

# GIFT IFSC a Global FinTech Hub: Regulatory Innovation Benchmarking Global Best Practices

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## INTRODUCTION

Technology enabled innovation in financial services are fast reshaping economic and financial landscape globally. The developments in the FinTech landscape in the last few years have demonstrated that Policy makers and Regulators may need to constantly revisit the existing laws and regulatory frameworks and fine tune them to cover new activities and business models that have been brought about by financial technology with adequate safeguards to protect the integrity of financial system.

Globally FinTech hubs have been successful when the FinTech start-ups are able to collaborate with Financial Institutions (Banks, Insurance Companies, Stock Exchanges, Funds, etc.) and Regulators. This helps them with required approvals, the large customer base of a Financial Institute (FI), industry expertise to develop products in collaboration with the FI and also do a successful Proof of Concept (PoC) with the FIs. To enable and augment the collaboration, government and government agencies around the world have supported such initiatives.

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To create visibility and mindshare among FinTech's globally, IFSCA launched "InFinity Forum" ( a global thought leadership forum) under the aegis of Ministry of Finance, Govt of India, as a part of its strategy The forum is a flagship financial technology event, uniting the world's leading minds in policy, business and technology to explore and advance the biggest ideas in FinTech and to develop those ideas into global solutions and opportunities. IFSCA has conducted two forums ( 2021 and 2023) both of which were inaugurated by Hon'ble Prime Minister of India.

The most notable outcome of InFinity Forum 1.0 (which was focused on the theme FinTech beyond Boundaries, FinTech Beyond Finance and FinTech

Upon Limited Use Authorization, the FinTech Entity shall proceed towards the “Development and/or Testing Stage” for development and/or testing the proposed solution. The FinTech Entity has to adhere to and fulfil host of conditions and criteria during the development/testing stage like evaluation parameters, submission of test related information, Obligation of the FinTech Entity towards the users/investors of the project, boundary conditions, feasibility of regulatory exemptions sought etc.

beyond Next) was the launch of a *Unique Regulatory Framework for FinTech Entity in IFSCs* by IFSCA in February 2022.

## FRAMEWORK FOR FINTECH ENTITY IN THE IFSCs

Financial authorities around the globe have resorted to various ways of responding to fintech developments. For one, regulators may put in place fintech-specific licensing regimes that require entities to go through an authorization process before they can offer their fintech services. Alternatively, or complementarily, they may issue requirements that are fintech-specific, modify existing ones or even prohibit certain activities. Some authorities have taken the path of explaining how the existing regulatory framework is applied to fintech business models and clarifying their supervisory expectations.

The “Framework for FinTech Entity in the IFSCs” is a light touch regulatory framework which not only aims at fostering innovation in financial services through innovation facilitators like Regulatory/Innovation Sandbox for FinTech activities spanning across Banking, Capital Market, insurance sector etc. but also enables the pure play technology companies providing allied activities/services to BFSI sector be regulated in GIFT IFSC. It covers (i) financial technology (FinTech) solutions resulting in new business models, applications, process or products in areas/activities linked to financial services regulated by IFSCA and (ii) advanced/innovative technological solutions which aid and assist activities in relation to financial products, financial services and financial institutions (TechFin).

## REGULATORY PROVISIONS FOR FINTECH COMPANIES

*‘FinTech’ refers to 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.*

FinTech activities are performed in different sectors of the financial industry and can be found in following financial

service categories: (i) deposit and lending; (ii) capital-raising and alternative sources of funding; (iii) asset management, trading and related services; (iv) payments, clearing and settlement services; (v) insurance. These areas have been broadly incorporated in the Framework under the verticals of Banking, Capital markets and Insurance by way of an illustrative list at Annexure -I of the Framework. The same is given below:

## ILLUSTRATIVE LIST OF AREAS/ACTIVITIES UNDER FINTECH

Banking sector	Capital market and fund management	Insurance sector
Remittance and payments	Crowd funding	InsurTech
Digital lending	Personal finance	Innovative technologies for insurance life cycle (underwriting, claims management of life/health products etc.)
Buy Now Pay Later	Wealth Tech	Digital innovation for global health insurance cover
Crowd Lending	Robo Advisory	Innovation in commercial insurance
Digital Bank (Neo Banking/Challenger bank)	Sustainable Finance products	Digital platform for settlement of balances between insurance companies
Open banking	Alternate trading platforms	Open insurance
		Embedded insurance
		Cyber insurance

An applicant who desires to test and/or develop FinTech solution/idea pertaining to any of the FinTech activities linked to financial services regulated by IFSCA may apply under the framework for IFSCA FinTech Regulatory/Innovation Sandbox subject to fulfilment of eligibility criteria mentioned in the Framework. The application shall be subject to a screening process and the applicant shall be informed of its potential suitability for Sandbox. Subsequently, IFSCA may accord the applicant Limited Use Authorization as “FinTech Entity (FE)” to develop and/or test the proposed product /solution in the IFSCA FinTech Regulatory or Innovation Sandbox as may be applicable.

Upon Limited Use Authorization, the FinTech Entity shall proceed towards the “Development and/or Testing Stage” for development and/or testing the proposed solution. The FinTech Entity has to adhere to and fulfil conditions and criteria like evaluation parameters, submission of test related information, Obligation of the FinTech Entity towards the users/investors of the project, boundary conditions, feasibility of regulatory exemptions sought etc. during the development/testing stage. At the end of the testing period, the Limited Use Authorization as FinTech Entity granted to the Applicant including the legal and regulatory requirements relaxed by IFSCA, shall expire. Post testing period, IFSCA shall decide whether to permit the FinTech innovation to be introduced in the market on a wider scale.

- In case where IFSCA allows the innovation to be introduced at wider scale, the FE may (i) carry out the business under any of the licensing or registration



criteria under various IFSCA regulations applicable on it or (ii) carry out business with modified regulatory dispensation as specified by IFSCA. The FE thereafter may be “Authorized” by IFSCA to conduct business under appropriate regulatory regime.

- When IFSCA does not allow the innovation to be introduced on a wider scale, the FinTech Entity may employ an exit strategy or apply for an extension of the Sandbox testing period.

## REGULATORY PROVISIONS FOR TECHFIN COMPANIES

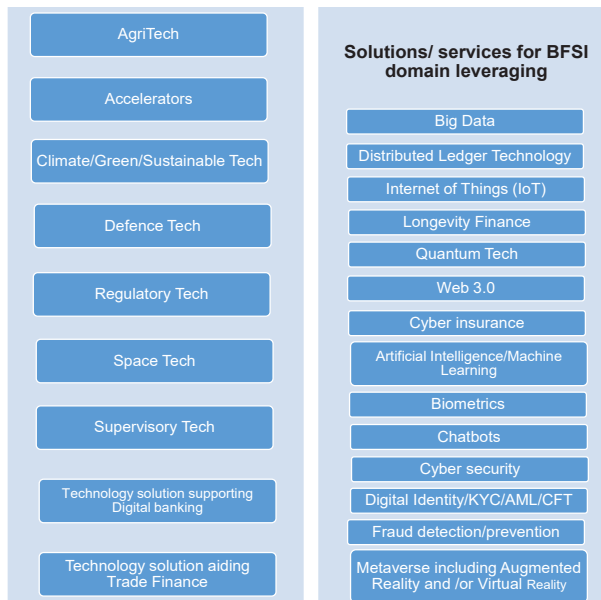
*‘TechFin’, involves an advanced or emerging technology solution in allied areas/ activities which aid and assist activities in relation to financial products, financial services and financial institutions.’*

The Framework also covers these allied areas/activities which may not directly fall within the definition of traditional financial services but aid and assists activities in relation to financial products, financial services and financial institutions. For eg Climate/Green/Sustainable Technology, Regulatory Technology, Supervisory technology, solutions/ services for BFSI domain leveraging AI/ML, Big Data, Biometrics, Digital Identity, DLT, Quantum technology etc.

The Framework provides for both Sandbox as well as Authorization Route for technology companies (TechFin) willing to provide such allied solutions/services. In case of Authorization the FE needs to fulfil the eligibility criteria which includes having (i) a deployable advanced/innovative technology and, (ii) revenue earning track record amongst others. This would enable them to obtain Direct Entry without entering the Regulatory Sandbox. The illustrative list of the Allied areas/activities are also provided at Annexure -I. The same is given below:

## ILLUSTRATIVE LIST OF AREAS/ ACTIVITIES UNDER TECHFIN

The application shall be subject to an evaluation process conducted by the Evaluation Committee. IFSCA may grant Limited Use Authorization or Authorization to the Applicant as a ‘FinTech Entity’, subject to the conditions applicable as per the Framework. In case of Authorization, the Applicant needs to (a) separately incorporate an entity in the IFSC; or (b) establishes a branch or a subsidiary of an Indian or foreign incorporated entity in IFSC.



## INTER-OPERABLE REGULATORY SANDBOX (IoRS) WITH IFSCA AS PRINCIPAL REGULATOR

The framework also incorporates the Inter Operable Regulatory Sandbox (IoRS) mechanism. IoRS is a mechanism to facilitate testing of innovative hybrid financial products / services falling within the regulatory ambit of more than one financial sector regulators. IFSCA facilitates foreign FinTech’s seeking entry into India as IFSCA acts as Principal Regulator for all such cases. The Standard Operating Procedure for IoRs was notified in October 2022 by all the Financial Sector Regulators viz RBI, SEBI, IRDAI, IFSCA and PFRDA.

## OVERSEAS REGULATORY REFERRAL MECHANISM /FINTECH BRIDGES OF IFSCA

The framework also encourages Overseas Regulatory Referral Mechanism/ FinTech Bridges which is governed as per the provisions of the Memorandum of Understanding (MoU) or special arrangement between IFSCA and the corresponding overseas Financial Sector Regulator(s). This collaborative approach fosters an environment of continuous innovation and knowledge sharing, driving the growth of the FinTech and TechFin ecosystem around the Globe.

## CONCLUSION

Together, these fields of FinTech and TechFin are reshaping the financial landscape, making services faster, inexpensive, and more efficient for the Global market players in the field of Finance. IFSCA is promoting these initiatives in financial products and financial services across the spectrum of banking, insurance, securities, and fund management in IFSC to develop GIFT IFSC as a FinTech Hub.

GIFT IFSC is at the forefront of India’s FinTech revolution, driving innovation and setting new standards for financial services. With its robust regulatory framework, business-friendly environment, world-class infrastructure, and focus on collaboration and talent development, GIFT IFSC is well-positioned to become a Global FinTech Hub. 