Fin(Wrap)

ISSUE: 010

JULY 2023

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Message from CEO

Welcome to the 10th edition of FinWrap, where we once again celebrate the power of creative, collaborative solutions in powering a financially inclusive India. We're halfway through the year, and I'm glad to report that the finance sector is buzzing with evolving guidelines and innovations that seek to tackle challenges around access and inclusion.

One such challenge that stands out to me - specifically in this edition - is balancing cyber security with superior customer experience. At a time when increasingly sophisticated technology equals increasingly sophisticated threats, how can we, as a community, best protect our users without making them jump through hoops?

The answer, I believe, lies in a few things - designing the customer journey based on the possibility of fraud at every touchpoint, robust risk assessment, continuous customer education, and more. Each of these can only be achieved through collaboration, knowledge exchange, and sharing of resources. I would love to hear your opinions on this - do write in!

On that note, please enjoy this edition of FinWrap, fresh off the press - and remember, the way forward is together!

Regards,
Rajesh Bansal

India Fintech News

Cyber Security for Safer Financial Systems

In a speech at an event organised by India's G20 presidency in Mumbai, Mr. M K Jain, Deputy Governor, Reserve Bank of India (RBI), spoke of cyber security in the Indian financial ecosystem and the role of global cooperation in ensuring cyber resilience. He began by stating that cyber attacks on banks not only jeopardise the stability of individual institutions, but can also potentially disrupt financial systems. And this is just one of the reasons why international collaboration is essential.

He added that cyber-attacks disrupt banks' critical financial operations, rendering them unable to process transactions, access customer accounts, or execute essential functions. Such disruptions impact customer confidence in the banking system and can lead to financial instability, especially if they are prolonged or affect multiple banks.

In the Indian context, the Deputy Governor covered several RBI interventions, such as the principles-based Cyber Security Framework (2016) that aimed to strengthen IT and cyber risk management in its Regulated Entities (REs). He concluded by elaborating on a six-point strategy to improve the global cyber security environment.

Key Guidelines and Master Directives by RBI

The RBI recently released detailed guidelines on facilitating arrangements between its REs and Lending Service Providers (LSPs) or between two REs for Default Loss Guarantee (DLG). They mandate that LSPs transparently disclose their credit portfolios to simplify due diligence by banks.

These guidelines are an extension of the ongoing interventions recommended by the RBI's Working Group on Digital Lending to address fraudulent activities in the guise of easy access to credit.

They aim to bring about much-awaited clarity for fintechs involved in digital lending, allowing them to scale their businesses. The onus of ensuring proper frameworks for implementation has been put on banks.

Reinforcing the importance of cyber resilience of payment system operators, the RBI also released draft master directions on cyber resilience and digital payment security controls. These were open for public comments till June 30, 2023. They cover governance mechanisms for identification, assessment, monitoring, and management of cybersecurity risks, including information security risks and vulnerabilities. In addition, the directions specify baseline security measures to ensure safe and secure digital payment transactions.

Financial Inclusion Dashboard Launched by RBI

Building on its ongoing efforts to promote financial inclusion in the country, the RBI Governor unveiled ANTARDRISHTI. This dashboard offers insights to help assess and monitor the progress of financial inclusion based on relevant parameters. The move comes on the back of its Financial Inclusion Index (FII) that measures the extent of financial inclusion based on three dimensions - Access, Usage, and Quality.

The new dashboard will help gauge the extent of financial inclusion at a granular level across the country. It is presently intended for internal use and focused on facilitating greater financial inclusion through a multi-stakeholder approach.

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Monetary Authority of Singapore's (MAS) Toolkit for Responsible Artificial Intelligence (AI)

The MAS' Veritas initiative has been actively exploring industry-driven frameworks to ensure the responsible use of AI in the financial sector. They recently released an open-source tool kit to facilitate this.

The Veritas Toolkit v2.0, developed by an MAS-led consortium of 31 industry players, is expected to help financial institutions (FIs) carry out assessment methodologies for Fairness, Ethics, Accountability, and Transparency (FEAT).

Key lessons learnt by the seven FIs which piloted the integration with their internal governance framework reiterated the importance of having –

A consistent and robust responsible AI framework that spans geographies.

A risk-based approach to determine the governance required for the AI use cases.

Responsible AI practices and training for the new generation of AI professionals in the financial sector.

In India, Google has applied the FEAT Assessment Methodologies to Google Pay's detection of fraudulent payments.

Tech in Focus

Quantum-proof VPN Connection

While the concept of quantum computing has been around since the 1990s, its practical applications have come to the fore only in the last decade. Recent investments and resultant developments in the domain have been promising for multiple sectors, including finance. Applications in the financial sector include those that will enable use of AI in financial services and credit modelling.

Ongoing academic research has also highlighted the possibility of quantum computers cracking present day encryption algorithms at incredible speed, rendering security processes vulnerable to malicious actors.

It is true that fully functional quantum computers - hardware that leverages the ability of quantum particles to compute beyond binary states - are not yet available. However, malicious actors can engage in a 'harvest now, decrypt later' attack wherein data generated and transmitted today can be intercepted and stored for processing when such hardware is available. The long-term utility of financial data makes this particular assumption a high possibility in the near future.

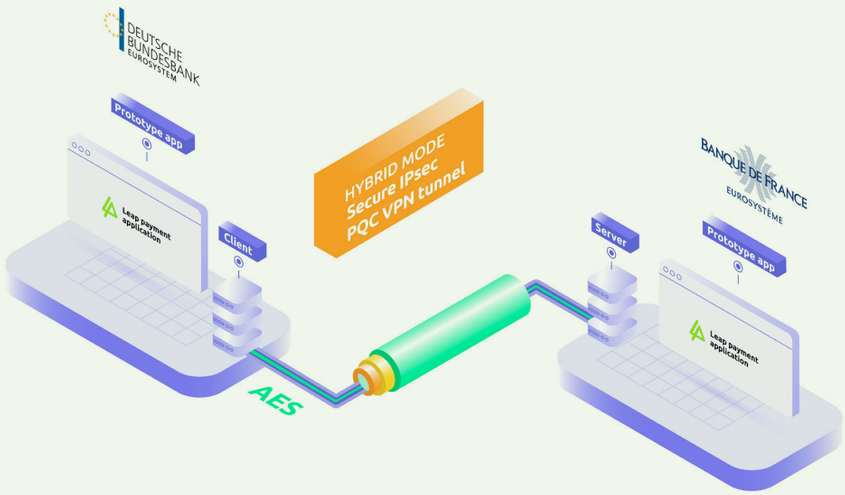

Image depicting the creation of a quantum-proof VPN connection. (Source: BIS Report)

Emphasising on the gravity of this challenge, particularly for central banks that lay down frameworks for data protection for their REs, the Bank of International Settlements (BIS) undertook a pilot project where the BIS Innovation Hub Eurosystem Centre, Banque de France, and Deutsche Bundesbank successfully set up a quantum-safe communication channel that shields financial data. Titled Project Leap, it aims to prepare central banks and the global financial system for a transition towards quantum-resistant encryption. It is currently investigating methods to update and replace the cryptographic security algorithms that the global financial system is critically reliant on.

RBIH Updates

RBI Deputy Governor, Shri Rajeshwar Rao visits RBIH

We had the honour of hosting Shri Rajeshwar Rao - Deputy Governor, RBI - at our headquarters recently. Shri Rao interacted with the team and shared the regulator's approach to dealing with the challenges of a fast-paced emerging market like India. He took a keen interest in answering our team's questions surrounding financial innovation across the globe, and it was a great learning experience to hear his insights! We look forward to more such visits in the future.

RBI Leadership Interacts with Fintechs

RBIH co-hosted an 'Interaction with Fintechs' with the RBI, bringing together fintech entrepreneurs, industry leaders, and stakeholders for a thought-provoking session. At the heart of the event was an insightful discussion led by the esteemed Deputy Governor of RBI, Shri T Rabi Sankar. The session served as an opportunity for the fintech community to interact directly with the honourable Deputy Governor, Executive Director of RBI, Shri Ajay Kumar Choudhary, Chief General Manager of RBI, Shri Suvendu Pati, and CEO of RBIH, Shri Rajesh Bansal.

'India's innovative approach to financial inclusion'- The Banker's coverage of RBIH

RBIH CEO, Mr. Rajesh Bansal spoke exclusively to The Banker to bring to light the initiatives RBIH is taking to make finance accessible to over a billion Indians. Ms. Joy Macknight, Editor, The Banker wrote about the Hub's mission to foster and evangelise innovation in the financial sector through its three pillars of innovation: process innovation, product innovation and policy innovation. The article titled, 'India's innovative approach to financial inclusion' also highlights some key RBIH initiatives focused on women and ensuring that every female adult in India gets access to products in the way she wants.

Special Address by Mr. Rajesh Bansal at the Financial Express Modern BFSI Summit

RBIH CEO, Mr. Rajesh Bansal delivered a special address at the FE Modern BFSI Summit 2023. During his address Mr. Bansal spoke about the importance of customer-centric innovation. Referring to the increasing Gen-Z Indian consumers, he stressed on the need for simple, intuitive, personalised and transparent innovations. His special address was also covered by the Financial Express in an article titled 'The FE Modern BFSI Summit: RBiH CEO on customer-centricity for fruitful innovations'.

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