

# KYC goes live!

RBI promotes seamless, real-time, secured, audiovisual interaction with customers

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## Introduction

The fast growing digital credit industry has since its inception been facing the hurdle of KYC norms. The fintech players have made several appeals to the regulator for exploring alternatives for physical KYC. However, the RBI has not been very actively responding to such request. The technological development in and around us, in the form of smartphones that are equipped with biometric enabled multi-factor authentication is still not completely recognized as a compliant source for facilitating the KYC process.

Though some fintech companies are already practising various unconventional modes of KYC, such as video based KYC, obtaining validated electronic versions of KYC related documents through DigiLocker, etc., however, the green signal from the RBI remained a concern.

In light of the recent developments and pursuant to the report of various committees and working groups, RBI now seems to consider the idea of using technology for the purpose of KYC and authentication of the user.

## PMLA Amendments

In August 2019<sup>1</sup>, the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 were amended to recognize the concept of digital KYC and digilocker. The term “digital KYC” has been defined under the Prevention of Money-laundering (Maintenance of Records) Third Amendment Rules, 2019 (“PML Amendment Rules”) as follows:

*“digital KYC” means the capturing live photo of the client and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the reporting entity as per the provisions contained in the Act.*

The detailed procedure for undertaking the digital KYC were also laid down in Annexure-1 of the PML Amendment Rules. Under the guidelines, the authorised officer of the reporting entity is required to take “live photo” (with latitude and longitude) of the client as well as the documents.

The PML Amendment Rules also inserted the concept of “equivalent e-document”, which means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature, including documents issued to the digital locker account of the client, as per Rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.

It may be noted that equivalent e-document is a document which is/has been issued electronically – hence, a scanned copy/image of an OVD (say, passport) is not an equivalent e-document. Under the PML Rules, equivalent e-document has also been recognized as a KYC document, provided that the digital

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<sup>1</sup> <http://egazette.nic.in/WriteReadData/2019/210818.pdf>

signature will have to be verified by the reporting entity as per the provisions of the Information Technology Act, 2000. Even where the client has submitted “equivalent e-document” of any OVD, the reporting entity has to take a “live photo”.

Hence, as per the PMLA guidelines, manual intervention was still required and an out-an-out electronic submission and verification of documents sans presence of authorised officer of the reporting entity was not seeming permitted.

## Revised KYC Master Directions

On January 09, 2020<sup>2</sup>, RBI has issued amendments to the existing KYC Master Directions, governing banks and NBFCs, for incorporating the aforesaid amendments in the PMLA regulations. Additionally, the RBI has also permitted Video based Customer Identification Process (V-CIP) as a consent based alternate method of establishing the customer’s identity, for an individual customer onboarding.

### Concepts and terms introduced

The definition of Digital KYC, Digital Signature, Offline Verification and Equivalent e-document has been inserted in line with the PMLA amendments. These amendment will facilitate a hassle free and convenient option for the customers to submit their KYC documents. The customer will be able to submit its KYC documents in electronic form stored in his/her digital locker account.

Further, pursuant to this amendment, at several places where Permanent Account Number (PAN) was required to be submitted mandatorily has now been replaced with the option to either submit PAN or equivalent e-document.

Also, the concept of V-CIP has been introduced and defined as follows:

*Video based Customer Identification Process (V-CIP)”: a method of customer identification by an official of the RE by undertaking seamless, secure, real-time, consent based audio-visual interaction with the customer to obtain identification information including the documents required for CDD purpose, and to ascertain the veracity of the information furnished by the customer. Such process shall be treated as face-to-face process for the purpose of this Master Direction.*

This process of V-CIP has also been specified in detail in para 18 of the KYC Master Directions (discussed later).

Another important change has been in the definition of ‘Certified copy of OVD’ in connection with the OSV process (Originally seen and verified). The term has now been defined as “Certified Copy” which states that obtaining a certified copy by the RE shall mean comparing the copy of the proof of possession of Aadhaar number where offline verification cannot be carried out or officially valid document so produced by the customer with the original and recording the same on the copy by the authorised officer of the RE as per the provisions contained in the Act.

The OSV process requiring physical verification of the OVDs submitted has always been a roadblock in the digital KYC process. However, with the introduction of V-CIP this concern seems to be addressed.

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<sup>2</sup> <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/CIRCULAR1385B2E30C2E186423CB03EDF39D6133254.PDF>

## Customer Due Diligence

The CDD procedure has now been eased down to recognize digital and video based approach for carrying out KYC. The V-CIP is a consent based alternate method of establishing the customer's identity, for customer onboarding. For undergoing CDD, an individual in his/her own capacity or as a beneficial owner, authorised signatory or the power of attorney holder related to any legal entity, shall have to submit the following:

Documents to be submitted	Reason for such submission	Bank/RE authentication/verification
1. Aadhaar number	<ul style="list-style-type: none"> <li>Customer is desirous of receiving any benefit or subsidy under any scheme notified under section 7 of the Aadhaar (Targeted Delivery of Financial and Other subsidies, Benefits and Services) Act, 2016 ('Subsidy Scheme')</li> <li>or</li> <li>Customer decides to submit his Aadhaar number voluntarily</li> </ul>	<p>Bank or RE shall carry out authentication of the customer's Aadhaar number using e-KYC authentication facility provided by the Unique Identification Authority of India.</p> <p>Further, in case customer wants to provide a current address, different from the address as per the identity information available in the Central Identities Data Repository, he may give a self-declaration to that effect to the RE</p>
<b>OR</b>		
2. The proof of possession of Aadhaar number	Offline verification can be carried out	RE shall carry out offline verification
<b>OR</b>		
3. The proof of possession of Aadhaar number or any officially valid document or the equivalent e-document thereof containing the details of his identity and address;	Offline verification cannot be carried out	<p>In case of OVD or proof of possession of Aadhaar number, the RE shall carry out verification through digital KYC as specified under Annex I</p> <p>In case of equivalent e-document of any OVD, RE shall verify the digital signature as per the provisions of the Information Technology Act, 2000 and any rules issues thereunder and take a live photo as specified under Annex I</p>
<b>AND</b>		
4. The Permanent Account Number or the equivalent e-	Mandatory	In case Permanent Account Number (PAN) has been obtained, RE shall

document thereof or Form No. 60 as defined in Income-tax Rules, 1962		verify from the verification facility of the issuing authority;
<b>AND</b>		
5. Such other documents including in respect of the nature of business and financial status of the customer, or the equivalent e-documents thereof as may be required by the RE	Mandatory	To be decided by the RE as per the document requirements

Accordingly, an individual has three options for submission of Aadhaar details along with the compulsory submission of PAN and such other document desired by the RE.

Earlier, the eKYC authentication could be carried out only by a bank under the Subsidy Scheme which has now been extended to REs other than bank as well in case the customer submits his Aadhaar number voluntarily. There is however, the same restriction on REs other than banks, to redact or blackout the Aadhaar number through appropriate means where the authentication of Aadhaar number is not required, that is, where proof of possession of Aadhaar number is submitted.

### Digital KYC Process

The Digital KYC Process is a facility that will allow the reporting entities to undertake the KYC of customers via an authenticated application, specifically developed for this purpose ('Application'). The access of the Application shall be controlled by the reporting entities and it should be ensured that the same is used only by authorized persons. To carry out the KYC, either the customer, along with its original OVD, will have to visit the location of the authorized official or vice-versa. Further, live photograph of the client will be taken by the authorized officer and the same photograph will be embedded in the Customer Application Form (CAF).

Further, the system Application shall have to enable the following features:

1. It shall be able to put a water-mark in readable form having CAF number, GPS coordinates, authorized official's name, unique employee Code (assigned by Reporting Entities) and Date (DD:MM:YYYY) and time stamp (HH:MM:SS) on the captured live photograph of the client;
2. It shall have the feature that only live photograph of the client is captured and no printed or video-graphed photograph of the client is captured.

The live photograph of the original OVD or proof of possession of Aadhaar where offline verification cannot be carried out (placed horizontally), shall also be captured vertically from above and water-marking in readable form as mentioned above shall be done.

Further, in those documents where Quick Response (QR) code is available, such details can be auto-populated by scanning the QR code instead of manual filing the details. For example, in case of physical Aadhaar/e-Aadhaar downloaded from UIDAI where QR code is available, the details like name, gender, date of birth and address can be auto-populated by scanning the QR available on Aadhaar/e-Aadhaar.

Upon completion of the process, a One Time Password (OTP) message containing the text that 'Please verify the details filled in form before sharing OTP' shall be sent to client's own mobile number. Upon successful validation of the OTP, it will be treated as client signature on CAF.

For the Digital KYC Process, it will be the responsibility of the authorized officer to check and verify that:-

1. information available in the picture of document is matching with the information entered by authorized officer in CAF;
2. live photograph of the client matches with the photo available in the document; and
3. all of the necessary details in CAF including mandatory field are filled properly.

### Video based identification process

The live V-CIP has been introduced for individual customers only after obtaining his/her informed consent. This is in addition to the Digital KYC process inserted vide the PMLA Amendment.

#### Pre-requisites

1. Ensure that V-CIP process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer
2. Ensure that the quality of the communication is adequate to allow identification of the customer beyond doubt
3. Carry out the liveness check in order to guard against spoofing and such other fraudulent manipulations
4. Carry out software and security audit and validation of the V-CIP application before rolling it out
5. The official of RE shall:
  - a. Record video and capture photograph of the customer
  - b. Capture clear image of PAN card displayed by the customer during the process
  - c. Capture live location of the customer (geo tagging)
  - d. Conduct video interactions
  - e. Redact or blackout the Aadhaar Number

#### Verification

1. Banks can use either OTP based Aadhaar e-KYC authentication or Offline Verification of Aadhaar for identification. REs other than banks: can only carry out Offline Verification of Aadhaar for identification
2. The PAN details shall be verified from the database of the issuing authority
3. Ensure that customer is physically present in India
4. Ensure that photograph of the customer in the Aadhaar/PAN details matches with the customer undertaking the V-CIP
5. The identification details in Aadhaar/PAN shall match with the details provided by the customer
6. In case of offline verification, ensure that the XML file or QR code generation date is not older than 3 days from the date of carrying out V-CIP

#### Additional Safeguards

1. The official of the RE shall ensure that the sequence and/or type of questions during video interactions are varied in order to establish that the interactions are real-time and not pre-recorded

2. All accounts opened through V-CIP shall be made operational only after being subject to concurrent audit, to ensure the integrity of process
3. The activity log along with the credentials of the official performing the V-CIP shall be preserved
4. Ensure that the video recording is stored in a safe and secure manner and bears the date and time stamp
5. Banks shall maintain the details of the BC assisting the customer, where services of BCs are utilized

### Third Party involvement

The V-CIP process however does not encourage third party participation. Though the REs are encouraged to take assistance of the latest available technology, including Artificial Intelligence (AI) and face matching technologies, however, the responsibility of customer identification shall rest with the RE. The RBI specifically restricts the audiovisual interaction to be triggered from the domain of any third party service provider. Further, it requires the V-CIP process to be operated by officials specifically trained for this purpose. Hence, carrying out necessary training programmes become necessary.

In case of banks however, the BCs are allowed to facilitate the process but only at the customer end and the official at the other end of V-CIP interaction should necessarily be a bank official.

### Conclusion

The KYC process has evolved over time from physical to audiovisual identification process. The physical OSV process and Aadhaar verdict were hindrances on the development of Fintech companies as compliance with KYC guidelines for these companies became unfeasible. The proposed amendments by the RBI is expected to bring some rejoice to the industry.

### Reference:

Relevant articles in this regard can be accessed from the link below:

1. Introduction of Digital KYC- <http://vinodkothari.com/2019/08/introduction-of-digital-kyc/>
2. RBI amends the KYC Master Directions: Recognising Aadhaar as an officially valid document- <http://vinodkothari.com/wp-content/uploads/2019/05/RBI-amends-the-KYC-Master-Directions.pdf>
3. Steering Committee Report on Digital Lending: Issues and Solutions- <http://vinodkothari.com/2019/11/digital-lending/>

Other articles on financial services industry can be viewed at:

<http://vinodkothari.com/articles-fintech-startups/>