

RBI releases report of the Inter-Regulatory Working Group on FinTech and Digital Banking

The Reserve Bank of India (RBI) releases the report of the Inter-Regulatory Working Group on FinTech and Digital Banking in India. RBI had set up an inter-regulatory Working Group to study the entire gamut of regulatory issues relating to FinTech and Digital Banking in India. The Committee had representation from all the financial sector regulators, namely, Reserve Bank of India, Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA), as also National Payments Corporation of India (NPCI), select banks and a rating agency.

Key Recommendations

- There is a need to have a deeper understanding of various FinTech products and their interaction with the financial sector and, thereby, the implications on the financial system, before regulating this space.
- The regulatory actions may vary from “Disclosure” to “Light-Touch Regulation & Supervision” to a “Tight Regulation and Full-Fledged Supervision”, depending on the risk implications.
- There is a need to develop a more detailed understanding of risks inherent in platform based FinTech.
- Various financial sector regulators to identify sector specific FinTech products and regulatory approaches.
- The adoption of digital channels to replace manual time-consuming processes to empower customers and / or workforce in insurance sector.
- Innovation labs may be established, including within insurance companies, to combine brand and product managers with technological and analytical resources.
- As and when any securities market Fin-Tech products are introduced or emerge in the market, regulators may assess the product and see whether it can be monitored by way of registering them as an intermediary or through the activity regulations.
- Insurance companies may collaborate with “Insurtech” entities or start-ups to provide better customer experience in a cost effective manner.
- Financial sector regulators need to engage with FinTech entities in order to chalk out appropriate regulatory response and with a view to re-

align regulation and supervision in response to the changing environment.

- In order to identify and monitor the challenges associated with the development of major FinTech innovations and to assess respond to opportunities and risks arising for the financial system from these innovations, a 'dedicated organizational structure' within each regulator needs to be created.
- To provide an environment for developing FinTech innovations and testing of applications/APIs developed by banks and FinTech companies.
- An appropriate framework may be introduced for "Regulatory Sandbox/innovation hub" within a well-defined space and duration where financial sector regulators will provide the requisite regulatory support, so as to increase efficiency, manage risks and create new opportunities for consumers in Indian context similar to other regulatory jurisdictions.
- In view of IDRBT's unique positioning as a research and development institute, and as indicated by some of its activities, it is felt that IDRBT is well placed to create and maintain a regulatory sandbox in collaboration with RBI for enabling innovators to experiment with their banking/payments solutions for eventual adoption. The Institute may continue to interact with RBI, banks, solution providers regarding testing of new products and services and over a period of time upgrade its infrastructure and skill sets to provide full-fledged regulatory sandbox environment. The Reserve Bank of India may actively engage with the Institute in this regard.
- Regulatory and legal reforms are essential to enable the sustained development of a digital financial industry for the future.
- Partnerships / engagements among regulators, existing industry players, clients and FinTech firms will enable the development of a more dynamic and robust financial services industry.
- Regulators may explore the use of Reg Tech that may facilitate the delivery of regulatory requirements more efficiently and effectively than existing capabilities.
- The organizational structure and human resources (HR) practices of regulators have to be reoriented to meet the challenges of innovation, in terms of adapted HR hiring profiles, learning and educational programmes.
- There is a need for a stand-alone data protection and privacy law in the country.
- Banks / Regulated entities may be encouraged to collaborate with FinTech/start-ups to improve their customer experience and operational excellence. They may also consider undertaking FinTech activity in areas such as payments, data analytics and risk management.
- Models of engagement and checklist to be developed by each regulator for each of the activities.
- Given that FinTech companies are in their infancy but are growing at a rapid pace, the Government may consider introducing tax subsidies for merchants that accept a certain proportion of their business revenues from the use of digital payments.
- The requirement of increasing the levels of education/ awareness of customers should be highlighted by all market regulators.
- A self-regulatory body for FinTech companies may be encouraged.

Please find enclosed report of the report of the Inter-Regulatory Working Group on FinTech and Digital Banking in India released by RBI for your kind reference.

RBI seeks comments and feedback on Report of the of the Inter-Regulatory Working Group on FinTech and Digital Banking. Please send your suggestions (if any) to Ms. Surbhi Sharma, Senior Research Officer at surbhi@phdcci.in latest by February 19, 2018.

Please contact for any query related to this mail to Ms. Neha Gupta, Research Associate at neha.gupta@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in and Ms. Surbhi Sharma, Senior Research Officer at surbhi@phdcci.in, PHD Chamber of Commerce & Industry.

Warm regards,

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