

# Committee Report Summary

## Steering Committee on Fintech related issues

- The Steering Committee (Chair: Subhash Chandra Garg) on Fintech Related Issues submitted its report to the Finance Minister on September 2, 2019. The Committee was constituted with the objective of making Fintech related regulations more flexible and enhance entrepreneurship. Fintech (financial technology) refers to technology-based businesses that compete against, enable and collaborate with financial institutions. Key observations and recommendations of the Committee include:
  - **Expansion of Fintech services:** The Committee observed that India has made significant progress in the growth of Fintech products and services, particularly in areas such as payments, lending and investment, and advisory services. It took note of the emerging technologies which act as enablers for Fintech. These include: (i) data-focused technologies such as artificial intelligence, machine learning, sensor based technologies, biometrics, (ii) operational excellence aimed technologies such as distributed ledger technology, robotic process automation and chatbots, (iii) infrastructural enablers such as open application program interfaces, and (iv) front-end interfaces such as gamification or augmented and virtual reality.
  - The Committee observed that there is lack of a level playing field amongst banking and non-banking entities with respect to digital payments. For instance, access to payment infrastructure such as aadhaar-enabled payment system is restricted to banking entities. The Committee recommended that these discriminatory regulatory barriers in digital payments infrastructure need to be removed. To further expand the scope of Fintech, the Committee recommended: (i) use of Fintech to bolster cybersecurity, fraud control and money laundering, (ii) examining the suitability of allowing virtual banking in India, and (iii) dematerialising of financial instruments (converting physical certificates into electronic form).
  - **Policy actions for promotion of Fintech:** The Committee held that the government, financial regulators and public sector firms can take several actions for adoption and promotion of Fintech. The Department of Financial Services (DFS) and public sector banks should explore use of artificial intelligence for automating back-end processes. Further, Ministry of MSME should collaborate with DFS and RBI to implement blockchain solutions in trade finance for MSMEs. The Committee recommended that the government should take up modernisation and standardisation of land records in the country, with a completion timeline of three years. For the same, an inter-departmental steering committee should be set up.
- With respect to regulations, the Committee noted that many countries across the world (including UK, Singapore, Canada, Thailand) set up regulatory sandbox for enabling financial sector innovations. The sandbox provides an environment which allows market participants to test new products, services or business models with customers in a controlled environment. The Committee recommended that regulators should introduce such mechanisms to spur innovation.
- **Financial Inclusion:** The Committee noted the potential of Fintech in promoting financial inclusion. It recommended that Fintech be utilised for: (i) creating a credit registry for farmers with artificial intelligence and machine learning based credit scoring mechanism to reduce risks of lending, (ii) claims management and premium payments in agriculture crop insurance schemes, and (iii) creating a common digital platform for all small savings products, all micro-pension and government pension schemes, through which pension subscribers can subscribe to schemes through various modes of digital payments.
- **Administrative measures:** The Committee recommended that since Fintech is an evolving area, the government should collaborate with other countries for a shared understanding of risks and benefits. An advisory council on Fintech should be set up by every financial sector regulator to bring together industry experts. For developing inter-regulatory coordination, an inter-regulatory technical group should be set up. Further, an inter-ministerial group on Fintech technologies should be set up for exploring potential applications of technologies that enable Fintech services.
- The Committee observed that the emergence of Fintech industry brings additional privacy and data security challenges. Further, the proposed draft Data Protection Bill, 2018 may have implications for the growth of Fintech sector. In this regard, it recommended setting up a taskforce in the Ministry of Finance on data protection in the financial sector.

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