

Message from the CEO

At RBIIH, our mission is simple – to enable access to financial services to over a billion Indians across the country. To bring this mission to life, many operational, technological, and social aspects are required to work in tandem and converge. Today, India is empowered with an open digital infrastructure that has the potential to reach every citizen of the country. I personally believe that this potential can be further harnessed by creating a truly seamless experience for every customer. The BFSI sector must focus on delivering solutions and creating experiences that are focused on the customer and their individual needs. With a wide array of tools at our disposal, it is possible to simplify banking through vernacular languages, AI-driven conversational tools, on-demand services, adaptive menus and many more. I am confident that customer centricity holds the key to an empowered, inclusive economy of limitless possibilities. Join us as we explore the developments of our ever-growing industry this month!



— Rajesh Bansal, CEO RBIIH

GSTN Onboarded to the AA framework

In a significant development, the Goods and Services Tax Network (GSTN) has been **onboarded** as a financial information provider (FIP) to the Account Aggregator (AA) framework. The inclusion of GST returns (forms GSTR-1 and GSTR-3B) as financial information in the AA framework is an important step towards facilitating **cash-flow-based lending** for MSMEs. The AA ecosystem has been steadily expanding its footprint this year with the onboarding of all major public and private sector banks, and most of the bigger Non-Banking Financial Companies (NBFCs).

The inclusion of GSTN data will go a long way in furthering India's financial inclusion objectives. The **recent push** by insurance and security market regulators their regulated entities – insurance providers, Asset Management Companies (AMCs), and depositories – to join the AA framework has further strengthened the ecosystem. This is expected to act as the foundation for consent-based onboarding for a majority of financial services soon.



The Changing Paradigm of Financial Services – Shri Shaktikanta Das



In his **address** at the Reserve Bank of India (RBI) Ombudsman Conference, Shri Shaktikanta Das, Governor, RBI highlighted the paradigm shift in the way financial service providers and their consumers interact with each other. The conference was also attended by Mr. David Locke, Chief Executive Officer and Chief Ombudsman of the Australian Financial Complaints Authority. Governor Das highlighted the 24x7x365 omnichannel availability of financial services owing to the technology overlay on all nodes of financial transactions.

He raised the issue of consumer protection while dealing with fraudulent digital lending apps, and reiterated the recent steps taken by the RBI to curb this menace. The Governor also stressed the importance of the high-level committee that was set up earlier this year to review customer service standards in RBI-regulated entities. The committee's key mandate is to review the emerging and evolving needs of the customer service landscape – especially in the context of evolving digital and electronic financial products – and suggest suitable regulatory measures.

Concerned with the high number of consumer complaints pertaining to traditional banking channels, he urged the bank leadership to analyse the root cause of such grievances and undertake necessary corrective measures, leveraging technology as appropriate. He closed his address by stressing that customer service must be based on trust, should be cognizant of diverse consumer groups such as senior citizens, and must become highly personalised and humane.

BHIM App – NPCI Announces Licence Model

Taking yet another stride in the globally-acclaimed Unified Payments Interface (UPI) space, the National Payments Corporation of India (NPCI) **announced** the launch of the BHIM Interface for Money (BHIM) App open-source licence model. Under this model, the source code will be licensed to regulated entities participating in the UPI ecosystem. This is expected to be a welcome development for many banks that do not have their own banking application and are unable to extend the benefits of UPI to their customer base. The open-source licence is expected to bridge this gap and enable extending the entire gamut of UPI features to these entities in a cost-effective manner.

This licensing model will **empower** these entities to offer the benefits of UPI to their customers with a ready UPI application that will help reduce time, effort, and costs for the entities. All new features that get added to the BHIM app in the future will also be available to these entities under this arrangement.

Grants to Indian Fintech in 2023



Earlier this year, the International Financial Services Centers Authority (IFSCA) announced a **Fintech Incentive Scheme** to promote the establishment of a world-class Fintech Hub, comparable with those located in advanced International Financial Centers (IFCs) across the globe. The IFSCA has now begun the process of shortlisting applicants under this scheme, and grants are **expected to be issued** early next year.

While speaking about the intended impact of the scheme, Mr. Joseph Joshy – Chief Technology Officer, IFSCA – mentioned that the grants are for bootstrap innovators, and range between INR 15 lakh to 75 lakh. He also added that these grants are timely considering the funding winter presently being experienced across the sector, although these cannot be a substitute for VC investment. The scheme offers six different types of grants including a Green Fintech Grant that shall be utilised towards developing solutions facilitating sustainable finance and sustainability-linked finance, including Environmental, Social, and Governance (ESG) investments.

CBDC Retail (e₹-R) Pilot

Following up on its Digital Rupee – **Wholesale** segment (e₹-W) pilot last month, the RBI has now **announced** the Central Bank Digital Currency (CBDC) **Retail** (e₹-R) Pilot. Coming on the back of a detailed **concept note** released for public consultation, these pilot projects are expected to test the robustness of the entire process of digital rupee creation, distribution, and retail usage in real time.

The e₹-R will be issued in the form of a digital token representing legal tender to a closed user group composed of participating customers and merchants. The token will be distributed through the digital wallets of participating banks and users will be able to undertake Person-to-Person (P2P) as well as Person-to-Merchant (P2M) transactions. Payment transactions at merchant locations will be facilitated through QR codes. A total of eight banks have been identified for this project and they will be onboarded in two phases. Similarly, the project will initially cover the four cities of Mumbai, New Delhi, Bengaluru, and Bhubaneswar and later extend to Ahmedabad, Gangtok, Guwahati, Hyderabad, Indore, Kochi, Lucknow, Patna, and Shimla.

Tech in Focus - Technology Platform for CBDCs

In March 2018, a **report** had been jointly released by the Committee on Payments and Market Infrastructures, and the Markets Committee of the Bank of International Settlements (BIS). This was among the first authoritative works on the impacts of CBDCs on existing payment systems, monetary policies, and financial stability. The report is known for its 'Money Flower' – a Venn diagram that illustrates the four key properties of money i.e. issuer, form, accessibility, and technology in an attempt to explain the positioning of CBDCs in existing currency systems.

The operationalisation of two CBDC pilot projects – one for the **wholesale** segment (settlement of secondary market transactions in government securities) and the other for **retail** payments – has brought the spotlight on this crucial intervention by the RBI.

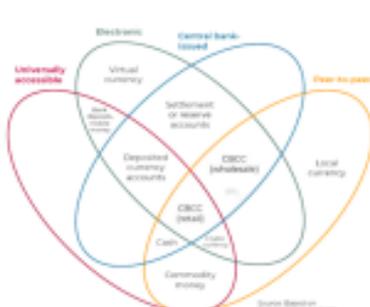
The two projects were initiated on the back of a detailed **concept note** released in October this year. **Concerning** their digital nature, technology will be the functional backbone of CBDCs. RBI's concept note elaborates on the need for a technology platform that offers large-scale and enterprise-class functionality for a country like India. Some of the key features expected from such a platform include high scalability to support the high volume and frequency of transactions without any degradation in performance, tamper-proof access control protocols, and robustness to ensure financial stability.

The platform will need to support the development of diverse client applications designed around CBDCs. It will also need to integrate seamlessly with the financial ecosystem's existing and future IT platforms, and make provisions for comprehensive administration, reporting, and an advanced fraud monitoring framework.

Distributed Ledger Technology (DLT) had been pitched as the viable technology alternative to run CBDC projects. However, a look at pilot and operational projects underway across the globe demonstrate that DLT might not be the mainstay for CBDC projects. The CBDC projects running in the Bahamas and the Eastern Caribbean Central Bank (ECCB) are designed on DLT platforms with security being the core consideration for their projects. On the other hand, the Uruguayan e-peso and Chinese e-CNY are known to use a hybrid architecture that leverages DLT in areas where it is deemed to have an advantage over other prevalent technologies. Bank of Canada's CBDC project is also stated to be carrying out multiple technological workstreams, including DLT.

The concurrent CBDC pilot projects underway in India are expected to provide valuable feedback on the appropriate choice of technology platform to suit the scale of the Indian financial system.

The money flower: a taxonomy of money



RBIIH Updates

Fintech for Inclusion

The Board of Directors of Reserve Bank Innovation Hub (RBIIH) attended a session on 'Fintech for Inclusion' organised by IIT Madras Research Park (ITMRP) on November 15, 2022. The Board was introduced to 12 fintechs in the ITMRP ecosystem, followed by an open brainstorming session to identify policy measures that can bolster financial inclusion efforts. Various challenges pertaining to Know Your Customer (KYC) processes, cash-in/cash-out points, simplification of onboarding process, and user experience were brought to the forefront during this discussion. Dignitaries from the Reserve Bank of India (RBI) acknowledged these challenges, who also acknowledged that such inputs would enable the Regulator to make informed decisions on matters relating to inclusion.

Subsequently, RBIIH and ITMRP management reconnected with the fintechs to consolidate a list of inputs and suggestions to be submitted to the RBI for further deliberation and action.

In addition, RBIIH recently entered into a tripartite partnership with IIT Madras Incubation Cell (ITM IC) and six fintech companies. The partner fintech companies can seek support from RBIIH and ITM IC to drive innovation in the fintech domain. The objective is to enhance financial inclusion in the country by facilitating the growth of the financial sector and providing solutions to large sections of society across India. RBIIH has also partnered with ITM IC to support its fintech incubatee startups as a "Co-Incubator" by providing market access (vendors, experts), mentoring, training, and industry networking. This partnership will also allow the startups to connect with angels/VCs, and explore joint research on financial product/service facilities.

CDO Forum

Chief Digital Officers (CDOs) have always been at the forefront of innovation in the banking sector. With this in mind, the Reserve Bank Innovation Hub (RBIIH) conceptualised the idea of a quarterly forum for CDOs to come together and create shared values for key stakeholders of the financial services ecosystem.

RBIIH recently hosted the first Chief Digital Officers (CDO) Forum – Fostering Bank-Fintech Partnership 2.0. The forum discussed ways to enable a fruitful partnership such as implementing crowdsourced ratings for fintech companies and setting up a digital platform with portfolios to provide credibility to startups and reduce onboarding time.

Following the discussions, a closed Working Group (WG) was constituted with major public and private sector banks as members. The WG is currently working towards identifying areas of improvement in bank-fintech relationships.

In case of any queries or feedback, write to communications@rbiih.in

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Reserve Bank Innovation Hub

(RBIIH)



@rbiihinnovationhub



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Registered Office:

Reserve Bank Innovation Hub, Resilio-K wing, 4th Floor, 27th Main, Sector 1, 7th Cross Road, HSR Layout, Bengaluru – 560192

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