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RESERVE BANK OF INDIA SIMPLIFIES KYC NORMS: THE WAY FORWARD



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Abstract:-

In developing country like India banking sector plays a vital role for the development of an economy. Recently, the Reserve Bank of India has reduced the stringency policy of KYC norms for the purpose of promoting financial inclusion. The main objective of this article highlights about KYC norms for sustainable inclusive growth.

Keywords: Financial Inclusion, KYC.



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INTRODUCTION

The RBI has reduced the stringency policy of Know Your Customer (KYC) norms for the purpose of expansion financial inclusion. A KYC norm helps for promoting financial inclusion. The Reserve Bank of India's decision to allow individuals to open the bank accounts with a permanent address will provide a boost to the process of financial inclusion. According to RBI across the country 150 millions of households did not have a bank account. With the relaxation of KYC norms in the last seven years over 200 million no-frills bank accounts have been operated in nearly 3,00,000 villages. R.K. Bansal, (2014) Executive Director, IDBI Bank, expressed this was a stepping up towards financial inclusion. There are three questions that are always asked. They are (a) Name of the customer (b) Address and (c) Occupation

Further, in order to ensure that persons belonging to low income group both in urban and rural areas facing difficulties in opening the bank accounts due to the procedural hassles. The KYC procedure for opening accounts has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open the bank accounts. Mexico is the example for lower documentation requirements for small transaction sizes aimed at increasing financial access expressed by D.Ramesh and S. Pachialakshmi (2014).

NORMS:

2005 onwards for opening bank accounts were simplified. All the banks are following simplifying procedure can take any evidence as to the identity and address of the customer to the satisfaction of the bank.

i. Simplified Branch Authorization: 2009 onwards commercial banks are permitted to freely open branches in Tier 3 to Tier 6 centres with population of less than 50,000 under general permission subject to reporting.

ii. Fixation of pricing has been made free: The RBI have given liberty for fixation price by banks (interest rates).

iii. Liberalization of Business Correspondents' Model: In January 2005 onwards the RBI permitted banks to engage business facilitator and business correspondents as intermediaries for providing financial and banking services. Based on business correspondent model allow banks to provide door-step delivery of services especial 'cash in-cash out' transactions at a location much closer to the rural population. As a result, as on 31st, 2011 domestic commercial banks have reported deploying 58,361 business correspondents, providing banking services in 76,081 villages.

iv. Opening of Branches in unbanked rural centres: For penetration and financial inclusion rapidly, opening of number of branches in rural areas. By the end of March 2011 to allocate at least 25 per cent of the total number of branches to be opened in unbanked rural centres.

v. Customers need to submit only one documentary proof of address-either current or permanent while opening a bank account or while undergoing periodic updating. "In case the address mentioned as per 'proof of address' undergoes a change, fresh proof of address may be submitted to the branch within six month" the RBI, (2014) said in a notification to banks.

vi. Forth coming plans for banks Financial Inclusion Progress (FIP): As per the direction of RBI all public and private sector banks have to submit Financial Inclusion Progress (FIP) for next three years. For present year 2014, FIP containing targets for 2015, 2016 and 2017. This plan highlights self-determined targets in respect of rural brick-and-mortar branches to be opened, business correspondents to be employed, and coverage of unbanked villages with population below 2,000. The implementation of these plans is being closely monitored by the Reserve Bank of India.

Opening of No-frills accounts: No-frills account, with 'nil' or very low minimum balance requirement. As per the direction of Reserve Bank no-frills accounts were started 2005 onwards. In 2011, 7.91 crore no-frills accounts have been opened by banks with outstanding balance of Rs.5, 944.93 crore whereas 4.93 crores accounts and an amount of Rs.4, 257.07 crores in March, 2010. Through "no-frills" account social security payment and also the wage payment of Mahatma Gandhi National Rural Employment Guarantee Programme Accounts (MGNREGPA) can be routed. It can also be reduced transaction cost says D.Ramesh and S. Pachialakshmi, (2014). In India, 35% of people had formal accounts versus the global average of 50% and the average of developing economies 41%.

TABLE 01 NO-FRILLS ACCOUNTS BY THE END OF 2010 AND 2011

Particulars	March 2010	June 2011
Coverage of villages	54,258	1.07 lakhs
No-frills accounts	4.93 crores	7.91 crore
Over drafts	1.31 lakhs	9.34 lakhs
General Credit Card	--	2,356.25 crore (10.70 lakhs)
Kissan credit cards	--	1,36,122.32 crore (202.89 lakhs)

Small Overdrafts in No-frills accounts: Small overdrafts have been providing by banks for No-

frills accounts. Up to June 2011 banks had provided 9.34 lakh overdrafts amounting to Rs.37.42 crore whereas in March 2010 it is Rs.1.31 lakh and an amount of Rs.8.34 crore. Banks have been providing Credit Card facility for General purpose in rural and semi-urban areas. This facility based on assessment of household cash flows. Interest rates are completely deregulated from June 2011 banks had provided credit aggregating Rs.2, 356.25 crore in Rs.10.70 lakh General Credit Cards account. For the purpose of small farmers Kissan Credit Cards issued by banks, as on 30th June, 2011 the total number of KCCs issued has been reported as 202.89 lakh with an amount of Rs.1,36,122.32 crore outstanding. Hence, the above figures are not impressive so that and we want set targeted figures and put up of our efforts for promoting financial inclusion in future.

There has been significant slow progress towards greater financial inclusion around the world in recent years. According to Hanning and Alfred and StefanJanse (2010), analyses by an Asian Development Bank working paper in Africa, Kenya has pioneered an interesting process of financial inclusion through mobile phone payment solutions. Latin America countries such as Peru and Bolivia have attempted to put in place some very enabling regularly environments for microfinance. These two countries are rapid six million clients in the formal financial system. In Global several countries now look at financial inclusion as the means of a more comprehensive growth. The banking sector has taken a lead role in promoting financial inclusion.

In April 2012, the global financial inclusion (global Index) data base analysis says that 50 per cent of adults world-wide have an account of a formal financial institution. In addition to 22 per cent of adults report having saved at a formal financial institution in the past 12 months and 9 per cent only has taken out a new loan from a bank. Among the most commonly reported barriers are high cost, physical distance and lack of proper documentation.

REASON TO OPEN THE BANK ACCOUNT IN GLOBAL

Sl. No.	Year	Name of the Country	Reason to open the bank account
i.	1996	German	'Everyman' current banking account that facilitates basic banking transactions.
ii.	1997	United States of America	The community Reinvestment Act requires banks to offer credit through-out entire area of operation and prohibits them from targeting only the rich neighbourhood.
iii.	1998	France	The law on exclusion emphasises an individual's right to have a bank account.
iv.	2004	South Africa	A low-cost bank account called 'Mzansi' was launched for financially excluded people
v.	2005	United Kingdom	A financial inclusion task force was constituted by the Government, in order to monitor the development of financial inclusion

CONCLUSION:

It is therefore the financial inclusion serve as a guide for policy makers with the objectives of safe and sound adoption of innovative products. Adequate and low-cost financial delivery models are helping to provide conditions for fair competition and framework of incentives for the bank, insurance, and non-bank actors involved and delivery of affordable and quality financial services.

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