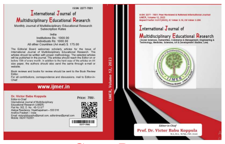

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Why RBI Imposes Penalty on Amazon Pay (India)

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Abstract:-

Know Your Customer (KYC) is mandatory for all banks to prevent money laundering and fraud issues. RBI also released some guidelines for all banks to update the KYC details of their customers. RBI takes action on those banks who do not follow the guidelines. Recently RBI imposes penalty to Amazon Pay India Pvt. Ltd. In this paper we will study why the RBI imposes penalty on Amazon Pay, what are the RBI guidelines on KYC and what is KYC.

Keywords:-

KYC, KYC norms, RBI guidelines, Amazon Penalty, Master Direction of KYC

Objective of Study:-

1. To study the reasons behind the penalty on Amazon Pay.
2. To overview the RBI guidelines on KYC
3. To study the Master Direction on KYC
4. To study in detail on KYC.

Limitations of Study:

1. The study is based on the data collected from the RBI website.
2. The sources of data collection are secondary, so there might be chances and various nuances of inaccuracy.
3. Since time was of the essence, it was not possible to analyse and study all the factors that were responsible behind this Amazon Pay penalty.

Research Methodology:

The data collected for the study is secondary data. Secondary sources comprise reports from RBI official website, newspapers like Economic times, Business standard, slideshare.net, scribed, Magazines like yojana,manorama need to be used for data collection,data mining(exploring through the internet).

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Reserve Bank Of India (RBI):

The Reserve Bank of India, chiefly known as RBI, is India's central bank and regulatory body responsible for regulation of the Indian banking system. It is under the ownership of the Ministry of Finance, Government of India. It is responsible for the control, issue and maintaining supply of the Indian rupee. It also manages the country's main payment systems and works to promote its economic development. Bharatiya Reserve Bank Note Mudran (BRBNM) is a specialised division of RBI through which it prints and mints Indian currency notes (INR) in four of its currency printing presses located in Nashik (Maharashtra; Western India), Dewas (Madhya Pradesh; Central India), Mysore (Karnataka; Southern India) and Salboni (West Bengal; Eastern India).The RBI established the National Payments Corporation of India as one of its specialised division to regulate the payment and settlement systems in India. Deposit Insurance and Credit Guarantee Corporation was established by RBI as one of its specialised division for the purpose of providing insurance of deposits and guaranteeing of credit facilities to all Indian banks

Amazon Pay India Pvt. Ltd.

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Amazon Pay (India) Private Limited is a Private incorporated on 04 July 2011. It is classified as Subsidiary of Foreign Company and is registered at Registrar of Companies, Bangalore. Its authorised share capital is Rs. 160,000,000,000 and its paid up capital is Rs. 86,824,845,000. It is involved in Other wholesale [Includes specialised wholesale not covered in any one of the previous categories and wholesale in a variety of goods without any particular specialisation.]

Amazon Pay (India) Private Limited's Annual General Meeting (AGM) was last held on 30 September 2021 and as per records from Ministry of Corporate Affairs (MCA), its balance sheet was last filed on 31 March 2021.

Directors of Amazon Pay (India) Private Limited are Vikas Bansal, Mahendra Jaywant Nerurkar.

Why RBI Imposes Penalty on Amazon Pay?

The Reserve Bank of India (RBI) has imposed a penalty of Rs 3.06 crore on Amazon Pay (India) Pvt Ltd for non-compliance with certain provisions of the Prepaid Payment Instruments (PPIs) guidelines.RBI said in a statement on Friday that "it was observed that the entity was non-compliant with the directions issued by RBI on Know-Your-Customer (KYC) requirements."

Amazon Pay is the payments arm of e-commerce giant Amazon India and provides services such as mobile recharges, and bill payments. It also distributes insurance and wealth management products such as fixed deposits (FD) through partners.

RBI said it had first asked the entity to show cause as to why penalty should not be imposed for non-compliance with the directions.

"After considering the entity's response, RBI concluded that the aforesaid charge of non-compliance with RBI directions was substantiated and warranted imposition of monetary penalty," the banking regulator said.

The regulator also clarified that the action was not based on any transaction or agreement entered into by the entity.

This action is based on deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the entity with its customers," it said.

A spokesperson for Amazon India said, "We remain deeply committed to operating as per regulatory guidelines and maintaining a high compliance bar, while we innovate on behalf of our customers to offer them a safe and convenient payments experience. We continue to work closely with the authorities to share our commitment with them."

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In July 2022, RBI imposed a monetary penalty of Rs 1.67 crore on Ola Financial Services for similar reasons of non-compliance with KYC requirements.
The regulator had also fined fintech firm Obopay in August last year.
In the past, financial entities fined by the RBI have contested the decision or consulted with the regulator to get the fine reduced.
For financial year 2021-2022 (FY22), Amazon Pay India reported total income Rs 2,052.4 crore on losses of Rs 1,740.8 crore, according to regulatory filings.

RBI notification to all banks for KYC updation on Jan 05, 2023.

1. The Reserve Bank has, from time to time, taken measures to rationalise the KYC related instructions taking into account the available technological options for enhancing customers' convenience within the framework prescribed under the Prevention of Money Laundering Act, 2002 (PMLA) and rules framed thereunder. The process for the periodic updation of KYC (re-KYC) was simplified in May 2021 (Section 38 of RBI Master Direction on KYC).
2. As per the present guidelines, if there is no change in KYC information, a self-declaration to that effect from the individual customer is sufficient to complete the re-KYC process. The banks have been advised to provide facility of such self-declaration to the individual customers through various non-face-to-face channels such as registered email-id, registered mobile number, ATMs, digital channels (such as online banking / internet banking, mobile application), letter, etc., without need for a visit to bank branch. Further, if there is only a change in address, customers can furnish revised / updated addresses through any of these channels after which, the bank would undertake verification of the declared address within two months.
3. As the banks are mandated to keep their records up-to-date and relevant by undertaking periodic reviews and updations, a fresh

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KYC process / documentation may have to be undertaken in certain cases including where the KYC documents available in bank records do not conform to present list of the Officially Valid Documents (viz., passport, driving licence, proof of possession of Aadhaar number, the Voter's Identity Card, job card issued by NREGA and letter issued by the National Population Register) or where the validity of the KYC document submitted earlier may have expired. In such cases, the banks are required to provide an acknowledgement of the receipt of the KYC documents / self-declaration submitted by the customer.

4. Fresh KYC process can be done by visiting a bank branch, or remotely through a Video based Customer Identification Process (V-CIP) (wherever the same has been enabled by the banks), as provided in Section 18 of the Master Direction on KYC.
5. Individual customers of banks are encouraged to get more information on the different options available to them from their bank for

1) completing re-KYC (such as submission of self-declaration through various non-face–to-face channels mentioned in para 2); OR
2) Completing fresh KYC by visiting a bank branch or remotely through V-CIP.

What is Master Direction on KYC:

Master Direction - Know Your Customer (KYC) Direction, 2016

In terms of the provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records). Rules, 2005, as amended from time to time by the Government of India as notified by the Government of India, Regulated Entities (RES) are required to follow certain customer identification procedures while undertaking a transaction either by establishing an account-based relationship or otherwise and monitor their transactions. REs shall take steps to implement the provisions of the aforementioned Act and Rules, including operational instructions issued in pursuance of such amendment(s).

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Accordingly, in exercise of the powers conferred by Sections 35A of the Banking Regulation Act, 1949, the Banking Regulation Act (AACS), 1949, read with Section 56 of the Act ibid, Rule 9(14) of Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 and all other laws enabling the Reserve Bank in this regard, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest to do so, hereby issues the Directions hereinafter specified.

Section 35- Inspection
[35A] Power of the Reserve Bank to give directions
[Section 35AA] Power of Central Government to authorise Reserve Bank for issuing directions to banking companies to initiate insolvency resolution process.

What is KYC:

KYC means Know Your Customer and sometimes Know Your Client. KYC or KYC check is the mandatory process of identifying and verifying the client's identity when opening an account and periodically over time.

In other words, banks must make sure that their clients are genuinely who they claim to be.

Banks may refuse to open an account or halt a business relationship if the client fails to meet minimum KYC requirements.

e-KYC: In India, Electronic Know Your Customer or Electronic Know your Client or eKYC is a process wherein the customer's identity and address are verified electronically through Aadhaar authentication. Aadhaar is

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India's national biometric eID scheme.eKYC also refers to capturing information from IDs (OCR mode), the extraction of digital data from government-issued smart IDs (with a chip) with a physical presence, or the use of certified digital identities and facial recognition for online identity verification.

Why is the KYC process important?

- KYC procedures defined by banks involve all the necessary actions to ensure their customers are real, assess, and monitor risks.
- These client-onboarding processes help prevent and identify money laundering, terrorism financing, and other illegal corruption schemes.
- KYC process includes ID card verification, face verification, document verification such as utility bills as proof of address, and biometric verification.
- Banks must comply with KYC regulations and anti-money laundering regulations to limit fraud. KYC compliance responsibility rests with the banks.
- In case of failure to comply, heavy penalties can be applied.

In the U.S., Europe, the Middle East, and the Asia Pacific, a cumulated USD 26 billion in fines have been levied for non-compliance with AML, KYC, and sanctions-fines the past ten years (2008-2018) - let alone the reputational damage done and not measured.

Types of KYC

1. Paper-based KYC

This type of KYC verification happens in person using self-attested, physical copies of the address and identity proofs. You need to physically visit the bank, fund house office, or KYC Registration Agency and submit the signed form along with the documents.

2. Aadhaar-based eKYC

In this method, the data collected by the Unique Identification Authority of India (UIDAI) is used to authenticate customers remotely. You can opt for online identity verification using Aadhaar OTP based or Biometric-based verification. For OTP-based verification, you would need to have your mobile number linked with your Aadhaar Card. For biometric

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verification, on the other hand, you need to provide your biometrics, which would then be evaluated using UIDAI-certified biometric scanners.

3. Digital KYC

This type of KYC verification involves the geotagging of your live photograph along with the Officially Valid Documents (OVDs). You can upload the scanned copies of the KYC documents online while submitting the form. The digital KYC process then verifies the details entered against the information on the geo-tagged documents.

4. Offline KYC

The offline KYC process is different from in-person, paper-based verification. This type of KYC requires you to download and share your Aadhaar Paperless Offline e-KYC document. You also need to provide your consent that the information in the document can be used for KYC verification.

5. Central KYC (CKYC)

CKYC is the process of submitting the KYC documents and authenticating your identity, after which, the KYC records are added to the central repository. This central repository is maintained by the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) and can be accessed using the 14-digit number assigned against the record.

6. Video KYC

As the name suggests, this type of KYC is done through a video. The process may be assisted or non-assisted, but it is entirely paperless and online. For fraud-free authentication, you need to submit the KYC documents and record a video using a web portal or an app chosen by the financial institution to verify your KYC. Post submitting, the application is manually viewed and verified by an agent.

Conclusion:

- KYC means "Know your customer". It is mandatory to know who my customers are. With the help of KYC we can take action to ensure their customers are real, assess and monitor risk.Also it, limits fraud

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that result mainly due to hiding of identity and Prevents money laundering and other anti-social activities.

- According to RBI guidelines and notification it was observed that the entity was non-compliant with the directions issued by RBI on Know-Your-Customer (KYC) requirements. That's the reason RBI imposes a penalty of Rs. 3.06 crore on Amazon Pay (India) Pvt. Ltd.
- To limit frauds and prevent money laundering RBI notified all banks to update their customers kyc details. RBI publishes master Direction for KYC.

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