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Message from CEO

Dear readers,

Welcome to the sixteenth issue of FinWrap!

2023 was the year of tapping into the power of collaboration and innovative solutions to shape the industry's trajectory and RBIH's mission of financial inclusion. As we bring in the new year, we at RBIH will continue to be steadfast in our commitment to being at the forefront of financial technology and fostering an environment where innovation thrives. Our incubation programs, startup engagements, and accelerator initiatives are integral components of this commitment. Through these endeavours, we aim, not only to stay abreast of the rapidly evolving landscape, but also to lead the charge in shaping the future of the financial industry.

We engaged in exciting events in Bengaluru and Delhi. RBIH organised the 'Building for Women Entrepreneurs' event to award the winners of the recently concluded TechSprint. Delhi saw the success of Fintech Mixer, fuelled by the vibrant participation of VCs, banking experts, and founders. These events underscore our commitment to a collaborative fintech space where ideas converge, partnerships thrive, and the financial landscape evolves. We also launched two reports titled the 'Financial Infratech Opportunity' and 'Financial Services Innovation for Bharat'. The former highlights the critical role played by Financial InfraTech providers and explores how they can effectively partner with financial institutions, while the latter unleashes the potential of financial services for rural and semi-urban India.

You will find more details about these RBIH updates and the most recent developments in the banking and financial services sector in this edition of FinWrap. I hope you enjoy reading it.

Warm regards,

Rajesh Bansal
Chief Executive Officer
Reserve Bank Innovation Hub

India Fintech News

FinTech Repository to be set up in 2024

In a move to bolster the resilience of the FinTech sector and promote best practices, the **RBI** announced, in December 2023, its plan to set up a FinTech Repository.

Today, FinTechs are harnessing the power of emerging technologies such as Distributed Ledger Technology (DLT), Artificial Intelligence / Machine Learning (AI / ML), and more. To better understand the developments in the FinTech ecosystem and support the sector appropriately, the RBI proposes to set up a repository. This Repository will capture essential information about FinTechs, encompassing their activities, products, technology stack, financial information, etc.

FinTechs will be encouraged to voluntarily provide relevant information to the Repository, which will aid in designing appropriate policy approaches. The Repository will be operationalized by the RBIH in April 2024 or earlier. The necessary guidelines for this will be issued separately.

Increase in digital lending volumes in India

The Fintech Association for Consumer Empowerment (FACE) has released the 8th edition of the **FACETS report**, revealing an increase in digital lending volumes in Q2 FY 23-24. The report analysed the disbursement data of 37 FACE member companies.

The digital loan disbursement volume and value saw an annual growth rate of 39% and 43%, respectively, crossing 2.4 crore loans worth ₹31,692 crores in Q2 FY 23-24. More than three-fourths of the companies reported positive annual growth over the comparable quarter in FY 22-23.

On the customer redressal front, digital lenders reported that 97% of all customer grievances were resolved within 7 days and 41% within a single day.

Over 25% of complaints were related to credit bureau updates and disputes, followed by app-related grievances (15%) and disclosures (11%).

Sugandh Saxena, CEO at FACE, commented on the report, stating, “Data signals strong customer confidence in digital lending. It reflects digital lenders' steadfast commitment to bringing vast unaddressed segments to formal credit with superior experience, choice, and convenience."

She further added, "The regulatory foundation and fences are shaping the industry to grow and mature wholesomely, constantly investing and improving customer protection, underwriting models, and portfolio quality.”

Tokenizing is the way to safer online shopping

The Indian e-commerce landscape is booming, with millions of consumers embracing the convenience and variety of online shopping. However, amidst the surge in online transactions, concerns regarding data security and card fraud remain a persistent challenge. To address these concerns and enhance the safety of online payments, the RBI recently introduced a **Card-on-file tokenization (CoFT)** directly through issuing banks.

The card details, when stored with a merchant, are known as card-on-file (CoF). To avoid any breach or leak of data, the RBI introduced the rule of tokenization in September 2021, where instead of card details, a specially created token is saved with the merchant. CoFT helps in maintaining the privacy of data.

It acts as a shield, replacing your actual card number with a unique, encrypted code (token) during online transactions. This token, like a secure disguise, protects your sensitive card details from potential breaches or unauthorised access.

Previously, online merchants were the main providers of CoFT. The RBI's new circular empowers users to initiate tokenization directly through your bank's mobile or internet banking platform and even through card service providers like MasterCard, Visa, and Rupay.

It has several advantages. First, explicit consent and authentication are mandatory for tokenizing your card, ensuring complete control over your data.

Second, you won’t need to manually enter your card details every time you shop online. Tokens enable quick and hassle-free checkout with just a few clicks.

Third, even if a merchant's website gets compromised, your actual card details remain hidden behind the token, significantly minimising the risk of fraudulent activity.

Fintech News

The future of digital currency: UK's exploration of a retail CBDC

In an emerging landscape of global currencies, the Bank of England and **HM Treasury** are exploring the introduction of a retail Central Bank Digital Currency (CBDC). This initiative aligns with a broader international trend, with 130 countries currently delving into the concept of CBDCs, 11 having already launched, and 21 in the pilot phase as per the Atlantic Council.

The Bank of England and HM Treasury have established a joint task force to explore the potential of a UK CBDC. The proposed 'platform model' involves the Bank of England providing core public infrastructure and issuing digital pounds recorded in a core ledger.

Regulated private sector firms, termed Payment Interface Providers (PIPs) and External Service Interface Providers (ESIPs), would then interface with the core ledger, offering digital wallets for end-users.

A retail CBDC, as planned by the UK authorities, would serve as a digital form of 'public money' or 'central bank money.' Comparable to a digital banknote, it would offer households and businesses a new means to conduct transactions for goods and services.

Having progressed into the design phase, the Bank of England and HM Treasury are actively working on shaping the digital pound. This phase is anticipated to extend until 2025/2026.

If a decision is made to proceed with the digital pound, a potential launch is foreseen in the second half of this decade. This move signifies a pivotal moment in the evolution of digital currencies, with CBDCs emerging as a transformative force in the global financial landscape.

Decoding digital frauds: A guide to safe navigation

In the vast dimensions of online transactions, a new set of threats have cropped up, weaving a tale of deception. Welcome to SEO poisoning, where fraudsters use clever SEO tricks to boost their rogue websites in search results, duping users into sharing sensitive information.

In a similar pattern, fraudsters utilise "typosquatting" domains, registering common misspellings of legitimate organisations' domains. These domains, although they do not host malicious content, replicate pages from sites that compare mortgages and loans, presenting seemingly legitimate content. Nevertheless, victims hopelessly find themselves redirected through these pages to authentic phishing sites.

The plot thickens with the remote support scam. Users are enticed to call fake support numbers, thinking it's their bank. A fake support person manipulates them into installing a tool, giving control to fraudsters for unauthorised activities.

Spear phishing via SMS and tailoring messages with the victim's name for a false sense of trust is yet another problem. Smishing uses deceptive text messages to lure customers to share sensitive data with fraudsters by leading users to fake bank websites, guided by fake support calls that unknowingly activate two-factor authentication on the fraudster's device.

Among all these digital sagas, the Save Your Account fraud emerges. Fraudsters convince users that their accounts are at risk, tricking them into transferring money to a supposedly safe account—a puppet under the control of the deceivers.

In this digital narrative, users must stay vigilant, navigating the online world with caution.

Navigating the risks and rewards: AI in banking operations

Advances in computing, coupled with enhanced data availability and analytical techniques, have opened up new avenues for banks to harness AI for diverse purposes, from customer chatbots to fraud detection and credit scoring. In particular, generative AI has become a focal point, gaining widespread attention with the commercial availability of large language model tools.

AI, regardless of its form, introduces a spectrum of risks. These encompass issues like explainability, reliance on extensive data, potential biases, privacy concerns, third-party risks, cybersecurity threats, and consumer protection considerations.

Additional challenges include the potential for providing seemingly credible yet inaccurate responses.

In light of this, the **Office of the Comptroller of the Currency (OCC)**, US, emphasises the importance of managing AI use in a safe, sound, and fair manner. This approach emphasises that technological advances do not exempt banks from established safety and soundness standards and compliance requirements.

The OCC, which adopts a technology-neutral stance, encourages national banks and federal savings associations to explore the safe and sound utilisation of emerging financial technologies like AI. While acknowledging the potential benefits, the OCC remains vigilant regarding the associated challenges and risks.

Tech in Focus

Open banking: A revolution in financial services

In the ever-evolving world of finance, the utilization of open application programming interfaces (APIs) has brought a transformative era, empowering partners to create diverse applications and services centred around financial institutions. This strategic approach not only facilitates secure exploration by third-party collaborators but also encourages the development of novel methods to effectively cater to customers' needs.

In light of these innovations, open banking signifies customers authorising the sharing of their banking-related financial data with external parties.

Open banking has significantly impacted the accessibility and utilisation of credit-related information, fostering a more transparent and efficient credit ecosystem. This data sharing enables the development of innovative solutions and services that leverage credit scores and reports to offer personalised financial products and advice. This authorised data is confined to banking activities. It represents a shift towards transparency, efficiency, and customer empowerment.

The technology works in such a way that it constitutes three major parts of the ecosystem: account data, product data, and payment initiation.

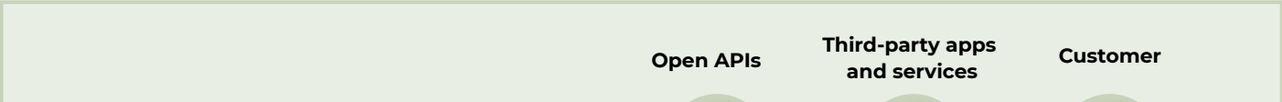
Account Data: The basic details about your account, like your name, the type of account you have, and a record of your transactions.

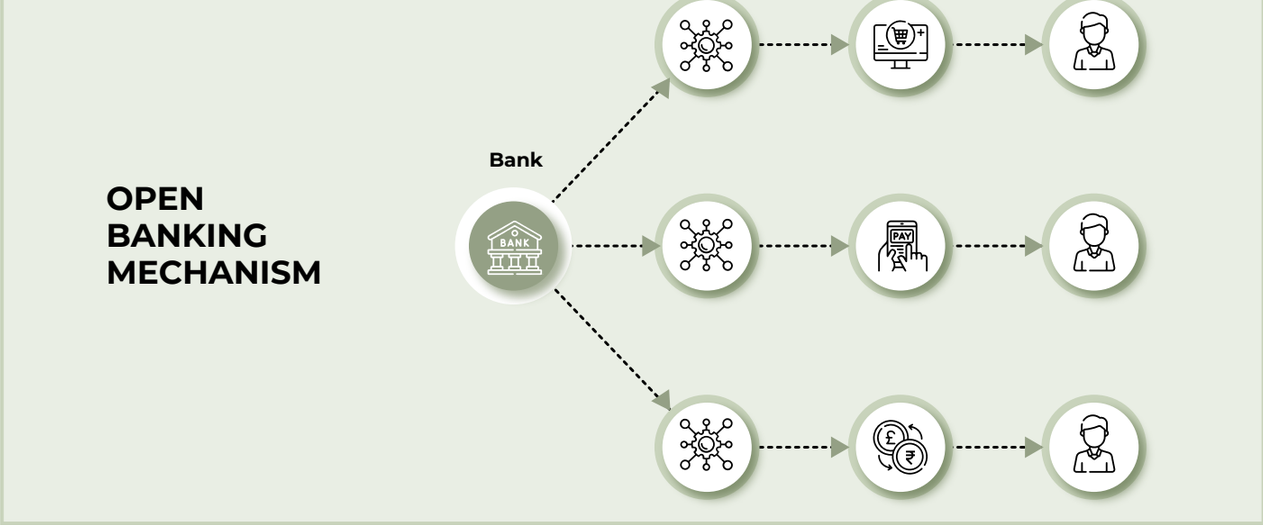
Product Data: Nowadays, all the information about different financial products a bank or fintech offers is out there on their website. With open banking, other businesses can use this data to suggest the perfect bank and financial product for you based on your financial history.

Payment Initiation: Think of UPI, where you can link multiple bank accounts to one mobile app. This makes it convenient to make payments.

An API is a kind of rulebook and toolkit that helps different software apps share information and collaborate smoothly, even if they're made by different people or companies. Open banking relies on these APIs to securely share information among different financial institutions.

When a third-party service gets information from your bank, they can use it to give you personalized solutions. Take apps like Mint or You Need a Budget (YNAB), for instance. They pull in your data using open banking APIs when you agree to their terms and conditions.





By operating within open banking frameworks, banking and financial institutions take a bold step by granting partners access to customer data. Moreover, the collaboration between financial institutions and third-party developers within the open banking ecosystem can lead to the creation of tools that help individuals better understand and manage their credit. This can include services that provide real-time credit monitoring, personalised recommendations for improving credit scores, and educational resources on responsible financial behaviour.

This additional context allows financial institutions and third-party developers to create more comprehensive and innovative financial services.

In essence, open banking unlocks the potential for collaboration and innovation that travels beyond traditional boundaries, shaping a revolution in financial services.

RBIH Updates

RBIH releases two reports

We launched two reports titled the **'Financial Infratech Opportunity'** in collaboration with Omidyar Network and Boston Consulting Group (BCG), and **'Financial Services Innovation for Bharat'** with BCG. The former report highlights the critical role played by Financial InfraTech providers and explores how they can effectively partner with financial institutions. The latter aims to shed light on the pivotal role of innovative financial strategies in empowering and uplifting communities across the rural and semi-urban parts of India.

HDFC Bank and RBIH launch i-Innovate

In a recent stride, HDFC Bank and RBIH partnered to introduce 'i-Innovate,' an initiative promoting financial inclusion for differently-abled individuals. For the initiative, this AssisTech Foundation (ATF) is also a supporting partner, contributing expertise in innovation and providing specialised support in incubation, acceleration, and nurturing startups in this field.

This program focuses on leveraging assistive technology (AT) to improve and transform financial accessibility for differently-abled individuals.

This initiative aims to leverage social innovation and entrepreneurship to bridge existing gaps and enhance financial accessibility. As part i-Innovate, various initiatives such as innovation challenges, hackathons, acceleration programmes, and awards will be rolled out to actively support and recognise startups dedicated to building solutions for the financial inclusion of differently abled persons.

The Fintech Mixer: Delhi

The **Fintech Mixer** in Delhi was a phenomenal success, thanks to the vibrant participation of our esteemed audience, including VCs, banking experts, and founders. Their active engagement and insightful discussions created an electric atmosphere, defining the event's success.

A special highlight of the evening was the presence of Ms. Upasana Taku, Co-Founder of MobiKwik, who shared her entrepreneurial journey. Her inspiring insights resonated with the fintech community, leaving a lasting impact on all attendees.

The event also featured a series of elevator pitches, unveiling groundbreaking ideas focused on addressing financial inclusion at scale.

Building for Women Entrepreneurs

RBIH recently organised the **'Building for Women Entrepreneurs'** event in collaboration with CIIE.CO. The event, featuring a keynote by Mr. Rajesh Bansal, CEO, RBIH, and an insightful panel discussion on 'Unlocking Finance for Women Entrepreneurs,' addressed the pivotal issue of gender-based financial disparities.

The winners of the Swanari Techsprint 2023 including Vitto, Mera Kal, and the grand champion, Kaleidofin Private Limited also received recognition for their innovative solutions.

Acknowledging the crucial role of CIIE.CO, primary banking partner HDFC Bank, associate banking partner Union Bank of India, mentors, and startups, the event celebrated women entrepreneurs and the power of collaboration in the fintech ecosystem.

RBiH

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

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