



Indian banks' rush for clients set for reckoning post Paytm

The central bank may get tougher before governor Shaktikanta Das steps down this year

Bloomberg
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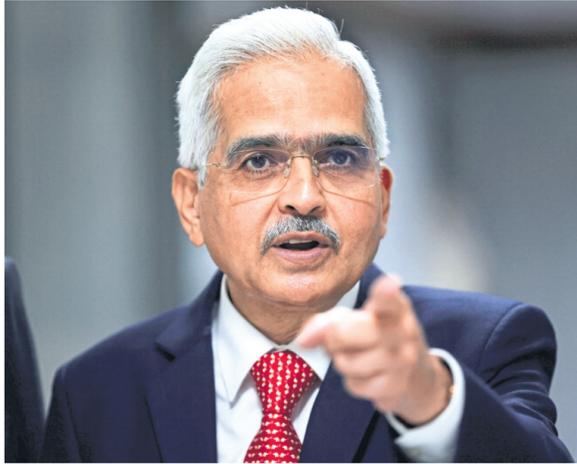
For Indian regulators seeking to crack down on potential fraud in the financial sector, Paytm may just be the beginning. India stunned investors last month by abruptly suspending most activities of the banking affiliate of Paytm, a once high-flying fintech star that had attracted backing from Warren Buffett and SoftBank Group Corp. While the Paytm case was an extreme example of lapses in customer verification—it allegedly used a single identity document to open thousands of accounts—the crackdown signals growing impatience from authorities.

Hardly a day passes when a bank or fintech firm isn't fined for failing to properly vet its customers, ensnaring top lenders from State Bank of India to Citigroup Inc. Fed up with the persistent shortcomings, the Reserve Bank of India is likely to get even tougher before governor Shaktikanta Das steps down this year.

"RBI has enough tools and a penalty is just the beginning," said Prakash Agarwal, founder of Gefion Capital Advisors. He said the fines serve as a "symbolic warning for more dire measures to come, such as a sledgehammer action taken against Paytm bank."

Regulatory concerns are rising as lenders rush to open more accounts and mop up deposits to meet the soaring demand for loans in the fastest-growing major economy. Most banks typically outsource the last mile of customer verification to third-party firms or so-called runners, and leakages occur at many points in that largely paper process, according to Ashok Hariharan, chief executive officer of IDfy, which provides client vetting services to banks and fintechs firms in India.

While big banks can do more, it's a challenge dealing with firms that don't



RBI governor Shaktikanta Das has repeatedly warned about the need to strengthen risk management in banks and shadow lenders.

REUTERS

have strict fraud and risk teams, he said. RBI governor Das has repeatedly warned about the need to strengthen risk management in banks and shadow lenders. Even though bad debts are at a more than decade low, these lapses in customer verification have been among major concerns for the central bank.

vent fraud, the cases are rising. The number of reported frauds of more than ₹100,000 (\$1,205) rose 68% to more than 14,000 from April to September last year, almost triple the rate for the previous six-month period, according to an RBI report. The sharpest increase of fraud cases was in credit cards, online

has increased sharply, as can be parsed from the central bank's website.

"RBI getting stricter on KYC is the right thing to do, and people are going to get serious about it now," said IDfy's Hariharan. "In many instances, there is a frivolous attitude toward KYC."

Customer data in the country has been misused, according to Hariharan. In a typical set-up, fraudsters pay runners who collect so-called Know-Your-Customer documents for bank customers and offer them as little as ₹500 for the data, he said. This allows fraudsters to operate multiple bank accounts from the identity theft, and they collect money in these accounts by duping customers largely through phishing calls, he added. In addition to its crackdown on banks, RBI ordered Visa Inc. this month to immediately stop a payments service where cards were used to transact with merchants who weren't allowed to accept such payments.

Yet no recent case has drawn as much attention as Paytm, controlled by billionaire Vijay Shekhar Sharma. The firm burst onto India's equity markets in 2021 with a \$2.5 billion initial public offering, the largest ever in the country and attracted a who's who of global investors. Masayoshi Son's SoftBank was on board, as was China fintech giant Ant Group Co. and the Canada Pension Plan Investment Board.

Its affiliate company, which takes deposits and offers payment services much like PayPal Holdings Inc., has been in the regulator's crosshairs. On 31 January, RBI barred Paytm Payments Bank Ltd from accepting fresh credits in its customer accounts or mobile wallets after 29 February. Bloomberg News has reported that hundreds of thousands of customers didn't submit their KYC documentation. The RBI move sent Paytm stock tumbling. Regulators last week extended that deadline to 15 March, and Paytm is in talks with other banks to clear merchant payments.

RBI bolsters fintech scrutiny with more inspections

Reuters
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MUMBAI

From hiring analysts, to scrutinising customer data, to holding frequent meetings with executives, India's financial regulator is bolstering oversight of fintech firms in a signal of an end to years of light-handed regulation of a key business sector.

Those steps from the Reserve Bank of India (RBI) come after regular inspections over the past year found a number of fintech firms have been lax in following, for example, customer due diligence, five persons with knowledge of the matter said.

Fintech firms and their investors were given a foretaste of that stricter approach last month when the central bank ordered sector giant Paytm to wind down its banking unit due to, what it termed, persistent non-compliance with regulations.

That directive, which stirred disquiet in the sector, was followed by a separate order this month to Visa asking it to stop business-to-business card payments through third party fintech firms.

The RBI's moves come as financial regulators in other major markets, including in China, crack down on rule violations and frame new regulations for the fintech sector after having taken a laissez-faire approach for a long time.

Globally, fintech firms provide a range of services—from payments to small credit and deposits—and as their economic influence increases, regulators are sharpening scrutiny of their linkages with the broader financial system.

Like in India, nimble-footed fintech firms' customer due diligence and data handling processes have also raised concerns for the central banks and regulators globally as they



RBI has ordered Paytm Payments Bank to wind down due to, what it termed, persistent non-compliance with regulations.

try to tamp down on monopoly, data privacy, money laundering and spillover risk.

"The RBI is very clear, whether you are 'fin(ancial) or tech or fintech', basic rules governing customer identification and a clear footprint of fund flows have to be followed," said one of the persons familiar with the central bank's thinking.

All the persons declined to be named as they were not authorised to speak to the media.

A spokesperson for the RBI did not respond to an email seeking details of its interactions with fintech firms.

In particular, the central bank is uneasy with the digital customer identification process used by fintech firms, which relies on a government identity proof, called Aadhaar, and a linked mobile number to verify a person's identity.

This method is widely used by fintech firms as a faster and cheaper way to do due diligence, but it is also prone to manipulation, which raises fraud or money laundering concerns, said the second person.

While the RBI has not pro-

hibited the use of this method of verification, it has asked that digitally verified accounts be tagged as "high risk" till the time physical or video-call based identification is completed, according to central bank's regulations on customer due diligence.

As part of its sharpened oversight, RBI officials have been picking out random samples of a fintech firm's user base during frequent onsite inspections to check for authenticity, founders at two fintech firms said.

Frequency of such meetings has increased from once a quarter last year to once a month now, one of the founders said.

Separately, the RBI is also investing in better technology to catch regulatory violations and hiring analysts to study millions of customers' personal data held by the fintech firms, the second source said.

India's finance ministry will hold meetings with the home-grown fintech startups, some of them backed by marquee global investors, next week to urge them to comply with regulations and hear their concerns, Reuters reported on Tuesday.

LEAKY PROCESS

REGULATORY concerns are rising as lenders rush to mop up deposits to meet loan demand

TYPICALLY, most banks outsource the last mile of customer verification to third-party firms

LEAKAGES happen during verification processes at many points in it are largely still not digital

THOUGH bad loans are at a record low, the lapses in process of verification is a big worry for RBI

"The interest of depositors and customers is of prime importance," Das said in a post-monetary policy briefing this month. "Financial stability is of prime importance."

While Indian banks have boosted spending on technology to detect potential money laundering and pre-

transactions and deposits, the data show.

RBI, which can levy a maximum penalty of ₹5 crore for violations, imposed fines of ₹4 crore in the fiscal year that ended in March, down from ₹65.03 crore the prior year. Still, in the current fiscal year, the frequency of such fines

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3 but ideology-agnostic opposition alliances managed to keep the Congress out of power in many states

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NOTICE OF POSTAL BALLOT

Members are hereby informed that pursuant to Section 108 and Section 110 of the Companies Act, 2013 (the 'Act'), read with Rule 20 and 22 of the Companies (Management and Administration) Rules, 2014 as amended from time to time read with the Circular Nos. 14/2020 dated April 8, 2020, 17/2020 dated April 13, 2020, 20/2021 dated December 8, 2021, 3/2022 dated May 5, 2022, 11/2022 dated December 28, 2022 and 09/2023 dated September 25, 2023 issued by the Ministry of Corporate Affairs ('MCA') (hereinafter collectively referred to as 'MCA Circulars') and SEBI Circular Nos. SEBI/HO/CFD/CMD1/CIR/P/2020/79, SEBI/HO/CFD/CMD2/CIR/P/2021/11, SEBI/HO/CFD/CMD2/CIR/P/2022/62, SEBI/HO/CFD/PoD-2/P/CIR/2023/4 and SEBI/HO/CFD/CFD-PoD-2/P/CIR/2023/167 dated May 12, 2020, January 15, 2021, May 13, 2022, January 5, 2023 and October 7, 2023, respectively, (hereinafter collectively referred to as 'SEBI Circulars') and Regulation 44 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations') and other applicable provisions of the Act and the Listing Regulations, circulars and notifications issued thereunder (including any statutory modification or re-enactment thereof for the time being in force), the Company has sent E-mail along with the Postal Ballot notice dated February 9, 2024 through National Securities Depository Limited (NSDL) on February 21, 2024, and the Login ID and password to the Members for e-voting who have registered their E-mail IDs with the Depository Participants or with the Company / Registrar and Share Transfer Agent ("RTA"), for seeking approval of members of the Company for the Appointment of Ms. Sanjanti Sajan (DIN: 00431379) as an Independent Director of the Company.

The Board of Directors of the Company has appointed Mr. Kapil Dev Taneja (FCS No. 4019, CP No. 22944) or failing him Mr. Neeraj Arora (FCS No. 10781, CP No. 16186), Partner(s) of M/s. Sanjay Grover & Associates, Company Secretaries, as 'Scrutinizer' for conducting the Postal Ballot process through remote e-voting in a fair and transparent manner.

Members shall be able to provide their assent or dissent through remote e-voting only. The Company has engaged the services of NSDL as an agency to provide remote e-voting facility to the Equity Shareholders of the Company to enable them to cast their votes electronically. The detailed procedure for e-voting is mentioned in the notes to the Postal Ballot Notice. Members are requested to note that e-voting shall commence from Saturday, February 24, 2024 at 9:00 A.M. (IST) and shall end on Sunday, March 24, 2024, at 5:00 P.M. (IST). The e-voting module shall be disabled by NSDL for voting thereafter.

In accordance with the aforesaid MCA Circulars, physical copies of the Postal Ballot Notice along with Postal Ballot forms and prepaid Business Reply Envelope are not being sent to the Members. The communication of the assent or dissent of the Members would take place through the remote e-voting system only.

The voting rights of Members shall be reckoned as on Friday, February 16, 2024 ("Cut-off date"). The copy of the Postal Ballot Notice is available on the Company's website at www.jubilantindustries.com, websites of the Stock Exchanges i.e. BSE Limited and National Stock Exchange of India Limited at www.bseindia.com and www.nseindia.com, respectively and on the website of NSDL at www.evoting.nsdl.com. Members who have not received the Postal Ballot Notice may download it from the above mentioned websites.

Process for those shareholders whose email ids are not registered:

- In case shares are held in physical mode, please share Folio No., Name of shareholder, scanned copy of the share certificate (front and back), PAN (Self-attested Scanned copy of PAN card), AADHAR (self-attested scanned copy of Aadhar Card) through email at investors@jubil.com or rta@alankit.com.
- In case shares held in demat mode, please share DPID-CLID (16 digit DPID+CLID or 16 digit beneficiary ID), Name, client master or copy of Consolidated Account statement, PAN (Self-attested scanned copy of PAN card), AADHAR (Self-attested scanned copy of Aadhar Card) through email at investors@jubil.com or rta@alankit.com.

In case of any queries or grievances relating to e-voting, you may contact Mr. Amit Vishal, Assistant Vice President, NSDL, Trade World, 4th Floor, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai-400013, India through e-mail at evoting@nsdl.com or call on 022-4886 7000 and 022-2499 7000 or Mr. J.K. Singla, Dy. General Manager, Alankit Assignments Limited, 205-208, Anarkali Complex, Jhandewalan Extension, New Delhi-110 055, India, through email at rta@alankit.com or call on Telephone No.: 011-42541234.

The Scrutinizer will submit his report to the Chairman or person authorized by the Chairman, after the completion of scrutiny of the e-voting, and the results will be announced on or before Tuesday, March 26, 2024. The results along with the Scrutinizer's Report shall be communicated to the Stock Exchanges, NSDL and will also be displayed on the website of the Company (as mentioned above) and at the Registered Office and the Corporate Office(s) of the Company.

For Jubilant Industries Limited

Sd/-

Brijesh Kumar

Company Secretary & Compliance Officer

ACS No: 36070

Date: February 21, 2024
Place: Gurugram