

KYC Bureau – A centralized, private and independent repository for KYC data in the Financial Services industry

1. Introduction

India has a diversified financial services sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities.

The financial services industry recognizes the significance of doing KYC to prevent money laundering and terrorist financing activities. Fundamentally, the financial services industry works on thin margins and hence managing cost becomes extremely important. The cost of doing KYC is one of the most important factors on which the future of the financial services industry rests. The dawn of Aadhaar-based eKYC had significantly reduced the cost of KYC in the country, across industries. Aadhaar as an identity document enjoys the highest penetration in the country, among Officially Valid Documents (OVDs), with nearly 1.23 billion¹ Aadhaar numbers being generated as on 28 February 2019. In the wake of the honourable Supreme Court's judgement on the Aadhaar framework, regulated entities other than banks including payments service providers have been excluded from accessing and using Aadhaar-based eKYC. As a result, the only option left for the payments industry to do KYC are paper-based/ physical KYC, Aadhaar Offline and use of Central KYC Records Registry (CKYCR).

Each of the above alternatives come with its own challenges. While paper-based/physical KYC is cumbersome, expensive and requires long turnaround time for customer verification, Aadhaar offline solutions make for complication customer experience to generate the XML file/ e-Aadhaar, and accessing and using CKYCR comes with its own technical and operations hurdles. Neither can be deemed as long-term solutions for regulated entities in the payments space. The recent amendments in the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 and several other amendments brought about by the Aadhaar and Other Laws (Amendment) Bill, 2019 passed as an Ordinance have enabled the voluntary use of Aadhaar based eKYC by banks. Such privileges have not been extended to regulated entities other than banks, leaving the ecosystem deprived of viable means of doing KYC of their customers.

In light of the prevalent challenges faced by the financial services industry, there is a need for putting in place a long-term solution such as a central KYC repository for enabling seamless, cost-effective method of doing KYC which will reduce duplication of efforts in the industry and eliminate inefficiencies in the system

¹ Source: [Aadhaar Dashboard](#)

by establishing common standards and measures to be taken by the industry participants while performing KYC of their customers.

2. Issues in Central KYC Records Registry

a. Pricing structure

As per applicable laws and regulations, reporting entities are required to upload customer KYC data obtained for purposes of verification of customer identity, in the CKYCR. As a result of this regulatory mandate, reporting entities fully contribute to the customer KYC database. However, the pricing structure prescribed for the purpose of uploading KYC data is to be borne by the reporting entities, which is detrimental to their economic viability. For availing the services of the CKYCR, entities are mandated to pay an advance amount to be effected through NEFT/RTGS to CERSAI's bank account and maintained in a web wallet. For every service availed, the requisite amount is deducted from the wallet balance. If there is insufficient balance, the financial institution is unable to avail the paid services until the balance is replenished.

The charges per activity is as prescribed as under²:

Parameter	Charges per record (INR)
Creation of a new KYC record	0.80 + applicable taxes
Downloading of KYC record from the Registry	1.10 + applicable taxes
Updation of KYC record	1.15 + applicable taxes

Given that the above activities are conducted in large volume for any entity, when generated in bulk, these functions incur huge expenditure. This has forced entities to pay a huge price to make optimum use of the CKYC registry.

b. Supports only paper-based KYC, does not include Aadhaar and/or digital KYC

The current CKYCR platform allows for uploading of customer KYC data obtained in physical form only. The platform requires scanned copies of documents and photograph of customer to be uploaded as per the prescribed specifications. Given that several reporting entities performed customer due diligence using the Aadhaar framework in the recent past (before Supreme Court's judgement was pronounced), uploading of such customer KYC data has not been possible, which has resulted in several entities performing Aadhaar based eKYC of a common set of customers, repeatedly.

c. Standardisation of KYC data

² https://www.ckycindia.in/ckyc/assets/doc/CKYC_Rates.pdf



The CKYCR provides for a standard format for uploading customer KYC data, in line with the stringent due diligence performed by banks. Generally, non-bank entities such as PPIs, NBFCs etc. do not require such extensive data for customer onboarding and hence find it difficult to obtain information from customers in greater detail, than necessary. In light of this, the industry seeks a KYC repository where KYC standards are tailored to their requirement, under the prevailing laws, to avoid obtaining additional and unnecessary information.

d. Supports only individual KYC data since launch, no progress on corporate KYC yet

Since its launch, the CKYCR has only enabled sharing of individual customer's KYC data by use of the platform. While it was proposed to enable transmission of Corporate clients KYC data in the next phase of the CKYCR, there has been little progress for creation of accounts for *non-individuals*. This facility has been long overdue and the absence of a comprehensive repository for non-individual KYC repository has left reporting entities with inadequate facilities to a more convenient means of identity verification to open new accounts for corporates.

e. Limited access to CKYC registry

Access to the services of the CKYCR are restricted to reporting entities as defined under the Prevention of Money-laundering Act, 2002 including, mainly, financial service providers. This restriction must be reviewed and provisions for interoperability must be enabled so as to make CKYCR truly centralized and permit all interested industry players to access customer KYC data and ease the process of opening new accounts across all business segments.

3. Central KYC repository – KYC Bureau

It is envisaged to establish an independent, centralized and comprehensive data repository of client information and KYC documents for the benefit of entire financial services sector including Banks, Payments Industry, Mutual Funds Industry, NBFCs, Insurance companies, Housing Finance Companies etc. Such a centralized repository, hereinafter known as KYC Bureau, would be responsible for aggregation and maintenance of client (individuals and businesses) data and identity information, including KYC documents, obtained by members for the purpose of client due diligence.

Legal Entity

The KYC Bureau will be incorporated, under Section 8 of the Companies, 2013, as a not-for-profit organisation. The strategic decisions and governance of the Bureau will be managed through voting rights based on membership criteria and not basis equity ownership.

Governance



The Bureau will be governed by its Executive Council. The Council will comprise representatives from members, and external participants - representation from government agencies, regulatory authorities (Reserve Bank of India), CERSAI, and other participating KYC repositories.

Membership Model

KYC Bureau will partner with payments service providers, authorised under the Payment and Settlement Systems Act, 2007 and required to undertake client due diligence, as per the provisions of the Prevention of Money Laundering Act, 2002 and Rules framed thereunder.

KYC Bureau will also enter into formal arrangements with other customer data repositories to enable transmission of customer KYC data between the bodies.

Interoperability

It is envisaged that the KYC Bureau will establish associations and connectivity with other bodies such as CKYCR, existing KRAs, and Credit Bureaus including CKYC, KYC registrar like NSDL, CDSL etc. to determine whether client information / KYC documents are available/held with such repository and to ensure seamless transmission of information between the parties.

Pricing

Entities registered as members of the KYC Bureau will be charged a one-time registration fee for enabling access to the database. In addition, members will be charged for retrieval/ download of KYC record of clients, as per the terms of agreement between the Bureau and the members. It is envisaged that the Bureau will not levy charges for upload and updation of KYC data of clients, given that it is a regulatory mandate for the entities

Functions of the KYC Bureau

- i. To prepare operating instructions and KYC standards (in compliance with prevailing laws and regulations) for member institutions for use of the KYC repository
- ii. To provide a secure channel to its members for the transmission of KYC data in and out of the repository
- iii. To allocate a unique identification number to each client record created in the system and to perform data deduplication to ensure single record per client is created
- iv. To enable access to customer information/ KYC records, on a need basis, for members approached by a customer, or having adequate customer consent
- v. To enable connectivity with other repositories (CKYCR, KRAs, Credit Bureaus etc.) to establish interoperability and seamless transmission of information between such repositories
- vi. To ensure safety and security of KYC data residing on its systems; to preserve KYC records for such period prescribed by the prevailing laws and regulations

- vii. To disseminate updated KYC information pertaining to a customer/client to all members
- viii. To put in place measures to prevent unauthorized access to the repository
- ix. To ensure integrity of electronic data/records and to store all KYC data in the country
- x. To put in place a mechanism for monitoring and review of its systems, controls and processes periodically
- xi. To cause an audit of its systems, controls and processes periodically and to take corrective actions for deficiencies, if any observed in the audit
- xii. To appoint a compliance officer who will be responsible for ensuring compliance with prevailing laws, rules and regulations, notifications, guidelines, instructions, etc. as framed by the respective regulators
- xiii. To provide KYC data to any regulator or any other authority, as and when required.