Bharat@100: Achieving sustainable FinTech regulations

pwc

GLOBAL FINTECH FEST

Foreword

India@75 is seen as having built a thriving FinTech ecosystem for itself on the back of forward-thinking policies, robust digital infrastructure and the growing penetration of smartphones, the internet and access to financial services. Several initiatives by financial service sector regulators have fostered innovation, investment and collaboration across entities in both the financial and non-financial services sector. As a result, today, India is at the forefront of the global FinTech landscape. As we broaden our horizons towards Bharat@100, FinTech entities will play a key role in the mainstream financial system. India has moved towards achieving a commendable balance between seamless integration of technological solutions with a host of financial services and gradual yet sustainable regulatory oversight. The present approach of introducing industry-first and customer-focused initiatives could help in maintaining the growth momentum of the FinTech-led revolution, making the next two decades potentially transformative for India's financial services ecosystem.

In this context, this paper focuses on two key initiatives: know your customer (KYC) and the Account Aggregator (AA) framework, both of which aim to enhance customer access to credit and the overall financial ecosystem. As a phased approach to achieving sustainable FinTech regulations for Bharat@100 as the goal, the paper delves into short-, medium- and long-term recommendations on KYC and AA for the consideration of regulators and policymakers. The short-term recommendations revolve around further building on the recent initiatives announced by the finance minister on risk-based KYC and mandating the participation of REs in the AA network to meet the objectives of AA in a more holistic manner. For the medium term, the paper recommends standardising the principles of the KYC process and enabling the AA network to reach its full potential by expanding the scope of data available on the platform. Finally, in the long term, a single integrated KYC portal across FSRs that also considers an enhanced role for FinTechs in AA and open banking is expected to chart the course for India's continued leadership in FinTech innovation.

Bharat@100 has the potential to cultivate an ecosystem where trust, accessibility and dynamism converge, ensuring a prosperous FinTech future. The proposals made in this paper, aided by further deliberation and dialogue between the industry players and policymakers for effective implementation, can, therefore, pave the way for a robust and inclusive ecosystem.

We take this opportunity to extend our gratitude to the National Payments Corporation of India (NPCI), Payments Council of India (PCI) and Fintech Convergence Council (FCC) for organising the Global Fintech Fest 2023 and inviting PwC India to be a knowledge partner.

Bhavin Shah

Partner and Deals Leader

PwC India

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Introduction

India's financial services ecosystem has traditionally been dominated by legacy financial institutions (FIs) that have served as the foundation for the country's resilient economy. Primarily, the business model of these FIs entails regulatory oversight by only one regulator. Over the years, firms began to leverage technological advancements and digitisation to advance financial services, ushering the era of FinTechs. In the last few years, these FinTechs have redefined the contours of financial services and unleashed a wave of innovation and transformation in the country's financial services landscape.

While one entity governed by one regulator was the norm earlier, FinTechs expanded into entities offering products that cut across multiple regulators. They are hence being regulated by one or more financial sector regulator (FSR). These entities entered the financial ecosystem with the primary goal of providing low-cost, quick and digitised access to financial services to the masses in partnership with legacy FIs. Supported by a favourable regulatory environment the growth of India's FinTech growth since then has been remarkable.

Today, one FinTech entity offers products ranging from payments regulated by the Reserve Bank of India (RBI), investment advisory which falls under the purview of Securities and Exchange Board of India (SEBI), and insurance products regulated by Insurance Regulatory and Development Authority of India (IRDAI) – all under one app. This has paved the way for FIs and regulated entities (REs) to operate in a highly collaborative and unified manner, and as a result, an increasing number of FinTechs are today operating under the guidance of multiple FSRs. In the coming years, with the confluence of burgeoning digital infrastructure and FinTechs' focus on financial inclusivity, the preference for and access to tech-backed financial products under one umbrella is only going to increase further.

However, while high-level deliberations continue to take shape in the form of regulations, regulators have continued to remain focused on following an industry-first approach. This has brought FinTechs that once operated outside the regulatory purview under an enabling governance framework which is aimed at establishing effective oversight. Therefore, it is safe to say that the regulations have grown and evolved in tandem with the multi-faceted expansion of the FinTech ecosystem. This has ultimately led to the FinTech ecosystem landscape becoming a regulated one.

In such a regulated FinTech ecosystem where entities are striving to climb the ladder and reach a level-playing field with legacy FIs (such as banks, non-banking financial companies [NBFCs] and other FIs), innovation is the need of the hour. These innovations encompass the roll-out of new products and services and enhancement of data access by REs, as well as the simplification and digitization of existing processes followed to service the end customer. Regulators have continually introduced new initiatives to address issues such as fragmented data availability (Account Aggregator, National Financial Information Registry, Entity DigiLocker, Public Tech Credit Platform, etc.), and revisited and amended relevant frameworks so as to bring more and more business models within the regulatory purview. The following excerpts from the RBI's Payments Vision Statement 2025[1] illustrate this point:

- 'Efforts have also been initiated towards bringing critical payment intermediaries into the formal regulated / supervised framework. The directions issued for Payment Aggregators (PAs) are a step in this direction. Initiatives are also on to up the payments acceptance infrastructure.'
- 'BigTechs and FinTechs play an invigorating role in onboarding new users and customising payment experience. Given their increasingly dominant role in payments ecosystem, a discussion paper on the need for proportionate regulation by the Reserve Bank encompassing domestic incorporation, reporting, data use, etc., shall be published.'

1. https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/PAYMENTSVISION2025844D11300C884DC4ACB8E56B7348F4D4.PDF

A similar approach is being adopted by other FSRs, with an increasing number of FinTech business models being covered under specific regulatory regimes. This indicates that the financial services ecosystem is rapidly becoming a regulation-focused ecosystem.

Moving towards Bharat@100, as inventive FinTech business models with pioneering use cases continue to emerge, the ecosystem will rely on the respective regulators for continued support.

To achieve a sustainable FinTech ecosystem by 2047, it will be important to expand and improve access to financial services for the last mile population with the help of technology. Two aspects that form the core of the customer's relationship with the formal financial ecosystem are their KYC and data.

In the light of this, the paper discusses initiatives related to these two areas from the standpoint of the near future:

- streamlining of KYC across FSRs[2]
- management of customer's financial data through open banking.

The paper emphasises the need for a robust KYC regime across FSRs as well as an open banking framework to enable REs to make financial services easily accessible to customers across geographies, income slabs, financial history, and so on. The main objective is to place the customer's needs at the centre without comprising on customer protection principles and financial stability as a whole.

2. RBI Master Direction - Know Your Customer (KYC) Direction, 2016 (updated as on 4 May 2023)
SEBI KYC (Know Your Client) Registration Agency Regulations,2011 (last amended on 4 July 2023)
IRDAI Master Guidelines on Anti-Money Laundering/ Counter Financing of Terrorism (AML/CFT), 2022

2

Streamlining know your customer (KYC) norms

The need for a robust KYC process and framework has been underscored by the growth of technology-based financial solutions, evolution of FinTech companies and the regulator's emphasis on fostering a secure financial ecosystem. To widen financial inclusion through customer-friendly onboarding processes, over the last few years, FSRs in India have introduced new frameworks and mechanisms for undertaking KYC by leveraging technology. These technology-based KYC processes have considerably reduced onboarding timelines, the burden of seeking and maintaining elaborate physical documentation, and in-person visits and meetings with the customers.

At present, even though the KYC norms, processes and methods across RBI, the SEBI and IRDAI are stringent and robust and while the overall KYC methods may be similar (digital, video-based, etc.), every regulator has implemented certain variations, concessions or restrictions. For instance, while the three FSRs – RBI, SEBI and IRDAI – allow service providers to onboard their customers through video KYC verification, the implementation and compliance requirements for video KYC differs across the three.

The main features of the prevalent KYC framework in India are as follows:

- differing KYC approaches of FSRs with common underlying principles
- standard KYC practice/method across all financial products irrespective of risk, customer category, etc.
- differing methods of performing KYC for a customer by the same entity on account of being regulated by two or more FSRs and, as a resultant, being subjected to differing processes within the same KYC methods.

The next two sections outline the short-term approach and medium-to-long term approach for streamlining and standardising the KYC framework respectively.

2.1 Need for risk-based KYC

One of the main purposes of undertaking and monitoring a customer's KYC is to identify and verify the customer and their financial transactions and thus cater to their unique financial needs appropriately. In addition, KYC also helps FIs manage any potential risks that such a customer poses to them, one of the key risks being usage of financial services for money laundering activities.

As financial products like bank accounts carry a heightened risk of money laundering, adoption of stringent and robust KYC norms has proven to be an effective mechanism for entities to eliminate this risk. The extant KYC norms, while robust and designed keeping in mind the interests of the customer, may prove to be onerous and impair a customer's ability to seamlessly access financial services, especially when they do not pose a risk to the ecosystem. Therefore, issuers and distributors of the financial services have been seeking a balance between robust KYC processes and fast and customer seamless onboarding

Recent Government initiatives announced in Union Budget FY 2023–24 highlight a push towards the adoption of a risk-based approach to KYC, which could simplify and streamline the extant KYC framework. Typically, risk-based KYC would entail prescribing a KYC process commensurate with the potential risk posed by a particular customer or attributed to a financial product.

The current KYC regime across FSRs typically follows a one-size-fits-all approach wherein every potential customer, irrespective of their background, financial profile or nature of the financial product being sought, is required to go through the same level of KYC check at the time of onboarding. Such an approach is a burdensome for customers who are already part of the regulated financial ecosystem, i.e. customers who have gone through the exhaustive KYC process of any RE.

Recommendation

In order to overcome the challenges of the existing KYC framework, a standardised principle-based approach to KYC may be adopted across all FSRs. A risk-based KYC framework may consist of two parameters – customer-centric and product-centric KYC, i.e. the KYC should be defined by nature of the customer and/or the risk attributable to a financial product.

Under this approach, the RE should differentiate between customers who are new to the financial ecosystem and those who are already part of it. Since an RE or a financial database of customer data will not have relevant information about a new customer, it is prudent that the RE undertake such a customer's KYC in accordance with the risk attributed to the financial product they want to access. A classic precedent in this regard is small prepaid payment instruments (PPIs) or Minimum KYC PPIs and Full-KYC PPIs, as defined in the RBI's 'Master Directions on Prepaid Payment Instruments (PPIs)'.[3]

For customers already part of the ecosystem (KYC'ed customers or existing customers), the exhaustiveness of KYC should depend on the inherent risk of the product such a customer wishes to avail. For instance, as stated above, a bank account entails very stringent KYC on account of heightened risk exposure. Thus, a customer who has undergone the relevant KYC process for opening a bank account should not have to comply with additional requirements repeatedly for relatively less risky financial products, if not all.

With minimal KYC processes and documentation, a low-risk financial product – of a low threshold amount – would become easily accessible to a customer. Once a certain level of initial convenience in obtaining a financial product is established, a customer may voluntarily opt to upgrade and gain access to a full-fledged product portfolio by undertaking extensive and additional KYC as prescribed by the relevant FSR.

Globally, many jurisdictions have seen reason in adopting a risk-based approach to KYC norms. Countries such as the UK,[4] USA[5] and Australia[6] have implemented risk-based KYC frameworks whereby a customer's risk profile or potential risk posed by a business or product offered determines the nature of information to be sought from the customer for adhering to the KYC requirements. As the potential risk rises, so does the intensity of the KYC process. Countries that seek to further financial inclusion and take banking and financial services to the hitherto unbanked population have resorted to a tiered KYC framework. The three-tier KYC regime in Nigeria[7] and Mexico,[8] which aims to simplify KYC processes by increasing documentation requirements on the basis of transaction value, is a case in point.

Ongoing monitoring may be independent of the KYC process undertaken at the time of onboarding and according to the risk appetite and internal controls of each financial institution.

3. https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12156
4. https://www.fca.org.uk/firms/money-laundering-terrorist-financing/high-risk-customers-politically-exposed-persons
5. https://www.fincen.gov/sites/default/files/202207/Joint%20Statement%20on%20the%20Risk%20Based%20Approach%20to%20Assessing%20Customer%20Relationships%20and%20Conducting%20CDD%20FINAL.pdf
6. https://www.austrac.gov.au/business/core-guidance/preventing-financial-crime-using-risk-based-approach
7. https://www.cbn.gov.ng/out/2013/ccd/3%20tiered%20kyc%20requirements.pdf
8. https://www.cgap.org/blog/mexicos-tiered-kyc-update-on-market-response

2.2 Standardisation of principles of the KYC process

As stated earlier, each FSR has its distinct KYC requirements and processes for the entities and activities regulated by them. This poses a challenge for entities offering products regulated by two or more FSRs. For instance, non-bank REs presently issue PPIs, facilitate investment in saving or insurance products as agents or brokers, etc. These products fall within the purview of different FSRs, thereby resulting in a scenario where the entity is required to follow distinct KYC processes in accordance with the regulator of that particular product.

Recommendation

To address the above concern, it is advisable to standardise and harmonise the core KYC principles of any KYC method across FSRs such that they are driven by the inherent risk of a product. Given that each FSR governs products of varying risks – for example, a bank account (which is regulated by the RBI) may pose a higher risk compared to motor insurance (which is regulated by the IRDAI) – having a standard and exhaustive KYC process for all regulated products may be a daunting ask. Therefore, while aligning basic KYC principles that ensure that the customer of a product does not entail a risk to the ecosystem, the KYC processes of regulators may vary.

2.3 A single integrated KYC portal across FSRs

Over the years, the Government and FSRs, both individually and collectively, have introduced centralised registries and repositories for storing KYC data for different categories of customers. As a result, there are five different databases which operate with a certain degree of overlap in terms of customer category.

Sr. no.	Product	Description
1	Central KYC Registry (CKYCR)	Operationalised in 2016, CKYCR is a centralised registry that acts as a digital record for all customers' KYC information of FIs. All FIs can use the CKYCR to check their customers' KYC information.
2	KYC Registration Agency (KRA)	SEBI implemented the KRA in 2011 to introduce uniformity and avoid duplication of the KYC process undertaken by investors across SEBI-certified intermediaries. KRA is a SEBI-registered agency that centrally maintains KYC records of investors on behalf of SEBI-registered capital market intermediaries.
3	Udyog Aadhaar Memorandum (UDYAM)	Launched in 2020 with the aim of streamlining the cumbersome registration process, UDYAM is a dedicated online portal for registering micro, small and medium enterprises (MSMEs). The entity has to self-declare data to complete the process.
4	DigiLocker	It is a cloud-based digital document wallet developed by the Ministry of Electronics and IT (MeitY) under the Digital India initiative. The platform is used for storage and verification of customers' important documents.
5	National Financial Information Registry (NFIR)	A proposed central repository of financial and ancillary information, as announced in Union Budget FY24, it seeks to facilitate faster credit, financial inclusion and stability.
6	Entity DigiLocker	In line with the success of DigiLocker, Entity DigiLocker, as announced in Union Budget FY24, is proposed to be a cloud-based digital document wallet specifically for the storage and verification of corporate and MSME documents.

As such, each of the repository initiatives has attempted to streamline the KYC documentation process. However, over a period of time, the creation of multiple databases has added to the confusion of REs. The purpose of creating a KYC database is to harness the potential of data and enhance access to financial services. The existence of parallel databases, on the other hand, runs counter to this objective. While each database has its their strengths and weaknesses, it is pertinent to note that every one of them has distinct rules and formats for updating, storing and allowing access to customer data. Thus, from an RE's perspective, it requires significant resources (human and monetary) and is an operational burden to maintain and update multiple databases. Additionally, there are no definitive timelines prescribed to update customer data across these databases. Therefore, REs in need of this data face multiple hurdles when it comes to accessing recently updated data.

Recommendation

It is advisable to explore the establishment of an integrated repository which can have multiple databases for distinct entities. Additionally, this integrated repository could have a standardised set of rules, formats and prescriptive timelines for storing, accessing and updating data to enhance the operational efficiency of REs and the reliability and quality of data stored.

Data plays a critical role in a flourishing financial ecosystem and with an integrated repository, such data can be used to enhance access to financial services through open banking and to achieve a sustainable financial ecosystem.

3

From open banking to open finance

3.1 Overview of open banking in India – the Account Aggregator (AA) framework

In recent times, FIs have accelerated the adoption of digital services on the back of technological innovation. An RE's access to customer data is critical for (i) enhancing the provision of financial products to a customer and (ii) ensuring that such products are tailor-made to the core needs of a customer while being affordable. Open banking is a result of such a tech-backed revolution in the financial sector. It refers to a system where banks and other FIs open up their data and services to third-party developers through an application programming interface (API), enabling these third parties to create new financial products and services.

While open banking has a wider scope, in India, it currently emerges from India Stack.[9] The third and fourth leg of India Stack – viz. data and open networks – have kickstarted the open banking ecosystem in India by rolling out the AA framework. AA aims to empower customers to access and share their financial data across multiple accounts and institutions seamlessly and securely, allowing the customer to consolidate their financial information in one place.

The AA network was designed to facilitate[10] consent-based (customer) sharing of financial information between REs of FSRs[11] so that customers (businesses and individuals) can be provided better access to financial products, especially lending products. It aims to bring banks, insurers, depositories, registrar and transfer agents (RTAs) such as CAMS and K-Fintech — all regulated financial entities — onto a single platform.

REs participating in the AA network have recognised the importance of data gathering in servicing a customer. For instance, investment advisers that typically waited 15–30 days to gather data and ultimately service their client have benefited from the AA's ability to provide that data to a Financial Information User (FIU)[12] in a matter of minutes.

3.2 AA – going beyond surviving to thriving

Keeping in mind the core purpose of the AA network, it is essential that it is given enough space to grow and thrive. AA is still in its nascent stages, with adoption increasing slowly as REs build their understanding of the nuances of participation in the network. REs that are already either FIUs or Financial Information Providers (FIPs) or are licensed AAs have recognised the potential of the AA network to transforming the financial ecosystem by:

- transforming credit delivery
- identifying old investments and averting duplication of a customer's investments through better access to data
- assessing the overall portfolio across multiple mutual funds, offering recommendations on portfolio rebalancing, and recommending an increase or reduction in exposure to certain asset classes depending on a customer's goals and risk profile

9. India Stack is a set of APIs and digital public infrastructure that allows the government, consumers, businesses, start-ups and FIs access to data across various platforms.
10. Entities licensed under the RBI's NBFC-AA framework are allowed to facilitate the flow of data.
11. https://sahamati.org.in/faq/
12. FIP stands for 'Financial Information Provider' – the data fiduciary. FIPs are the institutions which hold your data – for example, your bank, NBFC, mutual fund depository, insurance repository, pension fund repository. FIU stands for "Financial Information User'. An FIU consumes data from an FIP to provide various services to the end consumer. For example, if a lending bank wants access to the borrower's data to determine if a borrower qualifies for a loan, the lending bank is the FIU. Banks play a dual role – both as an FIP and an FIU.

- understanding whether clients are under-insured or over-insured, whether they have a fixed or variable income, whether their spending pattern is discretionary or non-discretionary, etc.

With numerous use cases already live today and more being added, AA's growth trajectory is in the hands of the regulator and the Government. However, the introduction of parallel databases such as the NFIR[13] is likely to impact the adoption and utility of AA despite its potential to become a centralised framework designed to address the friction in sharing of customer data spread across various FIs.

Recommendation

As the ecosystem continues to address the problem of duplication of data, it would be greatly beneficial to allow the AA network to thrive and grow instead of introducing parallel platforms and databases that have nearly the -same purpose. AA was meant to bridge the existing gaps pertaining to the fragmentation of customer data which was available in silos across FIs and different Government bodies. If, with a view to address this issue, a new platform or database is introduced, it would impact the utility of AA.

On the contrary, the ecosystem requires a policy that mandates the onboarding and usage of AA so that its utility and objectives are achieved in the true sense and its benefits are reaped on a sustainable basis in the years to come.

13. Union Budget FY24 rolled out NFIR to serve as a database for financial and ancillary information. Set up as digital public infrastructure via a legislative framework, it will be supported by the RBI. The NFIR is likely to encompass all financial information datasets part of the AA network in which case a question may arise regarding the long-term functionality and adoption of the AA network.borrower's data to determine if a borrower qualifies for a loan, the lending bank is the FIU. Banks play a dual role – both as an FIP and an FIU.

3.3 Expanding the data scope – for better credit access to farmers and MSMEs

While other data types are likely to be added over time, at present, only asset-based data (bank accounts, deposits, mutual funds, insurance policies, pension funds, tax/Goods and Services Tax [GST]) is available on the AA network. The increased portfolio of products being offered by entities has resulted in them collecting a host of data.

Recommendation

Expanding the scope of AA framework to include data from other additional repositories will allow FIUs to offer innovative tailor-made financial products to their customers. Especially in the case of credit and lending, expanding the data available on the AA network will help FIUs to shift from asset-backed lending to cash-flow based lending, ultimately serving customers (individuals, MSMEs, farmers, etc.) who have otherwise remained unserved or underserved by financial service providers.

- **Farmers:** Presently, land records and farm and cattle data are being digitised. However, a financial entity has to go through a tedious process to access such data from the respective state governments. Thus, even though such data exists in most states, farmers today lack access to financial services and credit since this data is not easily accessible by financial entities. Therefore, making land and farm and cattle data available on the AA network will expand access to financial services for the agricultural sector. For instance, the Government of Karnataka's FRUITS[14] initiative has allowed farmer data to be shared (with their consent) with financial entities, which has widened access to financial services.
- **MSMEs:** Similarly, incorporating MSME-related data (financial, entity specific, etc.) – whether from Entity DigiLocker (as and when rolled out) or any other relevant database – on the AA network will help increase MSMEs' access to niche-based financial products.

To sum up, ensuring that AA is seen and used as a core and primary platform for access to information on entities across legal type, governing regulator, etc., is critical for:

- offerring focused financial services
- taking financial inclusion to newer heights
- giving a holistic view of a potential customer to financial institutions
- ensuring seamless collection and consolidation of all disparate financial data.

In line with expanding the scope of AA, SEBI's recent consultation paper on 'Use cases for financial information users in the AA framework'[15] is a welcome move towards making data available from various regulators on the AA network.

3.4 Reconsidering voluntary participation of REs

Whether it is in terms of collection and consolidation of all disparate financial data of customers or simplifying access to financial products for both individuals and businesses, the AA network has aimed to alleviate the Indian economy's current credit bottleneck due to lack of organised data exchange channels. However, REs who obtain this data from the customer at the time of onboarding lie at the core of this problem.[16] Hence, it is pertinent to motivate REs motivated to participate in the AA network. Currently, the AA framework is based on voluntary participation from REs across the four FSRs.

14. https://fruits.karnataka.gov.in/
15. https://www.sebi.gov.in/reports-and-statistics/reports/aug-2023/consultation-paper-on-collating-and-defining-use-cases-of-financial-information-users-in-the-account-aggregator-framework-in-securities-markets_74811.html
16. The Digital Personal Data Protection (DPDP) Act, 2023, has several provisions on purpose limitation and consent mechanism that are required to be adhered to by data fiduciaries and significant data fiduciaries. The act also recognises the role of data processors and provides certain rights to data principals. In this light, aligning the mechanisms of the DPDP Act with sectoral regulations and initiatives (in this regard, the AA framework) may prove to be fruitful in keeping the customer data secure and uncompromised while ensuring that REs obtaining this data are governed by an overarching data protection regulation.

Recommendation

Since the primary objective of the framework is to facilitate open banking and enhance financial inclusion, mandating the participation of REs may be considered. Such mandatory participation is likely to have a positive impact on the robust functioning and adoption of AA.

REs are trusted by the regulators as well as customers. Making their participation in the AA network mandatory would help in strengthening the overall AA ecosystem.

One of the ways of encouraging the participation of REs is the introduction of potential commercial considerations that are presently absent from the AA framework. Since these participants are required to invest heavily in technological infrastructure, a commercial arrangement allowing the ecosystem stakeholder to monetise value-added services is likely to enhance the motivation of REs to participate.

3.5 FinTechs and their role in open finance

Presently, only REs under the FSRs can participate in the AA network. Allowing unregulated FinTechs to participate in the AA network would be major win for the financial sector. Over the years, with technology gaining increasing significance, FinTechs (regardless of whether they are regulated or unregulated) have become indispensable to their bank and NBFC partners. They have been critical in the expansion of financial services, especially across the underbanked and unbanked sections, and have:

- been successfully providing front-end services for regulated entities
- significantly lowered onboarding costs
- enabled a fast, seamless and digital experience for the end customer
- acted in a customer-facing capacity to undertake activities such as data collection and customer servicing.

Therefore, extending participation in AA to unregulated FinTechs merits deliberation.

Recommendation

It is recommended to consider allowing unregulated FinTechs to participate in the AA network with adequate guardrails and eligibility criteria. To this end, the RBI relaxed the eligibility criteria for accessing credit information from credit bureaus vide notification issued on 29 November 2021 and a press release dated 5 January 2022.[17] The notification that expanded the scope of a specified user to include unregulated entities proved to be a welcoming precedent.

Similarly, if unregulated FinTechs are provided access to the AA network with such guardrails in place, it is likely to facilitate meeting of niche credit demands and other financial needs of the underbanked, unbanked and digital millennials.

Overall, unregulated FinTechs are today governed through extended governance from their partner REs. Therefore, any concerns regarding data sharing which happens on a consent-based mechanism on the AA network is addressed. Additionally, the recent Digital Personal Data Protection (DPDP) Act, 2023, recognises both the rights of the individuals to protect their personal data and the need to process such data for lawful purposes. The introduction of such an overarching law not only streamlines data management but also brings any access to customer data under the purview of the act, thereby protecting customers' rights in case of any data leaks or breaches.

17. https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53055

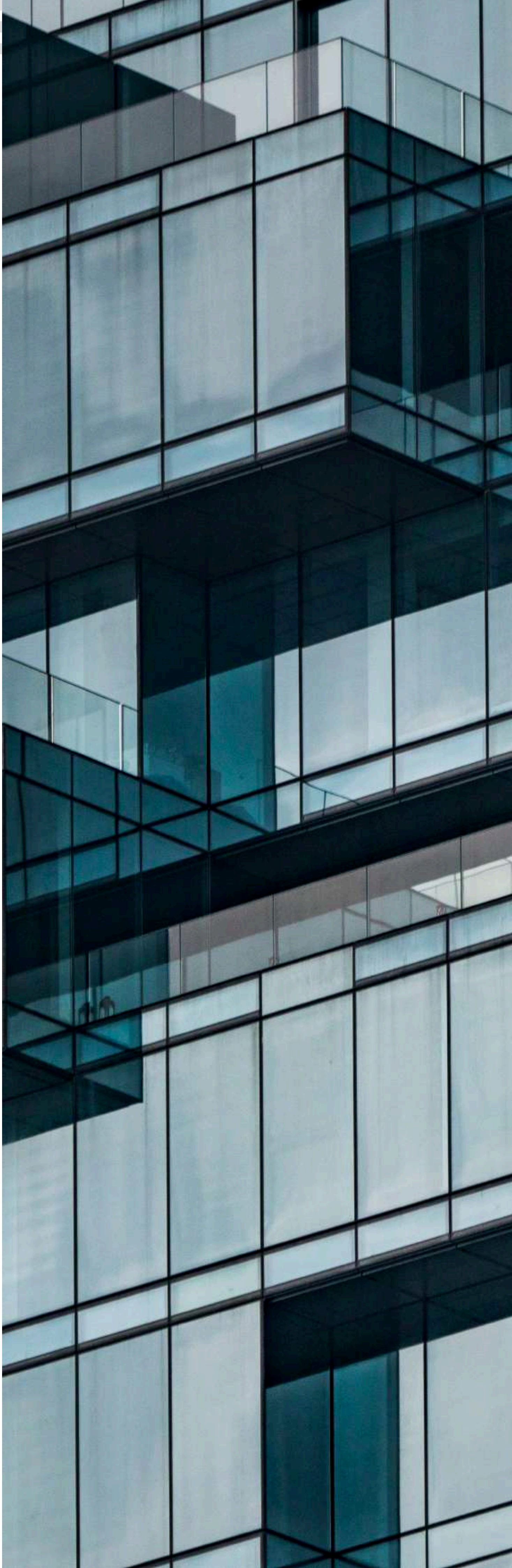
4

Conclusion

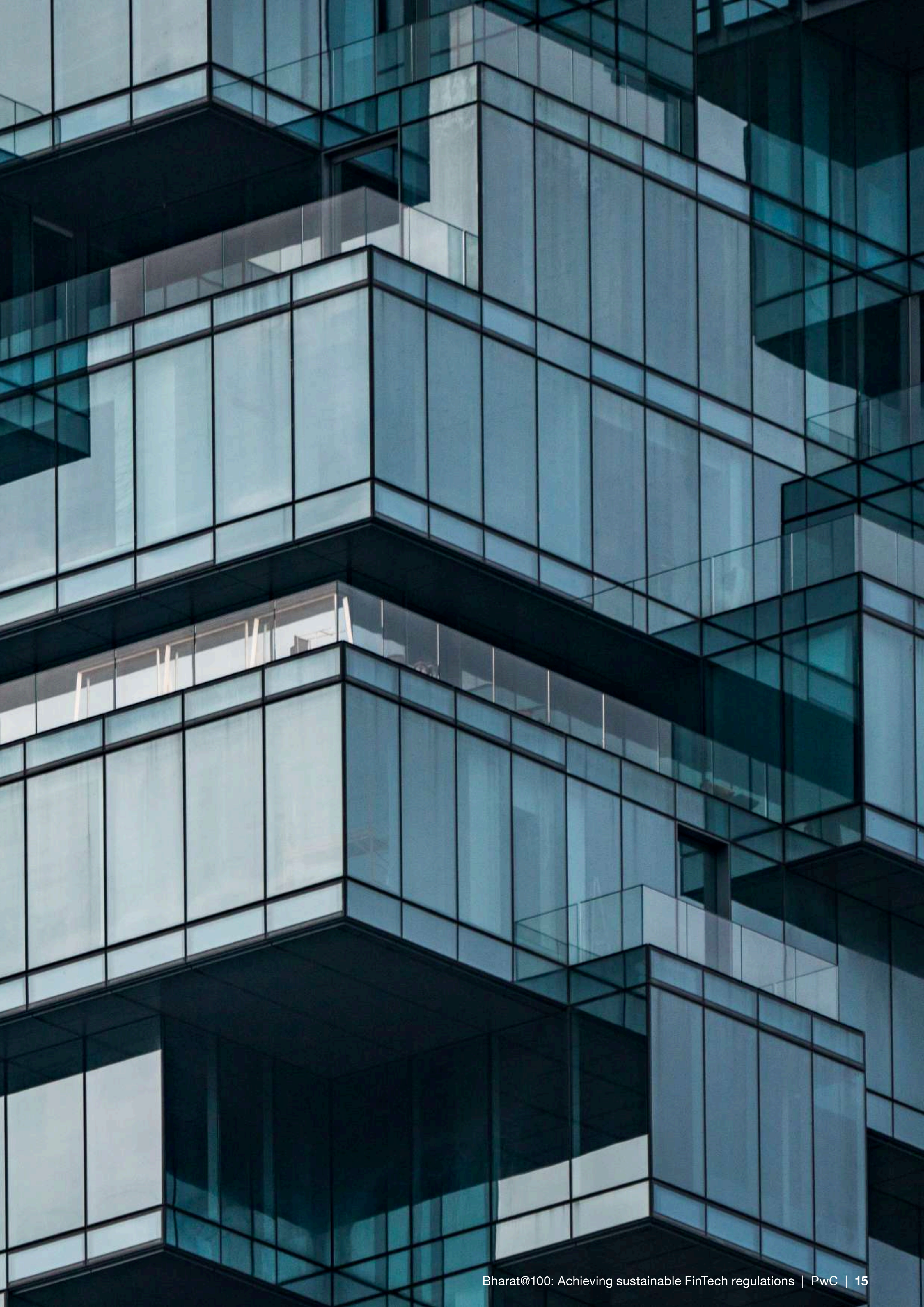
It is inevitable that technology-based or FinTech-led solutions will drive financial services in the coming decades. The evolution of artificial intelligence (AI) and machine learning (ML) is likely to be the next frontier for the financial ecosystem. Regulators in foreign jurisdictions like the UK and Singapore have introduced several initiatives to further the deployment of AI and ML for KYC compliance, fraud monitoring and prevention, anti-money laundering, and more. In the coming years, India too can utilise AI and ML to enhance the KYC compliance process through intelligent document processing which will virtually eliminate the requirement of physical verification of customer KYC and risk profiling of a customer based on their financial history. Further, technologies such as AI and ML have wide application and can be tweaked to cater to a range of use cases.

In such a scenario, the resilience and sustainability of our financial services ecosystem will depend on the sustained and regulated growth of FinTechs. India's FinTech ecosystem, the third largest globally, is expected to reach a scale of USD 70 billion in annual revenue by FY30, and is targeting USD 400 billion in value creation by 2030.[18] Moreover, the FinTech industry has attracted over USD 26 billion in funding since 2014, of which USD 14.8 billion was raised between 2021 and Q1 2023.[19]

While these numbers indicate a booming FinTech-led financial sector, a comprehensive and sustainable regulatory framework is required to sustain this growth.



18. https://www.thehindubusinessline.com/economy/indias-fintech-ecosystem-to-reach-70-billion-in-annual-revenue-by-fy30-report/article67252026.ece
19. https://inc42.com/features/banking-on-the-boom-meet-the-most-active-fintech-investors-in-india/



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Contact us

Bhavin Shah
Leader, Deals
PwC India
bhavin.shah@pwc.com

Anshul Jain
Partner, Deals
PwC India
jain.anshul@pwc.com

pwc.in

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