
A study on regulatory compliance of KYC in financial service industry

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Abstract: The main aim of the study is to determine the need and significance of Know Your Customer (KYC) in the financial sector. A descriptive research design is used in this study since it is most suitable due to the characteristics of the purpose of the study. In this study, a statistical method is used to determine the sample to ensure that the size of the sample is representable for the whole population. The size of the study is 72 and primary data is collected through questionnaire. Tools used in this study are frequency analysis, mean analysis, independent t test and ANOVA. It is found that there is no remarkable differentiation between demographic variables and perception towards the need of KYC.

Keywords: KYC, Financial service, Perception, Need of KYC, Innovations

INTRODUCTION

Unique specified activities such as savings, insurance, banking etc. constitute the financial sector. It includes the running of such banks, financial institutions and insurance companies and their activities. The financial system comprises a number of intermediaries, markets and instruments. Financial markets, financial intermediaries, financial instruments and financial services are among the four key components of the financial system. A financial market is a market where financial assets are generated and traded. When you purchase and sell bonds, shares and other financial assets, you are either directly or indirectly interested in the financial market. The stock market provides financial assets with liquidity, enabling investors to sell their financial assets quickly. Financial Intermediaries serve as a facilitator for the transfer from one group to another of funds. Commercial banks, cooperative savings banks, savings banks, building firms, credit unions, financial advisors or brokers, insurance companies, non-banking financial companies, pooled investment schemes, etc., are the most popular financial intermediaries. They act as intermediaries and receive fees for their services. The commodities that can be sold in the financial markets are financial instruments. Cash, contractual right to receive cash, bonds, and treasury bills may be these assets. KYC is an acronym for Know Your Customer and is a term used by every financial institution for the Customer Recognition Process as part of the Account Opening process. Electronic Know Your Customer or Electronic Know Your Customer or eKYC in India is a method in which the identity and address of the customer is checked electronically through Aadhaar authentication. India's national biometric eID scheme is Aadhaar. EKYC also applies to the processing of information from IDs (OCR mode), the retrieval of digital data from physically present smart IDs provided by the government (with a chip), or the use of certified digital identities and facial recognition for verification of online identity. Our research idea is based on the rich knowledge acquired by our peer teams across the university. (A.C.Gomathi, S.R.Xavier Rajarathinam, A.Mohammed Sadiq, Rajeshkumar, 2020; Danda et al., 2009; Danda and Ravi, 2011; Dua et al., 2019; Ezhilarasan et al., 2019; Krishnan and Chary, 2015; Manivannan, I., Ranganathan, S., Gopalakannan, S. et al., 2018; Narayanan et al., 2012, 2009; Neelakantan et al., 2013, 2011; Neelakantan and Sharma, 2015; Panchal et al., 2019; Prasanna et al., 2011; Priya S et al., 2009; Rajeshkumar et al., 2019; Ramadurai et al., 2019; Ramakrishnan et al., 2019; Ramesh et al., 2016; Venugopalan et al., 2014)

REVIEW OF THE LITERATURE

(Gelb, 2016) offered various suggestions, including more prominent regard for public distinguishing proof frameworks as these give the premise to CIV and to energise the utilization of advanced innovation to move from money wire moves to more straightforward record account exchanges between recognized holders.

(Mondal et al., 2016) have learned about Transaction approval from KYC data in internet banking. Investigation and reproduction results depict that the proposed strategy gives equivalent control as existent OTP/mTAN.

(Byrne, 2000) has momentarily examined and examined KYC in his book 'Diary of Money laundering and control' Vol. 3. The examination points on the concise history of KYC issue and the historical backdrop of its proposition

being controlled. The examination likewise covers some key gaps confronted such as observing necessities, internet business and security and so forth. The outcome presumes that there is a 'double' duty regarding the financial offices to help the business as it wrestles with the harmony between ordered reports and the well established need to secure client information. Holding the trust of clients is of central significance to holding the strength of the financial business.

(Rowley, 1997) has learned about knowing the client. The examination targets Knowing potential clients distinguishing them and understanding their clients, given the eventual fate of individual administrations and the calling overall rest to a huge degree on client discernments. The examination plainly expresses the distinction between a client and a customer. The investigation joins client purchasing measures with the client dynamic cycle. The consequence of the examination expresses that an investigation of clients as far as advantages can educate viable division, which thus can prompt more proficient focusing of assets. The shopper dynamic cycle is significant in deciding 'buy' conduct and the utilization of the administration.

(Jackson, 2000) has emphasised on how important it is to understand the customer by acknowledging and narrating Money Laundering. The examination targets thinking about tax evasion from its set of experiences to know and get clients. Banks and monetary foundations are permitted to work the different principles and guidelines with circumspection, permitting them to accomplish a proper harmony between the need to get rid of illegal tax avoidance and ensuring the security of clients, by far most of whom are impeccably decent. Banks should understand that the protection and privileges of the client are principal. Clients should understand that the banks need data about them, and that demands for the equivalent are not unnecessary. Any KYC program ought to be routinely examined. No two clients whether they are people or organizations are the equivalent, and banks should act appropriately.

(McKenna, 2006) has expressed about KYC in his article 'Know your client yet not very well?'. The author in the article unmistakably expresses that why not realizing a lot about clients is protected and obliviousness is rapture. Presently there are numerous different classifications of by and by recognizable data which you may not wish to gain. He is talking here about delicate individual data. The article further expresses that most organizations have not needed to stress over strategy around there a lot as of not long ago. The two models we have accessible for direction are those of the state and the financial area. Enactment like California's SB1386 follow up on close to home data requiring revelation of break is being talked about in European government circles. The examination infers that If such divulgence will harm your organization's standing and stock cost, maybe it is better not to know a lot in any case. In any event representatives need to turn out to be more dependable in the zone of data, board and assurance.

(Lawrence and Stadler, 2011) clarified the dual principles, the extended necessities in the nascent appropriateness norms, and an extension in the rundown of elements a related individual is needed to consider as a feature of a client's speculation profile prior to making a suggestion. The discoveries bring about FINRA's nascent reasonableness rule is remarkable for three reasons: the amended principle comprises venture procedures and express suggestions to hold protections; it grows the vital elements for developing an appropriateness assurance; and it incorporates definitions for three explicit reasonableness assessments.

(Graham, 2003) has examined and distributed about 'Know your client: Good for consistence, extraordinary for customer administration'. The investigation focuses on the significance of KYC in maintaining a strategic distance from danger and diminishing illegal tax avoidance. The exploration expresses that a solid client recognizable proof program (CIP) is basic to a successful checking program. KYC expected to force firms to improve their investigation of clients and to apply that expanded examination at different levels, contingent on the measure of danger engaged with not knowing the client's personality upon the kickoff of a record. The finding reasons that the test of monetary establishments is to protect their capacity to keep working together while guaranteeing that monetary administrations are not mishandled by fear mongers and tax criminals. Realizing your client prompts improved security and more grounded customer administration.

(Limehouse, 1999) has learned about managing client relationships. The investigation focuses on the significance of KYC and dealing with a trustful client relationship. It expresses that Retaining clients implies managing adequately and expediently with any objections and this is simpler in the event that we approach fitting data about them and their previous record of managing the association.

(de Wit, 2007) has learned about a danger based way to deal with AML, A debate between monetary establishments and controllers. The motivation behind his paper is to introduce a danger based way to deal with illegal tax avoidance (AML) frameworks. The paper covers the territories of: client due steadiness, client acknowledgment, hazard the board and usage. Controllers and monetary foundations have to jointly work so AML norms could be set inside a danger based methodology, subsequently empowering a nation to ensure itself in the most ideal and moderate manner.

(Wilhelm et al., 2013) have learned about the significance of thinking about important clients. Client information has not yet been perceived as a potential wellspring of key upper hand in extension of the information based view. The reason for the paper is, subsequently, to acquire introductory experiences into the essential component of clients information to empower organizations to characterize, distinguish and rouse the correct clients and work

with them together on a deliberately effective level. The contextual investigation in this exploration depends on semi-organized meetings with nine representatives and vital clients just as a record examination in an innovatively arranged more modest firm furnished with restricted assets. The discoveries show that essential clients take on an important situation inside the organization. Apparently the essential client is more mindful of his/her incentive than the organization itself. A definition and first measures of vital clients could be resolved and a precise recognizable proof of vital clients is conceivable with the assistance of this investigation.

(Dieter and Mention, 2011) have learned about Improving reviewer adequacy in evaluating KYC/AML rehearses. The reason for this study is to investigate the appropriateness of ISO standards to make inside evaluation appraisal technique, that adequately goes about an evaluation framework format to assess consistency using the KYC and hostile to illegal tax avoidance (AML) prerequisites of Luxembourg private & retail financial area. This paper utilized a subjective methodology with different center gatherings and contextual investigations, to expound and approve the created framework using methodological triangulation. The provided appraisal framework is a model that encourages a fusion in the agendas & accounts to guarantee successful evaluation & its framework permits focusing on explicit zones of danger in the recognized KYC/AML measures.

(Verhage, 2011) have learned about Combating tax evasion by the banks in India: consistency and difficulties. The examination was led to survey the degree of consistency with administrative rules on the enemy of illegal tax avoidance of booked business in Indian banks and comprehend the bottleneck of AML execution. The responders are representatives who work in banks situated in both Tamilnadu and Pondicherry. 'Snowball' examining techniques were received for choosing the example. It comprised 392 of workers in the private area, public area and unfamiliar indian banks. The result concluded that the banks are to a great extent agreeing (3.7 - 1.4) with measures of the AML under examination.

(Chat, 2018) has learned about preventing the utilization of monetary organizations for tax evasion and the suggestions for monetary protection. The article talks about the ramifications of tax evasion precautionary steps for monetary security, with the emphasis on financial mystery. The article begins with the chief estimates forced on monetary specialist co-ops to forestall illegal tax avoidance. The association between the preventive measures and the longing for monetary protection is further examined. The satisfactory execution of the precautionary step is exceptionally significant for monetary establishments to be protective from illegal tax avoidance. Regardless, the implementation of these measures is getting significantly more meddlesome into monetary security. Practically speaking, monetary protection ought to be weighted decently against the destinations of preventive measures.

(Gill and Taylor, 2004) have learned about financial firms' stance on 'Know Your Customer' Processes. This paper depends on an exploration study, inspects one part of it, that is the way toward distinguishing clients, which is broadly certify by administrative specialists as an essential advance in the avoidance of tax evasion. Over the span of ordinary business, monetary organizations find that 'Know Your Customer' (KYC) can have negative ramifications; numerous respondents felt that their set up customers would have been distanced by the prerequisites had they been set up when these records were opened, many regretted the absence of adaptability inside the standards in spite of the admitted point of the Financial Service Authority (FSA) that organizations ought to be permitted to receive a danger based methodology, and organizations were worried about the cost.

RESEARCH METHODOLOGY

The questionnaire has been prepared and widely circulated among the service providers in the financial institutions. The instrument is prepared by using likert five point scale. The data was collected from 72 aspirants who are current and former employees of a financial institution. The data collected is analysed using SPSS with some of the statistical tools such as frequency analysis, mean analysis and ANOVA.

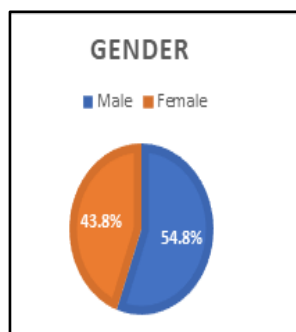


Fig.1: The pie chart depicts the percentage of gender in the sample. 54.8% of the sample are Male and 43.8% are Female employees.

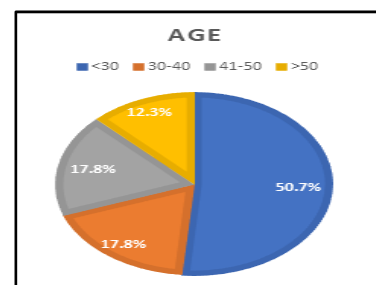


Fig.2: The pie chart depicts the age of the employees who responded. 50.7% of the employees are aged below 30 years, 17.8% are aged between 30-40 & 41-50 each and 12.3% are aged above 50 years.

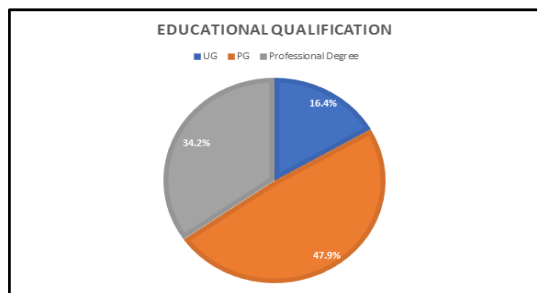


Fig.3: The pie chart describes educational qualifications of the employees responded. 47.9% have a PG degree, 34.2% have a Professional degree and 16.4% have a UG degree.

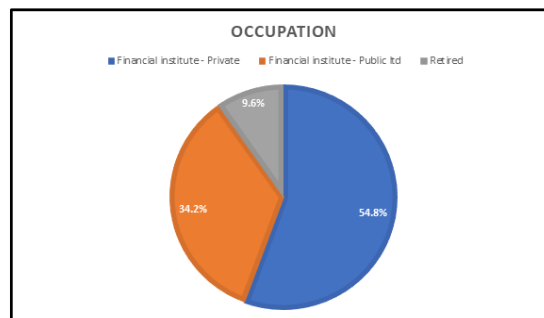


Fig.4: The pie chart depicts that 54.8% of the employees are working in Private Financial institutes, 34.2% are working in Public financial institutes and rest (9.6%) are retired.

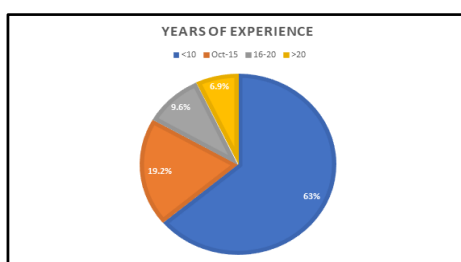


Fig.5: The pie chart depicts years of experience of the employees. 63% of them have experience of below 10 years, 19.2% have experience between 10-15 years, 9.6% have 16-20 years and 6.9% have more than 20 years of experience.

Table 1: Perception towards need of KYC

S. No	Perception of need of KYC	Mean	Rank
1	To ensure details of customers are real	3.50	1
2	To avoid digital scams	3.46	2
3	To know detailed background of a client	3.43	3
4	To avoid clients with shady dealing	3.35	4
5	To make sure business is trustworthy	3.32	5
6	To make clients feel they are working with legitimate company	3.31	6
7	To avoid illegal laundering of black money	3.29	7
8	To reduce financial risks	3.28	8
9	To lessen Financial crimes	3.15	9

The mean score and rank are displayed in table 1. It shows the variable “Real Info.” includes highest mean score of 3.50 followed by Digital Scams (3.46), Background of client (3.43), Shady Dealing (3.35), Business Trustworthy (3.32), Legitimate Company (3.31), Limit Fraud (3.29), Fin. Risk (3.28) and the least mean score is for Fin. Crimes (3.15).

Table 2: Gender and perception towards need of KYC

S.No	Variable	T value
1	Gender vs Perception towards need of KYC	0.315

Table 2 shows the Independent T- Test analysis of Gender vs Perception towards the need of KYC. From the analysis it is clear that ‘P’ value (0.315) is higher than 0.05. It is interpreted that there is no significant difference between gender in comparison to perception towards need for KYC.

Table 3: Demographic profile vs Perception towards need of KYC

S. No	Particulars	F value	Sig.
1	Age vs Perception towards need of KYC	0.564	0.640

2	Educational qualification vs Perception towards need of KYC	3.831	0.026
3	Occupation vs Perception towards need of KYC	0.456	0.635
4	Years of experience vs Perception towards need of KYC	0.410	0.746

Majority of the demographic details such as age, occupation and years of experience have significant value of more than 5 percent. Hence, it is concluded that there is no difference between demographic details of the employees and their perception towards the needs of KYC.

CONCLUSION

The study was conducted to understand the need and importance of Know Your Customer (KYC) in the financial service sector. KYC's role in effectively reducing several factors such as money laundering, finance of terrorism, avoiding clients with shady dealings, to know the customers background etc are considered and respondents were asked their level of agreement to each. It is concluded that respondents are agreeing towards all the mentioned factors. However, some factors such as reducing financial crimes, financial risk, money laundering frauds should be given utmost importance and immediate actions are required.

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