AML Compliance in India

What 2018 May Hold in Store

Arpita Bedekar
Research Director
Fintelekt Advisory Services
arpita@fintelekt.com

Banks and financial institutions in India have been battling both increasingly stringent global requirements as well as an evolving compliance environment domestically, especially following demonetisation. In 2018, more regulatory clarity is expected to emerge on Aadhar and some of the new-age payments areas, but institutions may continue to struggle to keep up with regulatory changes in the coming year. Some expected themes for 2018:

Regulatory action to continue, and probably intensify

Regulators and law enforcement agencies have been aggressively stepping up their enforcement actions on institutions and sectors with a relatively lower focus on compliance. Intensified scrutiny on issues related to non-performing assets, black money, shell companies and investments in virtual currencies are likely to continue during 2018. Besides, regulators have been conveying to reporting entities that they need to move towards tackling compliance in its entirety, as against a siloed approach to AML/CFT. This year we can expect the amount and frequency of fines for AML compliance failures across the industry to only go up, as regulators and law enforcement agencies continue their crackdown on illegal money.

More clarity on Aadhar and simplification of the KYC process

Arguably, the most significant takeaway for the banking, financial and insurance (BFSI) industry in India for 2017 was the linking of Aadhar to virtually all possible financial transactions of a customer. Institutions have combated rapidly changing regulations in this area in the last few months, and we expect the dust to settle down somewhat in 2018, with more clarity on the process of accepting Aadhar as the primary KYC document.

The financial services industry will also start to reap the benefits of linking a unique, biometric identification – such as lower cost and greater convenience of KYC, single view of all customer transactions, easier identification of beneficial owners, and prevention of frauds across multiple organisations.

Arguably, the most significant takeaway for the banking, financial and insurance (BFSI) industry in India for 2017 was the linking of Aadhar to virtually all possible financial transactions of a customer.

Sectors with relatively weak AML/CFT compliance to get attention

There was growing evidence of a broadening regulatory net on sectors other than commercial banks in 2017. In August SEBI imposed a penalty of INR 40 lakhs on depository participant BOI Shareholding Ltd for not taking 'adequate and appropriate' steps to comply with the anti-money laundering regulations. Earlier in June, the Bombay Stock Exchange (BSE) asked stock brokers to submit details on AML/CFT training programmes for their staff.

The move by the government to relax AML requirements for the gems and jewellery sector met with much controversy, but it has brought to the limelight sectors with weaker AML/CFT compliance, and we can expect the government to crack the whip on these sectors sooner rather than later.

Overall, with the next Mutual Evaluation for India by FATF not too far away, stricter supervision as well as tighter norms for non-banking finance companies, stock exchanges, newer payment banks, co-operative banks, brokers, and gems and jewellery business is inevitable in 2018.

AML regime for new payment systems to evolve further

As mobile money and digital payment systems are catching up, the regulatory framework needs to keep pace. India is still awaiting a stance on virtual currencies such as Bitcoins by the central bank, but regulation in areas such as payments banks is getting more clarity with thresholds on transactions being defined and KYC requirements laid down. Recently, UIDAI cancelled the license of Airtel Payments Bank for e-KYC as they did not take 'informed consent' from their existing customers to open payment bank accounts.

In 2018, we can continue to expect greater curbs on companies that compromise compliance for rapid growth. Technology, data requirements and processes in new payment companies are significantly different from those in conventional banking. Newer companies will be expected to be cognizant of money laundering and terrorist financing risks in these non-traditional businesses.

With the next Mutual Evaluation for India by FATF not too far away, stricter supervision as well as tighter norms is inevitable in 2018.

Greater investments in Artificial Intelligence and Machine Learning

An increasing compliance burden is translating to a corresponding increase in costs. At the same time, a far greater cost is attached to non-compliance, making investment in AML compliance non-negotiable to operational risk mitigation.

Consequently, banks and financial institutions are finding it imperative to keep their technology, systems and processes up-to-date and up-to-speed with growing requirements as well as transactional volumes. Regulatory technology, or RegTech as it is termed, is throwing up some interesting and innovative solutions, especially in the areas of data and analytics, machine learning and artificial intelligence. We can expect more banks to explore compliance technology enhancements, benefits from which could include increase in accuracy, efficiency and productivity, and could bring great relief to perpetually under-staffed compliance departments.