



FinTech in GIFT IFSC

April 2024



Foreword

India's economy has grown to USD 3.73 trillion.¹ The first trillion was achieved 60 years after independence, and a consistent growth rate has been maintained thereafter. In today's interconnected and dynamic global economy, the role of the financial services sector has become increasingly vital.

As a pioneering initiative in India's financial landscape, the Government of India launched the Gujarat International Finance Tec-City (GIFT City) project in 2007, with an endeavour to develop a smart city that would host an International Financial Services Centre (IFSC) to provide a comprehensive platform for various financial activities, such as banking, insurance, capital markets, asset and wealth management, FinTech, and access to global markets and currencies.

Representing the nation's vision to become a global hub for international finance and commerce, GIFT IFSC offers world-class infrastructure and a regulatory framework to attract leading financial institutions, businesses and investors from around the globe.

This report aims to provide readers with a comprehensive understanding of the unique attributes and business opportunities inherent in this dynamic environment. We invite readers to envision the potential that GIFT City holds, as well as the opportunities it presents for the future.

I extend my sincere gratitude to all the contributors, whose expertise and insights have enriched this publication. I also commend the editorial team for their dedication and diligence in bringing this project to fruition.

May this publication foster continued collaboration, innovation, growth and prosperity of GIFT City and GIFT IFSC.



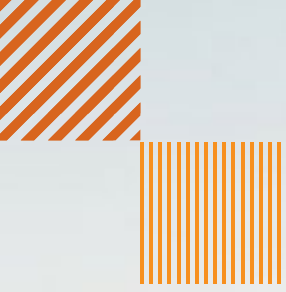
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India Financial Services Sector Leader and
Global Financial Services Technology Leader
PwC India

1. <https://www.zeebiz.com/economy-infra/news-india-to-become-3rd-largest-economy-with-gdp-of-usd-5-trillion-in-3-years-finmin-273873#:~:text=Today%2C%20it%20is%20the%205th,2024%20review%20of%20the%20economy.>







GIFT City – an introduction

GIFT City, the Government of India's flagship project, aims to boost India's stature on the world map of international finance by fostering a favourable regulatory environment, promoting talent and facilitating capital flow in the Indian economy.

Recognising India's financial prowess, Finance Minister Mr. Arun Jaitley announced the establishment of GIFT City as India's inaugural International Financial Services Centre (IFSC) during the Union Budget for 2015-16.

GIFT City, often labelled the 'smart city of the future', is located in Gujarat, nestled between Ahmedabad and Gandhinagar. This tri-city ecosystem fosters an environment supporting business, industry, international finance, and foreign investment, symbolising both a nostalgic era and a promising future.

Conceived as a vertical city, GIFT City boasts modern infrastructure such as a fully automated district cooling system (DCS), automated waste collection system (AWCS) and underground utility tunnels.

This top-tier infrastructure has played a vital role in establishing GIFT City as a global leader among smart cities.² The urban centre is complemented by contemporary social amenities, such as an international school, healthcare facilities, a five-star hotel, an international exhibition complex, the GIFT City Business Club with both indoor and outdoor sports facilities, diverse dining options, and well-planned residential projects. Collectively, these offerings make GIFT City a truly 'walk-to-work' city.

Government of India operationalised GIFT City as an IFSC in 2015

A greenfield smart city developed on 886 acres of land

Divided into two zones that include a Domestic Tariff Area (DTA) and Special Economic Zone (SEZ)

The financial gateway of India for inbound and outbound investment



- 1 Along National Highway 48 (Delhi-Mumbai Industrial Corridor)
- 2 25 mins from Ahmedabad International Airport
- 3 15 mins from nearest railway station and upcoming high-speed rail

2. <https://www.thehindubusinessline.com/news/national/gifts-ifsc-amongst-the-fastest-growing-globally/article24935538.ece>

GIFT City journey so far...

2007

GIFT City project announced by Gujarat Government

2011

The foundation stone for the GIFT project was laid. Brick and mortar development of GIFT City commenced

2015

Ministry of Finance notifies India's first IFSC

2016

Union Budget provided a competitive tax regime for units in IFSC

2014

GIFT City notified as SEZ for international financial services

2018

RBI notifies IFSC as non-resident zone

2020

IFSC Authority (IFSCA) was established

2023

SGX Nifty begins trading as GIFT Nifty from GIFT City

2021-2022

IFSCA notified key regulations, circulars, notifications

2024

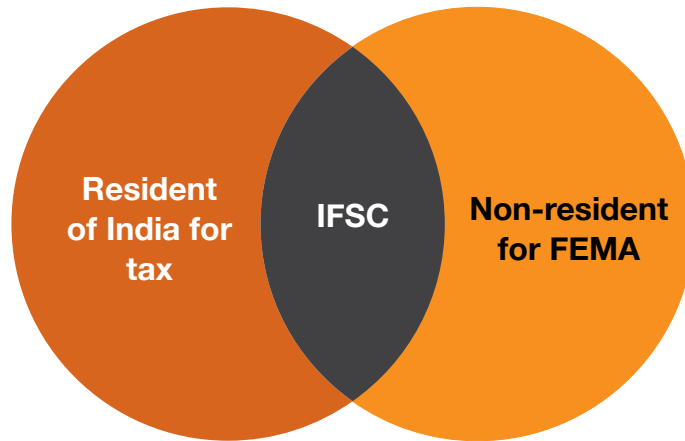
Key announcements:

- Area expansion from 886 acres to over 3,300 acres
- Development of social infrastructure including entertainment, recreational and retail zone
- Operationalisation of metro network in GIFT City by July 2024
- 9-km riverfront along the banks of the Sabarmati River near Gift City to be developed

IFSC

The Government of India launched India's first IFSC in 2015 to accomplish the vision of becoming a significant economic power by fostering the robust growth of international financial services within the nation.

The IFSC is envisioned as a world-class zone dedicated to offering financial services to non-residents and certain residents in a foreign currency (other than the Indian rupee [INR]).



Governing regulator - IFSCA

Established in 2020, the IFSCA plays a role as a statutory body, providing a forward-looking regulatory environment for financial market participants and facilitating ease of doing business. It functions as a unified regulator, combining the powers of the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), and Pension Fund Regulatory and Development Authority (PFRDA) related to financial services, products and institutions within the IFSC.

In addition to securing approvals from the IFSCA for establishing a unit in IFSC, it is also necessary to obtain approvals from the Development Commissioner, SEZ. With effect from 28 February 2024, certain powers and functions of the Development Commissioner, SEZ are now vested with IFSCA.³

3. Ministry of Finance (Department of Economic Affairs) Notification S.O. 940(E) dated 28th February 2024



GIFT IFSC: In numbers⁴

580+

registered entities as on
31 December 2023

23

banks registered as on
31 December 2023

USD 51.98 billion

total banking asset size
as on 31 December 2023

USD 148 billion

outstanding derivative
transactions booked by
banks till December 2023

2

stock exchanges as on
31 December 2023

USD 66.73 billion

turnover on IFSC
international stock
exchanges in December 2023

USD 52.97 billion

cumulative debt listing
on IFSC exchanges as
on 31 December 2023

USD 10.43 billion

green/ESG/sustainable
debt listing as on 31
December 2023

72

broker dealers registered
as on 31 December 2023

95

alternative investment
funds registered as on
31 December 2023

USD 7.08 billion

total commitments raised
as on 31 December 2023

128

aviation assets leased from
the IFSC till December 2023

7

ship leasing entities
registered as on
December 2023

29

IFSC insurance offices and
intermediary offices as on
31 December 2023

47

FinTech entities registered
as on 31 December 2023

4. IFSCA Bulletin Oct-Dec 2023







Key benefits: GIFT IFSC

Strategic location	Single window clearance	Unified regulator
World-class infrastructure	Availability of talent pool	Progressive regulations
Competitive tax regime	State subsidies	International arbitration centre

Existing business opportunities

Banking	Capital markets
Aircraft leasing	Asset and wealth management
Ship leasing	Bullion
Insurance	FinTech

Emerging business segments

 Global in-house centres	 Payment service providers	 Foreign universities	 Global and regional treasury centres
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Proposed business segments in GIFT IFSC

Remote broker dealers in IFSC

Book-keeping, accounting, taxation and financial crime compliance services from the IFSC

Background

FinTech industry in India

- i. India has emerged as one of the powerhouses for FinTech economies globally, with innovations such as digital lending, mobile banking, secure payment gateways, mobile wallets and other concepts that are already shaping a new and digitised India.
- ii. Positioned as the third largest FinTech economy,⁵ India is among the fastest-growing FinTech economies in the world.
- iii. While the estimated global market opportunity for FinTechs is approximately USD 2.1 trillion by 2030, India alone will house a total addressable market size of USD 1.3 trillion by 2025.⁶

Trends in the Indian FinTech ecosystem⁷

3rd

largest FinTech economy globally

17

FinTech unicorns as of 2023

USD 237 billion

India's wealth tech market opportunity by 2030

87%

India's FinTech adoption rate compared to the global average rate of 64%

3,000

FinTech startups registered by the Department for Promotion of Industry and Internal Trade (DPIIT) in India

5. <https://www.investindia.gov.in/sector/bfsi-fintech-financial-services>
6. <https://www.investindia.gov.in/sector/bfsi-fintech-financial-services>
7. <https://www.rbi.org.in/Scripts/TrendsPSIUserView.aspx?Id=25>
<https://indbiz.gov.in/india-ranks-third-with-maximum-fintech-unicorns-in-2023/>
<https://www.investindia.gov.in/sector/bfsi-fintech-financial-services>



FinTechs and IFSCs

The IFSCA has been established in India to develop and regulate the financial ecosystem and promote innovation in the financial services market in IFSCs. In line with its objective, the IFSCA has issued the FinTech Entity (FE) Regulatory Framework (FE Framework) vide circular no. F.No. 521/IFSCA/FinTech/FE Framework/2022-23 dated 27 April 2022 for FinTechs and TechFins to promote and regulate FinTech activities in IFSC.

The FE Framework applies to all eligible domestic and foreign entities recognised as FinTechs and TechFins. FinTechs are categorised as entities providing financial technology solutions that result in new business models, applications, processes or products in financial services regulated by the IFSCA, whereas TechFins are entities providing advanced or emerging technology solutions in allied areas or activities that aid and assist activities related to financial products, financial services and financial institutions.⁸



In the 21st century, finance and technology are intertwined with each other. And when it comes to technology, science and software, India also has an edge and experience. Today, 40 percent share in the whole world in real time digital payments belongs to India alone. Today we are the leaders in this. This power of India in the field of FinTech is attracting the whole world. Therefore, I expect all of you to aim for new innovations in FinTech. GIFT IFSC emerges as FinTech's global laboratory. ”

Narendra Modi, Prime Minister of India⁹

Understanding the FE Framework¹⁰

Overview

The FE Framework is broadly divided into the following two parts:

- authorisation
- limited use authorisation (sandbox).

Eligibility

For Indian applicants –

- an entity registered with the DPIIT as a startup related to FinTech; or
- a company or limited liability partnership (LLP) incorporated in India; or
- branch of an Indian company or LLP in the IFSC; or
- an entity working directly or indirectly in an ecosystem regulated by a domestic financial sector regulator (RBI or SEBI or IRDAI or PFRDA)

For foreign applicants –

- an entity from a Financial Action Task Force ('FATF') compliant jurisdiction

Authorisation

Any eligible technology company

- that uses technology in its core product or service, business model, distribution model, or methodology; or
- has a deployable solution or working product; and
- has a revenue-earning track record for at least one of the last three financial years.

⁸ Framework for FinTech Entity in the International Financial Services Centres (IFSCs)- F.No. 521/IFSCA/FinTech/FE Framework/2022-23

⁹ <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1846330>

¹⁰ Framework for FinTech Entity in the International Financial Services Centres (IFSCs)- F.No. 521/IFSCA/FinTech/FE Framework/2022-23



Limited use authorisation (sandbox)

Limited use authorisation (sandbox) is a testing environment under which entities operating in the banking, financial services and insurance (BFSI) segment experiment with innovative FinTech or TechFin solutions for a limited period, either in the live market (regulatory sandbox) or in isolation from the live market (innovation sandbox) while fulfilling the requisite conditions.

The FE Framework permits an eligible entity to undertake the development and testing of any of the following FinTech ideas or solutions in the IFSC:

- **IFSCA FinTech regulatory sandbox:** Under this sandbox, applicants test their FinTech ideas or solutions in a live environment with real customers or investors with limited use authorisation.
- **IFSCA FinTech innovation sandbox:** Under this sandbox, applicants develop and test their FinTech ideas or solutions in isolation from the live market with limited authorisation.
- **Inter-operable regulatory sandbox (IoRS):** Foreign FinTechs seeking entry into India will be considered for the IoRS with the IFSCA as the principal regulator.
- **Overseas regulatory referral mechanism or FinTech bridge offered by the IFSCA:** An applicant wishing to utilise the overseas regulatory referral mechanism may apply under this sandbox, which operates as bridge governed by a memorandum of understanding (MoU), collaboration or special arrangement between the IFSCA and the overseas financial sector regulator(s).

Permissible activities under this framework

Eligible entities can undertake any one of the following activities:

- Provide FinTech solutions that result in new business models, applications, processes or products in financial services.
- Provide TechFin services or solutions in the form of advanced or emerging technology solutions in allied areas or activities that aid and assist activities related to financial products, financial services and financial institutions.

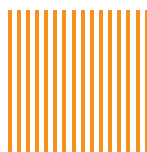
Illustrative list of permissible areas or activities under FinTech:

Banking sector	Capital market and fund management	Insurance sector
Remittance and payments	Crowdfunding	Insur tech
Digital lending	Personal finance	Innovative technologies for insurance lifecycle
Buy now pay later	Wealth tech	Digital innovation for global health insurance cover
Crowd lending	Robo advisory	Innovation in commercial Insurance
Digital bank (neobanking/challenger bank)	Sustainable finance products	Digital platform for settlement of balances between insurance companies
Open banking	Alternative trading Platforms	Open insurance
Bank	-	Embedded insurance and cyber insurance

Illustrative list of allied areas or activities that aid and assist endeavours related to financial products, financial services and financial institutions (TechFin)

(a) Agri tech	(b) Accelerators	(c) Climate/green/sustainable tech	(d) Defence tech	(e) Regulatory tech
(f) Space tech	(g) Supervisory tech	(i) Technology solutions aiding trade finance	(h) Technology solutions supporting digital banking	

(j) Solutions or services for the BFSI domain leveraging:	vii. Distributed ledger technology
i. Artificial intelligence/machine learning	viii. Fraud detection/prevention
ii. Big data	ix. Internet of things
iii. Biometrics	x. Longevity finance
iv. Chatbots	xi. Metaverse including augmented reality and virtual reality
v. Cybersecurity	xii. Quantum tech
vi. Digital identity/know your client (KYC)/anti-money laundering (AML)/combating the financing of terrorism (CFT)	xiii. Web 3.0



Currency for conduct of business

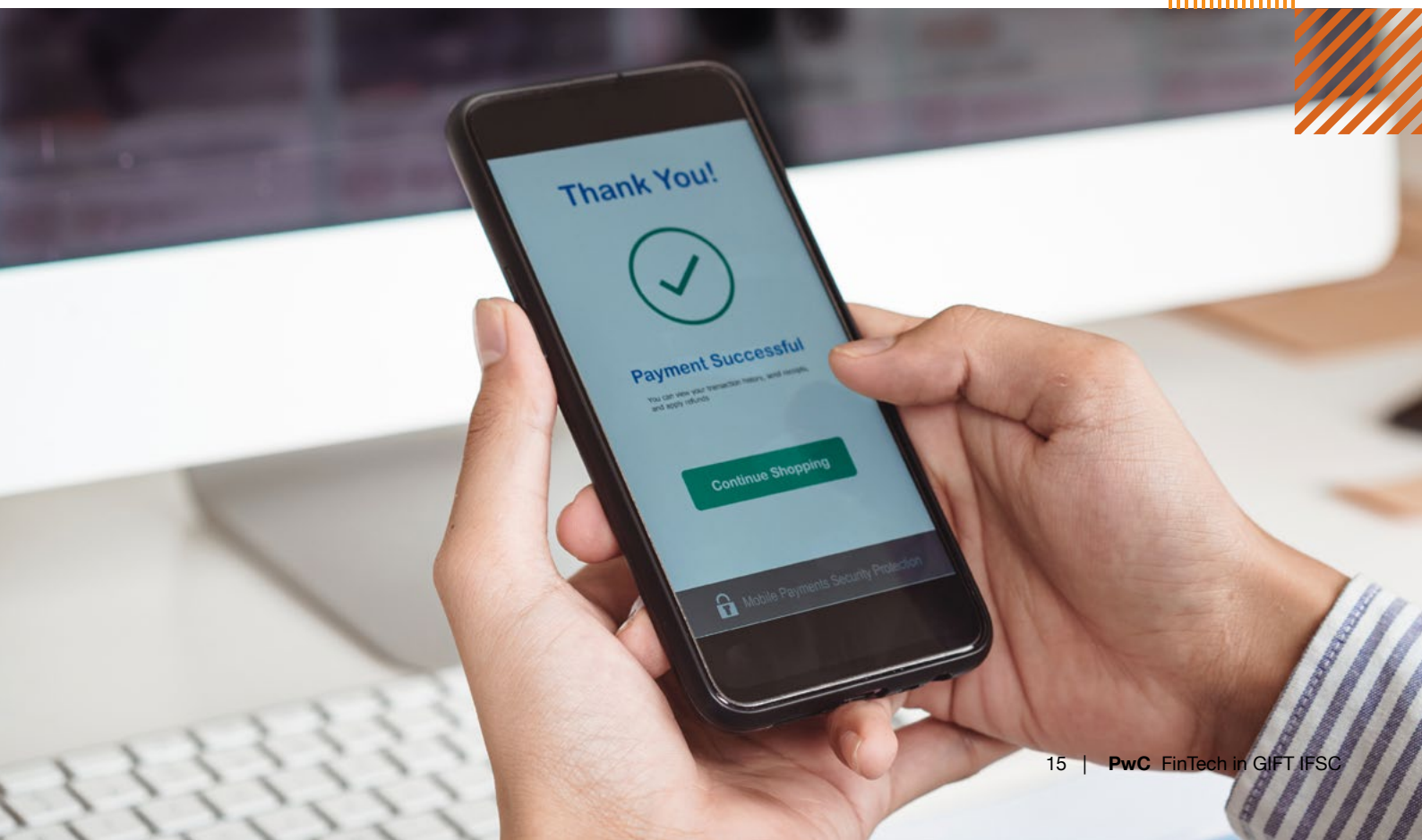
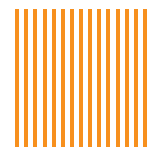
All the entities shall undertake transactions in freely convertible foreign currency only. However, such entities may discharge their administrative expenses in INR by maintaining a Special Non-Resident Rupee (SNRR) account.

Maintenance of books of accounts

All the entities shall maintain their records, documents and books of accounts in freely convertible foreign currency (other than INR), as declared at the time of making the application under the FE framework.

Submissions of report/information

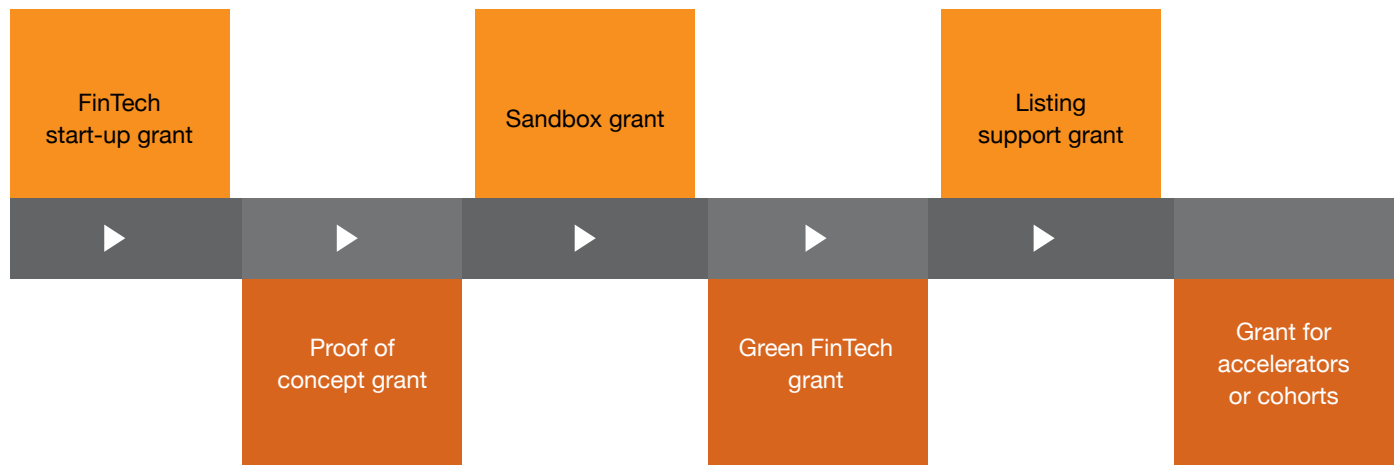
- All the entities shall furnish a duly certified copy of their audited annual financial statements within 30 days of finalisation along with details of regulatory action (undertaken on the entity), if any, within 15 days from the date of receipt of notice for initiation of such regulatory action.
- All the entities shall submit the financial information to the IFSCA in USD, unless otherwise specified by the IFSCA.



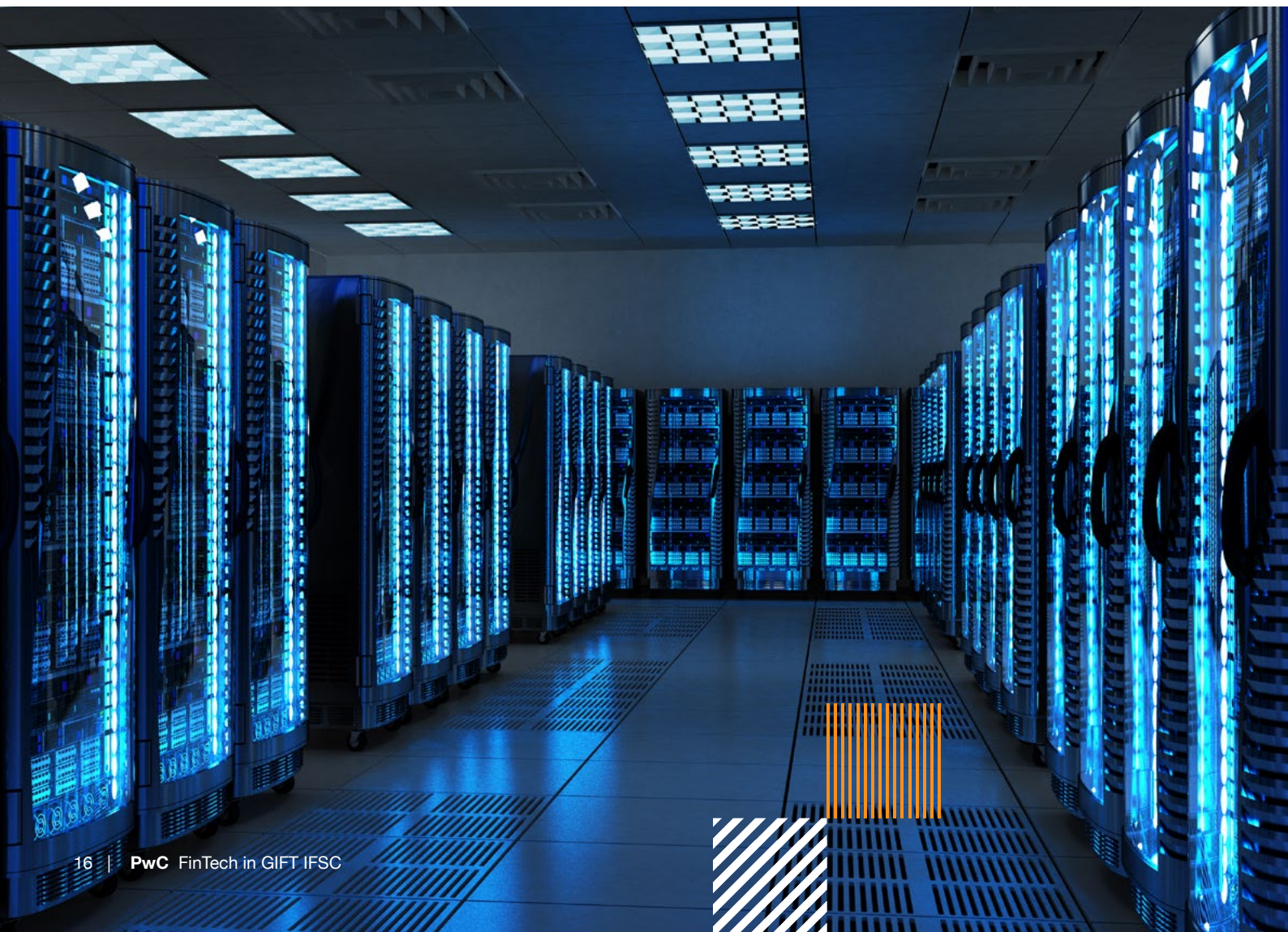
Incentives for FinTechs

IFSCA FinTech Incentive Scheme

To develop a world-class FinTech hub, the IFSCA FinTech Incentive Scheme, 2022, was notified on 4 February 2022. The scheme provides financial support in the form of a specific grant(s) to various Fintech and TechFin entities. The following six types of grants are included under this scheme:



An Evaluation Committee has been constituted for assessing applications and recommending applications that are eligible under the IFSCA FinTech Incentive Scheme, 2022.





Tax framework

Direct taxes:

- 100% tax exemption for 10 consecutive years out of 15 years
- Minimum alternate tax (MAT) does not apply to companies in the IFSC opting for the new tax regime, otherwise 9%* (15%* in case of a foreign entity branch)
- In the case of a subsidiary, section 80M of the Income-tax Act, 1961, is available on dividends paid to an Indian holding company
- Dividend taxable:
 - foreign entity – 10%*
 - Indian entity – 22% or 30%*
- Withholding tax on dividend @10%*
- Transfer pricing provisions may be applicable

Angel tax:

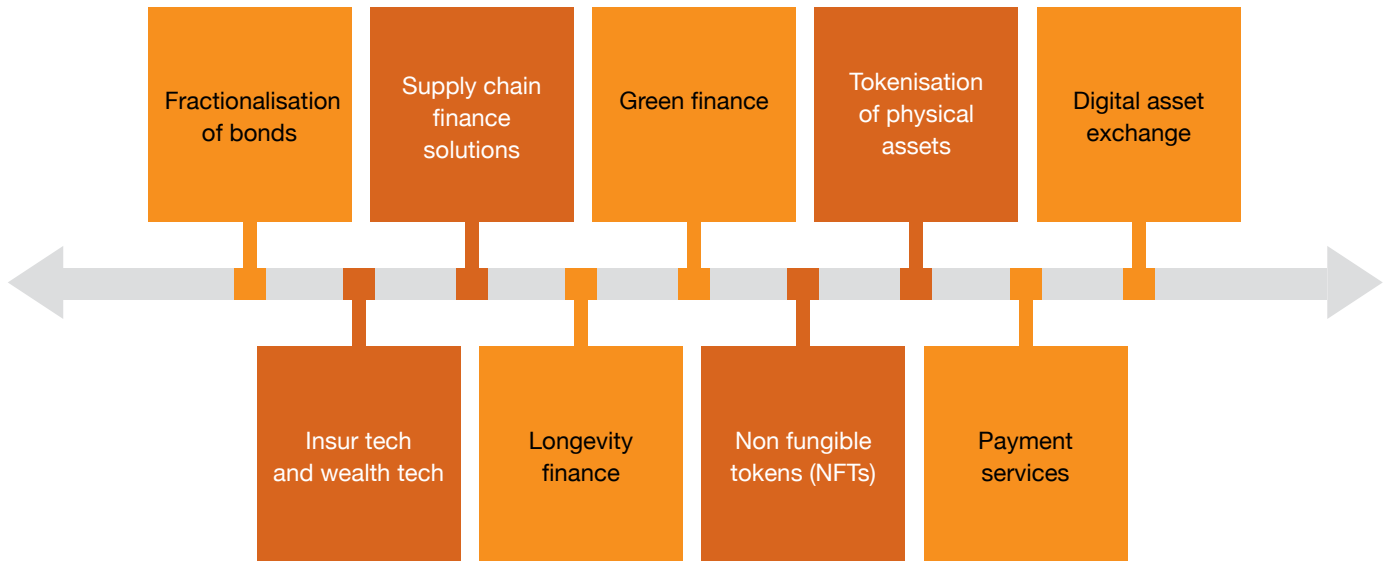
- Imposed on companies in which the public is not substantially interested
- Tax at the applicable rate on the amount of consideration received (resident or non-resident) over the fair market value of shares
- An exemption is granted to venture capital receiving consideration from funds established in the IFSC (from the purview of the specified fund)
- An exemption is available to startups registered with the DPIIT from the angel tax provisions, if the aggregate of paid-up share capital and share premium of the startup after the issue or proposed issue of shares does not exceed INR 250 million

Indirect taxes:

- No goods and services tax on services:
 - Received by a unit in the IFSC
 - Provided by IFSC units or SEZ units to offshore clients

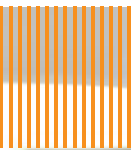
*Excluding surcharge and cess

Use cases and opportunities in the IFSC



Payment services from the IFSC

- The IFSCA has issued IFSCA (Payment Services) Regulations, 2024, on 1 February 2024. These regulations lay down the process of regulating payment services and payment service providers in IFSCs, including the application process for obtaining a Certificate of Authorisation from the IFSCA.
- The permitted payment services are:
 - account issuance service (including e-money account issuance service)
 - e-money issuance service
 - escrow service
 - cross-border money transfer service
 - merchant acquisition service.





Why FinTech in the IFSC?

- Unified regulator – the IFSCA (regulator for various financial services sectors)
- Liberal policies – deemed foreign jurisdiction from the exchange control perspective
- Ease in offering multiple permitted payment services under single authorisation
- India, as a leader in the digital payment revolution, enhances opportunities for the payment ecosystem through the IFSC
- Tax benefits
- State incentives – Gujarat Information Technology/Information Technology enabled Services (IT/ITeS) Policy
- Low manpower and other administrative costs
- Skilled talent pool
- State-of-the-art infrastructure in GIFT IFSC

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