4	1 - 2
Time (In min)	70 - 91	40 - 118	6 - 203	6* - 164	205 - 226
Cost (In INR)	341 - 575	104 - 244	23 - 112	25* - 115	145 - 175

Account Activation Stage					
Days	3 – 6	6 – 9	1 – 2	1* – 4	1 – 2
Time (in min)	28 – 31	39 – 118	6 – 133	6* – 164	133 – 149
Cost (in INR)	263 – 381	104 – 241	21 – 79	25* – 115	84 – 90

* Figures are for providers using e-KYC

Key differences between KYC processes of banks & MNOs, and lessons learned

Days taken | Time taken

Banks

Day 0 — Day 1-2 — Day 2-6 — Day 14-30

Acquisition (0 Min – 22-25 Min) | Verification (22-25 Min – 39-62 Min) | Activation and Storage (39-62 Min – 70-91 Min)

Over compliance and lack of incentives leads to high TAT (in days) in case of banks

Major activities under Acquisition:

- Handling customer query
- Filing of CAF
- KYC verification and CAF checking for correctness

Major activities under Verification:

- Digitisation of CAF
- Verification and authorization of entries by a senior staff (maker-checker concept)
- Documents holding and travel time. The forms travel from branches to back office/regional office in batches.

Major activities under Activation and Storage:

- Verification of customer and KYC related data at the back office/regional office.
- Modification of data at the back office/regional office. If required.
- Documents holding and travel time. Generally forms are sent back to branches/storage locations in batches.

MNOs

Day 0 — Day 1-2

Acquisition (0 Min – 11-16 Min) | Verification (11-16 Min – 125-141 Min) | Activation and Storage (125-141 Min – 205-226 Min)

Incentive linked account activation leads to a TAT of one day. Although multiple rounds of verification lead to higher processing time (minutes) in case of MNOs

Major activities under Acquisition:

- Partially filling of CAF
- Verification of KYC documents

Major activities under Verification:

- Transportation of document from retailer outlets to distributors and then to verification agency.
- Checking and filling of CAF at distributor outlets
- Multiple level verification of CAF and KYC and
- Digitisation of data

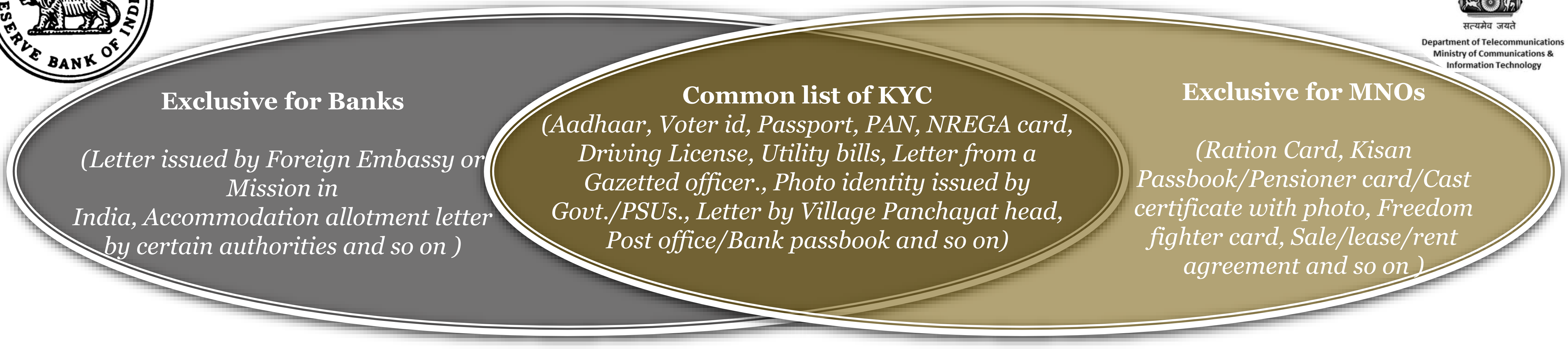
Major activities under Activation and Storage:

- Tele-verification of the customers
- Time taken to transport and store the physical documents at the storage locations and
- Movement of digital data from verification agency to the MNO systems.

Contrary to perceptions, KYC processes followed by MNOs for SIM issuance are multi-tiered and reasonably robust. Additionally, despite multi-stage processing they are able to maintain a low turn-around of one day due to suitable incentives and a sharp focus on monitoring of the service levels.

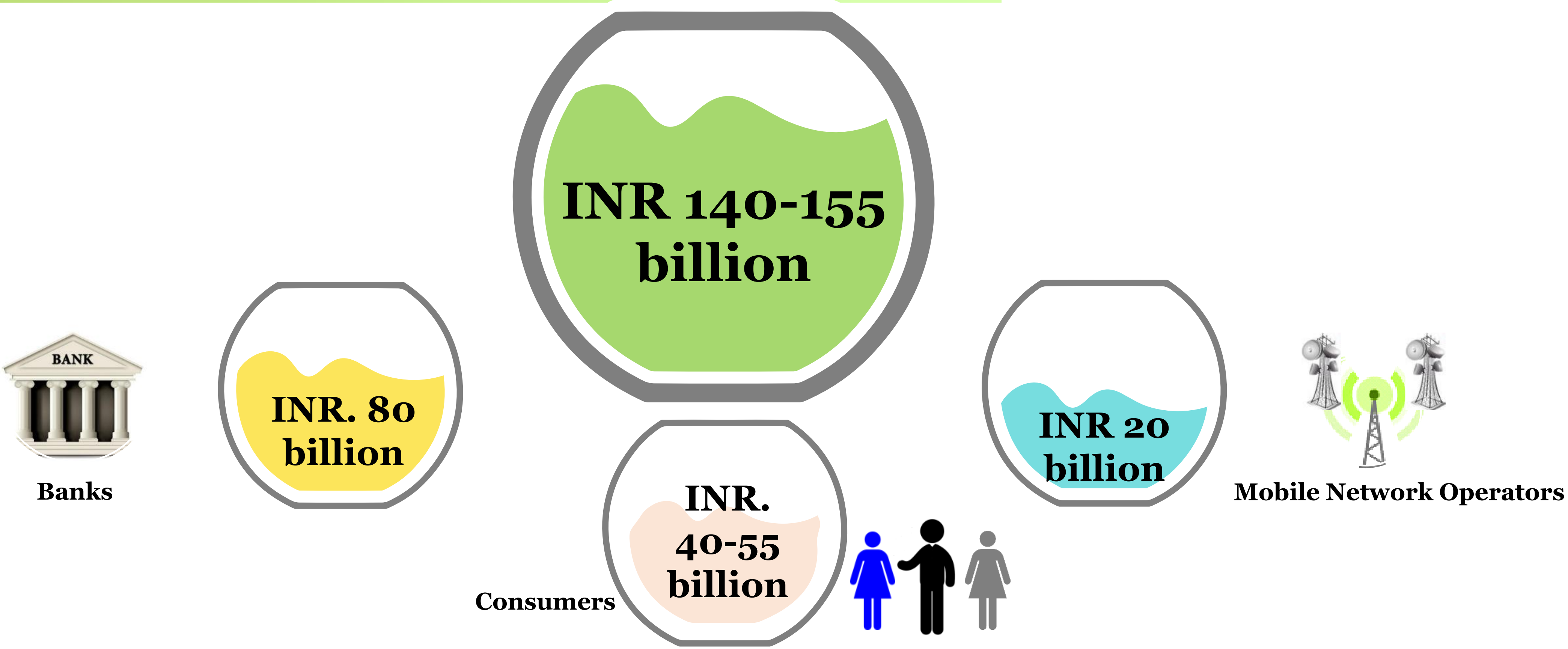
Need for harmonisation of KYC documents

सत्यमेव जयते
Department of Telecommunications
Ministry of Communications & Information Technology



- RBI administers the list of KYC accepted by the Banks, BCNM and PPIs while and DOT/TRAI does the same for MNOs.
- Annually, RBI circulates a Master circular on KYC listing down the Officially valid documents (OVD) i.e. Aadhaar card, NREGA Card, Passport, PAN card, Voter Id, Driving License along with an exhaustive list for relaxed KYC.
- Similarly DOT issued a list of KYCs for the MNOs a few years back. This is an exhaustive list followed by the MNOs for SIM card issuance, this list also includes the OVDs stipulated by RBI.
- Both these circulars have certain common KYCs while some other are exclusive. **It is recommended that RBI and DOT/TRAI jointly work towards creating a single common list of KYCs. This can be a major step towards harmonisation of KYC documents**.

Massive potential for savings through harmonisation#



If **e-KYC** is adopted for **customer on-boarding** by **banks** (*for savings bank account opened through branches and alternate channels*) and by **MNOs** (*for SIM card activation*), an estimated **INR 100 billion** can be saved over the next five years (*by 2021*).

Additionally, consumers opening accounts through e-KYC (and innovative one-click solutions to open accounts) can save an estimated **INR 40-55 billion** over the same period.

#Key assumptions for estimation of savings are provided on **[Slide 44]**

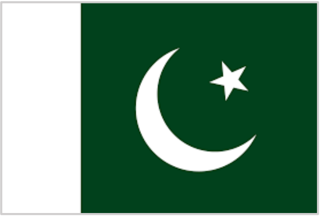
How KYC harmonisation worked in other countries

Kenya

Kenya is a recognized leader in introducing and scaling branchless banking and mobile money products and services. Telcos and banks have worked relentlessly to create innovative services like M-Pesa, Kopo Kopo, M-Shwari, Lipa Na M Pesa, Equitel, Equity Hapo Hapo. These services are benchmarks of product innovation, relevance and scale for mass market consumers.

How harmonisation is working:
A unique national identity for everyone has laid a strong foundation for KYC harmonisation in Kenya. Prior to 2014, Telcos had issued pre-activated SIM cards and some fraudulent practices were noticed. To streamline the requirements, the Communications authority of Kenya has nearly completed a drive to verify and re-register SIM cards with national identities.

Now customers can open bank accounts from their mobile phones using USSD codes and national identity number. These accounts provide restricted services with low transaction limits. To avail a full range of banking services, in-person-verification (IPV) is required. This harmonisation of KYC and tiered requirements, make it very convenient to financially include entry level consumers.



Pakistan

Post the terror attacks in Peshawar in December 2014, the government of Pakistan initiated a drive to verify the identity of 130 Mn mobile subscribers with the biometric details available with the National Database and Registration Authority (NADRA). The drive was planned to be completed in 90 days facilitated with 70,000 biometric devices at agent outlets. This drive filtered out 23 Mn subscribers that were ghost accounts.

How harmonisation is working:
Customer now only need their Computerized National Identity Card (CNIC), an identity card issued by NADRA, or passport to open a bank account or to get a SIM card. With CNIC, the holders of the card can participate in cash disbursement programmes, and undertake financial transactions, branchless banking, health insurance, life insurance and electronic voting.

Customers can open insta mobile money account at agent points just with CNIC and without any other KYC requirement. Citizens have also linked their mobile numbers with their CNIC.

Potential harmonisation solutions for India

Potential harmonisation solutions	Implementation requirements for Payments Banks/Small Finance Banks/SCBs	Support required from the regulators
Reuse KYC of mobility customers for new bank accounts at Payments Banks	*Once a customer initiates a request with a wet signature (or digital consent using say OTP), digital customer details and POI / POA can potentially be taken from a partner MNO for mobility customers.* *Therefore the only requirement in this case will be to get customer consent. If signatures from earlier KYC are available, consent through a digital form and OTP should be adequate.*	As DOT/TRAI mandate IPV and OSV to be carried out, this approach should be acceptable by RBI for low risk basic bank accounts (BSBDA). Going forward, RBI and DOT/TRAI can evaluate an approach similar to mobile number portability, wherein if a request comes from a customer to reuse mobility KYC for a new bank account, the same can be shared with the requesting Payments Bank/SCB. The solution will have to be examined from the requirements of anti-competitive practices. If a partnership is formed between an MNO and a Payments Bank, will it need to be extended to other banks, if a customer so requests (akin to number portability)?
Creating a common platform for KYC between one or more MNOs and banks	*A variant of the above, this solution allows existing KYC repository of an MNO to be used by a partner Payments Bank. It can be more efficient and cost effective. In this case revalidation might also not be needed. If a KYC has been done for a customer for mobility, the same is available to the Payments Bank (similar to KRA)*	Explicit approval of RBI and DOT/TRAI might be needed for this approach, as two different legal and regulated entities are sharing a vital onboarding resource/platform. It might be difficult to extend this approach to other players; this may attracts issues related to anti-competitive practices (which will be easier to address in the approach outlined above).

Potential for KYC harmonisation between MNOs and upcoming Payments Banks

MNOs

Large base of verified KYC documents of pre-paid mobility customers

Sharing of KYC details

(customer digital data, PoA and PoI)

Payments Banks

KYC compliant customer base available for on-boarding

- MNO and Banks have a common list* of KYCs (PoI and PoA) required for customer on-boarding. As per the existing directives, MNO maintains the customer KYC details both in paper and digital format which is shared with various agencies, on request.
- If MNOs and payments banks were to partner, KYC details already captured for pre-paid mobility customers can be shared (technically). Payments bank(s) can leverage existing KYC information for setting up new savings bank account with the same KYC. However, as per existing processes, banks might need certain additional information (*maiden name if any, mothers name, marital status, occupation type, residential status*) and consent from customers to complete the customer on-boarding process. This can be sought digitally.
- As prescribed under the PMLA, apart from customer identification through KYC, banks also need to conduct risk based assessment on an on going basis, through transaction monitoring. While one time KYC harmonisation can be made efficient, payments banks will need to develop IT and MIS capabilities for monitoring and reporting transactions beyond prescribed thresholds to FIU for compliance.

** List of KYC is available at*

- http://www.dot.gov.in/sites/default/files/10-mobile.pdf
- http://uidai.gov.in/images/FrontPageUpdates/2011117_114142_telco_notification.pdf
- https://rbidocs.rbi.org.in/rdocs/content/pdfs/KYCIND261115_A1.pdf

Additional harmonisation solutions

Potential harmonisation solutions	Implementation requirements* for Payments Banks/Small Finance Banks/SCBs	Support required from the regulators
Adopt e-KYC as a universal approach (in a phased manner)	*MNOs and/or banks can be required to move towards e-KYC for low risk accounts (i.e. BSBDA).*	Even as CKYCR is being set up by RBI, e-KYC is a solution for millions of low risk accounts. At the same time it is a quick win. RBI can mandate adoption of e-KYC for all banks in a phased manner over a period of time. DOT/TRAI can also recommend usage of e-KYC for mobility customers. This will enhance the accuracy and quality of KYC and reduce costs for MNOs. Concurrently, it will enable greater harmonisation of KYC between MNOs and banks and will set the stage for harmonization at a later date.
Central KYC registry on the lines of KRA and as initiated through CKYCR	*Integration with CKYCR or similar entity once it is setup. A one time IPV will still be required. However as many banks are currently doing, it can be done digitally (by using tablets, a combination of photographs of signatures and OTP and so on).*	Even as the design of CKYCR is being formulated, RBI and DOT/TRAI can potentially consider a single repository. This can be a futuristic solution catering to KYC requirements for both mobile subscriptions and bank accounts requirements. This will be a solution for the future. Quick wins can be through leveraging existing MNO KYC or through e-KYC.

** In each of these cases, all banks will still need to have dynamic KYC capabilities that enable them to identify and report high risk customers based on transaction data and threshold limits as required by FIU.*

Aadhaar e-KYC – a fitting solution for service providers

Customer approaches a service provider. Provides his Aadhaar number and biometric authentication or One Time Password (OTP) received on his mobile phone

1

2

Service provider sends request for authentication to Central Identities Data Repository (CIDR)

Service Providers

(Banks/Mobile Network and Mobile Money Operators/Pre-Paid Instrument Providers)

AADHAAR

4

KYC process completed instantly. Customer data stored with service provider

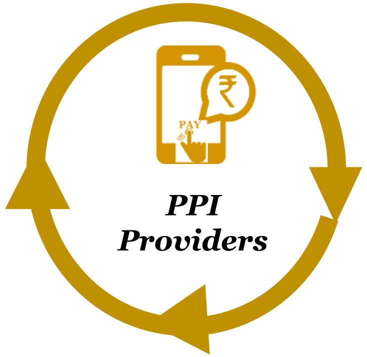
3

CIDR authenticates customer's identity and provides customer's data

- ✓ *Aadhaar* has already been provided to over 75% of the country's population. It enables identification and establishes uniqueness of every individual on the basis of individual biometric information.
- ✓ Unique Identification Authority of India (UIDAI) already provides electronic infrastructure to instantly provide consent based access to *Aadhaar* information of an enrolled person.

Process improvements leveraging e-KYC

Use of e-KYC ensures process efficiency; significant reduction in lead times and costs involved; improves authenticity; and reduces challenges associated with physical documents verification and management. Process wise improvements possible for various service providers are depicted below

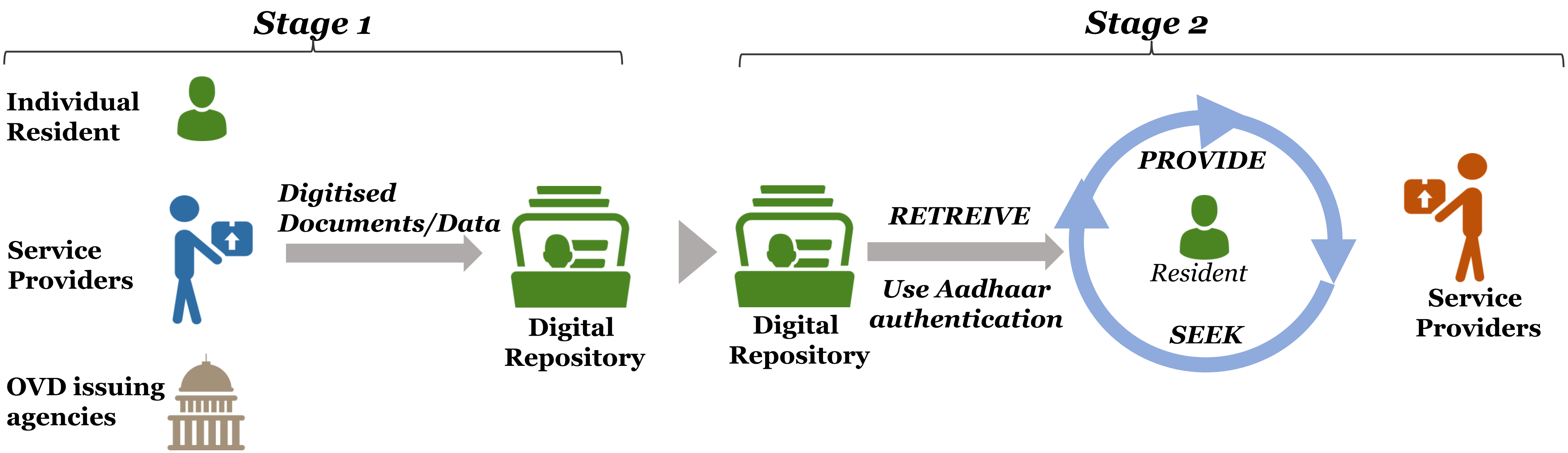


- Acquisition of physical KYC document
- Incorporating customer information in CAF
- Data entry of customer information in CBS
- Tallying customer information between CAF and CBS
- Transportation and storage of physical CAF and KYC documents

- Acquisition of KYC documents and filling up CAF
- Movement of CAF and KYC documents along the distribution chain
- Cross checking of customer information in CAF and/with KYC document at every stage
- Digitisation of CAF and uploading of documents in portals
- Storage of physical documents

From the regulatory standpoint, e-KYC meets the requirements specified by the Reserve Bank of India and the Department of Telecommunications towards identification of customers, verification of details and storage of customer information. Both the regulators have also prescribed processes for banks and MNOs respectively for using e-KYC.

Proposed future of digital KYC eco-system in India



- **Stage 1:** Basic (PoI and PoA) and advance level (IT returns, bank account transactions) resident information can be directly fed into a centralised *Digital Repository* by residents themselves or the service providers (banks, MNOs, universities, RTO, IT Department) or OVD issuing authorities (Passport Office, RTO, NSDL and so on).
- **Stage 2:** This information stored in the *Digital Repository* can be sought by any service provider. Residents can provide access to their *Digital Repository* data by using *Aadhaar* authentication.
- This eco-system will make paper-based information redundant (through e-KYC, or physical KYC undertaken once and used multiple times) and facilitate easy access to customer information for KYC compliance. Upcoming initiatives like *DIGIlocker*, CKYCR and India Stack can play a critical role in easing customer on-boarding.

Key recommendations towards KYC harmonisation

1 Regulatory nudge for efficient, harmonised and low cost KYC

- ✓ We recommend to RBI and DOT/TRAI to harmonise their existing lists of PoI and PoA documents for KYC and CDD.
- ✓ RBI can also stipulate a date by which banks should move to e-KYC (since the *Aadhaar* bill has received parliamentary approvals). Incentives and partial coverage of costs by RBI and/or UIDAI is recommended to further encourage transition to e-KYC for banks with traditional KYC approaches. This is likely to be much needed by Regional Rural Banks and smaller Scheduled Commercial Banks.
- ✓ RBI/DFS can also strengthen communication/training (through state level initiatives, CAB, IBA, IIBF and others) to enable a better understanding of digital transformation in India; and its monitoring mechanisms to reduce the tendency of over-compliance towards KYC, particularly for entry level / basic accounts of individual consumers.
- ✓ After harmonisation of the lists of KYC documents, we recommend that RBI and DOT/TRAI issue circulars highlighting this; underscoring the need to reduce over-compliance; highlighting advantages of e-KYC and recommending transition to e-KYC within a stipulated timeframe.

2 Leveraging and synergising digital infrastructure and India Stack platforms

- ✓ Many initiatives like DigiLocker, CKYCR and other services as part of the India Stack are being undertaken. These can support KYC harmonisation in multiple ways.
- ✓ These platforms can also be leveraged better for greater synergies towards KYC harmonisation. For example, under CKYCR, an approach similar to KRA for KYC in mutual funds can be implemented using e-KYC, DigiLocker and e-Sign.

Recommended next steps for the regulators

Formation of a joint committee with representation from RBI, DOT/TRAI and industry experts, with the objective of enhancing KYC harmonisation for banks, FIs and Telcos and providing specific recommendations.

Inviting suggestions and comments from various stakeholders on recommendations for KYC harmonisation.

Refinement and detailing of recommendations based on suggestions received.

Issuance of specific guidelines and/or circulars by RBI and DOT/TRAI for service providers to implement the proposed changes to achieve better harmonised KYC ecosystem.

Annexures

Objective

Scope of Work

Regulatory Landscape for KYC Processes

Existing KYC Practices of Different Providers

Addressing the challenges through e-KYC

Features of e-KYC

Paperless
Electronic service eliminates document management

Consent Based
KYC data provided only upon authorisation by user

Prevents Document Forgery
Reduces risk of document / identity frauds

Secure
Encryption and digital signature ensure security

Non-Repudiable
Ensured by biometric / OTP and digital signature

e-KYC

Benefits to Service Providers

Automation of Processes
Human intervention reduced considerably

Faster Customer On-boarding
KYC data furnished instantaneously

Considerable Cost Reduction
Paper verification, movement and storage eliminated

Easy Storage of KYC Data
Electronic storage for service, audit and so on

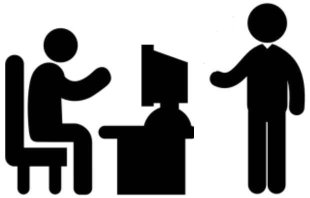
Compliance with IT Act, 2000
Legally equivalent to paper documents

Requirements for using e-KYC

- ✓ Service provider needs to get into a KUA agreement with UIDAI in order to start accessing e-KYC data from CIDR.
- ✓ Accessing the service is free of cost. Service provider just needs to invest in developing the required infrastructure at its end.
- ✓ It also needs to adhere to certain pre-requisites from UIDAI for interaction with CIDR.
- ✓ Subsequently, resident data can be accessed by invoking the *Aadhaar* e-KYC API through an identified KSA.

Case study 1 – use of e-KYC

Process and Cost Efficiency:
Time ~ 6 minutes   Cost ~ Rs. 25



Retailer proposes to sell Axis *Suvidhaa* pre-paid card to customers

Customer is asked to provide his/her 12 digit *Aadhaar* number

Customer's fingerprint is scanned through a connected device for IPV

Customer data (*Aadhaar* number and biometric details) are electronically sent to CIDR for authentication from *Suvidhaa's* portal via Axis bank's server

On successful verification by CIDR, the pre-paid card is handed over to the customer. Customer data gets digitally populated on Axis Bank's server.

Norms Complied

Customer Identification | Customer Consent | Customer Verification | Storage

Role of Players

Suvidhaa- Front end service provider. Their platform helps to channelise customer's *Aadhaar* details digitally to CIDR through Axis Bank's server using an API.

Axis bank- Provider of PPC and KUA license holder. The bank seeks customer data authentication from CIDR and also retains such information in its server as a part of its KYC compliance process.

CIDR- The Central Identities Data Repository of UIDAI. It allows mining of *Aadhaar* database by AUAs/ KUAs and provides authentication/ verification of identities of individuals.

"Axis Suvidhaa" Co-branded Pre Paid Card

Case study 2 – CIBIL's centralised repository

Loan Applicants

Bank/FI offering loans collect personal details and KYC of customers and submit to CIBIL.

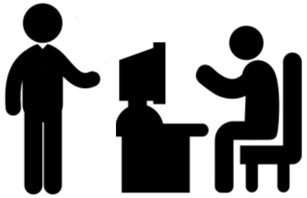
CIBIL checks with its records and generates Credit Information Report (CIR).

CIR contains loan and KYC details submitted to other service providers in the past.

- CIBIL collects and maintains records of an individual's payments pertaining to loans and credit cards.
- The records include customer details and KYC details submitted by them to the service providers at the time of on-boarding.
- These records are submitted to CIBIL by member banks and credit institutions on a monthly basis.
- CIBIL provides centralised information repository (along with additional KYC details) to loan providers for quicker and accurate decision making.

Case study 3 - KYC repository for mutual funds

Customer | **Intermediary** | **KRA**



Customer approaches Intermediary*

Customer fills KYC registration form and submits with the required supporting documents

Intermediary collects all the documents and performs an initial KYC check

Intermediary uploads the details on the system of the KRA# and sends the original copies to KRA

KRA retains the original KYC documents of customers, in both physical and electronic forms

KRA sends letters to the customers after receipt of KYC documents confirming their details

Functions and Obligations

Intermediary has the ultimate responsibility for KYC of its clients. It undertakes enhanced KYC measures commensurate with risk profiles of its clients.

Once uploaded, all the intermediaries* registered with SEBI can access KYC details of customers by logging on to the KRA systems

KRAs have electronic connectivity with other KRAs in order to establish inter-operability among KRAs

KRAs are responsible for storing, safeguarding and retrieving KYC documents

*[List of SEBI registered capital market intermediaries]
#[List of SEBI registered KRA agencies]

Regulatory Landscape for KYC Processes

- Evolution of KYC regulations
- Guardians of KYC regulations
- What regulators prescribe
- Importance of KYC regulations for service providers

Evolution of KYC regulations

1989

Establishment of Financial Action Task Force (FATF)

1990

FATF 40 Recommendations were drawn up as an initiative to combat the global misuse of financial systems by persons laundering drug money

1996

Recommendations revised for the first time to reflect evolving money laundering trends and techniques, and to broaden the scope well beyond drug-money laundering.

2001

FATF expanded its mandate to deal with the issue of funding of terrorist acts and terrorist organisations, and took the important step of creating the Eight (later expanded to Nine) Special Recommendations on terrorist financing

2002

Legal framework established for Prevention of Money Laundering (PML) act

First Circular on KYC by RBI

2003

The FATF Recommendations were revised and these, together with the Special Recommendations, have been endorsed by over 180 countries, and are universally recognised as the international standard for anti-money laundering and countering the financing of terrorism (Anti-Money Laundering/Combating the Financing of Terrorism).

2004

Government of India established Financial Intelligence Unit (FIU) - India

Government of India established Vigilance and Telecom Monitoring (VTM) Cells (later renamed as Telecom Enforcement, Resource and Monitoring (TERM) Cells)

2005

PML Act – 2002 came into force

2012

FATF Recommendations on International Standards on Combating Money Laundering and Financing of Terrorism & Proliferation

Department of Telecommunications issued guidelines on verification of new mobile subscribers

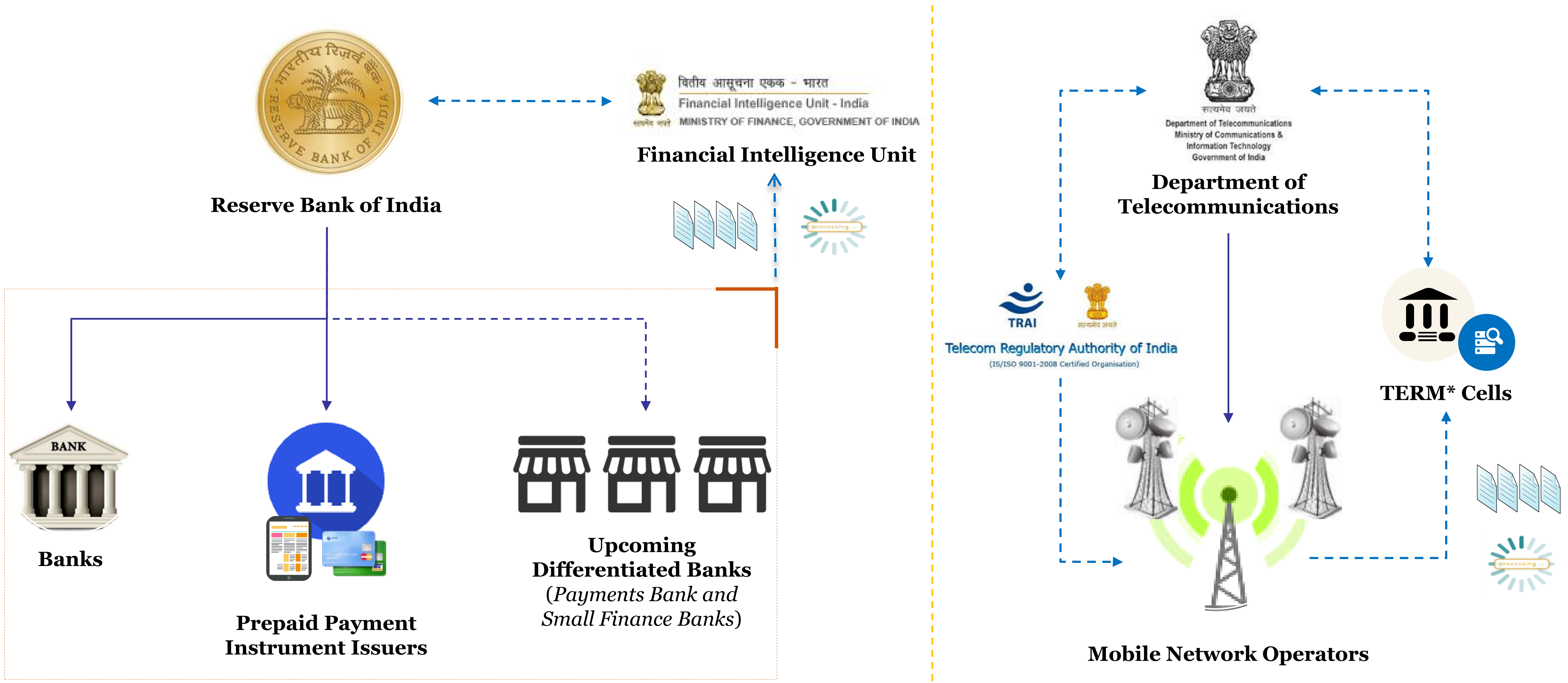
Amendment in PML Act – 2002

2015

Master Circular by RBI on KYC, AML and CFT (latest)

Foreign Account Tax Compliance Act (FATCA) guidelines introduced in India

Guardians of KYC regulations



*Telecom Enforcement, Resource and Monitoring (TERM) Cells

What do regulators prescribe?

Stage 1 Identification

Stage 2 Verification

Stage 3 Storage

- Customer identification means undertaking due diligence measures while commencing an account-based relationship including identifying and verifying the customer and the beneficial owner on the basis of one of the Officially Valid Documents (OVD).
- Banks/FIs need to obtain sufficient information to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of the banking relationship.

- In case the proof of address furnished by a customer is neither the local address nor the address where the customer is currently residing, the bank should take a declaration from the customer of her/his local address on which all correspondence will be made by the bank with the customer.
- No proof is required to be submitted by the customer for such address. This address, however, should be verified by the bank through 'positive confirmation' such as acknowledgment of receipt of letter, cheque books, ATM cards; telephonic conversation; visits to the place.

- Banks/FIs should maintain for at least five years from the date of last transaction between the bank/FI and the client, all necessary records of transactions, which will permit reconstruction of individual transactions (including the amounts and types of currency involved, if any).
- Banks/FIs should maintain records of identity of their clients and records in respect of transactions in hard (or soft) formats.

- The authorized person at the PoS needs to collect a passport size photograph along with the KYC documents (proof of identity and proof of address) from the subscriber.
- The authorized person at the PoS needs to record in the Customer Acquisition Form (CAF) that he has
  - seen the subscriber,
  - matched the photograph attached on the CAF, and
  - verified the copies of KYC documents with the original and put his signature on the CAF and attached documents (along with full name and stamp containing address)

- SIM will be activated only after the requirement of filling up of CAF and copies of documentary proof have been fulfilled by the customer and the subscriber details have been updated in the subscriber database of the licensee.
- The licensee (employer of the licensee) needs to
  - verify that all the documentary requirement have been completed and subscriber details are updated in the database of licensee and
  - record on the CAF his/her name, designation and signature
- After SIM activation, the subscriber needs to be tele-verified wherein details may be asked from the subscriber and verified against the details provided in the database.

- The storage requirement is to have the CAFs (with subscriber photographs) and associated KYC documents sent to warehouses. The period of storage of these documents is not stipulated.

* *Verification of authenticity of KYC documents submitted by customers is not mandated as per the regulations. The FSPs however need to cross check customer information with the list of entries in prohibited organisations*

** *RBI's Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating Financing of Terrorism (CFT)/Obligation of banks and financial institutions under PMLA, 2002*

*** *DOT's Instructions on Verification of New Mobile Subscribers (Pre-paid & Postpaid)*

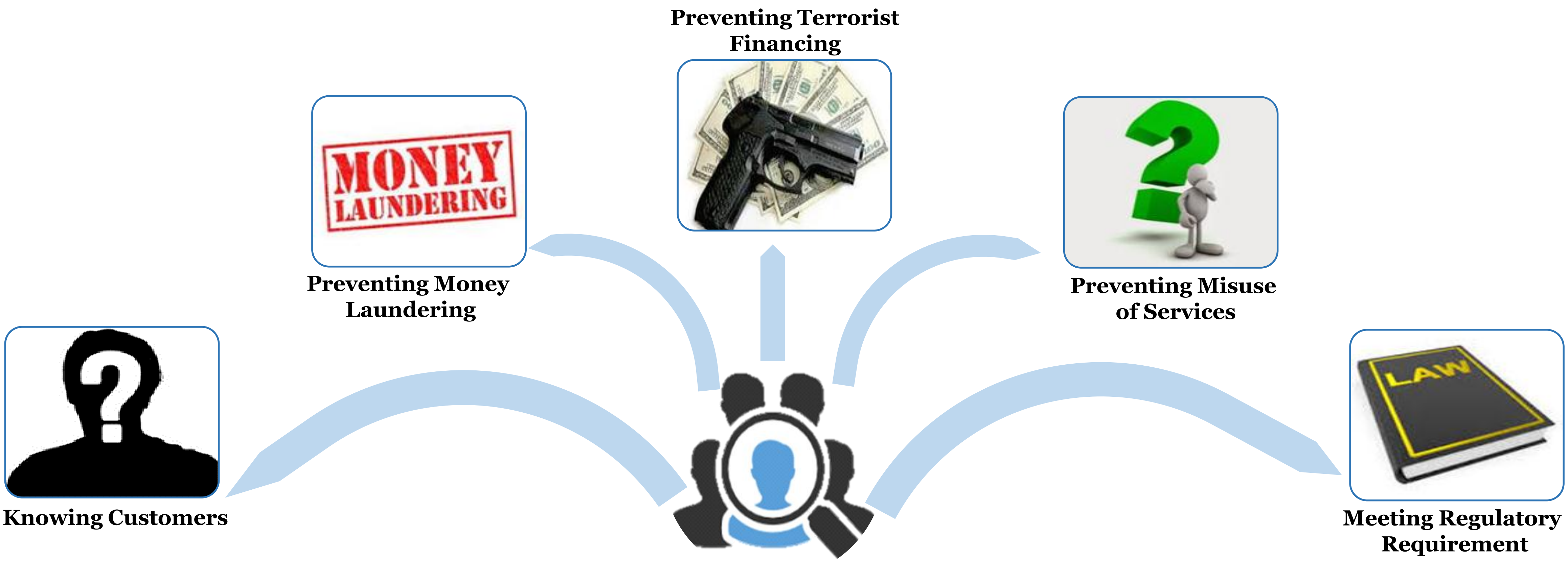
Roles and responsibilities of FIU - India*

वितीय आसूचना एकक - भारत
Financial Intelligence Unit - India
MINISTRY OF FINANCE, GOVERNMENT OF INDIA

Collection of Information	• Cash Transaction reports (CTRs), Cross Border Wire Transfer Reports (CBWTRs), Reports on Purchase or Sale of Immovable Property (IPRs) and Suspicious Transaction Reports (STRs) from various reporting entities
Analysis of Information	• Uncover patterns of transactions suggesting suspicion of money laundering and related crimes
Sharing of Information	• Share information with national intelligence/law enforcement agencies, national regulatory authorities and foreign Financial Intelligence Units
Act as Central Repository	• Establish and maintain national data base on cash transactions and suspicious transactions
Coordination	• Coordinate and strengthen collection and sharing of financial intelligence through an effective national, regional and global network to combat money laundering and related crimes
Research and Analysis	• Monitor and identify strategic key areas on money laundering trends, typologies and developments

* The stipulations by FIU to reporting entities in terms of (a) identity of clients (b) maintenance of records and (c) furnishing details, arise from the requirements to comply with the Prevention of Money Laundering Act (PMLA).

Importance of KYC regulations for service providers



KYC processes enable :

- ✓ *creating customers' risk profiles and monitoring suspicious transactions (in case of FIs)*
- ✓ *tracking customers' use of services (in case of MNOs)*

Existing KYC Practices of Different Providers

- **Setting the context - aspects analysed**
- **Analysis of KYC processes of different types of service providers**
- **Summarising the major challenges in existing KYC processes**

KYC process for banks – summary findings

	Overall	Acquisition	Verification	Till Account Activation	Activation and Storage
Days	Min 14, Max 30	Min 1, Max 2	Min 2, Max 4	Max 6, Min 3	Min 12, Max 24
Time (in minutes)	70 min, 91 max	25 max, 22 min	38 max, 17 min	Max 31, Min 28	31 max, 28 min
Cost (in INR)	Max 575, Min 341	Max 169, Min 89	Max 201, Min 115	Max 381, Min 263	Max 291, Min 96

**Maximum and minimum values for days, time and cost under the "Acquisition", "Verification", and "Activation and Storage" stages have been taken from the KYC processes of different entities studied and thus might not match or add-up to the values for the "Overall" end to end processes..*

KYC process for banks – current state

Acquisition

- Customer acquisition process takes **22** to **25** minutes with a lead time of **one** to **two** days. Major activities are:
  - ***Handling customer query:*** customers take time to query about document requirements for KYC and to understand the features of the financial product.
  - ***Filling of CAF:*** customers are required to fill CAF (typically 2 to 4 pages). At times they need assistance from branch staff for form filling.
  - ***Mandatory checks by branch staff:*** staff checks for completeness and correctness of details provided in CAF. Additionally, staff verifies copies of KYC documents submitted against the originals.

Verification

- Verification activities take **17** to **38** minutes, with an elapsed time of **two** to **four** days. The major contributors to the time are:
  - ***Digitisation of CAF:*** staff enters CAF details in the CBS.
  - ***Maker-checker verification***: the details entered are checked by another branch staff against the physical CAF and KYC documents.
  - ***Document holding and travel time:*** forms are aggregated and transported in batches for further processing.

Activation and Storage

- The processing time taken to complete this stage varies from **28** to **31** minutes, however, the lead time is very significant and varies from **12** to **24** days. The main reasons are:
  - ***Re-verification of digitised data***: data is re-verified at the back office as part of Enhanced Due Diligence
  - ***Document holding and travel time:*** forms are held back till a batch size is formed and then transported. Transportation delays add to the large lead times encountered.

Major Cost Heads

Human Resource Cost	*Involvement of staff with high salary / compensation*
Infrastructure Cost	*Brick and mortar branch setup with high establishment (fixed and operating) costs*

KYC process for banks – observations and insights

- ***Over-adherence of regulations:*** Banks were found to be over-adhering to KYC related regulations. Instances of demand for multiple documents in support of POI/POA, and issuance of welcome letters for conducting address verification were observed, even for BSBDA and PMJDY accounts.

- ***Enhanced due diligence done for everyone:*** EDD is prescribed for only for high risk customers but banks tend to follow it for all the customers. There is no differentiated risk profiling for different customers. This is inefficient and leads to longer time and higher costs for BSBDA and PMJDY accounts that do not need EDD.

- ***Verification of same information at multiple interfaces:*** Apart from the maker-checker arrangement for validation, banks also tend to re-validate the same information later at multiple levels during the KYC process.

- ***Different interpretation of regulations:*** Staff interpretation of guidelines varies considerably across banks. Banks have diverse operating procedures based on their understanding, interpretation and experiences. For example, the requirements around EDD; or that while CAFs and KYC documents are mandated to be stored only for five years in hard or soft copy, many banks prefer to store them in hard copies and for an indefinite period.

- ***Limited training on KYC:*** KYC related training is provided to staff but as a part of a broader operational agenda. Consequently staff do not have adequate understanding of the relevance of KYC processes and the need for optimising them from a consumer standpoint. Therefore they usually follow instructions without putting in efforts at improvisation or innovation.

- ***Longer holding and travel time for CAFs and KYC documents:*** Holding time of documents at various levels is longer as CAFs and KYC documents are processed and transported in batches. Moreover the distances between branches, back office and storage units are also significant.

KYC process for BCNM of banks – summary findings

	Overall	Acquisition	Verification	Till Account Activation	Activation and Storage
Days – Min	10	1	3	6	1
Days – Max	30	5	4	9	26
Time (in minutes) – Min	40	7	25	39	1
Time (in minutes) – Max	118	91	32	118	2
Cost (in INR) – Min	104	5	99	104	1
Cost (in INR) – Max	244	136	105	241	3

**Maximum and minimum values for days, time and cost under the "Acquisition", "Verification", and "Activation and Storage" stages have been taken from the KYC processes of different entities studied and thus might not match or add-up to the values for the "Overall" end to end processes..*

KYC process for BCNM for banks – current state

Acquisition

- Customer acquisition activities take from **7** to **91** minutes; with a lead time of **one** to **five** days. The main reasons are:
  - ***Filling of CAF:*** time taken by agents to fill CAF (usually one page in this case).
  - ***Travel time for bank/BCNM staff:*** staff travel time between link branches and agent outlets.

Verification

- Verification activities take **25** to **32** minutes with an elapsed time of **three** to **four** days. The major contributors to the timelines are:
  - ***Digitisation of CAF:*** staff enter CAF details and in some cases capture customer biometric details in the agent application software.
  - ***Document holding and travel time:*** forms are processed and transported in batches leading to extra time.

Activation and Storage

- The processing time to complete this stage varies from **one** to **two** minutes, however, the lead time in some cases can be significant and vary from **1** to **26** days due to:
  - ***Document holding and travel time:*** forms are held back to form a batch and then transported. Transportation delays add to the lead times.

Major Cost Heads

Human Resource Cost → *Involvement of low cost agents for CAF filling and transportation to link branches enables cost reduction relative to account opening at branches. Overall costs are still high due to involvement of branch and back office staff for digitisation and verification*

Infrastructure Cost → *A part of the costs are due to the involvement of brick and mortar branch and back office infrastructure for processing .*

KYC process for BCNM of banks – observations and insights

It was observed that KYC processing in BCNM-bank models is faster and less expensive due to the following reasons:

- Adherence of regulations, but fewer instances of over-compliance.
- Enhanced due diligence is not required for BSBDA/PMJDY accounts and hence not carried out. Whereas EDD at bank branches tends to be carried out for all customer types.
- Avoidance of verification of same information multiple times.

Agents follow guidelines and regulations as instructed by branch staff: Branch staff's interpretation of guidelines can vary a lot from bank to bank, leading to wide variations in practices. However agents were observed to follow banker's instructions almost verbatim. For instance, if a branch allows opening of bank accounts on the basis of letters issued by local corporators, agent follows those instructions. The upside is this allows limited deviations and greater efficiency. The downside can be that agents do not have a real understanding of importance of KYC and just follow instructions; also customers can be greatly inconvenienced as instructions can be arbitrary.

High holding and travel time of CAF and KYC documents: This is high due to the following reasons:

- Holding of documents at various levels as CAF and KYC documents are processed and transported in batches.
- Large distances between branches, back office and storage units.

In summary, it was found that due to the involvement and accountability of a third party (BCNM and agents) for customer identification, the tendency for over-compliance and multiple rounds of verification was lower, leading to efficient outcomes, without necessarily compromising on regulatory requirements.

KYC process for semi-closed PPI issuers – summary findings

	Overall	Acquisition	Verification	Till Account Activation	Activation and Storage
Days	Min 1 Max 2	Min 1		Max 2 Min 1	Max 2
Time (in minutes)	6 min 203 max	2 min 24 max	4 min 104 max	Max 133 Min 6 in minutes	1 min 75 max
Cost (in INR)	Max 112 Min 23	Max 37 Min 5	Max 36 Min 17	Max 79 Min 21	Max 39 Min 2

*Maximum and minimum values for days, time and cost under the "Acquisition", "Verification", and "Activation and Storage" stages have been taken from the KYC processes of different entities studied and thus might not match or add-up to the values for the "Overall" end to end processes..

KYC process for open PPI issuers – summary findings

	Overall	Acquisition	Verification	Till Account Activation	Activation and Storage
Days	Min 1, Max 4	Min 1		Max 4, Min 1	Max 4
Time (in minutes)	6 min, 164 max	2 min, 22 max	4 min, 127 max	Max 164, Min 6 (in minutes)	1 min, 15 max
Cost (in INR)	Max 115, Min 25	Max 50, Min 1	Max 57, Min 14	Max 115, Min 25 (in INR)	Max 10, Min 9

Maximum and minimum values for days, time and cost under the "Acquisition", "Verification", and "Activation and Storage" stages have been taken from the KYC processes of different entities studied and thus might not match or add-up to the values for the "Overall" end to end processes..

KYC process for semi-closed and open PPI issuers–current state

Acquisition

- Customer acquisition takes from **2** to **24** minutes (for semi-closed PPIs) and **2** to **22** minutes (for open PPIs). The elapsed time is very optimal at 1 to 2 days (4 days in case of open PPIs). Major drivers are:
  - Lesser time is taken in models where ***acquiring process is digitised*** which includes capturing customer information ***online*** and accepting KYC documents in ***scanned format*** or in case of ***e-KYC***.
  - On the contrary, time taken increases in models where ***physical CAFs*** are filled and KYC documents are accepted in ***hard copies***.

Verification

- Verification activities take from **4** to **104** minutes (for semi-closed PPIs) and **4** to **127** minutes (for open PPIs), with small lead times. Major reasons are:
  - Verification of customer details and KYC documents shared in ***electronic format*** or digital details of the customer fetched from ***CIDR using e-KYC*** facility take less time.
  - Time involved is longer in models where ***physical copies*** of CAF and KYC documents ***travel*** from initiation to verification stage. ***Digitisation*** and ***multiple verification*** further add to the delays.

Activation and Storage

- The time involved at this stage ranges from as low as **15 seconds** to **75** minutes (for semi-closed PPIs) and **12 seconds** to **15** minutes (for open PPIs). Reason being:
  - Activation and storage of customer details and KYC documents in ***electronic format*** takes minimal time.

Major Cost Heads → **Channel Cost** →

Costs for PPIs are amongst the lowest. They are far low at the lower end of the ranges as all costs are variable and because of digital processing. At the upper end of the ranges, commissions to channel partners leads to higher costs, however this is by design to drive greater efficiency in terms of same day (or within 24 hours) activation of accounts.

KYC process for semi-closed and open PPI issuers – observations and insights

- ***Quick customer on-boarding*** – The channel partners are incentivised for customer acquisition. However this is tightly linked to adherence to the prescribed TATs. This ensures very quick customer on-boarding. For semi-closed wallets, this TAT is as low as 24 hours. It has been set at 96 hours by open wallet PPIs.

- ***Use of technology lowers cost and improves efficiency*** – In models, where customer details and KYC documents are accepted in electronic format or through e-KYC, staff intervention, transportation and storage of physical forms is not needed. This reduces the overall cost considerably and makes the process highly efficient.

KYC process for MNOs – summary findings

	Overall	Acquisition	Verification	Till Account Activation	Activation and Storage
Days	Min 1, Max 2	Min 1	—	Max 2, Min 1	Max 2
Time (in minutes)	226 max, 205 min	16 max, 11 min	125 max, 114 min	Max 149, Min 133	85 max, 80 min
Cost (in INR)	Max 175, Min 145	Max 49, Min 45	Max 33, Min 31	Max 90, Min 84	Max 93, Min 69

**Maximum and minimum values for days, time and cost under the "Acquisition", "Verification", and "Activation and Storage" stages have been taken from the KYC processes of different entities studied and thus might not match or add-up to the values for the "Overall" end to end processes..*

KYC process for MNOs – current state

Acquisition

- The time involved in acquisition activities ranges from **11** to **16** minutes. Key activities are –
  - ***Physical copy*** of ***CAFs*** is only partially filled-in (signatures and photographs) at retailer outlets.
  - ***Physical copies*** of ***KYC documents*** are obtained from customers and ***verified*** against originals.

Verification

- The time involved for verification ranges from **114** to **125** minutes due to –
  - Significant time is involved in ***moving the physical copies*** of ***CAFs*** and ***KYC documents*** from retailer outlets to distributor points and onwards to the DVA offices.
  - ***Customer details*** (as per KYC documents) are ***filled-in*** the ***CAFs*** at the distributor points.
  - Verification at ***multiple level*** of the ***CAFs*** and ***KYC documents*** carried out by DVAs along with ***digitisation*** of documents

Activation and Storage

- The time involved in these processes ranges from **80** to **85** minutes due to –
  - Significant time is involved in ***storing the physical copies*** of ***CAFs*** and ***KYC documents***
  - Customer details are ***manually verified*** through ***IVR calls***

Major Cost Heads

- **Channel Cost** → *Fixed payout and variable commissions paid to various channel partners to acquire the customer*
- **Infrastructure Cost** → *High establishment (fixed and operating) cost of channel partners and back office.*

KYC process for MNOs – observations and insights

- ***Customer on-boarding completed in 24 hours*** – As in the case of PPIs, the channel partners are incentivised for customer acquisition. This is tightly linked to adherence to the prescribed TATs. This ensures very quick customer on-boarding. This incentive based approach also helps in minimizing rejection of CAFs as the channel is careful about customer details provided.

- ***Reliance on physical form and documents*** – MNOs still use physical forms and document management. This needs multiple parties to be involved. These factors, in addition to the need for transportation of documents across multiple offices, leads to higher costs.

Key assumptions for estimation of savings

Service Providers' Savings

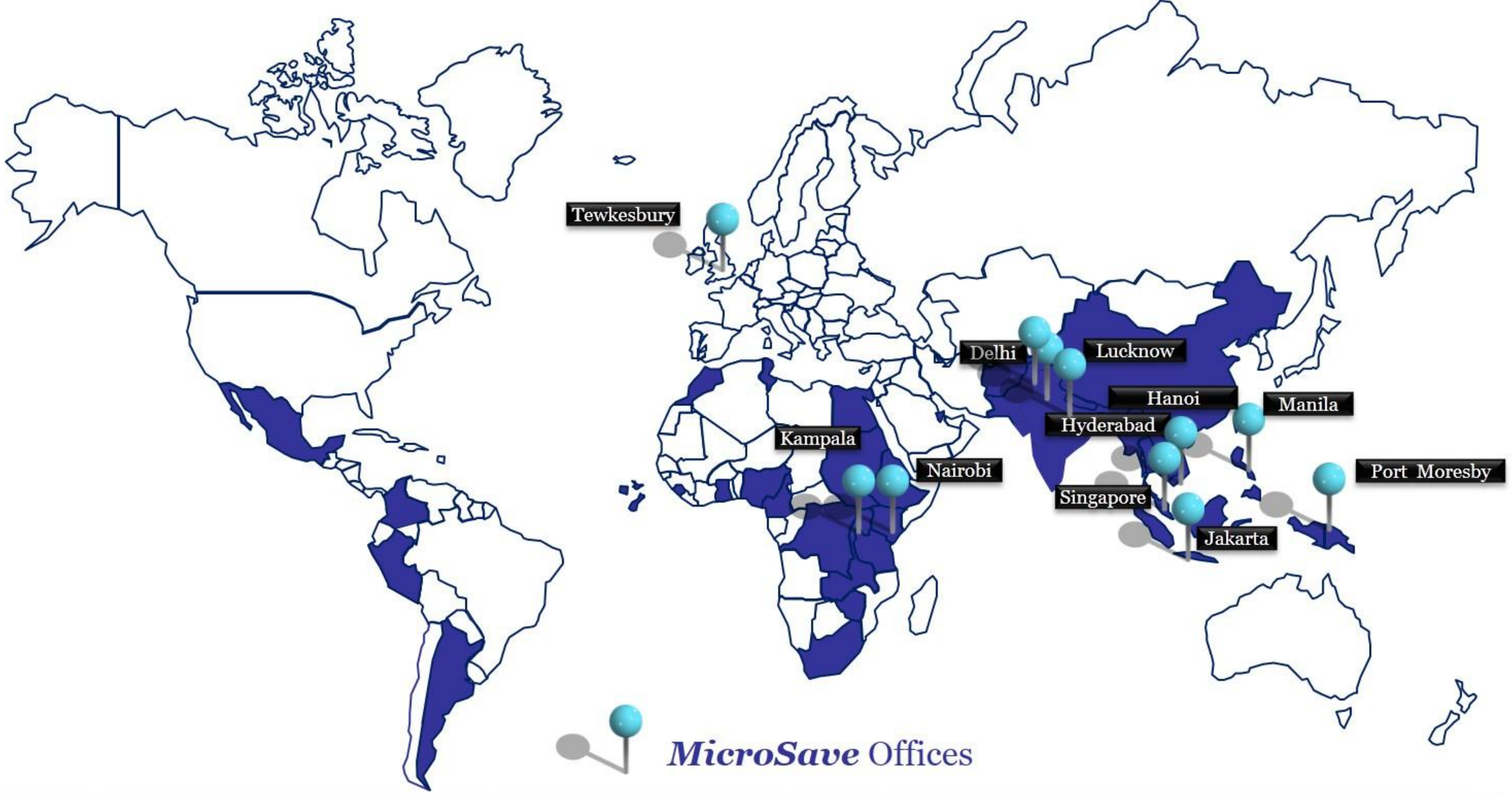
- The calculation is based on opening new savings bank accounts by Banks/BCNMs and activating new pre-paid SIM card by MNOs.
- Calculations for banks have been done for next five years as per the existing population growth rate. Only unbanked population has been considered.
- Calculations for MNOs are based on extrapolating the number of pre-paid SIM card activated for the next five years.
- Savings for banks and MNOs are calculated by factoring the cost savings potential over the next five years, if paper based on-boarding were to be replaced by e-KYC.

Customers' Savings

- Calculations for customers' savings are based on direct and opportunity cost saved due to usage of e-KYC instead of paper based on-boarding.
- The calculation is based on opening a new savings bank account and/or activating a new pre-paid SIM card.
- Savings are calculated by estimating if paper based on-boarding were to be replaced by e-KYC (or upcoming one click solutions) that can allow one-interaction based or even remote opening of accounts for consumers. This in turn will save time, and direct and opportunity costs for consumers.

List of abbreviations

A/C	*Account*
AML	*Anti Money Laundering*
AUA	*Authentication User Agency*
BCNM	*Business Correspondent Network Managers*
CAF	*Customer Application Form*
CBS	*Core Banking System*
CDD	*Customer Due Diligence*
CIBIL	*Credit Information Bureau (India) Limited*
CIDR	*Central Identities Data Repository*
CKYCR	*Central KYC Records Registry*
CRM	*Customer Relationship Management*
DVA	*Document Verification Agency*
EDD	*Enhanced Due Diligence*
eKYC	*Electronic Know Your Customer*
FATF	*Financial Action Task Force*
FI	*Financial Institutions*
FIU	*Financial Institution Unit*
FRC	*First Recharge*
GOI	*Government of India*
IT	*Information Technology*
IPV	*In Person Verification*
KUA	*KYC User Agency*
KRA	*KYC Registration Agency*
KSA	*KYC Service Agency*
KYC	*Know Your Customer*
LCPC	*Liability Central Processing Centre*
MNO	*Mobile Network Operators*
OSV	*Original Seen and Verified*
OTP	*One-Time Password*
OVD	*Officially Valid Document*
PMLA	*Prevention of Money Laundering Act*
PoA	*Proof of Address*
PoI	*Proof of Identity*
PPI	*Pre-paid Issuers*
RBI	*Reserve Bank of India*
RBO	*Regional Back Office*
SB	*Savings Bank Account*
SEBI	*Securities and Exchange Board of India*
SIM	*Subscriber Identity Module*
SMS	*Short Message Service*
STK	*SIM Toolkit*
TERM	*Telecom Enforcement, Resource and Monitoring*
UIDAI	*Unique Identification Authority of India*



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