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Introduction

1. The ongoing UK-India Economic and Financial Dialogue (EFD) opens up cooperation between two countries in the financial sector, particularly in financial services. The rapid growth of fintech in both countries has enhanced the potential of collaborative practices and products. There is great scope for fintech sector in the FTA negotiations. The fintech sectors in both countries have evolved somewhat differently, making them more complementary than antagonistic, so it is less likely that vested interests would resist such provisions. In particular, the UK fintech sector is more focused on financial and investment services (neobanks, investment platforms, insurance, pension services). Its main strengths in India are in the payments services infrastructure. The UK developments rely on a combination of cost reduction and convenience motivations, while in India, the cost reduction role of fintech services is dominant.

Trade enhancing infrastructure – the role of fintech

2. The UK-India bilateral trade has the potential to develop enhancing trade infrastructure. We are talking about the emergence of distributed ledger systems that can significantly rationalise bilateral trade (in both goods and services). The most important benefits of such systems include real-time information, secure architecture, which due to a (customisable) decentralisation is more resilient and robust, and transparency, all of which reduce costs compared to conventional import/export systems. This could develop out of a UK-India relationship because the building blocks of such a system exist in some form in each of the two countries. The localised distributed ledger system that integrates accounting, financial (banking and payments), and logistics information has been developed in India in particular for SME integrated financial services provision). In the UK, larger businesses are using cloud-based database solutions.

3. The data connectivity solutions of the open banking standards in the UK, or the database connectivity between Indian fintech and related banks, can be adapted to provide the data sharing solutions for integrated systems. Since one can think of a distributed ledger as an interconnected system where different autonomous systems (e.g. banks, logistics, government) provide access to and share pre-determines bits of information, the nature of the connectors and their security defines them as a system. There are distinct pressures that push individual businesses in both countries to develop such systems. For example, in India, the integrated payment systems operators cannot create sustainable income from payments services alone and need to look for value-added services. Similarly, in the UK, comparison services (e.g., insurance) have to diversify their income by selling other services (e.g. credit cards). These diversifications, in practical terms, lead to integrating different systems to collate specific information, which in principle boils down to building and maintaining secure connectors, which are essential in creating distributed ledger type of architecture.

4. What needs to be done to ensure an FTA does not mitigate these pressures. The main argument here would be similar to the domestic cases to maintain an efficient drive in the bilateral trade, which would push the relevant actors into rationalising and seeking to integrate international trade systems. This can be further facilitated via digitalisation of government systems (e.g. customs declarations) and providing agent access to these so that the preconditions of integrating such systems are met. The relevant security standards (what information can be shared with whom) will need to be established.

Talent and sustained collaboration

5. The fintech growth in India is supported by trends such as financial inclusion, demographic changes and a consistent, supportive policy. The accelerated digitalisation has put India’s fintech ecosystem as the thirdlargest in the World and poised for rapid growth in the coming years. This creates opportunities is several distinct areas. First, the size of the market for fintech services presents market opportunities for the export oriented UK services sector. Second, the emerging leading role of fintech in India will allow, subject to the right conditions, for cooperation between the fintech sectors in the two countries. The relative complementarity of these industries in both countries will most likely facilitate such cooperation, since it will serve the purposes of market diversification, rather than direct competition. Furthermore, the fact that both countries are world leaders in fintech services would further incentivise such cooperation. According to Kalifa review (2021), the UK has established the importance of fintech over the years as a permanent technological

revolution and changed the way we do finance. However, to maintain the lead in the field and to enhance connectivity, we need to attract investment and talent to our fintech clusters. This is a sector where the traditional insistence on work visas by India and the UK interest in attracting talent coincide. There is also an opportunity to tune immigration and trade policy to the aims or regional development (i.e. to the levelling-up agenda). For instance, alongside the established hubs of fintech industry (London, Oxford) there are emerging and other clusters (see Kalifa review, 2021) in the rest of the country. These emerging clusters have fewer high growth fintechs and need more support in terms of human and financial capital. Supporting regional fintech clusters via preferential visas allocation can attract talent as well as capital investment to these clusters and ensure balanced growth and higher connectivity among fintech clusters across the country. The latter issue is of course subject to an integrated approach to regional development, but trade policy has an important role to play, particularly since development of regional fintech clusters will bring about high quality jobs to the UK regions.

6. The UK can explore specific visa entry programmes or other financial incentives (including but not restricted to special free trade zones) . It would be advisable to maintain a sustained and flexible approach to the visa rules to attract talent. This could simply mean a more focused and regularly updated approach to the current points based system. This along with a strategic approach to develop sustained link between higher educational institutions in both countries to engage more policy and industry based research in the area of fintech. This will ensure a sustained talent flow to the sector, particularly in those areas of the financial services industry where the UK has a shortage.

7. The "Fintech bridges" established by the UK with other countries lead a pathway about establishing a productive corridor beneficial to the fintech sector in the country. The development of these bridges helps the UK providers to understand the complexity of host markets. Considering the size of the Indian economy and the growth of Unicorns in the fintech sector, a sustained fintech bridge would be helpful. The Chancellor's announcement for a substantial investment in India's "GIFT city" a fintech hub would be a valuable starting point. The collaborative fintech bridge can develop a dynamic portal based on the strengths and challenges of fintech in both countries, an useful initiative in the FTA discussions.

Banking

8. Financial inclusion is one of the topmost priorities of the Government of India (GOI). Although India has achieved tremendous progress in enhancing access to financial services these days, there is excellent scope for digitalising financial services with public sector banks in India where UKbased start-ups can play a significant role. Although GOI has encouraged a pro-competition mandate among the PSBs, the room is enough to improve the quality of service delivery and customer satisfaction.

9. Many UK firms such as Tide and *Revolut* and *Tide* have opened their offices in India. But their operations will be delayed, mainly because of the uncertainties in the regulation. Although the GoI has announced a proposal for licensing and regulatory regime for digital banks, the existing law will come out only in the second half of the current year. However, the detailed architecture proposed has gone through stakeholder consultations now. The regulation of fintech is an area where both countries can cooperate closely. Both countries' ongoing regulatory sandbox exercises need to develop a collaborative space for participation and subsequent investments and product development. The main issue from UK point of view is that the Indian regulatory regime currently relies on the banking licence of the conventional banks, so a fintech or a digital-only bank needs to establish a cooperation agreement wit such banks in order to be able to use their respective licences to provide their services. In a way conventional banks are acting as guarantors for the emerging digital banking services. It would therefore be beneficial for UK banks, particularly digital ones if they are able to obtain their own licences. However one may expect some resistance from the Indian side due to their potential concerns about data security, or more general stance on (domestic) regulation. However, due to prominence of the payment infrastructure in India, better (and lower cost) access to international payments systems (something that is one of the defining features of many fintechs) is something that could facilitate such cooperation. Moreover, since Indian companies are in general allowed to list internationally (and many do), they have an interest in access to the international financial markets, with London being a major financial centre. This provides further incentives for creating and fostering financial cooperation.

GST

10. One other area where the UK companies can play a significant role in India's evolved Goods and Services Tax (GST) infrastructure. Since GST records have to be submitted regularly, it generates considerable customer data. The data analytics techniques can play a huge role in converting the insights from the data to develop consumer products. An early engagement with GST data by UK fintech companies would be

helpful in India's SME sector. This is an example of government database which can be automated and integrated with other systems. Furthermore, the UK may learn lessons in creating and maintaining large databases from potential involvement of UK entities with the GST.

Data Security

11. The different approach to data security provides a platform for mutual learning. In the UK, financial services are being provided in a largely liberalised environment supported by an open banking infrastructure. In India, the banks are still gatekeepers, and fintech often relies on banking cooperation (i.e. they use existing banks licences) to provide relevant services. Therefore, as long as an FTA does not pressure the national regulatory environment, there should not be any concerns about unfair competition. The differences in national fintech expertise should benefit both countries. One may be tempted to argue for some form of harmonisation. However, it is more than likely that any such attempts at this point of time could be faced with considerable resistance. This does not mean that lessons cannot be learned and incremental changes in the interest of improved security cannot take place.