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eKYC to Achieve Inclusive Growth: An Empirical Study

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Abstract: **Digital transactions have increased enormously, post demonetisation drive by the government. According to a recent survey by an agency named "Young Indian Trans co" reveals the fact that digital transactions have increased almost by 60 % now. The report further states that under 13 million government documents such as Aadhaar, Permanent Account Number cards, X class Marks Sheets are being uploaded into the digi lockers of citizens per month. It is a clear indication of paradigm transformation taking place in the country. In this context eKYC or Electronic Know Your Customer verification process, which ascertains the identity of the customer involved in the transaction for better safety and security is more vital than ever before. The process is done in couple of minutes now, in contrast with, days which it earlier used to take. Using a small finger print scanner, that access the bio metric information of the customer and obtains the data base via mobile connection, a giant step forward in the path of digitising the country and taking it on the path of development. According to an estimate, every month around 10 million eKYCs through Aadhaar is done. Every time a customer buys a new mobile service connection, every time a new customer opens a bank account, every time an existing customer wants to access his safety vault, eKYC is performed - it is a process of verifying the identity of clients and employed by companies of all sizes for the purpose of ensuring their proposed agents, consultants or distributors anti-bribery compliance. Banks, insurance companies and export credit agencies are increasingly demanding that customers provide detailed anti-corruption due diligence information to verify their probity and integrity. These 'Know Your Customer' guidelines have been revisited from time to time in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). In India Banks are advised to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to appropriate authority.**

Keywords: **eKYC, Inclusive Growth, Aadhaar, PAN card, identity of the clients.**

1. INTRODUCTION

Government across the globe, have become more strict and stringent on their regulatory norms in order to curb money laundering, terrorist financing, unscrupulous or criminal activities, opening and operating accounts with fictitious names and address, to weed out the bad ones and to protect the good ones. In this context e-KYC or Electronic Know Your Customer verification process, which ascertains the identity of the customer involved in the transaction for better safety and security, is more vital than ever before. The process is done in couple of minutes now, in contrast with, days, which earlier it used to take. Using a small finger print scanner, which access the bio metric information of the customer and obtains the data base via mobile connection, a giant step forward in the path of digitising the country and taking it on the path of development. With the help of Unique Identification Authority of India (UIDAI), the member establishments such as banks, insurance companies, telecom operators etc., will pull out all the information, such as name, age, address and all other relevant information of the customer, which is stored on line and save a copy of the e KYC document in UIDAI servers. This facilitates the customer in obtaining the required services such as opening a bank account, buying an insurance policy or claiming an insurance policy, buying a new mobile connection or sim card, accessing the safety vault, without any data entry. Moreover, e-KYC contributes immensely to become paperless, as the soft copy of all the necessary document will be saved in the institution's system enabling the service provider to provide instantaneous

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services, within no time to its customers. As per the guidelines issued by Reserve Bank of India, initially banks started with e-KYC and made it mandatory, followed by insurance companies and telecommunication operators, across the country, are updating their system to e-KYC. This entire system is paper less, takes less time, provides faster and safer service, offers better quality of services with no physical documents.

Emerging economies like India, which have experienced higher economic growth rate are simultaneously fighting out with income inequalities that are created in the process of growth, ultimately leading to lopsided development. This de-oxidises the impact of economic growth, which has inhibited the growth fruits and benefits from reaching the bottom of pyramid. Economic growth must be achieved on the platform of fairness, equality and social peace.

The origin of the concept 'inclusive growth' though appears to be new, the roots of which could be traced back in almost all the major civilizations. In India, a philosophical thought 'Vasudhaiva Kutumbakam' narrates the same ideology propounding harmonious habitation and well being of mankind. The term 'inclusive' literally means 'A sense of belonging, a feeling of commitment to one another, to take everybody into confidence'. This can be achieved only through non-discrimination, participation and accountability. These trinity of objectives can be achieved by embracing e-KYC process. This paper explores the possibility of using e-KYC as a key to achieve 'Inclusive Growth'.

Dimensions of Inclusive Growth:

The concept of inclusive growth has three broad dimensions namely; economic, social and institutional. World Bank and Asian Development Bank have adopted inclusive growth as one of its three critical strategic agenda for 'strategy 2020'. Through this, they will support regional inclusive growth through financing, policy advice, knowledge solutions, technical assistance and capacity building with special focus on building infrastructure, providing basic public services such as water and sanitation and education, developing the financial sector and fostering financial inclusion and enhancing food security. Asian Development Bank has formulated three dimensions for the achieving inclusive growth. They are:

(1) **Economic - High, efficient and sustained growth:** A key to create productive and decent employment opportunities to absorb the surplus labour force. It creates resources for government to invest in education, health, infrastructure, social protection and safety nets etc.

(2) **Institutional - Social Inclusion:** It ensures that all sections of the society will have equal opportunities. To grab such opportunities, human capabilities should be enhanced, especially from marginalized and disadvantaged sections. Thus providing access to education, basic health and infrastructure facilities becomes an integral part of the social upliftment of the people. Promoting social inclusion requires public interventions in two areas- (a) Investing in education, health and other social services to expand human capacities (b) Promoting good policy and sound institutions to advance social and economic justice.

(3) **Social - Social Safety Nets:** Social safety nets are basically to protect chronically poor and vulnerable sections of the society. They cater the basic needs of people, who cannot participate in the benefits from emerging opportunities created by growth. It normally deals with, labour market policies and programmes, social insurance programmes, child protection, social assistance and welfare schemes.

Need For Inclusive Growth in India:

For sustainable development and equitable distribution of wealth and prosperity, inclusive growth is necessary. In a democratic country like India, bringing more than 833 million people living in rural India into the ambit of e-KYC is the biggest concern.

The following factors encouraged the India to concentrate more on Inclusive growth.

(1) In India is the 7th largest country by area and 2nd by population. It is the 6th largest economy by nominal GDP and 3rd largest by purchasing power parity. Still 22% of the total population lives below poverty line

(2) The exclusion in terms of low agricultural growth, low quality, low quality employment growth, low human development, rural urban divides, gender and social inequalities and regional disparities etc. are the problems of and for the nation

(3) Reducing of poverty and other disparities and rising of economic growth are the key objectives of the nation through Inclusive growth.

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(4) Political leadership in the country plays a vital role in the overall development of the country, but the study has found that politician in India has a very low scientific literacy.

(5) Studies has estimated that the cost of corruption in India amount to over 10% of GDP. Corruption is one of the ills that prevent the inclusive growth.

(6) Although child labour has been banned by the law in India and there are stringent provisions to deter this in human practice. Still, many children in India are unaware of education as they lives are spoiled to labour work.

(7) Literacy levels have to rise to provide the skilled workforce required for higher growth.

(8) Achievement of 9% GDP growth for country as a whole is one of the boosting factor which gives the importance to the Inclusive growth in India.

(9) Inclusiveness benchmarked against achievement of monitorable targets related to (a) Income and poverty (b) Education (c) Health (d) Women & children (e) Infrastructure (f) Environment.

(10) Even at international level also, there is a concern about of inequalities and exclusion and now they are also taking about inclusive approach and development.

2. REVIEW OF LITERATURE

Kanbur and Rauniyar (2009) asserts that inclusive growth stresses that economic opportunities created by economic growth should be available to all particularly to the poor to the maximum extent possible. The concept of inclusive growth has social, economical and institutional dimensions and ensures efficient and sustainable economic growth.

Government of India (2013): the 11th five year plan (2007-12) was prepared to achieve inclusive growth along with development. The performance of the plan is assessed by the economic survey of India. It finds that growth is not sufficiently inclusive because it does not cover several sections of society and gender inequality continues in the economy. Though the percentage of population living below poverty line has come down, the rate of reduction has been much lower than the growth rate of the economy. Other indication of human development such as education, health, drinking water, primary health services, literacy have shown improvement with sluggish rate.

The definition of the problem should be evaluated, the problem should be quantified and possible solutions to the problem identified. Caution however needs to be taken at this stage so as not to capture contributors to the problem as the actual problem (Oyugi & Kibua, 2004). The next step involves gathering information or evidence and reliable information about the history and context of the problem. This includes analyzing similar problems and policies which were used to remedy the situation (Ngethe, 1998). This will give valuable pointers on what course of action should be taken and what pitfalls should be avoided. It is important at this point to collect stakeholders' views so that all factors are considered and included in the policy to be formulated.

Policies promote uniform handling of similar activities. This facilitates the co-ordination of work tasks and helps reduce friction arising from favouritism, discrimination and the disparate handling of common functions (Jeffrey, lv98). Since similar activities arc handled in a similar manner, decision making process is enhanced. Policies afford managers a mechanism for avoiding hasty and ill-conceived decisions in day to day operations. Prevailing policy can always be used as a reason for not yielding to emotion-based, expedient or temporarily valid arguments for altering procedure and practices.

Objectives of the study:

1. To discuss the different dimensions of inclusive growth.
2. To identify the different problems encountered in achieving inclusive growth.
3. To understand the need for inclusive growth
4. To suggest guidelines for the achieving the inclusive growth.

Hypothesis:

H_0: There is a considerable difference between fraudulent activities before and after implementing KYC norms.

H_1: There is no difference between fraudulent activities before and after implementing KYC norms.

3. RESEARCH METHODOLOGY

The present study is based on secondary data. Various aspects related to Know Your Customer norms formulated by Reserve Bank of India is considered. The annual statement of the commercial banks, which reports number of fraudulent cases during that financial year is observed. A comparative study of number of fraudulent cases before after strict enforcement of KYC norms have been considered for the study. The study is confined to the reports published by only those private scheduled banks operating in Bangalore rural district. The secondary data is collected from various journals, websites and published material.

Need of the study: The commercial enterprises particularly banking sector is losing a lot of money because of fraudulent activities, which has adversely affected their profitability. The global economic meltdown coupled with credit crunch has worsened the situation by limiting access to funds and many unscrupulous people have resorted to money laundering and fraudulent activities to bridge the gap and to make easy money. Despite enforcement of eKYC norms has brought down these fraudulent cases considerably, still these activities are taking place. This calls for a detailed study aimed at further strengthening the norms to gradually reduce the limitations and ultimately to completely eliminate it.

Analysis:

The data collected was edited for accuracy, uniformity, consistency and completeness, and organized to facilitate coding and tabulation. Data was then coded and checked for any errors, commissions or omissions. Responses were tabulated, coded and processed by use of a Statistical Package for Social Science (SPSS) programme to analyze the data. Factor analysis was used to classify the predetermined variables affecting KYC policies and procedures.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling adequacy		.58
Bartlett's Test of Sphericity	Approx. Chi-Square	342.25
	Df	15
	Sig.	.000

Communalities

	Initial	Extraction
V1	1.000	.713
V2	1.000	.848
V3	1.000	.833
V4	1.000	.567
V5	1.000	.631
V6	1.000	.605

Extraction Method: Principal Component Analysis

Total Variance Explained

	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.641	27.342	27.342	1.641	27.342	27.342	1.44	24.005	24.005
2	1.481	24.679	52.021	1.481	24.679	52.021	1.429	23.825	47.83
3	1.076	17.931	69.952	1.076	17.931	69.952	1.327	22.122	69.952
4	0.962	16.034	85.985						
5	0.831	13.85	99.836						
6	0.01	0.164	100						

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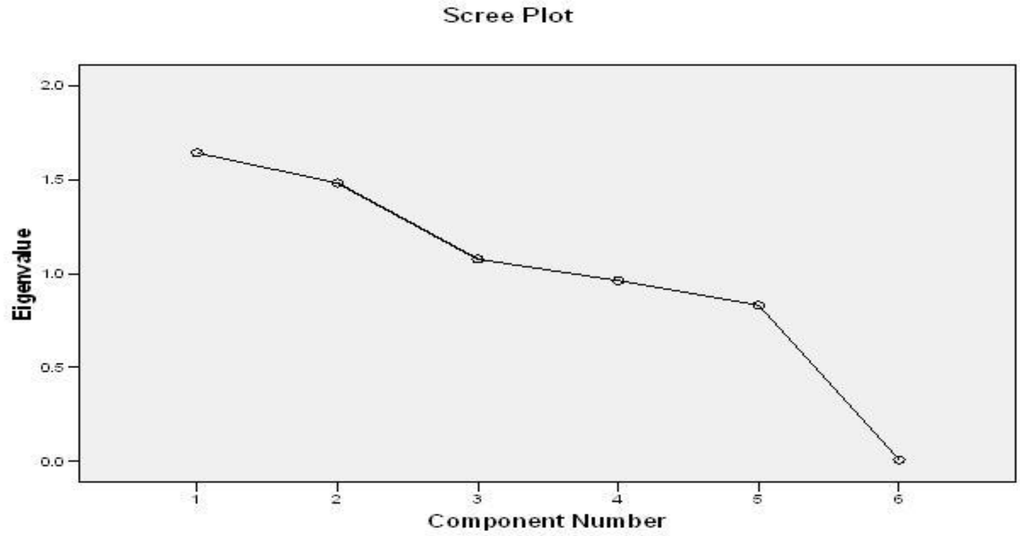

Rotated Component Matrix (a)

	Component		
	1	2	3
V3	-.908	-.053	.074
V4	.717	-.225	-.052
V1	.046	-.842	-.056
V6	-.104	.763	-.110
V2	.075	.134	.908
V5	.288	.262	-.693

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalization. A Rotation converged in 5 iterations.

Inference:

In the above factor analysis, component 1 has shown 0.717 loading on 'minimised frauds'. component 2 suggests factor loading 0.763 for 'improved performance of the financial institution' alone. Component 3 has produced large factor loading say 0.908 for 'increased profitability'. This is treated as an indicator of 'Economic development' factor. From the above analysis, H_0 is accepted and H_1 is rejected. Therefore it is proved that There is a considerable difference between fraudulent activities before and after implementing KYC norms

Guidelines:

The scope and nature of crime is increasing overtime, has made it increasingly difficult to detect, prevent, investigate it. So eKYC play an important role in reducing and ultimately eliminating the fraud. Reserve Bank of India has issued a detailed guidelines through prevention of money laundering act 2002 and prevention of money laundering (Maintenance of records) rules, 2005 with this respect. These guidelines details the customers identification procedure to be followed by all retail establishments, while undertaking a transaction either by establishing an account based relationship or otherwise and monitor their transactions. The provisions of these Directions shall apply to every entity regulated by Reserve Bank of India. E-KYC authentication facility; as defined in Aadhaar (Authentication) Regulations, 2016, means a type of authentication facility in which the biometric information and/or OTP and Aadhaar number securely submitted with the consent of the Aadhaar number holder through a requesting entity, is matched against the data available in the CIDR, and the Authority returns a digitally signed response containing e-KYC data along with other technical details related to the authentication transaction.

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Authentication is necessary for the following transactions:

- Opening of an account;
- Deposit, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non-physical means;
- Use of a safety deposit box or any other form of safe deposit;
- Entering into any fiduciary relationship;
- Any payment made or received, in whole or in part, for any contractual or other legal obligation; or
- Establishing or creating a legal person or legal arrangement.

4. CONCLUSION

The number of fraudulent cases has drastically reduced after implementing KYC norms. But verifying the physical documents, especially ascertaining the authenticity of the Xerox copies was sucking lot of time. Therefore, to save time and for providing quick and effective services to customers and to avoid and to gradually eliminate all those suspicious customers, Reserve Bank of India has implemented e-KYC norms in 2005. Linking Aadhar number of an individual with bank account further eases the job. Now entering into contract, by establishing authenticity of a person, through his bio matrix, reduces the risk. A small scanner, which any business enterprise can own and easily operate, instill the credibility of the customers as a result trade activities gets stimulus. However, one must accept that the introduction of know your customer (KYC) procedures, which was meant to reduce or eliminate altogether cases of fraud and money laundering has played an effective role in reducing the number of reported cases but still a significant number of cases are still being reported across the banking sector. Therefore there is still scope for better improvement.

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