# FICCI

# BANK-FINTECH

# TASKFORCE ON

# REGULATION & POLICY

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# Introduction

Many studies globally, including by the World Economic Forum, show that banks and fintechs can partner to reduce operational costs by upto 40% and increase access of financial services to millions of new customers. The mutual value add has been the bedrock of fintech-bank partnerships in India.

In India many bank-fintech collaboration have worked out. However, the success of partnerships has been limited to short-term collaborative approach and to succeed in long run many enablers may be required. To discuss and deliberate on some of these enablers and to draw out a list of suggestions for the regulator to consider for enabling stronger bank-fintech partnerships, a taskforce was constituted under the aegis of the FICCI National Committee on Banking with the following members.

**Members**

- Ms Shalini Warrier, Executive Director, Federal Bank (Convenor)
- Mr Adhil Shetty, Founder and CEO, Bankbazaar.com (Co-Convenor)
- Mr. Sameer Shetty, President and Head - Digital Banking, Axis Bank
- Ms. Shikha Hora – Head ESG and Consumer Lending, IDFC FIRST Bank
- Mr Rajan Pental, Executive Director, YES BANK
- Mr Sudhakar Ramasubramanian, Advisor, FICCI Fintech Committee
- Mr Sabyasachi Goswami, CEO, Perfios Software Solutions
- Mr M N Srinivasu, Director and Co-founder, Bill Desk

# Purpose of the paper

Basis the discussions held amongst members of the taskforce, this whitepaper has been developed and it highlights how India's digital public infrastructure can be leveraged for creating solutions by banks and fintechs together for furthering the goal of financial inclusion in the country.

# Credit to RBI for Enabling World Class Partnerships

The RBI Governor on 24th May 2023 said that FinTech sector and digital lending space in the country had the RBI's proactive support and is on the top of RBI agenda for 2023. As digital financial access to savings and credit via instant paperless processes gains significant acceptance amongst consumers in India both in urban and rural geographies, Bank-FinTech partnerships are at the centre of digital transformation. Transformation is not new to Indian banks though, and the banking sector in India today has leaped ahead of its global counterparts in delivering digital financial services across payments, lending, and credit cards. What is especially different this time round is that they're not alone in this journey. Every step in the journey of India's Banking sector in this century has been aided by the Indian Fintech sector, which has leveraged the existence of a strong digital public infrastructure and developed solutions based on these to enable faster and cost-effective access to financial products. Studies show that agile start-ups—driven by a desire to improve the status quo and solve problems in new and innovative ways—are the forerunners of change in the digital sphere. In India, this mantle has been taken on by the Fintechs who have been at the helm of driving changes that have digitised banking like never before and propelled it way beyond anyone's imagination.

As per reports of the Government of India[i], the Indian Fintech industry's market size was $50 Bn in 2021 and is estimated at ~$150 Bn by 2025. India is a world leader in digital payments with 70+ billion transactions / year which is 3X of the annual transaction volumes of US, EU, UK and Japan combined in 2023 which is credit to RBI and institutions like NPCI. RBI and Ministry of Finance are requested to continue to set the tone and direction for the BFSI sector highlighting the importance of Bank-Fintech partnerships and the role played by fully compliant Fintech companies in bringing about financial inclusion and the overall growth of the economy. It is important that RBI, Ministry of Finance, MEITY and the industry players including Banks and Fintechs come together on joint platforms to discuss ways and means to accelerate collaboration between leading banks / RE and fully compliant Fintech companies.

# Setting Global Standards in Digital Public Infra

A distinct facet of India's Fintech revolution has been the digital infrastructure in the form of digital public goods. India has innovated extensively in digital public goods, and that has paved the way for the rapid rise of digitization in finance in India, probably faster than anywhere else in the world. UPI's universality is on rise, and we are seeing UPI and RuPay make forays in UAE, Japan, the US, Singapore, Bhutan, Nepal, and recently in France. However, UPI and RuPay are only a part of the story.

Digital public infrastructure and goods in India encompasses a great deal more. Besides the real time fast payment system – UPI, India has pioneered two other foundational DPIs including a digital ID system and a consent based data sharing system that enables citizens with the ability to control data. These serve as the foundation for developing a strong and effective DPI ecosystem. The foundational DPIs provide the base that not only enables seamless delivery of public services but also allows businesses to design novel solutions on these DPI layers. The result of this is creation of open networks for credit (OCEN), commerce (ONDC), healthcare (UHI) etc.

Account Aggregator is now gold standard in terms of giving user ownership of their data and the control to use their data to access any digital services especially access to credit. DigiLocker has 128 million registered users, 400 e-document types, and up to 5 billion e-documents for consent-based sharing, including PAN card, driving license, Aadhaar card, school marksheets, insurance papers, among others.

Put together with Aadhaar-Based e-KYC and the Central KYC registry, this digital public infrastructure has changed the face of finance in India and played a pivotal role in increasing financial inclusion. At the same time, while pursuing the goal of financial inclusion is important, it is equally important to support unit economics for industry players that participate in the growth and adoption of this digital infrastructure and allow for the private entities and Bank and FinTech stakeholders to work profitably so they can invest and accelerate adoption rates.

# Collaboration Instead of Competition

Banks and Fintechs are in the forefront of leveraging digital public goods to develop more relevant solutions that ease access to financial products and services. Indian Fintechs have outstripped their peers globally when it comes to innovation and disruption thanks to India's digital public infrastructure and are poised for further acceleration in compliance with digital lending guidelines. There are several reasons why it is essential that fintechs and banks collaborate to succeed. It is a proven fact that startups are more willing and able to take risks and experiment with new ideas, which can lead to new and innovative approaches to problem-solving. Fintech-bank partnership can help banks cross the technology and innovation hurdle easily. Globally, studies by the World Economic Forum, Accenture, and JP Morgan Chase found that banks that partner with Fintechs can reduce operational costs by 25%-40% and increase efficiency, thanks to more efficient and automated processes, such as loan and credit origination, underwriting, and compliance that can streamline operations and reduce the need for manual labour. The cost per new customer acquisition for Indian banks ranged from Rs.2,000 to Rs.10,000[ii]. At the same time, acquiring customers through digital channels tends to be more cost-effective. Banks usually have large customer bases and established relationships with them. Fintechs often have expertise in serving specific customer segments or niches, such as millennials or small businesses. Fintechs often have expertise in data analytics and can help banks analyse customer data to identify new opportunities for growth and improve risk management for both banks and Fintechs.

# Digital Lending Regulations Consultations (2022)

To make fintech-bank partnerships collaborative, secure, and beneficial to all stakeholders, a regulatory framework that promotes innovation while also protecting consumers and ensuring stability in the financial system has been provided by the RBI's digital lending guidelines in 2022. Industry appreciates the extensive consultation the RBI completed including multiple interactions with the FICCI Committee and the opportunity for us to respond to both the draft Digital Lending guidelines and the Annex 1 Press Release on Digital Lending during 2022. Such Regulatory guardrails help facilitate partnerships between fintech lenders and banks by providing a clear regulatory framework and promoting standardization, consumer protection, risk management, and collaboration. This can help increase access to credit for consumers and promote financial inclusion. We request similar in-depth industry – regulatory consultations are carried out for any upcoming regulations such as Annex 2 of the digital lending guidelines which are under review with RBI and MoF and other upcoming bills such as Digital Personal Data Protection Bill with MEITY and the Digital India Act with MEITY.

# Industry Key Asks on Regulatory and Policy

It is important for India's financial inclusion that compliant and high-quality fintech companies are seen as players having a larger role to play in driving financial inclusion and sustainable growth for the financial sector. The Bank-Fintech Taskforce submits following policy Asks to the RBI, MoF and MEITY:

1. Given the proven success and popularity of DigiLocker among 160 Million Indian citizens, the inclusion by MEITY of additional documents frequently required by banks and other financial institutions on the platform would further increase user convenience and help in the quick, secure, and transparent digital issuance of credit. The key missing documents for underwriting in Digi-locker are: EPFO Passbook from Employees' Provident Fund

Organisation, India, ePAN from Income Tax Department, Form26AS from Income Tax Department. We are aware that work is ongoing to integrate these documents; we request that the same be expedited.

2. There is a need to review & revise the Banking Correspondent (BC) Guidelines issued in 2010. There are parts of the BC guidelines that can be made more contemporary, while ensuring risks are mitigated. Examples are – no need to emphasize retail physical outlets, not restricting the use of BC to small value deposits/loans in line with new digital infrastructure. Along similar lines there is a need to review and contemporise the Outsourcing Guidelines issued by RBI to consider new digital partnership use cases and encourage fully compliant and strong digital partnerships between Banks and Fintechs. RBI is requested to revisit the outsourcing regulations to see if Fintechs can be included appropriately with regulatory support.

3. RBI is requested to consider starting a consultation process for creating a framework around the use of Fintechs for opening current & savings accounts. Today, the rules around digital lending & co-brand credit and debit cards are clear and driving industry adoption of partnership; creating a framework for liability accounts would help.

4. KYC related asks from industry:

   a) RBI can consider extending V-KYC capabilities for opening of Non-Resident accounts, subject to mitigating controls for risk of misuse.

   b) RBI can review two points on 28 Apr'23 KYC Master Direction: point in Section 40 on non-face-to-face onboarding requiring positive affirmation via Contact Point Verification (CPV) or physical delivery which necessitates offline last mile and the point on penny pull from the customer's account which RE must complete before activation of account, versus simpler penny drop into customer's account

   c) CKYC is a vital digital public infrastructure – this pan industry common KYC opportunity can be enhanced by CERSAI by integrating all high-quality KYC sources including all Mutual Fund KRA and ensuring high quality clean CKYC data with continuous on going data quality improvement process to drive digital onboarding. The use of CKYC reduces cost of acquisition while at the same time ensuring regulatory compliance.

5. The Union Budget presented on February 1, 2023, stated that the government will create a National Financial Information Registry (NFIR) as a public infrastructure for credit information. The NFIR per the workshop conducted by GoI in 2023 attended by FICCI contains credit and non-credit information, i.e., all financial information of any company or borrower. It is submitted that NFIR can be public infrastructure for fraud management as fraud is an important issue and for digital to continue to scale, stakeholders need

assurance. Such mechanism would give people that confidence that India has developed public infra NFIR to drive down digital fraud.

6. RBI may review regulatory sandbox guidelines and allow Open API and use of the sandbox facilities of RBI for easy testing of application connectivities with the smaller banks who may not be able to afford their own sandboxes.

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[i] https://www.investindia.gov.in/sector/bfsi-fintech-financial-services

[ii] Boston Consulting Group's report titled "A Study of Customer Acquisition and Engagement Costs for Indian Banks"