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EVENT REPORT

# Policy Approaches for a Vibrant and Competitive Fintech Ecosystem



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# **POLICY APPROACHES FOR A VIBRANT AND COMPETITIVE FINTECH ECOSYSTEM**

The Dialogue™ is a public policy think tank with a vision to drive a progressive narrative in India's policy discourse. Founded in 2017, we believe in facilitating well-researched policy debates at various levels to help develop a more informed citizenry, on areas around technology and development issues. The Dialogue™ has been ranked as the world's Top 10 think tanks to watch out for, by the Think Tank and Civil Societies Programme (TTCSP), University of Pennsylvania in their 2020 and 2021 rankings.

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सदस्य, सामाजिक न्याय और  
अधिकारिता संबंधी समिति,  
सदस्य, अन्य पिछड़ा वर्ग के  
कल्याण संबंधी समिति

A vibrant and competitive fintech ecosystem can lead to various vital benefits for the country, including financial inclusion. Financial inclusion is essential for everyone, especially consumers, women, and the economically disadvantaged. It entails ensuring everyone can use banking services and other financial tools. This is extremely important because many people, especially in rural areas and small towns, don't have easy access to banks or ways to save and borrow money.

The successful implementation of Pradhan Mantri Jan Dhan Yojna-led interventions and digital transformation have helped enhance the state of financial inclusion in India. More than 50 crore people have been brought into the formal banking system through the opening of Jan Dhan Accounts. Among these accounts, approximately 55.5% belong to women, and 67% have been opened in Rural / Semi-Urban areas.

Building on this initiative to enhance financial inclusion even further will require concerted efforts. In this endeavour, financial technologies (fintech) can be of considerable help. In today's age, these technologies allow you to use financial services and tools without physically visiting a bank. Further, these technologies are also helping women entrepreneurs. For example, with UPI (Unified Payments Interface), a woman who makes handmade items can quickly sell her products online and receive payments.

These new technologies are making financial services available to more people. They give them a chance to transfer, save, borrow, and manage their money better. For these technologies to grow well, we need more companies to develop new innovative ideas and better technology. We also need these companies to grow so they can reach more people and offer more services. To make sure this happens, we need to ensure that companies are able to compete effectively and succeed in today's fast-evolving markets.

The government has taken many good steps to help with this. Under the leadership of our Honourable Prime Minister, Shri Narendra Modi, programs like Startup India have encouraged new companies to start and grow. The government has also supported the growth of UPI, which has changed how people in India use digital payments. Initiatives like UPI and Startup India show that the government is working to grow fintech technologies. They are creating an environment where technology and innovation can help bring financial services to everyone in India.

To build on these initiatives and enhance financial inclusion in India, discussing how fintech companies can compete effectively in markets and succeed financially is very important. When they do well, they can innovate to create more products and services that help with financial inclusion. With growth, they will also be able to reach a larger number of Indians. This means more people, especially those who didn't have access before, can use banking and financial services, enhancing financial inclusion.

Ultimately, the goal is to ensure that everyone in India, no matter where they live or how much money they earn, can easily and safely use financial services. This will help people save for the future, start businesses, and improve their lives. For this endeavour, a vibrant and competitive fintech ecosystem is essential.

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# OVERVIEW

The Indian fintech ecosystem has grown rapidly, necessitating a discussion on policy approaches to foster a vibrant and competitive ecosystem. On July 16, 2024, The Dialogue organised a virtual discussion to explore these policy approaches. The panel examined how graded classifications and obligations, along with other strategies, can nurture a competitive fintech sector. The discussion delved into the dynamics of the fintech ecosystem, focusing on different policy approaches to boost competition.

Panellists explored strategies that must be prioritised moving forward, emphasising the importance of a balanced approach to foster healthy competition and provide a level playing field for all kinds of entities. They discussed using governmental policies strategically to create an environment conducive to positive competition in the market. Key considerations included improving regulatory frameworks to support innovation while protecting consumer interests and promoting inclusive growth across the fintech ecosystem.

The panel was moderated by Mr Kazim Rizvi, Founding Director and Mr Saksham Malik, Senior Programme Manager at The Dialogue. The discussion featured the following panellists:

- **Lloyd Mathias**, Angel Investor and Business Strategist
- **Saranya Gopinath**, Director, Government Affairs & Public Policy, Razorpay
- **Dr. Viswanath Pingali**, Professor, IIM Ahmedabad and Senior Fellow, The Dialogue
- **Uttkarsh Bhatnagar**, Partner, Cyril Amarchand Mangaldas

The following themes emerged from the discussion of this panel:

## A. FOSTERING A LEVEL PLAYING FIELD FOR FINTECH STARTUPS

The panel extensively discussed the importance of capacity building and strengthening the startup ecosystem in the Fintech sector. One panellist highlighted that technology in fintech sector is evolving

faster than regulation, creating a need for a level playing field for small, medium, and large players. They suggested adopting a scale-based regulation model, similar to that used for NBFCs, to support the growth of smaller fintech companies.

The panel also addressed the ambiguity in interpreting new regulations and emphasised the importance of understanding the government's intent behind them. They also stressed the importance of treating domestic and foreign players equally to maintain fairness in India's large market. Additionally, they proposed establishing a single, strong self-regulatory organisation (SRO) to facilitate communication between fintechs and the RBI, similar to the Association of Mutual Funds in India (AMFI) for mutual funds.

The panel further emphasised the importance of thoroughly understanding the market to create effective regulations. They discussed the need for fintech companies to inform regulators about the industry's nuances and suggested developing specific case studies to demonstrate how fintech solutions benefit everyday users. One panellist indicated that lowering entry barriers alone won't lead to effective competition.

Instead, aligning incentives with market needs and addressing infrastructure gaps are crucial for fostering genuine competition. The panel noted that while initiatives like priority sector lending have driven progress, significant infrastructure challenges still limit smaller players' ability to compete. The speaker argued that addressing these infrastructure gaps and implementing strategic market incentives are essential for achieving a truly competitive fintech environment.

The panel stressed the need to identify clear objectives while governing competition in fintech markets. They argued that without well-defined goals, expecting fintech players to self-regulate effectively is unrealistic. Clear objectives will allow relevant stakeholders to emerge naturally with appropriate solutions, creating a more structured and fair competitive environment for large players and startups.

The discussion further highlighted the need for government facilitation to help startups overcome barriers and access essential resources for growth in the upcoming decade. One panellist proposed a model of regulated competition similar to the NBFC regime, where entities are classified into different layers based on their size and impact. This approach could support

fintech startups by providing a clear path for growth within a regulated framework. They also discussed initiatives like the RBI's regulatory sandbox, which allows fintech companies to experiment with their innovations in a controlled environment. This enables startups to refine their products and services, ensuring they are viable and compliant before a full-scale launch, thereby strengthening the ecosystem.

## **B. ENHANCING BALANCED FRAMEWORKS AND REGULATORY HARMONISATION**

The discussion raised concerns about finding the right balance between regulation and fostering a competitive environment in the fintech space. It emphasised that regulations should not stifle innovation but must ensure consumer protection and market stability. Achieving this balance is crucial for the sustainable growth of the fintech sector.

Some panellists highlighted the need for a favourable regulatory environment for new entrants and suggested regulatory adjustments to create a more balanced market that encourages competition without overwhelming new players. They further emphasised the importance of adopting dynamic regulatory frameworks. Developing adaptive regulations that can evolve with technological and market changes ensures that regulatory requirements remain relevant and effective. Regulatory agility, therefore, allows for continuous improvement and adaptation to new developments.

Furthermore, the discussion highlighted the lack of coordination between various regulatory bodies, emphasising the need for greater harmonisation. One panellist pointed out that the interplay between multiple regulations, such as data localisation by the RBI and data privacy under the DPDP Act, underscores the necessity for coordination between different regulatory bodies like SEBI and RBI. There needs to be more inter-departmental and inter-regulator harmony, with separate departments within the RBI and other regulatory bodies not communicating effectively.

This lack of cohesion can lead to inefficiencies and confusion, potentially stifling growth and innovation in the fintech sector. The discussion emphasised the need

for a more integrated regulatory approach to address these issues and foster a more balanced and competitive environment. Consequently, the discussion explored the idea of regulated competition within the fintech sector, proposing a tiered regulatory approach. This suggests an understanding that different levels of regulation are needed to support various stages of startup growth, thus ensuring that the ecosystem is strengthened through tailored support and oversight.

## **C. EX-ANTE MEASURES IN THE FINTECH SECTOR**

The discussion focused on the uncertainties and challenges of ex-ante regulation in the fintech industry. The panel expressed scepticism about the effectiveness of ex-ante rules. It argued that market concentration is inevitable due to network effects, as seen in the telecom and social media sectors. They raised critical questions about whether we fully understand the uncertainty in the evolving fintech field, suggesting that premature regulation could be problematic, as firms will simply adapt to new rules.

Concerns were also raised about balancing financial innovation with control, referencing past issues in the microfinance sector as a cautionary tale.

The panel emphasised the need to better understand the potential of fintech beyond its current applications and how it fits into the broader, rapidly changing financial landscape. This understanding is crucial before making regulatory judgments. However, the panel also acknowledged that while ex-ante regulation could potentially be an effective measure to ensure a competitive environment. Still, they emphasised the need first to analyse the market structure thoroughly.

## **D. COLLABORATIVE APPROACH TO PUBLIC POLICY**

The discussion concluded that collaboration between stakeholders is essential for the effective functioning and growth of the fintech ecosystem. This collaboration between regulators, industry players, academia, investors, and other relevant entities working together to address challenges, shape policies, and drive

innovation. The panel emphasised the importance of integrating investor perspectives into regulatory discussions, as investors provide valuable insights into market dynamics and potential risks. They also highlighted the need for robust governance frameworks for fintech companies, advocating for strong governance standards to protect consumer interests and ensure compliance.

The discussion highlighted that inclusive policy-making through stakeholder engagement and public consultation is crucial for progressive regulation. Engaging with the fintech industry to understand real market problems is essential for crafting relevant policies. The panel suggested that the government should actively engage with industry players to identify issues and develop solutions accordingly. Additionally, more studies and evidence-based policymaking would also provide a solid foundation for regulatory decisions, fostering a supportive environment for fintech startups.

By involving industry representatives, consumer advocates, and academic experts in the regulatory process, regulators can gather diverse perspectives and build consensus. Public consultations and regulatory impact assessments ensure that regulations are informed by real-world experiences and stakeholder input, enhancing their effectiveness and acceptance.

The discussion emphasised the importance of policy alignment among various stakeholders. This involves facilitating cross-sector collaboration by bringing together regulators, industry players, and other relevant parties to ensure that policies effectively address the needs of the fintech ecosystem.



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