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DIGITAL PUBLIC INFRASTRUCTURE (DPI), FRICTIONLESS CREDIT, FAST PAYMENTS AND REGULATORY ARCHITECTURE: CONNECTING THE DOTS

03 September 2024

The Fed Governor Christopher J. Waller has highlighted on 28th August 2024, in his speech at the Global Fintech Fest, Mumbai, that the technology-driven payments revolution in India has been enabled by a public-private partnership to build the "technology stack" of digital platforms that has broadened financial inclusion and done so at low costs. His primary focus remains on how interplay between the public and private sectors may advance cross-border payments.[1]

The fast payments system is evolving rapidly across the country. Interconnecting or “interlinking” is one of the areas outlined in the G20 roadmap for further consideration as part of a universal effort to enhance cross-border payments.

[1] *Interlinking Fast Payment Systems (28 Aug 2024)*
Governor Christopher J. Waller
At the Global Fintech Fest, Mumbai, India. Link:
https://www.federalreserve.gov/newsevents/speech/waller20240828a.htm

The G20 Working Group has created the Global DPI Repository (GDPIR) where "DPI is described as a set of shared digital systems that should be secure and interoperable, and can be built on open standards and specifications to deliver and provide equitable access to public and / or private services at societal scale and are governed by applicable legal frameworks and enabling rules to drive development, inclusion, innovation, trust, and competition and respect human rights and fundamental freedoms."

India has in aggregate twelve (12) such DPIs, namely- AADHAAR, DigiLocker, UPI, UMANG, eSanjeevani, API Setu, C+-WIN, Government e Marketplace (GeM), DIKSHA, E-HOSPITAL, Poshan Tracker, Digital Mission. According to the GDPIR website, 598 banks are active in UPI, 329 billion digital payment transactions and USD 6.42 Trillion worth of transactions have taken place. As highlighted by the RBI Governor's speech on 26th August 2024 in Bengaluru, the UPI has played a significant role in the growth of retail digital payments in India, whereas the NPCI itself was promoted by banks under the guidance of the RBI. While initial participants on the UPI platform were banks, non-bank third party app providers and use of QR codes have all combined in popularising UPI. Moreover, in the quest of Digital Financial Inclusion (DFI), "FinTechs" are likely to offer pioneering financial services, connecting the dots between traditional banking with digital payment solutions, microloans, and affordable insurance.

In line with the frictionless credit, the RBI has proposed to call it the Unified Lending Interface (ULI), that will facilitate seamless and consent based flow of digital information, including even land records of various states, from multiple data service providers to lenders, reducing the time taken for credit appraisal, especially for smaller and rural borrowers. Moreover, ULI is expected to cater to large unmet demand for credit across various sectors, particularly for agricultural and MSME borrowers.

The RBI Governor's speech has highlighted another crucial aspect, which is the core theme of this piece- the interlinkage between the DPI and cross-border payments. Globally, as highlighted by the Fed Governor Waller's speech, the G20 roadmap addresses a novel theme that payments industry stakeholders have been revolving around for years—more cost-effective and timely cross-border payments for consumers and businesses, which has been advanced by the Federal Reserve (Fed) over time in various payment system improvement initiatives, dating back to the late 1990s when the Federal Reserve (Fed) started acclimatising the automated clearinghouse (ACH) service to support international payments. An example is cited as the is the SWIFT Global Payments Innovation, which offers improved speed and transparency for the business customers of participating banks, and, by their account, has been adopted by 150 banks globally. Further, the FedNow Network or Service is an instant payment infrastructure that the Fed unleashed in July 2023 to allow banks and credit unions to send and receive funds for their customers.

In November 2020, the G20 leaders endorsed a roadmap to make cross-border payments cheaper, faster, more transparent, and accessible by 2027. As highlighted in an article titled as "Cross-border payments remain focus for Fed" (20 Feb'24) by Lynne Marek, "*Remittances, or payments mainly sent by migrants working in a foreign country to friends and family in another country, have been of particular concern for the international community because of their high expense. The G20 has laid out a goal of ensuring that no cross-border payments costs more than 3% of the money being transferred, but it has remained closer to twice that percentage, according to a G20 goals update last year.*"[2]

It is further emphasised that in a speech prior to the 19th Basel Committee on Banking Supervision-Financial Stability Institute High-level meeting for Africa in Cape Town, Fed Governor Michelle Bowman highlighted the issues revolving around improving cross-border payments and ensuring inclusion in the worldwide payment systems.[3]

It is further reflected from the cited examples that in some countries the Central Bank (CB) has authority to mandate participation, notably in Brazil with the successful Pix system, which is an instant payment method, whereas customers receive a Pix string or QR code that contains the amount to pay for services or goods to complete transactions. Customers then pay the Pix, before its expiration date, using their bank apps or internet banking. In other countries, notably India, connected attempts by the government, central bank, and private sector established the digital public infrastructure that enabled broad acceptance.

Multiple initiatives and experimentation in bi-lateral and multi-lateral arrangements among many countries are now ongoing. While much efficacy has been achieved in case of wholesale markets, the retail cross-border space is still troubled with multiple levels adding to the cost and delays in cross-border remittances. Nonetheless, in any innovation's challenges remain, but it is crucial in which manner it is used. For instance, we hardly thought about the UPI, which has proved to be a revolutionary digital payment method. Many research organisations are using Artificial Intelligence (AI) in various fields including fintech and payment related aspects, nevertheless, it is worth spending to mention about its regulatory challenges. The challenges for the regulator are data privacy, ethical use etc.

The application of the AI can be deployed diligently with careful regulatory implementations. For instance, according to the first edition of the IndiaAI report (Oct'2023) AI can add $967 billion to the Indian economy by 2035. The report also provides recommendations on how India can leverage its demographic dividend and play to its strengths for further penetration of AI skills in the country, strengthening the AI innovation through public-private partnerships (PPPs). On the positive side, AI algorithms are already being deployed for fraud detection. Machine learning models are progressively being employed in credit scoring, leveraging predictive analytics to gauge creditworthiness, and expand access to credit. AI-driven chatbots and virtual assistants are

[2] https://www.paymentsdive.com/news/international-payments-cost-speed-federal-reserve-remittances/707900/

[3] According to the article, she suggested that some of the "friction" inherent in the multilayered, cross-jurisdictional and multi-currency cross-border payments system could be removed to reduce complexity that slows payments and makes for increased costs. Still, she argued that some of the friction may naturally result from policymakers' needs worldwide to protect parties involved in transactions and to safeguard the broader financial system. Some friction may also be the result of consumer and business preferences.

gradually enhancing customer service experiences by providing personalised recommendations. As AI and ML capabilities continue to evolve, their potential applications in regulatory compliance, investment advisory services, and algorithmic trading are expected to further redefine the financial landscape.[4]

Despite its huge potential, regulations remain the "Achillies heel" for the AI applications in various fields. Conventional jeopardies such as mis-selling and fraud, new symptoms of consumer risks such as data privacy and security breaches have emerged with the advent of new technologies. The RBI Governor has recently emphasised in his speech at the Global Fintech Fest, Mumbai that as financial transactions gradually drift online, the threat landscape is expanding exponentially. Investing in state-of-the-art technologies such as AI-driven threat detection, assessment and mitigation, along with clear focus on improving human resource capabilities are necessary to bolster resilience of information systems. Promoting cybersecurity awareness among consumers and employees alike are essential steps towards building a secure digital economy.

With a robust regulatory framework, AI has the potential to transform the fintech sector, extending substantial gains as well as posing new challenges. There is a need to balance innovation with ethics, security, and regulatory compliance. Developing suitable strategies and regulations that keep pace with innovation will be key to the healthy development of AI technology in fintech, whereas the challenge lies in connecting the dots between innovation, credit disbursals, speed of payments and regulatory compliances.

[4] As emphasised by the RBI Governor's speech at the FinTech Innovations for India @100: Shaping the Future of India's Financial Landscape Address by Shri Shaktikanta Das, Governor, Reserve Bank of India at the Global Fintech Fest, August 28, 2024, Mumbai.