

ROLE OF REG TECH IN MEETING THE COMPLIANCE REQUIREMENTS OF DIGITAL WALLETS: A STUDY ON GOOGLE PAY

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ABSTRACT

The Fin Tech firms in India took a major leap in the post demonetization period and evinced a great degree of agility in the sphere of retail payments. There is hardly any smart phone without a digital wallet or a payment app easing the retail payments and other digital transactions like peer to peer transfers and e Commerce credits, which are required to comply with the regulations stipulated by the Reserve Bank of India and such other regulatory agencies. Indeed, the regulation of Fin Tech firms came to fore when the subprime crisis out broke in US during the year 2008, and induced the central bankers to design regulatory framework, but Fin Tech is the most dynamic sector wherein disruptive cycle moves at a faster rate with new innovations and occasions the firms to comply with the statutory requirements at every stage for which Reg Tech or Regulatory Technology has become a credible raft. The Reg Tech is still at nascent stage reined by very few firms operating with highly customised sand boxes which are not in the cognitive purview of wide range of stakeholders. Therefore, there is a dire need to dwell into the brass tacks of Reg Tech, it is with this backdrop a paper titled "Role of Reg Tech in Meeting the Compliance Requirements of Digital Wallets: A Study on Google Pay" is proposed with the twin objectives of understanding the role of Reg Tech in compliance management and assessing the perceptions of stakeholders on the merits and demerits of Reg Tech.

Keywords: Reg Tech, Fin Tech, Compliance, Cloud Computing, Ledger Technology, Black Chain.

Introduction

Fin Tech sector has been making rapid strides with the emergence of new technology platforms like Black Chain, Distributed Ledger Technology, Cloud Computing and Thematic Bots unleashing new financial services and products (**Grower 2020**)¹. Gone are the days when Financial Technology was reckoned only to the extent of managing plastic money and payment gateways. Rather, the modern Fin Tech is enabling the exchange of crypto currency and marching towards the establishment of virtual banks which requires innumerable compliances to be met so as to vanguard the interests of consumers. It is estimated that Fin Tech market has crossed \$80 trillion in terms of revenues and that of India has crossed \$07 Trillion by the end of March 2022 (**Delloite2022**)². These vast dimensions obviously occasion the designing and implementing stringent regulations as the digital payments enabled by Fin Tech service providers largely impacts the retail payments in the countries like India. But the question baffling all around is, how to standardise the regulatory framework to ease the compliance management amid the dawn of new financial products aided by new technology? The answer to this question lies in Reg Tech or Regulatory Technology, based on which the dynamics of compliance requirements are dealt with new algorithms and new software designed by the Reg Tech firms. They usually embed the mechanism into Fin Tech services that puts a check on critical parameters to meet the stipulations imposed by the regulators. For example, a digital wallet may be asked by the Reserve Bank of India not to allow the payments of more than Rs. 100000 per day through a single account, under such circumstances, the Reg Tech service providers may collaborate with Fin Tech service provider and put the ceiling on the transfers from digital wallet. This example is a very iota of Reg Tech environs as there are many transactions and volumes requiring compliance and standard operating procedures.

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The Reserve Bank of India is one of the early contemplators of regulating Fin Techs and implemented digital Payment Guidelines 2007 i.e. very much before the outbreak of subprime crisis in US and streamlined technology enabled payments and loans (**Chakraborty 2022**)³. RBI has also set up a working group in 2016 to design a regulatory sand box for Fin Tech firms which gave its report in 2018 in an attempt to test the efficacy of the tools and software used by the Reg Tech firms to meet the compliance requirements, but it could not specifically authenticate the list of technologies which can only be permitted to expedite the compliance management system of Fin Tech firms. Thus, it is very required to review the literature with respect to the Reg Tech and compliance to offer formidable conclusions.

Review of Literature

Raghavan (2021)⁴ has discussed in his paper that regulation of Fin Tech firms should be on par with scheduled banks and NBFCs, as the volume of transactions carried through Fin Tech gateways or mobile applications is no less than that of banks. He also argued in his paper that the central banks should have direct control on the technical algorithms of mobile applications and digital wallets through which retail payments are made. But this proposal may not be feasible owing to the patents and proprietary rights of apps held by the Fin Tech firms.

Kethan & Rao (2021)⁵ have drawn in their study that the success of digital payment environment depends upon the efficacy of the regulations exercised by the central banks. They have developed a paper with the help of post demonetization data on digital payments and expressed that the regulatory framework of digital payments is still at the rudimentary stage. They took the example of delayed cycle of digital wallets to credit back the amount of failed transactions to support their argument, and concluded that every stage of digital payments must be directly supervised by the Reserve Bank of India.

Chauhan (2021)⁶ has explained in his paper that Fin Tech regulation is a complex task and requires trained resources at the regulatory end either. He points out in his paper that the guidelines of RBI drafted to design the regulatory sandbox of Fin Tech firms invites external entities whose integrity could not be completely trusted owing to the vested interests of such entities in the business operations of Fin Tech firms. Therefore, he advocates building internal teams to develop the regulatory sandboxes of Fin Tech firms. This paper emphasises on the long run needs of central banks to regulate the technology driven financial entities and establishes the nexus between compliance guidelines and their execution machinery.

Kutty Thomas (2022)⁷ expressed in his paper that the compliance management system of present Fin Tech firms is robust enough to meet the stipulations of RBI which may or may not remain the same due to the dynamic and disruptive nature of the financial technology. He has chronicled various technologies emerging from the year 2001 in digital payments and attempted to identify the flaws in regulation against each technology. He drew a conclusion that the regulatory guidelines must be reviewed for every quarter to cover the emerging technologies in Fin Tech sector.

Boumik & Patel (2022)⁸ have conducted a cross country analysis of India and Us with respect to the regulatory efficacy in Fin Tech sector and revealed that the Federal Bank has been more reactive to the compliance norms to be followed by the Fin Tech firms whereas the Reserve Bank of India has been proactive to the same. The authors have taken secondary data on twenty different transactions carried through Fin Tech apps and compared the efficiency parameters to offer their conclusions.

Gaps in Literature

It is found from the review of literature that much of the literature available on the regulatory framework of Fin Tech sector either focuses on the regulatory guidelines or on the flaws of existing guidelines, but there is hardly any evidence establishing nexus between the Reg Tech firms and Fin Tech sector, and how the existing few Reg Tech firms are helping to build a strong compliance management system of Fin Tech firms. These gaps are proposed to be cemented through the objectives of this paper.

Need for the Study

This paper finds a dire need to study the role of Reg Tech solutions in compliance management system due to the following aspects.

- Most of the human resources working in Fin Tech firms are proven to be sound in technical domain and not in the economic and banking regulations. Therefore, there is a need to conglomerate the Reg Tech solutions with that of Fin Tech firms to efficiently manage the compliance requirements.

- This paper reckons the digital wallets to see how the Reg Tech firms can help meeting the regulatory requirements laid down by RBI. Most of the digital wallets are linked to banks and do not require any KYC, moreover, digital wallets are more prone to retail payment system compared with other Fin Tech products, and enhances the scope of regulatory framework which need to be studied in depth.

Scope of the Study

This paper has got a finite scope of analysing the regulatory framework of digital wallets and how Reg Tech solutions have been helping them. For which one digital wallet i.e. Google Pay is considered, as Google pay occupies a lion market share comparing with its competitors like Phonepe and Paytm. This gives a scope to generalise the observations on retail digital payment system in the country.

Objectives of the Study

- Studying the role of Reg Tech solutions in the effective compliance management of Google Pay in India.
- Analysing the perceptions of stakeholders on the role of Reg Tech firms in meeting the compliance requirements of digital wallets.

Methodology

The first objective identifies the areas of digital wallet environment where compliance is required and cross check with the help of secondary data on how Google Pay uses its Reg Tech solutions to address them. On the other hand, the second objective designed to collect the perceptions of stakeholders on the Reg Tech solutions is analysed with the help of weighted average mean of Likert Scale data.

Sample Size

This paper is animated with the random sample of one hundred respondents who are either familiar with regulatory framework of digital wallets or working on the Reg Tech platforms.

Role of Reg Tech Solutions in Effective Compliance Management

There are four major areas wherein the role of Reg Tech firms comes to the fore, namely, regulatory intelligence, transaction monitoring and reporting, risk management and customer identification. Indeed various circulars and guidelines issued by the Reserve Bank of India ever since the enactment of Payments and Settlements Act 2007 have been meticulously emphasising on these four dimensions and so is the case with digital wallets like Google Pay.

Google Pay initially claimed that it is not mandatory for it to meet the regulatory guidelines of RBI, as it is only a Third Party Application Provider (TPAP) for Unified Payments Interface (UPI), the ownership of which is held by the National Payments Corporation India (NPCI). It had also submitted an affidavit in the High Court of Delhi that it is not a payment Service Operator (PSO) which should meet the regulatory norms of RBI, but the Government of India has amended the Payments and Settlements Act 2007 in the year 2019 mandating the TPAPs also to come under the direct supervision of RBI. Thus, Google Pay was left with no option but to meet the compliance norms of RBI with effect from April 2020 and designed its own internal entity for Reg Tech solutions called Google Cloud. The success of Google cloud went to that extent where Google has started recommending UPI model of retail payments to all the countries where it has got operations.

The success of Reg Tech depends upon the regulatory intelligence through which the Fin Tech firm timely knows the regulations being contemplated or proposed by the central banks and equips itself well in advance to meet the compliance. Google Pay has designed a Reg Tech Solution called lightning which captures the regulatory changes on time and signals the solution architects to change the algorithms of the app. Similarly, the transaction monitoring and reporting system of Reg Tech environment also plays a crucial role in identifying the genuineness of the transactions and reporting the same to regulatory authorities, for which, Google Pay has employed a unique set of thematic cohorts to track the group of deviated transactions and report the same to RBI. The other Reg Tech solutions like augmented reality, Near Field Communication and such other mechanisms are effectively integrated by the Google Cloud with Google Pay to meet the compliance requirements through automated channels, the summary of which is provided in the following table.

Table 1

S. No.	Regulatory requirement imposed by RBI	Reg Tech Compliance tool developed by Google Cloud
1	Authentication & secured access of the app	ThumbNail10x
2	Access approval	Quickstr
3	Recognizing the transaction	Augmented Reality
4	Payment gateways with merchants	VNF
5	Data management & KYC of customers	AlloyDB
6	Contactless merchant payments	NFC (Near Field Communication)
7	Imposing ceiling on daily transaction limits	TeZ18
8	Imposing ceiling on amount of transactions	TeZ18
9	Blocking & restricting accounts	DLT
10	Integration with Debt and credit cards	Crypto Bots

Source: developers.google.com>pay

Google has reported that it has invested \$ 14.5 Billion on development of Reg Tech solutions in the past five years which are discussed in the above table and paved a way for huge research and development in Reg Tech sector along with the business opportunities scalable on par with Fin Tech firms. Therefore, it enables to interpret that Reg Tech solutions have got an impeccable role to play in the compliance management of Fin Tech firms like Google Pay.

Perceptions of Stakeholders on the Role of Reg Tech Solutions in Meeting the Compliance Requirements of Digital Wallets:

Table 2: Source; Primary Data

S. No.	Statement	1	2	3	4	5	WAM
1	Reg Tech firms timely meets all the regulatory requirements imposed by RBI	08	11	25	21	35	3.64
2	RBI Regulations on digital wallet firms impairs the profits	32	35	05	05	0	1.37
3	Reg Tech firms can reduce the cost of compliance procedures	03	08	0	37	52	4.27
4	Inbuilt Reg Tech solutions are better than the Reg Tech firms	09	10	02	33	46	3.97
5	Regulatory requirements must be dynamic to capture the changing technology of Fin Tech	06	12	0	52	30	3.88
6	The present technology of digital wallet firms expeditiously meet the compliance obligations	22	31	18	11	18	2.72
7	RBI is fully aware of the Reg Tech solutions used by the Fin Tech firms	23	38	16	10	13	2.52
8	The present regulatory system is conducive for the development of Reg Tech solutions	32	32	05	12	19	2.54
9	There is a need to animate separate promotional policy to incentivise Reg Tech Sector in India	18	14	10	35	23	3.31
10	The end users of digital wallets must be aware of Reg Tech solutions used by the service providers	28	15	29	13	15	2.72

Interpretation

The Likert Scale constructed with five points representing 1,2,3,4 and 5 strong disagreement, disagreement, neutral, agreement and strong agreement respectively with the given statements has generated mixed responses, especially, the responses for RBI's awareness on Reg Tech technicalities, the efficiency of present system with respect to the conduciveness of promoting Reg Tech sector have generated weak weighted average mean of less than 3 implying the need to emphasise on the policy issues. The responses have generated strong responses with respect to the role of Reg Tech firms in meeting the compliance requirements and mitigating the cost of compliance management. Therefore, there is a need to promote Reg Tech sector with more liberal policy initiatives.

Conclusion

It is evinced from the primary responses that the Reg Tech firms have got an indispensable role to play in effectively meeting the compliance requirements imposed on the Fin Tech firms like Google Pay. Therefore, there is a dire need to streamline the regulatory sandboxes of RBI and also to provide liberal environs for the Reg Tech sector to grow and help financial entities in bringing down the costs of compliance management.

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