

## Framework for FinTech Entity in International Financial Services Centre (IFSC)

### Background

The International Financial Services Centres Authority (IFSCA) has issued a detailed "Framework for FinTech Entity in the IFSCs" in order to develop and regulate financial products, financial services and financial institutions in the International Financial Services Centres (IFSC) and to encourage promotion of financial technologies ('FinTech') across the spectrum of banking, insurance, securities, and fund management in Gujarat International Finance Tec-City (GIFT) IFSC. This framework is aimed at giving boost to the establishment of a world class FinTech Hub at GIFT IFSC comparable with other International Financial Centers (IFCs).

### The framework proposes to cover

- (i) Financial technology (FinTech) solutions resulting in new business models, applications, process or products in areas/activities linked to financial services regulated by IFSCA
- (ii) Advanced / Innovative technological solutions which aid and assist activities in relation to financial products, financial services and financial institutions (TechFin)

### Definitions

- (a) 'FinTech' includes financial technology solutions which result in new business models, applications, process or products in financial services regulated by the Authority or advanced/innovative technology solutions which aid and assists activities in relation to financial products, financial services and financial institutions.
- (b) 'Innovation Sandbox' means a testing environment where FinTech entities can test their ideas and solutions in isolation from the live market that may add value to the financial products or financial services offered in IFSC based on market related data made available to them by Financial Institutions operating in IFSC
- (c) 'Inter-Operable Regulatory Sandbox' or 'IORS' means a testing environment for innovative hybrid financial products / services falling within the regulatory ambit of more than one domestic financial sector regulator;
- (d) 'Regulatory Sandbox' means a live environment with a limited set of real

customers for a limited timeframe wherein entities operating in the capital market, banking, insurance and other financial services space in IFSC shall be granted certain exemptions / relaxations from applicability of certain regulatory provisions for experimenting FinTech ideas and solutions

## Sandbox Approach

The framework provides for a dedicated Regulatory Sandbox for FinTech products or solutions namely IFSCA FinTech Regulatory Sandbox and empowers IFSCA to grant limited use authorization within FinTech Regulatory Sandbox to the eligible financial technology entities in IFSC. This would enable them to apply and avail Grants under the IFSCA FinTech Incentive Scheme 2022.

## Direct Authorization Approach

This Framework also enables some class/categories of technology companies having (i) a deployable advanced/innovative technology solution which aids and assists activities in relation to financial products, financial services, financial institutions and, (ii) credible track record including financial performance, to obtain Direct Entry (Authorization by IFSCA) by IFSCA without entering into the Regulatory Sandbox.

## Other Approach

The framework also incorporates the Inter Operable Regulatory Sandbox (IoRS) mechanism. IoRS is a proposed mechanism to facilitate testing of innovative hybrid financial products / services falling within the regulatory ambit of more than one financial sector regulators. IFSCA will facilitate Indian FinTech's seeking access to foreign markets and foreign FinTech's seeking entry into India.

The framework proposes a Regulatory Referral Mechanism which shall be governed as per the provisions of the Memorandum of Understanding (MoU) or collaboration or special arrangement between IFSCA and corresponding overseas Regulator(s).

IFSCA endeavors to support FinTech firms for proof of concept (PoC), minimum viable product (MVP), prototype development, product trials, commercialization, and global market access etc. The GIFT-IFSC offers the unique advantage of being a separate financial jurisdiction within India which is treated like an offshore jurisdiction from FEMA angle with no restriction on currency convertibility.

## Eligibility

An applicant who satisfies any of the following conditions shall be eligible to make an application to IFSCA for authorization under this Framework

- a) An entity registered with Department for Promotion of Industry and Internal Trade (DPIIT) as a start-up entity relating to FinTech; or
- b) An entity incorporated as a company under the Companies Act 2013, or as a Limited liability Partnership (LLP) under the Limited liability Partnership Act, 2008 or a 'Branch' of an Indian company or LLP in IFSC;
- c) An entity working directly or indirectly in the ecosystem regulated by domestic financial sector regulator.
- d) In case of Foreign Entity, it must be from FATF compliant countries/jurisdictions
- e) The Applicant proposes to use technology in its core product or service, business model, distribution model or methodology to solve the problem being targeted.
- f) The Applicant must have: (a) a deployable solution/working product; and (b) a revenue earning track record in at least one of the last three financial years.

## Permissible Activities

An applicant shall be permitted to undertake one of the following activities under this Chapter:

- a) Provide a financial technology (FinTech) solution which results in new business models, applications, process, or products in financial services regulated by the Authority. An illustrative lists area is given below
- b) Provide an advanced or emerging technology solution in allied areas/activities which aid and

assist activities in relation to financial products, financial services and financial institutions (TechFin). An illustrative list of allied areas/activities is given below.

**A. An illustrative list of permissible FinTech areas/activities linked to financial services regulated by IFSCA is given below:**

**I. Banking Sector**

- a) Remittance and payments
- b) Digital lending
- c) Buy Now Pay Later
- d) Crowd Lending
- e) Digital Bank (Neo Banking/Challenger bank)
- f) Open banking

**II. Capital Markets and Fund Management**

- a) Crowd funding
- b) Personal finance
- c) Wealth Tech
- d) Robo Advisory
- e) Sustainable Finance products
- f) Alternate trading platforms

**III. Insurance Sector**

- a) InsurTech
- b) Innovative technologies for insurance life cycle (underwriting, claims management of life/health products etc.)
- c) Digital innovation for global health insurance cover
- d) Innovation in commercial insurance
- e) Digital platform for settlement of balances between insurance companies
- f) Open insurance.
- g) Embedded insurance
- h) Cyber insurance

**B. An illustrative list of allied list of allied areas/activities aiding and assisting activities in relation to financial product, financial services and financial institutions (TechFin) is given below:**

- a) Agri Tech
- b) Accelerators
- c) Climate/Green/Sustainable Tech
- d) Defence Tech 2
- e) Regulatory Tech

- f) Space Tech
- g) Supervisory Tech
- h) Technology solution supporting Digital banking (example Core Banking etc.)
  - i. Technology solution aiding Trade Finance
  - ii. Solutions/services for BFSI domain leveraging:
    - iii. Artificial Intelligence/Machine Learning/
    - iv. Big Data
    - v. Biometrics
    - vi. Chatbots
    - vii. Cyber security
    - viii. Digital Identity/KYC/AML/CFT
    - ix. Distributed Ledger Technology
    - x. Fraud detection/prevention
    - xi. Internet of Things (IoT)
    - xii. Longevity Finance
- j) Metaverse including Augmented Reality and /or Virtual Reality
  - i. Quantum Tech
  - ii. Web 3.

**Benefits for Fintech / Techfin in IFSC**

The framework issued by IFSCA, a unified regulator for Banking, Capital Markets, Insurance and Funds Management in IFSC, would enable FinTech firms having innovative ideas or solutions across the banking, capital or insurance sector to have seamless interaction with a single regulator.

Apart from Direct Tax and Indirect Tax benefits, AIFs in GIFT IFSC can have the following benefits:

- Lower Operating Cost
- Competitive tax regime
- No limit on outbound investment
- Engagement with Unified financial regulator
- Permitted to borrow funds and engage in leveraging activities
- Enabling ecosystem for fund management and fund administrators
- State of Art Infrastructure

# KEY TAKE AWAY

- Encouraging FinTech and Techfin Sector
- Dedicated regulatory sandbox for FinTech products
- Eased out registration procedure
- Very well defined and clear Framework
- In line with the Global FinTech practice



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