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# Simpler KYC may not make life easier for NBFCs

BY ASHWIN MANIKANDAN, ET BUREAU | AUG 26, 2019, 07.24 AM IST

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MUMBAI: Despite measures by the finance ministry to ease the customer onboarding process, or **KYC** (know your customer), for both banks and non-banking finance companies, lenders say the recent policy action may not lower their physical verification costs, especially for rural customers.

**Big Change:**

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Finance minister [Nirmala Sitharaman](#) announced a slew of relief measures for the economy on Friday, which included allowing **NBFCs** to directly onboard those customers whose credentials have already been vetted by banks from the UIDAI maintained **Aadhaar** database.

Industry experts, however, said that, in the absence of an RBI approved mechanism for banks to share these KYC details with nonbanks, the process may be restricted to those loan accounts that are opened jointly by a bank and NBFC under the co-lending model.

"This kind of arrangement can only work where banks and NBFCs are co-lending," said Anurag Jain, founding member [Digital Lenders Association of India](#) (DLAI) and cofounder of KredX. Under the colending model, an NBFC and bank tie up to open loan accounts with pre-decided exposures.

The government and the RBI are pushing banks to open more loans under the co-lending model as it would help NBFCs access bank credit and use their underwriting model to disburse niche loans such as microcredit to rural customers.

"The impact may have been more if they had allowed NBFCs to authenticate their own customers via Aadhaar without having to depend on banks. We will wait for the final clarifications, which will be issued by RBI, on the exact mechanism under which the process would work," Jain said.

After a Supreme Court order in September last year, only regulated banks, telecom operators and now mutual funds have been permitted to use Aadhaar as a non-binding tool to authenticate customers. This was done to protect customer privacy. "Another way would be for the loan amount disbursed by the NBFC to directly get credited in the KYC-authenticated bank accounts of the customers," said Amit Tewary, Chief Operating Officer, Loan-Tap, a fintech NBFC.

## THE MISSING LINK

**Absence of an RBI-approved mechanism for banks sharing KYC details with NBFCs**

**Process may be restricted for loan accounts which are opened jointly by a bank and an NBFC**

**This won't ease costs incurred by NBFCs on physical verification**

The finance minister's announcement came just days after the Department of Revenue made amendments to the [Prevention of Money Laundering Act](#) (PMLA), which will make the KYC process completely paperless.

All financial institutions can accept digital copies of original documents instead storing photocopies. The verification of original documents, however, will require an "authorising agent" to capture a live photograph of the customer and then record the latitude and longitude of where the process happened.

“These changes are to standardise the digital onboarding process for the entire industry and make the process paperless,” said a private sector banker, requesting anonymity.

“While it may reduce the costs of documentation...it still requires a bank agent to undertake the process at the live location, which may prove costly for lenders with digital platforms operating without physical infrastructure on the ground.”

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