Amendment Acts for Ensuring Aadhaar KYC

Why in news?

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Union government has decided to amend multiple laws to allow the use of Aadhaar for a voluntary know-your-customer (KYC) process.

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What is KYC process?

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- KYC means “Know Your Customer”, it is a process by which Banks/Financial institutions obtain information about the identity and address of the customers.
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- This process helps to ensure that banks’ services are not misused.
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- The KYC procedure is to be completed by the banks while opening accounts.
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- Banks/Finance institutions are also required to periodically update their customers’ KYC details.
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How Aadhaar influences KYC?

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- Aadhaar authentication is the fastest and cheapest way to verify the identity of customers for businesses that work with thin margins and a large volume of users, as opposed to conventional methods of verification.
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- The latter involves a visit to the prospective customer’s residence and verifying the documents provided.
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- Easier verification has benefited mobile service providers and digital payment service providers the most.

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What SC’s ruling on Aadhaar based KYC?

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- SC recently ordered against private entities to use Aadhaar details for KYC process and stopped the linking of Aadhaar with mobile phone.
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- This was done to ensure data of individuals didn’t get leaked when private sector firms used Aadhaar for authentication.
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What are the issues with SC’s ruling?

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- With its recent ruling SC was satisfied that the Aadhaar information was secure, it was not clear why private sector firms were not to be allowed to use it.
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- The SC ruling had an unfortunate effect of crippling fintech firms since an Aadhaar-based e-KYC was no longer an option.
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- Since it was no longer mandatory to link your bank account with your Aadhaar number, this would allow tax thieves to have bank accounts that were not reported to the taxman.
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- The accounts would be opened using fake PAN cards, SC’s ruling would make it easy for people like thieves, terrorists, kidnappers to get SIM cards using some fake ID.
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What is union government’s response to SC’s ruling?

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- To address the issues with SC’s ruling Union government has amended the Telegraph Act, the Prevention of Money Laundering Act and the Aadhaar (targeted delivery of financial and other subsidies, benefits and services).

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- This will allow the private entities to use Aadhaar as one of the KYC methods on a voluntary basis.
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- By this private telecom firm/bank can now use an Aadhaar e-KYC, but they also need to offer users a choice of offering, say, a ration card or a driving license as a proof of identity if they wish.
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- Also, customers must have the choice of doing their Aadhaar verification online or offline.
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- An online verification means the user gives her biometric impression on a small scanner and UIDAI gives an online confirmation to the telco or bank.
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- In the case of an offline verification, the customer gives the bank/telco her Aadhaar slip which has a QR code printed on it, the telco/bank uses a card-reader to read this.
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- What will come up on the screen of the card-reader will be the name, age, photograph and address of the person, and this can be used to do the KYC.
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- Since all the information is embedded on the QR code, the query doesn't need to go to the UIDAI/Aadhaar database.
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What lies ahead?

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- Since the government has now deleted Section 57 of the Aadhaar Act, following the SC reading down provisions of it, the only solution for the fintech industry is to use offline Aadhaar QR codes for e-KYC.
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- However, this will require some RBI notification since, till this is done, it is unlikely fin-techs will use the offline solution even though it doesn't violate the SC ruling.
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- Apart from this government also needs to find a solution for KYC that will not compromise individual privacy concerns, while making the process of identity authentication easy and cost effective.
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Source: Financial Express, Business Line

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