

Aadhaar-based eKYC return may boost MF growth

BY NEIL BORATE

A notification by the markets regulator sets out the procedure for mutual fund (MF) intermediaries to conduct Aadhaar-enabled eKYC. *Mint* takes a look at the process and its benefits in comparison to the traditional method that relies on physical document verification.

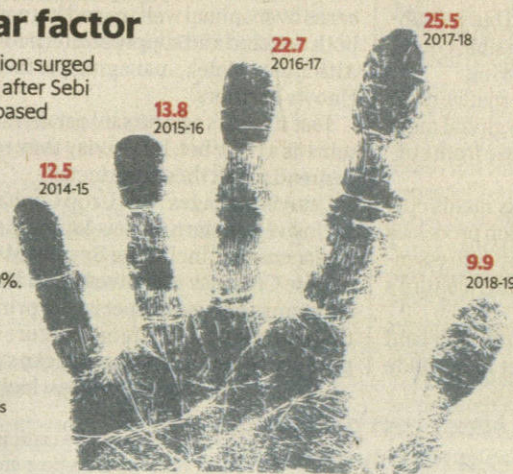
The Aadhaar factor

Mutual fund penetration surged in 2016-17 and 2017-18 after Sebi introduced Aadhaar-based eKYC. The procedure was brought to a halt with the verdict on Aadhaar last year. Since then MF penetration has slumped to around 10%.

(Figures in percent)

Data as of September (on trailing basis). Investors can hold more than one folio but folio growth roughly measures growth in investors.

Source: Amfi

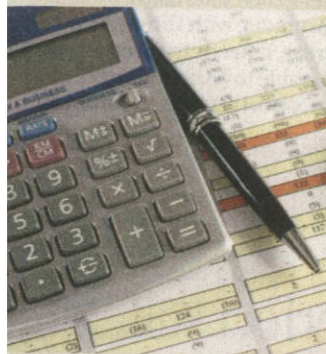


1 What is KYC in mutual fund investments?

KYC (know your customer) is an identification process that records basic information about customers and thus establishes their identity. It is mandatory for anyone who wishes to invest in MFs to comply with the KYC norms. Once MF investors complete the process, they do not have to do it again for subsequent MF investments. But this does not hold good for KYC done for financial products regulated by entities other than the Securities and Exchange Board of India (Sebi). Thus, a KYC done for opening a bank account, which is regulated by the Reserve Bank of India, will not be valid for mutual fund investments.

2 Is eKYC different from the regular process?

The eKYC process allows KYC to be done electronically using a webcam. In this method, the intermediary can accept electronic documents and uses a webcam to verify the customer's identity. This is different from the traditional KYC process, which uses paper and relies on physical document verification. This option was not halted by the Aadhaar judgement, but it takes up more time and is costlier for mutual fund intermediaries than carrying out eKYC with Aadhaar and one-time password (OTP). The simplest and most cost-effective method is the third option of eKYC with Aadhaar and OTP.



3 What happened with Aadhaar-based eKYC?

The facility of carrying out eKYC using Aadhaar and OTP was introduced by the markets regulator in 2015 for mutual fund investments up to ₹50,000, following which mutual fund penetration surged. However, eKYC using OTP was brought to a halt after the Supreme Court's judgement on Aadhaar in September 2018.

4 How was Aadhaar eKYC revived?

Aadhaar was revived through an ordinance in March that became an Act in July. Through a circular dated 9 May, the department of revenue of the Union finance ministry set out the procedure for assessing applications for Aadhaar authentication by companies other than banking companies. The procedure required the consent of the regulator concerned and the Unique Identification Authority of India (UIDAI). This was followed by Sebi's 5 November notification, which lists the procedure for MF intermediaries to conduct eKYC.

5 What is the process for Aadhaar OTP eKYC?

Sebi-registered MF distributors and intermediaries must register with a KYC user agency (KUA) as sub-KUAs. The KUAs, in turn, will be registered with UIDAI. The intermediaries must redirect users to the KUA portal, where they can enter their Aadhaar number and the OTP to verify their identity. In a second variant of the process, intermediaries registered with KUAs can complete KYC using whitelisted devices registered with KUAs, through biometric authentication. Intermediaries cannot store Aadhaar numbers.