



## Steering Committee on Fintech

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Recently, the Steering Committee on **Fintech** has submitted its final report to the Ministry of Finance.

The Committee was constituted in pursuance to the announcement made in Budget Speech 2018-19.

## Recommendations of the Report

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The Committee has recommended Fintech can be leveraged to **enhance financial inclusion of Micro, Small and Medium Enterprises (MSMEs)**.

In this pursuit, it is recommended that the Reserve Bank of India (RBI) may consider the development of a **cash-flow based financing** for MSMEs.

### Cash flow-based financing

- In cash flow lending, a financial institution **grants a loan that is backed by the recipient's past and future cash flows**.
- This means a company borrows money from expected revenues they anticipate they will receive in the future.
- Credit ratings are also used in this form of lending as an important criterion.
- The advantage of this method is that a company can possibly obtain financing much faster, **as an appraisal of collateral is not required**.
- To support risk reduction in the insurance business, it recommended that insurance companies and lending agencies to be **encouraged to use drone and remote sensing** technology for crop area, damage and location assessments.
- The Department of Financial Services can work with public sector banks to bring in **more efficiency** to their work and reduce fraud and security risks.
  - Significant opportunities can be explored to **increase the levels of automation** using **Artificial Intelligence (AI)**, cognitive analytics & machine learning in their back-end processes.

- National Bank for Agriculture and Rural Development (NABARD) to take immediate steps to **create a credit registry for farmers** with special thrust for use of fintech.
- A **comprehensive legal framework for consumer protection** in the context of the rise of fintech and digital services.
- The adoption of **Regulation Technology (RegTech) and Supervisory technology (SupTech)** by all financial sector regulators.

## RegTech

- It is the management of regulatory processes within the financial industry **through technology**.
- The main functions of Regtech include regulatory monitoring, reporting, and compliance.
- RegTech uses cloud computing technology through software-as-a-service (SaaS) to help businesses comply with regulations efficiently and less expensively.
- The rise in digital products has increased data breaches, cyber hacks, money laundering, and other fraudulent activities.

## SupTech

- It helps supervisory agencies to digitize reporting and regulatory processes, resulting in more efficient and proactive monitoring of risk and compliance at financial institutions.
- Suptech is currently found in two areas of applications: **data collection and data analytics**.
- The Department of Financial Services and the Reserve Bank of India may examine the **suitability of virtual banking system**.  

**The virtual banking system** is a system where banks do not need to set up branches and yet deliver the full-scale retail banking services ranging from extending loans, savings accounts, issuing cards and offering payment services **through their app or website**.
- The **usage of common fintech platform** for Micro Units Development and Refinance Agency (MUDRA) loans, small saving schemes, pension schemes and provident fund.
- **Reforming the current peer-to-peer (P2P) lending** platforms.
- Further, an Inter-Ministerial Steering Committee will be set up on fintech applications by Ministry of Finance, to continue to carry on the tasks of implementing this report.

**Source: BS**