

# CORDLESS GOVERNANCE WITH CARDS: FINTECH VS REGTECH

**Dr G.V.Satya Sekhar**

**Associate Professor, Gitam University, Visakhapatnam**

**Abstract:** Digitalization of government transactions is a present phenomenon. Every citizen holds dozens of cards for cordless governance, cashless transactions and financial transparency. However, we found that issues like hackers, fraudulent online transactions, insufficiency of technological up-gradation hamper the fundamental objective of cordless transactions. Judiciary in India is also questioning the validity for “Aadhar Number (issued by Unique Identification Authority of India)” linking with all the transactions involved in the welfare of people.

In this context, this paper aimed to examine the status and challenges in achieving financial transparency through digital India.

**Objectives:**

1. To know the process of digitalisation of government services in India, and the impact of cordless governance with smart cards.
2. To identify research gap between “Fintech” and “RegTech” studies.

**Keywords:** Digitalization, financial transparency, cordless governance, smart cards.

## 1. Introduction

Digital finance not only provides the business people with access to financing but also to electronic payment systems and a chance to build a financial history. Digital finance means that the payments and financial services delivered via various modes such as the mobile phones and the Internet—which can could transform the lives and economic prospects of individuals, businesses, and governments across the developing world. Digital solutions and new technologies offer great potential to overcome massive development challenges and will contribute toward the World Bank Group achieving the goal of universal access to financial services by 2020.

Cordless governance goes hand-in-hand with ‘FinTech’. Fin Tech is the process of digitalisation of financial transactions and running its own pace and everywhere in India. It is expected to achieve financial transparency and cashless governance. Recently, the Supreme Court in India is also given its judgement on the validity for “Aadhar Number (issued by Unique Identification Authority of India)” linking with all the transactions involved in the welfare of people. In this context, this paper aimed to examine the status of paradigm shift from the traditional way of governance to cordless governance.

### 1.1. Classification of Smart Cards

Every citizen holds dozens of cards various purposes which are categorised into i) smart cards for financial transactions and ii) smart cards for personal identification.

1. **Smart Cards Related to Financial transactions:** In this category, the smart cards are used for financial transactions viz., Debit Card, Credit Card is enabling 24 x 7 business transactions. The purpose includes money transfer, money withdrawal, payments through online/net banking transaction. These may be divided further into domestic cards vs international cards (Rupay card and VISA cards).
2. **Smart cards related personal/social identity:** Personal Identification and social identity is a mandatory requirement for all transactions related to education, business and government. Hence e-KYC (electronic Know Your Customer) through Aadhar card and other cards like Voter ID, Driving License, Birth certificate, and Death certificate are also now digitalised for e-governance.

## 1.2. Research Gap:

There are very few studies on 'Fintech' and 'Regtech'. This is one of the area in which established and new IT, and telecommunications firms are seeking to compete directly with traditional financial institutions and services firms; and, interestingly, it may well be in developing countries where factors increasingly combine to support the next era of FinTech as well as RegTech.

## 2. Review of Literature

### 2.a. Studies on Fintech

Sanmugam, A (2012)<sup>i</sup> Study shows that "using the logistic model, it is possible to quickly come up with a profile of bank customers who adopt internet banking. Most of the data on the explanatory variables, such as the demographic and social economic indicators can be readily found in the database of customers. Hence financial institutions will be able to construct the profile of their own customers. Knowledge of the profiles or more generally the individual characteristics of customers is useful in many ways".

Megha Jain and Popli (2015)<sup>ii</sup>, study reveals that "the focus is shifting from mass banking to class banking with the introduction of value-added and customised products. Technology allows banks to create what looks like a branch in a business building's lobby without having to hire manpower for manual operations. The branches are running on the concept of 24 X 7 working, made possible by the use of Telebanking, ATMs, Internet banking, Mobile banking and E-banking. The technology-driven delivery channels are being used to reach out to a maximum number of customers at a lower cost and in a most efficient manner. The beauty of these banking innovations is that it puts both banker and customer in a win-win situation. Effective use of technology has a multiplier effect on growth and development".

David Lee Kuo Chuen(2016)<sup>iii</sup> States that "FinTech products and services are continuously being invented; given that the industry is in its early stages. This gave rise to a boom of FinTech startups in the major technology hubs such as the Silicon Valley and London. The amount of investment in FinTech companies grew by 201% globally in 2014; this is compared to a 63% growth in overall venture capital funding in the same year. However, not every funded startup succeeds. In this fast-moving industry where regulations are constantly changing and network externalities play an important role, there are many factors which would contribute to the success of a FinTech company."

Rajesh Kurup(2017)<sup>1</sup> states that “the Indian exchanges of the digital money are gearing up to launch bitcoin futures; but first, they want to integrate other crypto-currencies such as Ethereum, Ripple and Bitcoin Cash (BCH) on their platform. Other than bitcoins, there are about 1,000 alternative coins (altcoins) in the global market, with Ethereum being the most popular. Altcoins are crypto-currencies that were launched after the success of bitcoin. In India, bitcoins have been available since 2012, and now have 8-9 trading platforms and over a million users”.

## **2.b. Studies on Regtech**

Douglas et al., (2016)<sup>v</sup>States that "FinTech' refers to the use of technology to deliver financial solutions and is one aspect of these fundamental changes. The rapid evolution and development of FinTech demand a similar evolution and development of RegTech”.

Douglas et al., (2017)<sup>v</sup>Finds that "the 2008 global financial crisis represented a pivotal moment that separated prior phases of the development of financial technology (FinTech) and regulatory technology (RegTech) from the current paradigm. Today, FinTech has entered a phase of rapid development marked by the proliferation of startups and other new entrants, such as IT and e-commerce firms that have fragmented the financial services market. This new era presents fresh challenges for regulators and highlights why the evolution of FinTech necessitates a parallel development of RegTech. In particular, regulators must develop a robust new framework that promotes innovation and market confidence, aided by the use of regulatory "sandboxes." Certain RegTech developments today are highlighting the path toward another paradigm shift, which will be marked by a reconceptualisation of the nature of financial regulation".

Ioannis Anagnostopoulos (2018)<sup>vi</sup>, states that the "disruptive innovation has the potential for welfare outcomes for consumers, regulatory, and supervisory gains as well as reputational gains for the financial services industry. It becomes even more important as the financial services industry evolves. For example, the preparedness of the regulators to instil culture change and harmonise technological advancements with regulation could likely achieve many desired outcomes. Such results range from achieving orderly market growth, further aiding systemic stability and restoring trust and confidence in the financial system.”

## **3. Role Of “Adhar Card” In Cordless Governance:**

“Aadhaar Number” is a 12-digit unique identification number issued to each Indian citizen by the Central government, and managed by the Unique Identification Authority of India (UIDAI). Aadhaar card is essentially an identification document issued by the UIDAI after it records and verifies every resident Indian citizen’s details including biometric and demographic data. Aadhaar is not meant to replace existing identification documents like PAN, passport, driving license etc. However, it can be used as a single identification document. Banks, financial institutions and telecom companies can also use it as a ‘Know-Your-Customer’ (KYC) verification mode and maintain profiles.

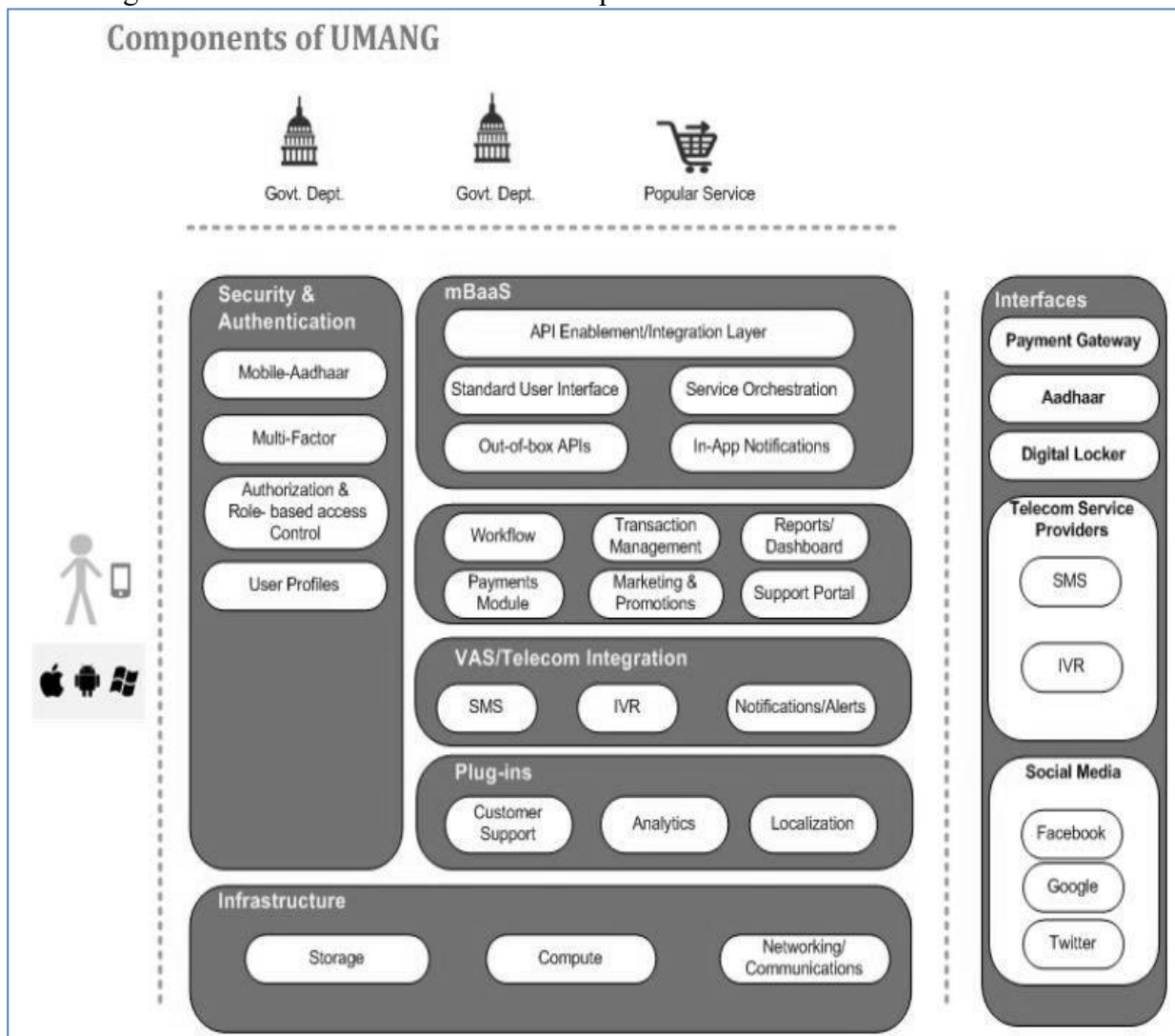
### **3.1. UMANG- A Govt of India Initiative for New Age Governance**

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<sup>1</sup> <https://www.thehindubusinessline.com/news/future-of-cryptocurrencies-is-here/article9954879.ece>

UMANG stands for “Unified Mobile Application for New-age Governance”. This project is being developed by the union ministry of communications and information technology’s national e-governance division (NeGD). This division aims to build an open-source platform to allow ease of integrating new services, developed by various government departments separately. In addition to this, the app would also integrate existing services like the online payments platform – PayGov, government's cloud-based document management system- Digilocker and Aadhaar for authentication. Some 200 apps will eventually be part of the project by December 2019. Part of the mandate for Spice Digital is to provide support for Aadhar based e-KYC, document access via Digilocker and secure payments via PayGov -the government's payment gateway<sup>vii</sup>.

The app will have a section where the citizen can update their preferences, frequently accessed services and short-cuts, languages, etc. This software will then be available for all services so that data entry can be minimised. The main challenge is to convince more departments to come on board. As proposed, a financial incentive will also be created for partner agency to bring more departments on the platform, once it is functional. As far as security is concerned, NeGD is clear that app will not store any data and will only aggregate, connecting with the backend database of each department.



#### 4. Fintech Vs. Regtech:

Every citizen welcomes technology upgradation and innovative products through Fintech. However we need to understand the 'RegTech' –i.e. technology for regulation, prevention of fraudulent activities, hacking, money laundering etc should be appropriately implemented.

'RegTech' is a contraction of the terms 'regulatory' and 'technology', and describes the use of technology, particularly information technology ('IT'), in the context of regulatory monitoring, reporting and compliance. E-governance is also described as 'RegTech', described by Christophe Chazot, HSBC Group Head of Innovation, as 'technological solutions to regulatory processes'.<sup>viii</sup> The automation of processes allows for better and more efficient risk identification and regulatory compliance than that which currently exists.<sup>ix</sup>

In addition to this, online and mobile financial service will continue to be a primary focus of traditional financial services and non-traditional FinTech developments. The consumer interface offers the most significant scope for competition with the traditional financial sector, as these tech companies can leverage off their pre-existing large customer bases to roll out new financial products and services.

##### 4.1. The RegTech Advantage<sup>x</sup>:

Banking and financial institutions today have a lot to gain from RegTech. Keeping in mind the growing list of regulatory obligations financial organizations have to comply with, and the consequences of noncompliance and the massive fines associated with this, RegTech's ability to deliver tools to reach compliance more quickly, and at a lower cost, is a huge benefit for organizations and will give early adopters a competitive advantage.

Early adopters and organisations who implement RegTech into their governance, risk and compliance strategies are not the only beneficiaries. For many processes, especially those that heavily involve client data like Know Your Customer (KYC) requirements, the end customer also receives an enhanced experience by having a more streamlined process in place. Organisations that use technology to safeguard against breaches and protect client data will also benefit the client.

#### 5. Supreme Court Verdict On Aadhar:

A five-judge bench struck down section 57 of the Aadhaar Act on 26<sup>th</sup> September 2018, which allowed corporate entities or even individuals to demand an Aadhaar card in exchange for goods or services. As a result, now no school, office, or company can force anyone to reveal the unique 12-digit number. Neither is it mandatory for opening bank accounts or mobile connections. However, the Aadhaar number must still be quoted to file income tax returns and apply for a personal account number (PAN). As per the SC verdict, linking of the Aadhaar number will not be mandatory for the following services:

- Employee pension;
- Re-verification of mobile number;
- Bank accounts;

- Mutual fund investments;
- Insurance policies;
- Credit cards;
- New or existing post office schemes;
- New or existing NSC accounts;
- New or existing PPF accounts; or
- New or existing Kisan Vikas Patra.

### 5.1. Research Problem:

Ho: Financial Technology (FinTech) should not be implemented without 'Regulatory Technology' (RegTech).

The above statement can be justified with the following statistical data<sup>xi</sup>:

- Fifty thousand agents suspended for violating guidelines.
- Two hundred ten data leaks till November 2017 as per loksabha questions, published in the newspaper 'Times of India'.
- 98.4 crore e-KYC for issuance/re-verification of SIM card for mobiles, out of which some fraudulent transactions are identified.

### 5.2. RegTech: The Regulatory Spinoff From Fintech<sup>xii</sup>

Just as FinTech helps banks *connect with customers* via technology, RegTech helps banks *meet regulatory requirements* via technology. RegTech utilises various technologies such as machine learning and artificial intelligence to establish enterprise-wide data governance and reporting. These new technologies replace the current manual processes for modelling and reporting. With the ever-changing regulatory landscape, RegTech enhances the ability for institutions to remain compliant with critical regulations such as the Bank Secrecy Act (BSA), including know-your-customer (KYC) and suspicious activity reporting. RegTech also simplifies the data-reporting requirements under several regulations including such as Basel 3, CCAR, and MiFID II to name a few.

### 6. Conclusion:

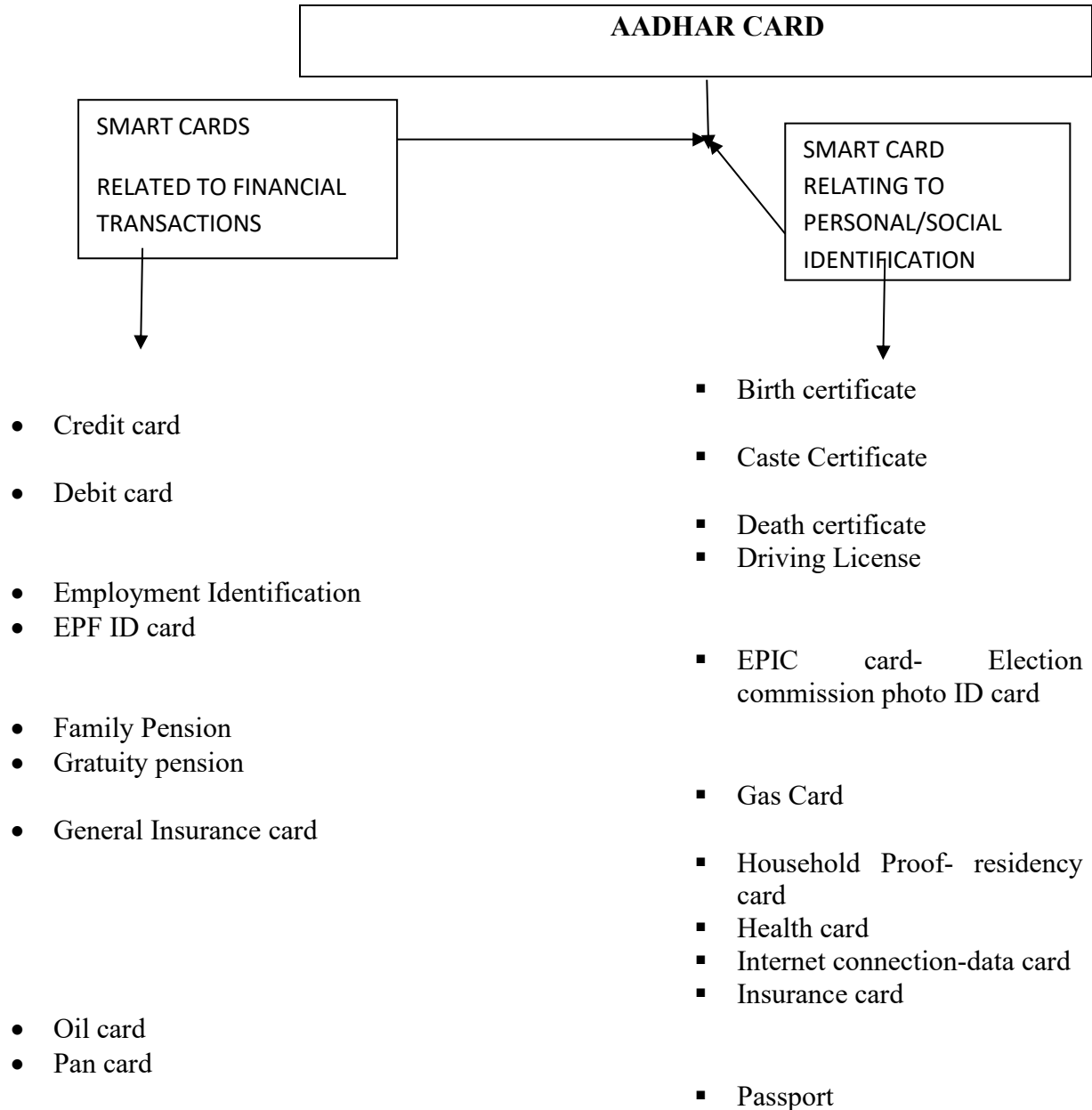
A collaborative network model of linking smart cards (either financial or personal) to Aadhar Card is expected to enhance the quality of financial transparency and e-governance. However, technical and other fraudulent issues need to be addressed from time-to-time. Hence, it is suggested that 'fintech' and 'regtech' integrity is the need of the hour instead of focusing on 'fintech only'. Because, we found that issues like hackers, fraudulent online transactions, insufficiency of technological up-gradation hamper the fundamental objective of cordless transactions.

### 6. Cordless Governance without Cards- A Near Future:

A new wave is coming in the cordless governance. Nowadays smart cards are slowly replaced by mobile wallets or e-wallets and mobile apps and net-banking. There is a fear of vanishing of smart cards for banking transactions. However, we need to wait and see who will win the race 'Smart cards or e-wallets through e-banking'?

## APPENDIX

### A COLLABORATIVE NETWORK MODEL FOR SERVICES OFFERED BY GOVERNMENT AND BANKS



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