

# Banking reforms: How to cure KYC headache?

By Dr Bhaskar  
Balakrishnan

“Know Your Customer” or KYC has become synonymous with headaches and nuisance for thousands of Indians, NRIs and foreigners who have bank accounts or invest in mutual funds in India. The purpose of the KYC process was to detect “benami” (sham) customers and crack down on money laundering and fake bank accounts. This is a laudable objective. The question is whether the KYC process can be made simpler and easier for the law-abiding honest citizen. The RBI and SEBI need to take a fresh look at the whole process in this light.



The RBI issued a “master circular” recently on KYC processes and updating of KYC at regular intervals. However the whole process suffers from a major deficiency. It has been designed putting the bank official at the centre of the process, rather than the customer. The customer has to go to the bank branch physically, with identity and address proof documents, self- attested copies and submit them to the bank. What about the aged, handicapped, or those in prison? In today’s world, mobility means that customers move from place to place for work, study, business etc. Moreover, while internet-enabled online banking has become quite widespread, the KYC is still on the hard copy mode.

## Customers’ nightmare

KYC updating has become a customer’s nightmare. The updating forms used by some banks are long and complicated. Each bank has its own KYC forms and procedures. This is similar to the time when each mutual fund had a separate KYC process. Happily SEBI has ensured that there is a single KYC process for all mutual funds which has been outsourced to CDSL Ventures, a welcome relief for customers. Why can’t a single KYC process be put in place for all banks as well? Actually, the KYC process operated by CVDSL Ventures can easily be used by all banks, vastly simplifying the whole system.



The practice of thinking in silos has led to SEBI and RBI operating parallel KYC processes, duplication and a huge waste of time and resources for all concerned. Customers have to repeat the process of submitting documents to several agencies. To date neither the RBI nor the banks has come up with at least putting the KYC process for banks online as is the case with the PAN system or the KYC process for the mutual funds sector. The least that they could do would be to make the process online so that data entry and processing would be far easier than processing thousands of paper forms. Anyone who goes to a bank can see these piles of forms waiting for processing.

While we are on this subject, the Tax Department has its own system of PAN numbers which is mandatory for all those who earn income. Technically, this should include the whole universe of users of banking and investment services. The process for getting a PAN number is well known to citizens and is operated by NSDL and UTIITSL. These agencies, by and large, do a good job in processing PAN applications and updating PAN data. They have an online application system which is used also by thousands of NRI/PIOs and foreigners who work or have income in India.

## **Need for reforms**

A far-reaching reform would be to use the PAN database for giving KYC clearances for banking and investment services as well. Do we really need three separate and parallel systems for customer data for tax, banks and mutual funds? Merging the KYC process of the banking and investment services into the PAN system of the Tax department would greatly improve efficiency all around. Indian citizens and thousands of NRI/PIOs and foreigners would be spared the nuisance of doing the KYC process which simply reuses the same data and does not add any value.

Prime Minister Modi is to be lauded for pushing against bureaucratic resistance in giving millions of Indians access to the banking system through the Jan Dhan Yojana. When reforms are proposed there is opposition from the establishment. But where a decision is made, the bureaucracy will find a way to implement it.

Now the prime minister has the chance to simplify and streamlining the outdated, repetitive and inefficient KYC process by basing it on a single database of the PAN system. This will save an enormous amount of time and money for customers, bank employees, and be more effective in tracking down tax evaders and criminals. He will be thanked for this service by millions of users.

**(Dr. Bhaskar Balakrishnan is a former ambassador of India. The views expressed in this column are solely those of the author. This article has been written for India Writes Network, [www.indiawrites.org](http://www.indiawrites.org))**