

GIFT City FinTech hub: Fostering a robust financial services ecosystem

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As part of Union Budget 2021, Finance Minister Nirmala Sitharaman announced the development of a world-class FinTech hub at the International Finance Service Centre (IFSC) in the Gujarat International Finance Tec-City (GIFT City).¹ Such a hub would provide further momentum to India's FinTech potential and the GIFT City's envisioned role as a global financial and IT services hub.

The hub is expected to capitalise on the GIFT structure and carve out a niche for itself in the FinTech landscape, thereby providing start-ups with a dedicated platform to expand globally. This is particularly relevant as GIFT City tries to differentiate itself from Mumbai and Bengaluru, which already have well-established FinTech ecosystems.

GIFT was conceived in 2007 and has been designed with the specific focus of facilitating the growth of financial services (FS) through dedicated infrastructure and favourable incentive schemes. A number of key financial institutions (FIs) and information technology (IT)/IT-enabled services (ITeS) companies have set up operations in GIFT City. Around 12 large banks have set up their IFSC banking units (IBUs) and 17 insurance and reinsurance companies are currently operating in GIFT City. Benefits include a ten-year tax holiday on profits for business units within the IFSC, zero commodity transaction, security transaction and dividend distribution tax, as well as zero goods and services tax (GST) on transactions carried out in IFSC exchanges. These initiatives and policies are expected to be stepping stones towards meeting the original targets of investment and creating one million direct and indirect jobs.² The FinTech hub initiative could be a welcome fillip to furthering FS participation. While the immediate focus of the hub would be to provide FinTech start-ups with access to global markets and partnerships, it could also stimulate the development of innovative products and corridors that larger players could pursue in the long run.

¹ <https://economictimes.indiatimes.com/tech/startups/fintech-hub-at-gift-city-to-open-indian-fintech-to-the-world/articleshow/80632440.cms>

² <https://inc42.com/features/will-a-mint-fresh-fintech-hub-boost-gift-city-pm-modis-dream-project/>

The FinTech hub itself seems to have been planned with the core tenets of facilitating innovation, partnerships and global expansion. FinTech growth is buoyed by access to a safe space for experimentation, talent, consumers, funds and markets. GIFT is expected to provide start-ups with an innovation and regulatory sandbox/prototyping ecosystem, accelerators and cohorts, mentorship programmes, access to proofs of concept (PoC) and skilled talent, along with platforms to assist with partnerships with global players and the Government.

GIFT City has multiple policy-backed advantages over Mumbai and Bengaluru. For example, the presence of a unified regulatory authority (eliminating the need to deal with each sectoral regulator such as the IRDAI, SEBI and RBI separately), tie-ups with international regulators and FIs, and the ability to issue licences to FinTechs and provide tax incentives to them. In this regard, announced of the plan to invest INR 1,000 crore in the upcoming FinTech hub by a Philippines-based bank is welcome news.³ The bank is looking to utilise its investment for skill development, resource mobilisation and the development of new technologies. It would also focus on providing the relevant components to build an ecosystem that can evolve and grow organically.

A look at global FS centres would help us in understanding the role of FinTechs and how they benefit IFSCs as well as catalyse incumbent participation and growth.

Multiple countries are establishing global FS centres, with a specific emphasis on FinTech as the bedrock for innovations and development in the FS domain. Countries are adopting multiple initiatives and policies to encourage the growth of FinTechs, including offering growth funds, establishing sandboxes for live experiments and providing access to global partnerships. These initiatives are significantly boosting the FinTech ecosystem and assisting them with necessary guidance, market access and regulatory support to expand locally and internationally.



GFC models and the focus on FinTech development

Globally, FS centres are primarily divided into the following three categories and driven by their clientele and operational model:

International financial centres

Have an established domestic as well as global clientele such as **London, New York and Tokyo**

Domestic/regional financial centres

Primarily focus on and cater to domestic clientele such as **Shanghai, Frankfurt and Sydney**

Offshore financial centres

Primarily focused on providing facilities to global clientele such as **Singapore, Hong Kong and Dublin**

3 <https://economictimes.indiatimes.com/tech/startups/budget-2021-asian-development-bank-in-talks-to-set-up-fintech-hub-at-gift-city/articleshow/80656738.cms>

Subsidy and investment policies

Governments are offering multiple subsidy schemes to encourage the development and growth of the FinTech workforce in their countries. For example, the Government of Hong Kong has allocated USD 15.5 million for a wage-subsidy plan to encourage the hiring of FinTech professionals in the financial sector.⁴ It has also allocated USD 10 million for a FinTech proof-of-concept (PoC) scheme.⁵ The Dubai International Financial Centre (DIFC) located in Dubai has announced an investment corpus of USD 100 million for early-stage FinTechs seeking access to the Middle East, Africa and South Asia (MEASA) markets.⁶

FinTech operating licences

Governments are also providing standalone, licensed access to FinTechs, enabling them to conduct business as a part of global financial centres (GFCs). For instance, the monetary authority in Hong Kong has released and allocated operating licences for virtual banks, insurers and asset trading companies. The DIFC offers a dedicated commercial licence for FinTech, RegTech and InsurTech firms, and allows them to operate within the centre.

Regulatory sandboxes to partner with incumbents and conduct live experiments

GFCs are also providing sandbox environments for FinTechs to jointly innovate and work with incumbents, and develop tech-led financial solutions. The Hong Kong FinTech Supervisory Sandbox, DIFC's Innovation Testing License (ITL), the London Global City Regulatory Sandbox and the FinTech Sandbox by Singapore's monetary authority are some of the regulatory sandboxes that have been set up to encourage the expansion of FinTech models.

4 <https://www.cnbc.com/2020/11/02/hong-kong-official-explains-citys-role-in-fintech-development.html>

5 <https://www.info.gov.hk/gia/general/202101/06/P2021010500527.htm>

6 <https://www.difc.ae/newsroom/news/difc-launches-usd-100-million-fintech-fund/>



Access to international financial markets

Governments are also entering into global access partnerships in order to provide bilateral international access to FinTechs. For instance, the DIFC has signed agreements with global FinTech hubs across New York, London, Hong Kong, Kuala Lumpur, Singapore, Mumbai, Paris, Brussels, Holland and Bahrain.⁷ These agreements aim to expand bilateral collaboration between the FinTech ecosystems of Dubai and other countries, and provide the participants with international access to FinTechs. The partnerships would also encourage knowledge sharing, learning initiatives for start-ups, and relationships between regulatory and financial bodies.

FinTechs, enabled by the initiatives and policies of GFCs, provide two-fold benefits to the overall ecosystem. Firstly, they deliver tech-enabled and focused services for end customers, digitising and expanding the ecosystem and its reach. Secondly, they also provide opportunities for collaboration with incumbents, thereby providing a ready digitised platform to expand their services.

The GFCs provide incumbent FinTech hubs with access to a global FinTech pool, enabling them to develop partnerships and expand their digital FS. For example, through DIFC's FinTech Hive programme, a UAE-based bank has partnered with multiple domestic and international FinTechs to develop its digital-banking solution.⁸

Further, internationally established FinTechs are joining global service centres to expand and provide digital FS to end customers in the region. For example, a UK-based FinTech was granted a licence by the DIFC to engage in money services in Dubai, thereby enabling it to provide cross-border transaction services to small and medium enterprises (SMEs) in the region.

FinTechs backed by GFCs are contributing to the expansion of the skills and jobs ecosystem and establishing skill-training programmes to expand the workforce.

The establishment of an IFSC is beneficial to both FinTechs as well as the broader financial ecosystem of a country, while also creating an avenue for the entry of global FinTechs and investors. GIFT City, with its focus on FinTech, can take cues from these global service centres to create a future roadmap and devise opportunities to strengthen the overall FinTech segment in India.



7 <https://fintechhive.difc.ae/events-news/DIFC-FinTech-Hive-continues-to-lead-the-innovation-agenda-in-financial-services-through-its-latest-digital-cohort>

Potential benefits of developing a global FinTech hub

Though India might be lagging behind other financial hubs in the development of its IFSC space, the growing FinTech ecosystem has the potential to offer a multitude of opportunities that can be leveraged to make GIFT one of the foremost financial hubs in the world.

India is one of the fastest-growing FinTech markets in the world. The country has a FinTech adoption rate of 87%, surpassing many advanced economies. The FinTech market in India is expected to reach INR 6.2 trillion by 2025, growing at a compound annual growth rate (CAGR) of 22.7% between 2020–2025.⁹ Various Indian FinTechs are expanding by leveraging global IFSCs. For example, over 30% of the total start-up community in the DIFC is Indian.¹⁰ Furthermore, India is the leading FinTech innovation centre in Asia in terms of the number of FinTech hubs. As per a global FinTech index report, six of the world's 100 leading FinTech cities are located in India (compared to five in China), and the country ranks second after the US, which has 22 cities.¹¹



87%

India has the highest FinTech adoption rate globally (87%), which is significantly higher than the global average rate of 64% (2019).



INR 6.2 trillion

Expected size of the FinTech segment in India by 2025, growing at a CAGR of 22.7% between 2020–25



30%

Share of the total start-up community in Dubai IFSC based out of India



Leading FinTech innovation centre in Asia

Out of the world's 100 leading FinTech cities, six are in India (compared to five in China), ranking second after the US (22 cities)

Source: Financial Express, Invest India and Findexable report

The Government's plan to develop a one-of-a-kind Fintech hub at GIFT IFSC holds immense potential for the expansion of the country's FinTech ecosystem. The development of a FinTech hub, along with the existing infrastructure at the GIFT IFSC, multiple liberal tax benefits and a strong regulatory environment for both Indian start-ups as well as foreign funds, provides a strong ground to attract start-ups and other ecosystem players. Effectively, GIFT IFSC can provide an ideal level-playing field for both global and domestic players. The presence of a multitude of FS companies like banks, insurance, reinsurance and capital market players as well as accelerating transaction rates could be beneficial for both FinTechs and incumbents. They could benefit from the current infrastructure and plan their future growth trajectory in GIFT IFSC.

FinTechs that are built on a foundation of agile and cutting-edge technologies, offer a wide array of services and solutions, and aspire to provide a superior customer experience can set up operations in GIFT IFSC early. Such FinTechs could enable cross-border business through opportunities in payment processing, capital markets and wealth management, and insurance in transaction processing, product innovation, distribution and regulatory and compliance support. Further, FinTechs can also play a key role in expanding the scope of UPI payments globally and utilise the policy initiatives by the RBI-driven payments corporation to cater to global markets.

8 <https://fintechhive.difc.ae/events-news/DIFC-FinTech-Hive-continues-to-lead-the-innovation-agenda-in-financial-services-through-its-latest-digital-cohort>

9 Invest India

10 https://www.financialexpress.com/industry/sme/___trashed-15/1629150/

11 https://findexable.com/wp-content/uploads/2019/12/Findexable_Global-Fintech-Rankings-2020exSFA.pdf



Way forward

The FinTech hub at GIFT City is envisioned to provide a platform for FinTech start-ups to expand globally and access capital. Proximity to stakeholders such as regulators, banks, insurance companies and other FIs plays an important role in building a successful FinTech ecosystem. It is also imperative to recognise that the hub would act as both a focal point for financial and allied sector activities within a region or a network and an ecosystem encompassing the entire infrastructure. The fundamental building blocks for the hub to thrive would also include talent, access to capital, demand, and policy and regulations.

While GIFT City has laid the groundwork for incentivising policy structures and regulation frameworks, the hub will have to focus on developing access to talent and capital. Unlike IT giants that hire their workforce in large numbers and have robust infrastructure to train their employees prior to deploying them across the country, the employment process in start-ups is very narrow. They prefer to hire locally to retain talent and avoid additional costs such as relocation. Furthermore, both GIFT City and the Government can play crucial roles in defining support, grants and subsidies to boost the demand that FinTechs could tap into while serving the regional economy. The following measures by relevant stakeholders could help GIFT City match up to global FinTech hubs:

Technology grants



Allocation of funds to FinTech players to encourage innovations, solution development and PoC testing, and extension of digital reach to onboard more small businesses.

Job creation subsidy



Providing employment-generation subsidies for local job opportunities created by FinTech companies in Gujarat.

Funding support



Funding support in the form of seed capital from government institutions will help FinTechs to invest in innovations and contribute to the success of campaigns such as Make in India and Aatmanirbhar Bharat (self-reliant India).

Exclusive licences for the FinTech hub



Licences issued to FinTechs to operate virtually within the hub will help them in further developing their offerings and expanding their businesses on a standalone basis, and boosting their revenue and operational growth.

The Hong Kong model: Hong Kong has allocated USD 15.5 million for a wage subsidy plan that encourages FS companies to hire 1,000 FinTech professionals over a one-year period.¹² It has tied up with premier institutions and launched dedicated courses in skill development, pertaining to the future of FinTech and its applications. It is also attempting to develop partnerships between FS companies and FinTech start-ups to speed up the adoption of relevant applications.

The future of the planned FinTech hub in GIFT City would depend on the successful development of an ecosystem that facilitates research, innovation and the development of new-age skills. Such an ecosystem would help in creating new job opportunities and attracting quality talent.



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