



Confederation of Indian Industry



FINANCING 3.0 SUMMIT

PREPARING FOR VIKSIT BHARAT

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COMPENDIUM

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Financial Services Sector Paving the Way for Viksit Bharat

The financial services (FS) sector in India is undergoing a transformative phase, driven by robust economic performance, increasing disposable income, rapid digitalisation, and progressive governmental reforms. These synergistic forces not only drive sector growth but also place the FS industry at the forefront of India's journey towards becoming a developed nation, or Viksit Bharat.

FS Sector a Catalyst for Viksit Bharat

Financial inclusion: Today varied financial products are available to people across all economic strata and locations, from the urban metropolitan to the ultra-rural demographic. Wide range of services and products are offered by banks (both public and private sector banks) and the non-banking financial companies (NBFCs), which have managed to expand their footprint into areas which were historically underserved (including Micro, Small and Medium Enterprises (MSMEs)).

Digitisation and fintech ecosystem: India is one of the fastest growing digital economies in the world. Digitisation has transformed the FS sector and has led to the boom of the fintech ecosystem. With the emergence of fintech, digital payment systems and e-KYC, a person sitting in the comfort of their own home can avail loans, buy insurance products of their choice and even invest in securities markets. This advancement has significantly enhanced and expedited customer service.

Foreign investment: The Indian government has adopted a consistent approach to relax regulations governing foreign investment and M&A in the FS sector, aiming to enhance the sector's attractiveness to investors. While maintaining regulatory oversight for change of control and other M&A activities, authorities have significantly relaxed foreign investment restrictions. This liberalization has been achieved primarily through two methods: increasing the foreign investment threshold requiring government approval in sectors like insurance, and eliminating government approval altogether for

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certain financial services activities under specific regulatory bodies. NBFC sector has emerged as the third largest in the world, after the United States and the United Kingdom. The government has also taken steps to bolster investment from financial sponsors in the sector. Securities Exchange Board of India (SEBI) has recently permitted financial sponsors to become sponsors of asset management companies, which means that private equity funds can now contribute even more than 40 per cent of the net worth of an AMC.

Progressive regulations: The Reserve Bank of India (RBI) has spearheaded various initiatives aimed at easing regulatory processes and promoting financial inclusion and innovation, including the following recent reforms:

- **PRAVAAH Portal:** This is a secure, centralised web-based portal designed to simplify the process of seeking authorisation, license, or regulatory approval for individuals or entities. By centralising these processes, the PRAVAAH portal aims to promote transparency and efficiency in the FS sector.
- **Retail Direct Mobile App:** This app empowers retail investors by allowing them to transact in government securities through Retail Direct Gilt Account with the RBI. This initiative promotes financial inclusion by democratising access to government securities and promoting financial inclusion.
- **Fintech Repository:** This online database serves as a centralised source of information on fintech entities, their technologies, and their applications. Fintechs are encouraged to contribute to the repository, which can be accessed at fintechrepository.rbihub.in. The repository promotes transparency and knowledge sharing within the sector.
- **India Stack:** This framework provides open APIs that allow various stakeholders, including governments, businesses, startups, and developers, to leverage a standardised digital infrastructure. This promotes the development of 'presence-less, paperless, and cashless' services, and has been instrumental in

fostering Fintech innovation in India. It is one of the most important digital initiatives undertaken globally, aimed at establishing a public digital infrastructure based on open APIs to promote public and private digital initiatives.

- **Regulatory Sandbox:** This provides a safe and protected environment for innovative fintech startups to test their product hypotheses before taking them to the market. This initiative aims to promote innovation in the FS sector while ensuring consumer protection.
- **RBI Payments Vision 2025:** This is a strategic plan that outlines the RBI's vision for the future of payments in India. This vision includes promoting digital payments, enhancing financial inclusion, and ensuring the safety and security of payment systems.

Stumbling Blocks on the Way

The pursuit of Viksit Bharat requires a multifaceted approach. Certain stumbling blocks will have to be turned into stepping stones, including the following:

- **Regulatory compliance:** Regulatory compliance is one of the most significant challenges faced by the FS sector in India. The FS sector operates within a labyrinth of regulations that are constantly evolving. Adherence to these rules is crucial, but the complexity and frequency of regulatory changes impose significant compliance burdens on financial institutions. Recent orders by regulatory bodies have underscored the need for stringent compliance mechanism. The regulators have taken pro-active actions against non-compliance (including imposing monetary penalties, stoppage of business and cancellation of licenses), clearly emphasising the importance of ensuring full compliance with laws.
- **Cybersecurity:** With the digitisation of financial services and increasing reliance on digital platforms, cybersecurity has become a major concern for the FS sector. Financial institutions are prime targets for cybercrimes, data breaches can result in significant financial losses and damage. Accordingly, ensuring the security of

financial transactions and customer data is of utmost importance to FS sector.

- **Data privacy and localisation:** The Digital Personal Data Protection Act, 2023, introduces both challenges and opportunities for the FS sector. On one hand, the stringent data localization requirements can increase operational costs and complexity, potentially slowing innovation and complicating cross-border transactions. On the other hand, these regulations enhance data privacy and security, fostering greater consumer trust. By driving investment in local infrastructure and encouraging the development of robust data protection practices, the Act

helps build a more secure financial environment and prompts the sector to innovate in data management. Balancing these impacts will be crucial for leveraging the benefits while mitigating the challenges.

- **ESG:** Environmental, Social, and Governance (ESG) factors are gaining prominence in the investment landscape in FS sector. Investors (especially private equity investors) are increasingly looking for companies with strong ESG profiles. Aligning and building strong ESG principles requires substantial investments, but it is crucial for the long-term benefits of FS institutions.

Conclusion

FS services sector has facilitated economic growth and social change, making it a catalyst for Viksit Bharat. Although the stringent and evolving regulatory environment combined with technological upheaval poses a host of challenges, it also has the potential to create unparalleled opportunities that would expedite the growth of the sector. For instance, digital innovation, ESG

requirements and government initiatives are a valuable source of expansion and development for the industry. Relatedly, rise in fintech companies and cybersecurity norms pushes businesses to think beyond traditional models and compete with present day demands. Agility in tapping the opportunities while addressing the compliance requirement will boost the industry and pave the way for Viksit Bharat.



Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, with around 9,000 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 365,000 enterprises from 294 national and regional sectoral industry bodies.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness, and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Through its dedicated Centres of Excellence and Industry competitiveness initiatives, promotion of innovation and technology adoption, and partnerships for sustainability, CII plays a transformative part in shaping the future of the nation. Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes across diverse domains including affirmative action, livelihoods, diversity management, skill development, empowerment of women, and sustainable development, to name a few.

For 2024-25, CII has identified "Globally Competitive India: Partnerships for Sustainable and Inclusive Growth" as its Theme, prioritizing 5 key pillars. During the year, it would align its initiatives and activities to facilitate strategic actions for driving India's global competitiveness and growth through a robust and resilient Indian industry.

With 70 offices, including 12 Centres of Excellence, in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with about 300 counterpart organizations in almost 100 countries, CII serves as a reference point for Indian industry and the international business community.

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