

# IDENTITY CHECKS & CORRECTNESS OF BANK ACCOUNT USING PENNY DROP PROCEDURE



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**B**efore on-boarding a prospective vendor, customer or employee the verification of correctness of their bank account and identity is an important activity to be accomplished upfront.

- ⊙ For all user entities such as proprietary concerns, partnerships, companies, HUFs, and other forms of organisations, tax identity documents such as PAN / GSTN are the main documents relied upon to authenticate identity and for various tax compliances.
- ⊙ For individuals, besides PAN / GSTN the Aadhar id is an important document for identification.
- ⊙ For correctness of identity of respective person's bank account details, cancelled cheques are being collected to update the bank account details and IFSC code.

## Abstract

*Accuracy in identity of the person, his contact details, bank account are most essential data in any establishment to conduct any operations. These data must be collected and validated before on-boarding stage with requisite support evidence and must be maintained in the accounting system. In this fintech world there are many advancement in process to verify the correctness of the identity of the person and his bank account without major effort and time. Since the verification is done through the system there is no paper work and subsequent workflow can be smooth and reliable. Verification of identity of the person's bank account in penny drop mechanism is discussed in this write-up.*

Businesses can instantly verify their prospective customers' / vendors' / employees' bank account validity by carrying out a simple penny drop procedure.

## PENNY DROP VERIFICATION

This is a form of bank account validation in which Rs. 1 (hence, the name), is transferred into the prospect's bank account to identify whether the transaction is successful or failed.

This will be beneficial for businesses as it identifies any fault before initiating regular business funds transfer to the person's bank account.

## How Does it work

- ⊙ The Penny Drop process involves the following steps :
- ⊙ The prospective customer / vendor / employee provides his cancelled cheque to identify bank account number and IFSC code
- ⊙ The Penny Drop function is

effected through the service provider's dashboard or penny drop API. (Application Programming Interface)

- ⊙ The service provider's system drops a penny (INR 1) into the prospective customer / vendor / employee's bank account.
- ⊙ If the bank account is valid and the amount INR 1 is credited to the account, the Penny Drop procedure succeeds.
- ⊙ If the bank account is closed or invalid the amount INR 1 is not able to be credited to the account and the Penny Drop fails
- ⊙ After a successful Penny Drop transaction, the verified account status and beneficiary name are returned to validate the master data.
- ⊙ However, if the bank account verification fails, the account status and the reason for failure are returned--- it may be that account number is incorrect or wrong account type, invalid

IFSC code, mismatch in name, dormant or frozen account due to inactivity or non payment of dues.

- ⊙ Failed transactions must be rechecked with documents received from the prospect and master data in the system. Requisite corrective actions should be taken before deciding whether to onboard the prospect or not.
- ⊙ Further the prospective customers / vendors / employees name can be compared with the beneficiary name returned from the bank against the identity details provided in the application form to authenticate correctness of identity.

Bank account details verification which usually takes days to complete manually, is automated using Penny Drop APIs.

These APIs enable every business to instantly and securely verify the bank account details of customers before proceeding to offer / accept services with the prospect.

Implementing these APIs is seamless and can be easily integrated into various KYC regulatory procedures in a secure authentication mode.

Bank account verification is very much necessary for all businesses to restrain from facing unnecessary losses due to usage of wrong bank accounts in fund transfers.

Penny Drop procedure also plays a vital role in the identification of fraudulent fund transfer wherein the bank account belongs to a fraudster is used instead of the actual beneficiary account while trying to defraud the business funds.

The Penny Drop bank account verification procedure must also be followed as the initial step before carrying out e-mandates that would require the businesses to transfer

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money periodically. This can aid in preventing uncalled-for losses for the firm in the fund transfer to wrong bank accounts.

### THE NEED FOR SUCH VERIFICATION

It is important for businesses to verify their prospective vendor or Employee Bank account for the following reasons :

- ⊙ To ensure that the beneficiary bank account exists
- ⊙ To find out if the bank account belongs to the same person or not (ie whether the account holder's name matches with name in the onboarding application)
- ⊙ To ensure that the bank account is active, i.e., the account is not frozen/closed and is accepting credits

Before onboarding a person, businesses can easily verify the authenticity of the person's bank accounts prior to initiating a money transfer with a Penny Drop. This method provides precise results regarding the bank account ownership and that the account belongs to the same person who is signing up for their services.

### Simplicity in Penny Drop Verification

Penny drop verification is a convenient method for businesses of all sizes to verify their clients' bank accounts. With the help of Penny Drop, they can verify bank account details to prevent the risk of large-scale losses in fund transfers.

Employee salary transfers, pension transfers, marketing team allowance reimbursement transfers, insurance company's claim transfers, mutual fund members redemption proceeds transfers, PF withdrawals and many other large volume remittance transactions can be initiated after a Penny Drop verification. They can verify the retrieved account details against the KYC proofs/bank account details submitted by the client/member / employee so that monetary transactions happen only between the business and the intended recipient's bank account.

In addition to verifying the details of the person, this method also aids in cutting down fraud through identity thefts. With just a Penny Drop, organizations can take a significant step in eliminating heavy losses due to faulty money transfers and its consequential accounting, administrative actions and audit trail maintenance. Penny Drop test speeds up verification with accuracy and absorbs large volume verification easily.

### CONCLUSION

By transferring a nominal amount, say ₹1, to the bank account provided by the user one can receive the confirmation for the fund transfer along with the user's details from the transferee bank. The said amount remitted successfully may be adjusted in the actual amount to be remitted subsequently.

Penny Drop can be integrated with KYC / prospective onboarding process, making identity and bank account verification convenient for both the business and its connects.

This process can minimise identity thefts, enabling businesses to secure their large-volume monetary transactions with customers / vendors / employees. **MA**