

Misuse of Kisan Credit Cards

Why in news?

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Kisan Credit Cards (KCC) are becoming an easy tool for money laundering which poses a potential credit risk for the economy.

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What is the purpose of KCC?

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- The scheme was launched in India in 1998 to provide affordable and timely credit to Indian farmers.

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- Under this scheme, the KCC limit is sanctioned for 3-5 years, with one-time documentation, and is renewed every year based on the farmer's requirements.

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- Thus, the farmer does not need to go through time-consuming bank screening processes repeatedly every year.

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- The rate of interest on this type of loan is also considerably low compared to agriculture term loan under the scheme farmers have the option of rescheduling the repayment.

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- Beneficiaries can utilize the loan amount for various stages of cropping cycle, like sowing of seeds, harvesting of crops and other agriculture activities.

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- They can also utilize loan proceeds towards meeting post-harvest/household and consumption requirements.

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How KCC is being misused?

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- Although KCC was a noble idea to help needy farmers, it has become a tool that is being misused by many, including people who are financially well off.

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- It is causing severe concern to banks as well as to the regulator funds borrowed under KCC schemes are often getting diverted for non-agriculture activities, such as real estate investment, other business activities, purchase of expensive cars and jewelry, higher education of children in foreign countries, indigenous lending, etc.

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- Borrowers commonly avail higher loans from banks by inflating the quantum of land under cultivation.

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- In India, even today, agricultural transactions are done predominantly in cash (which is permitted) and banks in most cases don't ask for documents to support a borrower's claim that the cash deposited is generated from agriculture purposes only.

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- KCC provides an opportunity for unscrupulous borrowers to exploit the banking channel for placement and layering of black money generated in other business activities like real estate, indigenous money lending and bullion traders, in order convert the same into white in the form of repayment of KCC loan amount.

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- Hence, the KCC route being used for money laundering activities cannot be ruled out.

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- In case of owned lands, borrowers often resort to "double dipping" borrowers and family members avail multiple loans either from the same bank or from different, for the same piece of land owned by them.

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- This largely remains undetected by banks as, in many cases, checks are not performed by them to identify such instances.

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What are the concerns of such misuse?

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- In case of leased lands, oral lease agreement is permitted by banks and regulators, hence many borrowers disclose fictitious lease agreements that have only acreage with no identifiable details to inflate the quantum of loan.
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- An area of discomfort to lenders is the lack of adequate visibility about the source of cash that is being deposited in banks in the form of repayment of KCC loan.
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- Revolving cash facility which entails unlimited withdrawals and repayments as long as it is within the prescribed limits makes KCC vulnerable to money laundering.
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- Such a facility could be convenient if a customer wants to churn money in and out of the system in small amounts and facilitate terrorist financing or activity.
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- Terrorist financing does not require cash in bulk or in huge amounts, but in smaller amounts as and when required, so most alert monitoring systems miss out on patterns of terrorist financing activity.
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- KCC could also be used for “nesting” due to lack of adequate documentation requirement.
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- A customer can facilitate payments or deposits on behalf of someone which could easily be crime proceeds.
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What lies ahead?

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- Banks need to strengthen KYC norms, monitor end-utilization of funds, strengthen KCC policies and procedures, and extend KCC facilities only to the needy.
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- The use of field intelligence, mystery shopping as well as extensive data analytics can help banks to detect red flags at an early stage and fight this menace.
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- In the absence of immediate remedial measures, KCC could be well be the

next bubble of money laundering.

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Source: Financial Express

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