

Original Article

“E-Kyc - A Catalyst in Banking System”.

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Abstract:

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Electronic Know Your Customer (e-KYC) is an emerging trend and innovative transformative force within the banking system focusing on revolutionising customer onboarding, enhancing security and improving efficiency by the tactics of AI, Machine learning and biometric authentication, eKYC is the fastest providing solution to customer verification process thereby reducing manual intervention and accelerating speedy service. However, what seems clear during in-person interactions becomes tricky in the digital space. That simply states how can one ensure that the person signing up for your online service is who they claim to be? This is where electronic Know Your Customer (eKYC) comes in. It addresses such challenges, offering a way for businesses to verify customer identities online

This paper explores the impact of e-kyc on banking serving enhanced customer experience, reduced fraudulent risks and improved compliance with regulatory requirements with a major highlight on future of e-kyc unlocking the new avenues of growth to the overall banking eco system with the ultimate aim of differentiating and leading the market.

Keywords: customer Onboarding, fraud, Biometrics, AI

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Introduction

EKYC is a new trend that has been gaining momentum since early 2022. KYC is a crucial process that helps banks verify identities and ensure financial security. However, with technological advancements, traditional KYC is gradually being replaced by eKYC—an electronic version that simplifies customer verification, reduces time and costs. EKYC not only enhances user experience but has also become an essential trend in digitalization of banking sector. Digital banks that know how to apply cutting-edge solutions such as eKYC will become more agile and can provide customers with an instantaneous and seamless on boarding experience – achieving a big advantage and setting the stage for further growth, at the same time still meeting financial regulations.

Meaning Of E-Kyc

E-KYC (Electronic Know Your Customer) is a strong digital transformation from the traditional KYC process, allowing banks to verify customers quickly and conveniently through online platforms. Instead of relying on paper documents and face to face meetings, eKYC enables financial institutions to verify customer identities entirely electronically, providing superior efficiency and high security.

Need Of The Study

1. Modern Consumers Do Not want to wait longer in the queue for their physical account opening process. They do not want to be stuck filing lengthy forms and submitting the various Xerox copies of documents. eKYC service providers are unseen heroes that enable businesses to simplify their customer identity through a safer method.



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2. Businesses do not want to take risks associated with manual KYC processes, the global electronic Know Your Customer market is expected to reach \$2445.65 million by 2030
3. The stringent government regulations aimed at combating money laundering and financial fraud has given birth to e-kyc
4. Need of the hour to safeguard financial systems against illicit activities, fostering trust, and promoting transparency in the digital age to reach \$2445.65 million by 2030

Objectives Of The Study

1. e-KYC is a no-brainer and banks globally are at work to adopt it.
2. To identify the challenges and risks with e-KYC implementation
3. To explore trends and innovations in e-KYC technology
4. To provide actionable insights and best practices for success of e-KYC

Types of eKYC

1. Biometric Verification
The biometric verification component of eKYC is important as it employs a person's distinctive biological traits, such as fingerprints, retinal patterns, and face features, to confirm their identification. This high degree of security is made feasible by the biometric data and characteristics' near-impossible duplication.
2. Digital Identity Verification
Verifying a person's digital electronic identification entails authenticating the digital information related to them. Email addresses, phone numbers, social media accounts, and digital signatures are examples of id verification of electronic identity.
3. Video-based Verification
In eKYC, video-based verification video identification is a developing trend. It uses recorded or live video calls to verify the customer's identification. The client may be required to show their ID documents to the camera or respond to specific questions. Some companies use AI-based tools to examine video conversations for more precise identification document verification.
4. Document Verification
Verifying identity using physical documents is a critical component of eKYC. However, eKYC employs technology to scan and validate digital versions of official papers like passports, driver's licenses, and national ID cards rather than physically reviewing paper counterparts. This speedier digital verification procedure eliminates the danger of losing or damaging physical documents.

Role of E-Kyc In Expanding Banking Reach

Understanding the role of e-KYC in customer onboarding is essential, as it addresses several of the pressing challenges financial institutions face.

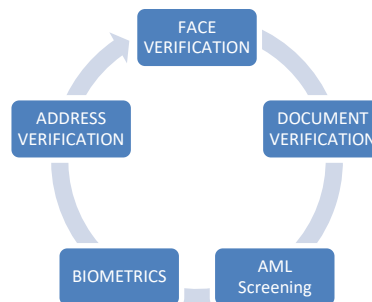
1. Enhancing the Customer Experience
e-KYC is how it improves overall customer experience. Traditional KYC often means lengthy wait times as documents need to be manually verified, leading to delays that can last days or even weeks. By digitizing and automating the verification process with e-KYC, customers can complete their onboarding from the comfort of their homes, often within minutes.
2. Strengthening Security and Compliance
Security is another area where e-KYC shines. In the traditional KYC process, the risk of human errors in documents verification and data entry are always present. E-KYC leverages technologies like biometrics, AI, and machine learning to minimize these risks. For example, facial recognition technology can verify that the person submitting an application matches the photo ID provided, adding an extra layer of security that is hard to replicate in manual processes.
3. Boosting Operational Efficiency
Beyond improving customer experience and security, eKYC also offers substantial operational benefits. Traditional KYC processes are often labor-intensive and prone to errors, driving up costs. eKYC automates much of the verification process, leading to significant savings. eKYC systems are designed to handle large volumes of data and transactions, making it easier to onboard customers quickly, even during peak times.
4. Supporting Digital Transformation and Expanding Reach
eKYC is a key enabler of digital transformation. Financial institutions that embrace eKYC are better positioned to integrate other digital processes, such as mobile banking and online account management, creating a cohesive and efficient customer journey. This digital-first approach not only appeals to tech-savvy consumers but also helps institutions reach underserved markets.
5. **Biometric technology**
Biometric technology plays a pivotal role in eKYC processes, enabling secure and accurate identity verification. Biometrics utilize unique physical or behavioral attributes, such as fingerprints, iris scans, or

facial features, to verify an individual's identity. By capturing and analyzing these biometric markers, eKYC systems can establish a reliable digital identity for each customer.

6. KYC to eKYC: An Evolution Toward Security and Efficiency

e-KYC is not a departure from the principles of the traditional KYC process; rather, it is an enhancement. e-KYC processes respect the foundational objectives of KYC, which include customer identification, fraud prevention, and adherence to legal procedures of the banking system

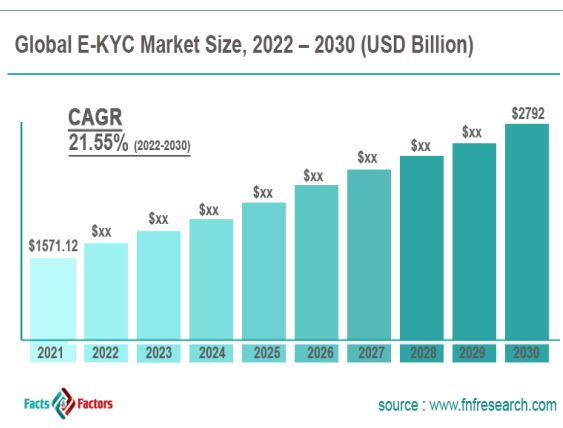
Components Of E-Kyc



Challenges & Opportunities Of E-Kyc

Challenges:

1. **Privacy and Data Security:** Protecting sensitive personal data is crucial in eKYC. There is a risk of cyberattacks, data breaches, and unauthorized access, especially when customer data is stored or transmitted over digital channels.
2. **Fraud and Identity Theft:** Digital identity verification is susceptible to fraud, such as identity theft or the use of fake documents.
3. **Technological Barriers:** Some customers, especially in underserved regions, may not have access to the required technology (smartphones, reliable internet, etc.) or lack the digital literacy to use eKYC tools effectively.
4. **Integration with Existing Systems:** eKYC solutions need to be integrated seamlessly with existing business systems, such as banking or financial service platforms, which may involve significant costs, time, and technical resources.



- The global e-KYC market is estimated to grow annually at a CAGR of around 21.55% over the forecast period (2023-2030)
- In terms of revenue, the global e-KYC market size was valued at around USD 1571.12 billion in 2021 and is projected to reach USD 2792 billion, by 2030.
- The market is projected to grow at a significant rate due to the stringent regulations laid down by regional governments

Opportunities:

1. **Improved Customer Experience:** eKYC offers faster, more convenient onboarding and account verification for customers. This can reduce friction, improve satisfaction, and attract a wider customer base.
2. **Cost Efficiency:** eKYC automates manual processes, reducing the need for physical documentation and in-person verification. This can significantly lower operational costs, reduce errors, and speed up the overall process.

3. **Enhanced Security:** Advanced eKYC systems leverage biometric authentication (such as facial recognition, fingerprint scans), AI, and machine learning to provide a higher level of security compared to traditional paper-based methods. This reduces the chances of human error, enhances security, and builds trust with customers.
4. **Global Reach:** eKYC enables companies to serve customers from any geographical location, expanding their potential market without the constraints of physical presence.
5. **Compliance and Risk Management:** With automated and real-time monitoring capabilities, eKYC solutions make it easier for banks to stay compliant with regulatory standards, manage risks, and perform continuous identity checks.

Findings

1. **1.Data Encryption:** Banks use robust encryption techniques to protect sensitive data during transmission and storage, ensuring that information remains safe even if intercepted.
2. **2.MultiFactor Authentication (MFA):** Requiring multiple forms of verification (such as passwords, SMS codes, biometric data) enhances security and makes unauthorized access more difficult.
3. **3.Biometric Authentication:** Utilizing methods like facial recognition and fingerprint scanning adds an extra layer of security, ensuring that only authorized individuals can perform transactions.
4. **4.Meet regulatory Requirements:** e-KYC is designed to comply with global Anti Money-Laundering (AML) regulations. These regulations require banks to verify customer identities to prevent illegal activities such as money laundering and terrorism financing. E-KYC helps banks meet these requirements effectively
5. **e-KYC processes are increasingly optimized for mobile devices.** Mobile-first eKYC solutions ensure that customers can complete verification quickly and securely from their smart phones. In fiscal year 2023, the cumulative e-KYC (Know Your Customer) authentication transactions reached over 14 billion in India. The source also revealed that cumulative e-KYC authentication transactions in India had increased significantly over past few years.

Recommendations

1. **Adopt e-KYC for Greater Efficiency:** Implement eKYC to speed up customer onboarding, reduce fraud risk, and enhance user experience. Evaluate your current KYC processes and select an eKYC solution that suits your business needs.
2. **Prioritize Data Privacy:** Ensure your eKYC solution is robust regarding data privacy, incorporating secure data storage and encryption while adhering to relevant privacy regulations.
3. **Invest in Training:** Facilitate the transition from traditional KYC to eKYC with adequate staff training and clear, user-friendly guidance for customers to maximize the benefits of this digital transition

Suggestion

- a. Implement strong encryption, multi-factor authentication, and compliance with data protection regulations (such as GDPR or CCPA) to enhance security.
- b. Employ advanced technologies like AI-based biometric verification, facial recognition, and document scanning to ensure authenticity and reduce fraud
- c. Choose scalable, flexible eKYC solutions that are compatible with current systems, and prioritize modular integration approaches to minimize disruptions
- d. Integrate e KYC data with CRM systems to gain deeper insights into customer behavior and preferences enabling personalized service offerings.

Conclusion:

To save time and for providing quick and effective services to customers and to avoid and to gradually eliminate all those suspicious customers, Reserve Bank of India has implemented e-KYC norms in 2005. However, one must accept that the introduction of know your customer (KYC) procedures, which was meant to reduce or eliminate altogether cases of fraud and money laundering has played an effective role in reducing the number of reported cases but still a significant number of cases are still being reported across the banking sector. Therefore there is still scope for better improvement. e-KYC is not just a trend but a fundamental shift in banking industry, by embracing these technological advancements and customer centric principles banks can unlock the full potential of ekyc creating more secure, efficient and inclusive financial eco system

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