



Reserve Bank of India

RBI decision to allow NBFCs apply for Aadhaar-e-KYC Authentication Licence

Relevant for Mahindra Finance

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Introduction

The Reserve Bank of India (RBI) has decided to permit NBFCs and payment service providers to apply for an Aadhaar e-KYC Authentication Licence in its effort to encourage digitalization.

Context

Institutions other than banking firms may be licensed, by Central Government notice, to validate a client's Aadhaar number using the Unique Identification Authority of India's e-KYC service under Section 11A of the PML Act, 2002 (UIDAI). The Apex Bank stated, "Such notification must be made only after consultation with UIDAI and the competent regulator."

The central bank also stated in the notice that "the Department of Revenue, Ministry of Finance has offered a detailed procedure for evaluation and approval of applications under the aforementioned Section for use of Aadhaar authentication services by entities other than financial institutions vide their circular dated May 9, 2019."

The RBI went on to say in the comment that "Non-Banking Finance Companies (NBFCs), Payment System Providers, and Payment System Participants who wish to obtain an Aadhaar Authentication License - KYC User Agency (KUA) License or a sub-KUA License (to perform authentication through a KUA) authorised by the UIDAI may submit their request to this Department for forwarding to the UIDAI. Email can also be used to forward the applications. In the circular's Annex, you'll find the application's format."

Benefits

- The client onboarding process is quickened, and fraud is significantly reduced.
- Non-banking firms benefit from cost savings in an increasingly competitive global market.
- Customers will have more confidence since only licenced companies will be allowed to perform eKYC.
- Aadhaar authentication also adds another degree of protection against fraud. It does this by demanding a second OTP or biometric verification.

- Customers who do not have PAN cards or who do not want to submit their PAN card information will be allowed to be onboarded under the new regulation.
- Will encourage digitization resulting in a forward-thinking strategy ensuring the timely provision of financial services in the industry.

Industry View

- **Ankit Bhatnagar, Head of Product, Mswipe**

“Since only licenced businesses will be authorised to undertake eKYC, the Reserve Bank's effort will assist in increasing client trust. With eKYC, non-banking companies that provide financial services may increase compliance while also ensuring that the popular client onboarding method for which they previously had to rely on third parties can now be provided directly through a KUA licence.”


- **Manoj Chopra, Head Innovation and Product Development, Infracore Technologies Limited**

“Previously, NBFCs relied on paper-based authentication techniques such as PAN verification or offline Aadhaar validation. Because such techniques required uploading photos of actual papers such as PAN and Aadhaar cards, the procedure was slightly more time consuming and increasingly susceptible to rejections because the quality of the photos supplied may not have been up to par. These NBFCs can now use an online database in Aadhaar to authenticate the identification, including the image, by obtaining an Aadhaar Authentication License – KYC User Agency (KUA) licence or a sub-KUA licence.”

“In contrast to PAN, where the photo might be altered with or edited, this ensures that an actual photograph is accessible for comparison. Furthermore, a large number of NBFCs and MFIs operate in semi-urban and rural regions. NBFCs would now be able to grow their client base because most individuals have Aadhaar numbers and are comparatively more comfortable providing their Aadhaar data. While your PAN can be used as proof of identification, you'll need another document to prove your address (POA). NBFCs may complete their e-KYC with simply the Aadhaar number, which acts as both a POI and a POA, thanks to Aadhaar validation.”

- **Gurjodhpal Singh, CEO, Tide (India)**

“The RBI's latest ruling to enable NBFCs, Payment System Providers, and Payment System Participants to employ eKYC for client onboarding is a positive step for the Fintech industry. Digitisation is one of the most beneficial steps for ecosystem players,



and it will help customers have a smoother onboarding experience.”

- **Arpit Ratan, Co-founder and Chief Business Officer, Signzy**

“A genuinely democratic movement to empower NBFCs, payment system providers and participants in order to make consumers' digital journeys faster, easier, and more safe. The RBI has been working over the past two years to build a more conducive and compliant digital environment that would allow non-bank businesses to play a more active role in the digitisation of financial institutions. Customers are increasingly using smartphones to access a variety of financial services, including insurance, loaning, commercial banking, payroll, and alternative investments, in addition to payments, and this necessitates expediting of onboarding processes to improve customer experience and increase access.”

The Fed Reserve has warned the public about KYC scams and urged against sharing sensitive information, such as account numbers or passwords, with unknown people or agencies.