Indian Economy · GS - III

Assess how standardised and interoperable KYC systems can improve financial inclusion while strengthening regulatory oversight in India's financial markets.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 25/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Centralised KYC, financial inclusion, interoperability, investor convenience, regulatory compliance, data privacy, cyber security

Model Answer

Know Your Customer (KYC) is an essential regulatory process for establishing the identity and verifying the credentials of financial customers. Standardised and interoperable KYC systems can reduce procedural barriers while strengthening financial-sector supervision.

Benefits of interoperable KYC

1. **Reduced duplication:** Centralised KYC records allow regulated intermediaries to access existing verified information, reducing repeated documentation.
2. **Financial inclusion:** Simplified digital verification can make investment and banking services more accessible, particularly for geographically remote customers.
3. **Lower compliance costs:** Standardised procedures reduce administrative expenses for financial institutions and improve operational efficiency.
4. **Regulatory transparency:** Consistent customer identification helps detect suspicious transactions, identity fraud and money laundering.

5. **Investor convenience:** Digital processes and simplified nomination procedures improve the overall customer experience.

Risks requiring attention

1. Centralised databases can become targets for cyberattacks and identity theft.
2. Incorrect or outdated records may lead to wrongful rejection of genuine customers.
3. Digital exclusion can affect individuals with limited connectivity or technological literacy.
4. Excessive data collection may create privacy concerns.

Institutional safeguards

SEBI, financial intermediaries and relevant KYC institutions should ensure strong encryption, consent-based data sharing, periodic record updates and effective grievance redressal. Alternative offline verification facilities should remain available.

Conclusion: Interoperable KYC can improve efficiency and broaden participation in financial markets. However, its success depends on balancing procedural simplicity with data protection, cybersecurity and robust regulatory compliance.

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