



सत्यमेव जयते

**RAJEEV CHANDRASEKHAR**  
MEMBER OF PARLIAMENT  
RAJYA SABHA

Member of Standing Committee on Defence  
Member of Consultative Committee on Finance  
Member of Central Advisory Committee for the National Cadet Corps  
Co-Chairman, District Development Coordination & Monitoring Committee, Bengaluru Urban District

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Dear

*Arumji*

I welcome the Governments and RBI move to transform and digitize the economy.

But as the Government and RBI move to increasingly digitizing the economy – The banking and payments eco-system will be transformed – And so it is that there are some issues that will arise that I wish to place on record for your information and urgent action.

### **1. Defining use and operation of JDY accounts**

The idea and rationale of JDY accounts was these would be accounts opened by those meeting a certain criteria and which would be designated to receive Government subsidies and benefits only. These restrictions on use of these accounts are an important part of the definition of JDY. However, it seems that RBI and/or the banks have not adequately established this definition for Banks to follow, which is the only reason why the JDY accounts all around the country are being used for receiving other deposits and in turn be used for laundering demonetization linked deposits.

So RBI must clearly and without ambiguity define JDY accounts in terms of their restrictive functionality in precise terms to Banks that are opening and operating them, so that JDY accounts are ring-fenced from the other banking system. JDY accounts can and must be used to receive subsidies from Government only.

In addition, the RBI must recognize that JDY accounts have weaker KYC norms because it uses only Aadhaar and so it represents a danger to the overall integrity to the rest of banking and financial system if gateway-ing to the regular banking system is permitted i.e transfers from JDY are permitted to other non JDY accounts.



## **2. Defining the Use of Aadhaar in the Banking and Financial system**

I am sure that the Government and RBI is aware that the Aadhaar database is a very poorly verified database in terms of identifying the person whose biometrics are in the database. So while the biometrics are accurate, it does not verify with rigor the identify claim of the owner of the biometrics. This has led to numerous fake Aadhaar entries in the Aadhaar database, including the recent Pakistani spies who had Aadhaar cards issued in fake names with their biometrics. Whilst Aadhaar fake entries may be an acceptable cost and risk to JDY account eco-system (as long as it is as per above), if Aadhaar is used as KYC for banking and financial system, there is an obvious consequence of fake accounts and identities in the Financial system – banking, demat etc.

Using Aadhaar as sole gateway to KYC is a big risk to the financial sector and therefore It is critical that RBI does not dilute current KYC norms. RBI must restrict Aadhaar to biometric verification only and use other forms of ID like PAN card etc. for ensuring KYC is not diluted while opening of ANY account. The RBI must issue stringent guidelines and directions on due diligence to be done by Banks, Payment banks and other entities in the Digitization eco-system that it is regulating. In short RBI must ensure Aadhaar can and must be used ONLY ALONG WITH other proof of ID for people to enter the financial system.

## **3. Planning for Issues of Transaction Fraud, Data Security and Privacy**

As we move large parts of our economy and transactions online, there will legitimate issues of Transaction Fraud, Data security, Privacy and disputes between consumers and Banks, Banks and Banks, Merchants and consumers, Merchants and Banks etc. that will explode in volume. The Data security issue in itself represents a serious challenge to our Banking system. There are serious gaps in the IT act and the dispute resolution institutions like the Cyber Appellate Tribunal. Further, Since the Internet coverage and access is still not available to almost 900 million Indians, USSD platform will be used. USSD too has significant reliability and security issues since it uses the old SMS platform.

Further as recent events in neighboring Central Banks have shown – we must expect vulnerabilities in our system to be tested and exposed. This whole area is one that the RBI must work with Government to plan pro-actively on issues of infrastructure, capacity building and legislative requirements to deter and prosecute the perpetrators.





#### **4. Growing the Internet Infrastructure and Access to Digital Payment hotspots**

Further Since Internet coverage and access is still not available to almost 900 million Indians, there is talk of use of USSD to serve those that are not connected to the Internet. It is to be recognized that USSD is a very weak platform for this. USSD has significant reliability and security issues as well since it uses the old SMS platform. The real solution is to create Internet hotspots all around the country and the infrastructure to take the Internet there. I would suggest that Finance Ministry and Department of Telecommunication work closely to create a more focused investment and rollout strategy of the public networks and private networks using the USO funds and other incentives.

#### **5. Planning for anticipated surge in Digital Black Economy**

I can assure you that as RBI and Government digitize and move the economy online, the criminal and black economy will also make the transition and transform. There are already reports of a surge in Domestic bitcoin trade and move of black economy to the Dark Internet. The surveillance and policing requirements are challenging and I suspect the Government and RBI are ill-equipped currently to deal with this. I am drawing your attention to the need to be ahead of the curve on this rather than behind and so the RBI must develop the capabilities on this urgently.

Sincerely,

**RAJEEV CHANDRASEKHAR**

**Shri Arun Jaitley**

Hon'ble Minister of Finance  
Government of India  
New Delhi