

# Update

## Proposed Centralized KYC Registry

---



Pooja Rawal

[pooja@vinodkothari.com](mailto:pooja@vinodkothari.com)

Vinod Kothari & Company

October 10, 2012

Check at:

<http://india-financing.com/staff-publications.html>

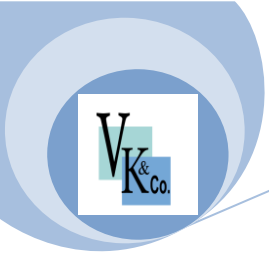
for more write ups.

**Copyright:**

This write up is the property of Vinod Kothari & Company and no part of it can be copied, reproduced or distributed in any manner.

**Disclaimer:**

This write up is intended to initiate academic debate on a pertinent question. It is not intended to be a professional advice and should not be relied upon for real life facts.



### Update

A well established banking sector of any country reflects its financial position. Likewise in India, in order to develop a sound mechanism in banking sector the Reserve Bank of India (“RBI”) has been, from time to time, issuing guidelines and notifications. It was way back in 1806 when the oldest bank, State Bank of India, was established in India. Ever since then many national as well as international banks have come into existence.

There are about 26 nationalized bank and 323<sup>1</sup> foreign banks branches across India. With such a huge banking sector, it becomes very important to have a proper law governing corporate body.

India has witnessed many banking reforms over the period of time. However the initiative of the concept ‘Know Your Customer’ (“KYC”) is one of the remarkable steps taken by the RBI. All the banks whether Indian or foreign branches, are required to have a standard KYC form duly filled up by their all clients and which will help them to know their customers. The recent notification of RBI on Know Your Customer (KYC)/Anti-Money Laundering (AML)/Combating of Financing of Terrorism (CFT) Guidelines - Unique Customer Identification Code (“UCIC”) for banks’ customers in India – Primary (Urban) Co-operative Banks<sup>2</sup> has contributed in reducing the complexity of financial transactions in the financial and banking sector of India because under the new Guidelines one person will be allotted exclusive UCIC which will be same for all banks. In other words, one person will be allotted UCIC and it will be used for all his bank accounts with all the banks in India.

#### Principle objectives of KYC:

- To ensure that only bona fide customers are accepted.
- Accepting reliable documents
- Verification of the identity of customers from time to time.
- Keeping a track on customers account to prevent any illegal activities.

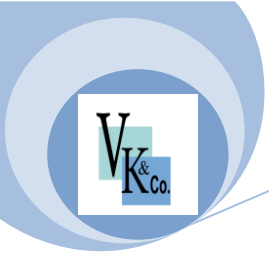
#### How will this reform help the Banking Sector?

The basic idea of coming up with this kind of initiative is to keep a track on multiple identities of a customer within a bank. For this purpose a UCIC will be allotted to every individual having a bank account. This UCIC will be a centralized where in, the same UCIC code will be applicable in all the banks.

---

<sup>1</sup> <http://rbidocs.rbi.org.in/rdocs/Content/pdfs/71207.pdf>

<sup>2</sup> <http://rbi.org.in/scripts/NotificationUser.aspx?Id=7606&Mode=0>



### Update

No bank will separately issue UCIC to the same person who has already been allotted a UCIC by another Bank. Instead of allotting new UCIC, all banks will use same UCIC allotted to the person.

Being an initiative towards the prevention of money laundering activities, UCIC will help the banks to keep a proper track of the financial transaction taking place. Any suspected transaction can easily be identified.

Once the UCIC is implemented across banks and FIs, it would be feasible to move towards a centralized KYC registry, which will eliminate duplication of efforts and refine the KYC/AML (anti-money laundering) / CFT (combating of financial terrorism) verifications across the financial system.

#### Present Scenario

The concept of having a centralized UCIC has been introduced by the Government of India through monetary policy statement. While setting up such a system for the entire financial system is likely to take quite some time, Primary (Urban) Co-operative Banks (UCBs) can make an immediate beginning in this regard by having such identification code for their own customers.

While some UCBs already use UCICs for their customers by providing them a relationship number, etc., other UCBs have not adopted this practice. Hoping that these UCBs will, also very soon, initiate steps for allotting UCIC to all their customers while entering into any new relationship.

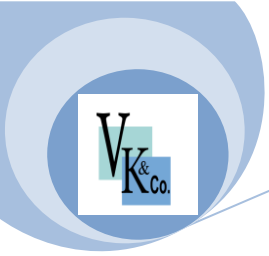
Similarly, existing individual customers may also be allotted unique customer identification code by end-May 2013.

#### Our Views

No doubt, the UCIC & KYC will turn out to be of great importance to the Banking Sector. If the concept of 'Maintenance of Blacklist' is given more importance, then this would act as an added advantage to keep a track on suspicious transaction.

This blacklist would include:

- countries and government institutions
- individuals
- companies
- charitable organizations and non-profit associations



### Update

- known terrorist groups and their affiliates.

who have, in their past, either committed fraud or have been involved in any kind of money Laundering.

From the above mentioned points it is clear that with a proper regulation and proper guidelines all the mal functioning activities in the Banking Sectors will reduce to a much greater extent.

RBI notification vide RBI/2012-13/235<sup>3</sup> has notified all the Banks and Financial Institute to allot Unique Customer Identification Code to all customers as soon as possible. This step towards a better banking and finance sector is welcomed open heartedly.

---

<sup>3</sup> <http://rbi.org.in/scripts/NotificationUser.aspx?Id=7606&Mode=0>