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**Analyzing Value Proposition for Banking Units at India's first  
International Financial Services Centre (IFSC)**

**Dr Vanishree Pabalkar<sup>1</sup>,**

Assistant Professor

Symbiosis Institute of Management Studies, Pune

**Surya Sumant Dashrath<sup>2</sup>**

Research Student

Symbiosis International University

**Abstract**

The paper evaluated the value proposition for the Banking units operating at the Gujarat International Finance Tec City's International Financial Services Centre (GIFT-IFSC). The study finds out the amount of business taking place overseas by the virtue of increasing need of international banking activities. A comparison in terms of regulations, activities being carried out and technological support provide to the overseas banking units operating at the Dubai International Financial Centre DIFC, Singapore International Financial Centre and Hong Kong International Financial Centre brings out the advantages and drawbacks of GIFT-IFSC.

In terms of regulations as compared to DIFC, Singapore International Financial Centre and Hong Kong International Financial Centre, GIFT IFSC has competitive regulations to support the IFSC banking units in Special Economic Zone. Study reveals that GIFT IFSC is progressing towards supporting activities of importance to the business of the banks initially. In terms of technological support India is not behind any other countries and stands at a competitive position.

It is estimated that even under conservative assumptions, purchases by Indian households and firms of IFS could reach to \$120 billion by 2025. The study also resulted at a conclusion that India has appropriate pool of resources in terms of human resources, infrastructural support, cost competitiveness and vast hinterland economy to support the initiative of IFSC at GIFT.

India so far has seen a growing trend in the International Banking sector. It is seen that around Rs. 94.3 bn business in international banking sector of Indian Banks takes place abroad. This business can be targeted by operating at GIFT IFSC which would prove to be beneficial to banks in terms of ease of operating from their homeland, reduced cost and healthy regulatory environment.

**Keywords**

**Value proposition, IFC, DIFC, Hong Kong IFC, Singapore IFC, Regulations, Activities, Technology.**

## **Introduction**

**Value Proposition:** Value proposition for any organization can be defined as the benefits its customers or associated entities will get from the organization's offerings.

## **International Financial Services Centre**

### **Definition**

**IFSC-** International Financial Centre is a City or its district that has a heavy concentration of financial institutions, offers a highly developed commercial and communications infrastructure, and where a great number of domestic and international trading transactions are conducted. (wikinvest).

These are territories with special tax and regulatory policies favoring foreign investments. These encourage business formation by providing appropriate and favorable telecommunication, transportation, infrastructure facilities along with limited bureaucratic hurdles to start new businesses. IFSC's prove to be key contributor to the capital markets and also contain large number of financial institutions. The advantage that they get is in terms of jobs, incomes and wealth concentration. IFSC is a place with some of the following attributes:

- A hub for carrying out international financial business, which can be conducted easily and efficiently
- A place with intellectual talent and skilled management covering Business, Finance and interdependent services which includes legal and accounting, with a provision to provide multi disciplinary teams which can facilitate cross borders transactions in the shortest possible time.

- A territory which provides all the facets of financial services such as best in class human resources, traders, treasury operations, data processing centers, support functions and infrastructure are efficiently located.

### **Need for IFSC in India:**

- The Percy Mistry Committee Report by the committee set up by the Finance ministry estimates that even under conservative assumptions, purchases by Indian households and firms of IFS will reach to **\$50 billion** and could even reach to **\$120 billion** by 2025.
- **Foreign Debt Inflows:** The external debt at the end of December 2015 had reached upto **\$480 billion**, these funds are used to finance the current account deficit (CAD). A greater amount of foreign debt leads to a weaker the position of the economy at global level. The major contributors to the debt are high commercial borrowings and NRI deposits. NRI deposits contributed by an amount of **\$122.6 billion** and commercial borrowings by \$183.6 billion.(economic times article)
- **Insurance industry** is large in India, a collection of Rs. 4 lakh crore is made towards the insurance premium annually. This results in payment of **Rs. 7,300 crore** to **Re-insurance** companies abroad due to lack of capacity. On a Global scale an amount of **\$220 billion** is collected annually towards re-insurance premium. An IFSC along with attractive regulations from IRDA would act as a major platform to bring the re-insurance

business home targeting around 100 re-insurance firms.(Business standard article on India as a possible re-insurance hub)

- **Remittances:** As of January 2015 over **\$70 billion** is being remitted annually to India majorly coming from NRIs from Saudi Arabia (1.8 million), UAE (1.75 million), Qatar (5,50,000), Bahrain (3,50,000), Oman (6,70,000) and Kuwait(5,80,000). All these people prefer to keep their savings safe in their own nation, as it would be of great help during global crisis.(Financial Express article on need for an International Financial Centre)
- **Trade in rupee derivatives:** Around Rs.1334 crore/per day or **Rs.2 trillion per year** worth of trade in rupee derivatives is being conducted out of India in financial hubs such as Singapore and Dubai which have provisioned IFSC concept (World Economic Forum article by Mr. Dipesh Shah). It is seen that around 50-80% of this trade can happen in India at GFIT city, thereby giving the country's financial services sector a big push.
- As there was no IFSC earlier, India **lost approximately 50%** of market share in the two most crucial financial products: Rupee-dollar futures contracts traded on the Dubai Gold and Commodities Exchange (DGCX) and the Nifty futures contracts traded at Singapore and other international markets (Mint article on Arun Jaitley's speech on Regulatory framework for IFSC in India).

### Developing IFSC in India

India's first International Financial Services Centre is approved at the Special Economic Zone, in the **Gujarat**. **International Finance Tec-City (GIFT)** at Gandhinagar in Gujarat.

### Major Functions of IFSC



The prime functions of IFSC involve Banking, Insurance and Capital Market. These Functions are briefly defined below:

- **Insurance:** Insurance units operating at IFSC will cater to the General insurance, Re-insurance, Co-insurance, captive insurance.
- **Capital Market:** Activities at IFSC will involve: Issue of depository receipts and Debt securities, Listing and trading of Equity Shares and Currency, Clearing, Settlement, Collateral Management and Risk Management for various segments of stock exchanges, Trading in Depository receipts, Index based Derivatives and Interest Rate Derivatives, Settlement of trades done on exchange connected to the Depository and Invests in securities and professionally managed them to get higher returns.

**Banking**

The Banking Units at IFSC act as **offshore banking units**. Commercial banks are allowed to open (IOBUs) within IFSC SEZs, which are deemed as overseas branches. Such IBUs are permitted to deploy funds to Indian residents and Non residents, undertake Factoring and Forefacting activities, raise funds from Non Residents and Deal in derivative and structured products.

For the purpose of the research the report will be further focusing on the banking sector dealing with the structure of the Indian Banking Industry, the trends in the international banking and its current scenario.

representative of the regulatory authority (R B I) was undertaken to understand the applicable regulations

- Client Interaction: Interaction with the clients of GIFT IFSC like YES Bank and Federal Bank associates was done to understand their perspective of setting up IBUs at GIFT IFSC
- Internet Portals: The respective internet portals of the International Financial Centres were the primary source of data.
- Online enquiries
- Handbooks of different International Financial Centres

**Objectives**

1. To find out value proposition for IFSC at GIFT
2. Compare GIFT IFSC with leading Competitors
3. Bring out Opportunities for expansion

**Limitations**

1. The study was limited to IFSC at Dubai, Hong Kong, Singapore and India
2. The study was based on secondary research

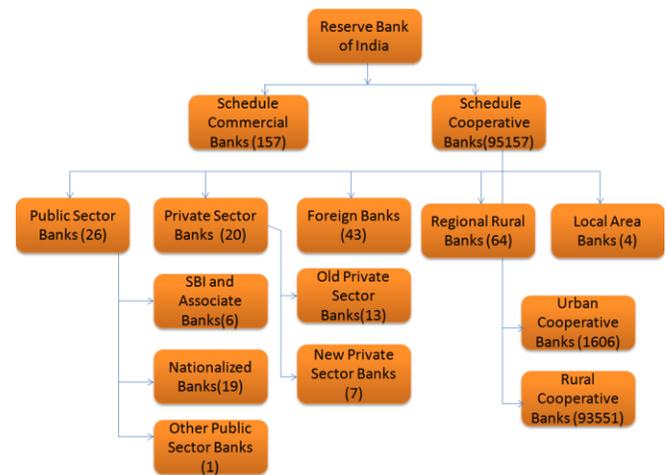
**Methodology**

**Secondary Data:**

- Interactive sessions with the associates: Interaction with the

**Data Analysis**

**Indian Banking System Structure**

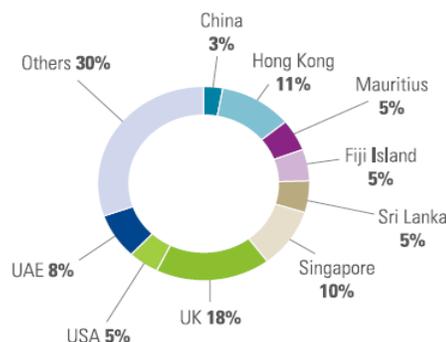


Source: RBI report on ‘Trend and Progress of Banking in India

The above figure shows the framework of the Indian banking system with Reserve Bank of India as the apex body. The banks are broadly classified into Schedule Cooperative Banks and Schedule Commercial Banks.

**International Banking in India**

With the advent of globalization economies saw huge amount of cross border trade, this in some cases required the associated parties to deal in foreign currencies. Thus a need for banks to operate in Foreign currencies arose. But due to partial convertibility of Rupee in India it was not possible for the banks to do the same with its units in India; therefore Banks started establishing its units overseas to serve the clients.



Source: Reserve Bank of India

The figure above shows the percentage share of the countries in terms of number of banking units located.

**Branches of Banks**

Parameter	Overseas branches of Indian Banks	Subsidiaries Operating Abroad of Indian Banks
Total Number of Branches	178	235
Total Number of Employees	3,897	3,424

Source: RBI report on International Trade

The table above shows Indian banks has 178 branches abroad and 235 overseas subsidiaries. Banks have formed seven JV with international players, and operate 55 representative offices and 29 other offices abroad. The total income of the Indian overseas branches was observed to be Rs 432300 Million (\$6.5 billion), while foreign banks operating in India was Rs 6,47,700 Million (\$9.7 billion) in 2014-2015 (RBI report).

**Branches of Indian banks at overseas centers** are shown in the figure below.

**Current Scenario**

**Employment Distribution and Growth:** Research showed that around **62.5 %** of the employees were local, 33.9 % were Indian and remaining 3.6% were from other countries in the branches of Indian Banks abroad.

**Country-wise Banking Services:** The branches of Indian banks in Dubai, Hong Kong and Singapore account for 24.81 percent of the total fee income from Indian Banksth branches abroad.

The above figures clearly show the extent of International banking taking place overseas, past reports show that the trend has been an increasing. The offshore banking units set up abroad if brought to India can be an eminent contributor to the Indian economy. The business taking place overseas can all add up to the income of the nation contributing to the strengthening of the economy.

Considering the case of Dubai International Financial Center, it is home to 10 leading Indian banks (to include SBI, BoB, BoI, IDBI

Bank, Axis Bank, ICICI Bank, HDFC Bank ) wherein there are **10 more** planned to be set up in the near future. The Indian banks have shown **specific interest in wealth and fund management** and the insurance and reinsurance sector is also under consideration (Khaleej Times article on Banking at DIFC).

Banks like SBI, IOB, BoB and BoI have **set up** their **banking units** at Hong Kong, Cayman Islands, Dubai, Singapore etc for the purpose of financial lending and taking deposits.

#### **Advantages India has for offshore banking units**

- Stable political and economic conditions and performance
- Large scale market
- Knowledgeable technical manpower as potential employees
- Indian markets open before Tokyo market close and close before New York market opens, this for the international money market dealers act as a vital time link

#### **Establishing offshore banking units would be advantageous to India in several ways:**

- Better Forex rates and finer margins on loans would benefit the exporters
- Minimized currency fluctuation risks due to multi currency operations will be an added advantage
- The expenditure incurred and salaries paid by these offshore banking units will contribute to the economic welfare
- Country will have improves access to international Foreign Exchanges
- These units will help channelize non-resident Indian investments
- Contribution to advance infrastructural development

For the purpose of the research along with India three other countries are chosen namely Dubai, Singapore and Hong Kong. The Banking scenario at the International Financial Centres located in these countries will be studied.

#### **Regulations**

Regulations play an important part to support a country's economy. The income and expenditure of any firm/institution/economic body is all related to the respective regulations applicable.

Getting an insight of the regulations applicable to the banking units operating at the International Financial centre in India, Dubai, Hong Kong and Singapore will leave us in a better position to realize the associated benefits, scope of development and strengths of the respective centres.

#### **India GIFT- International Financial Services Centre (IFSC)**

##### **Structural Approach**

The regulatory authorities for banks working in IFSC are RBI, SEBI and IRDA. Indian banking industry provides a two tier structure of banking. The Reserve Bank of India was built up in 1935 as per the procurements of the RBI Act, 1934. Though initially exclusive, since nationalization in 1949, the Reserve Bank is completely possessed by the Government of India. The major classification of banks is as Scheduled Banks and non scheduled Banks.

##### **Activity Based Approach**

##### **IBU at IFSC by Indian Banks**

The regulatory and supervisory for IBUs set up in IFSCs by Indian banks is as below.

### **Eligibility criteria**

Indian banks authorized to deal in foreign exchange will be qualified to set up IBUs. Each of the eligible banks are allowed to establish only one IBU in each IFSC.

### **Licensing**

Eligible banks interested in setting up IBUs will be required to obtain prior permission of the RBI for opening an IBU under Section 23 (1)(a) of the Banking Regulation Act, 1949 (BR Act). For most regulatory purposes, an IBU will be treated on par with a foreign branch of an Indian bank.

### **Capital**

IBUs to start their operations are required to provide a minimum capital of USD 20 million or equivalent in any foreign currency.

### **Current Tax Regime followed at GIFT IFSC**

Deduction under section 80LA of the Income-tax Act, 1961 (Act)

- 100% for the first 5 years
- 50% for the next 5 years

Applicability/ levy of Minimum Alternate Tax (MAT) (at an entity level)

- Base MAT rate proposed to be reduced to 9% (plus applicable surcharge and education cess) by the Finance Bill, 2016 for units set up on or after 1 April 2016 and earning income in foreign currency
- Deduction under section 80LA to continue without a sunset clause

### **Recent Scenario**

Regulatory authorities are constantly trying to come up with competitive Regulations in order drive the prospective customers to the GIFT IFSC.

Source: IFSC in SEZ Regulations and Guidelines.

### **Dubai- Dubai International Financial Centre (DIFC) Structural Approach**

The regulatory approach at DFSA is modeled, in some parts on the FSA of UK. The DFSA authorizes financial service provider to undertake specific financial services. With respect to Banks these services include providing credits and accepting deposits. Approximately 30 international banking institutions are present in DIFC.

### **Activity Based Approach**

Earlier DIFC did not allow retail banking and this restriction was recently lifted, but the business models of vast majority of institutions have been **focusing** on the **corporate clients** or **high net worth individuals**. Banks have also refrained themselves from authorization of accepting deposits at they would then remain unable to deal in dirham or accept deposits in UAE markets.

### **Management of Banks**

Adequate system and controls are required to ensure they are managed properly for all financial institutions active in the DIFC. **Mandatory appointments** such as senior executive officer, chief financial officer, etc. are required. **DIFC** guarantees a fifty years of zero tax on corporate incomes and profits. The **capital requirement** is \$10mn for category 1 (deposit taking institutions) and is significantly higher based on volume of business (dfsa website).

### **Recent Scenario**

Currently, the domiciled funds are small in number. If there is a growth in funds domiciled in the DIFC and asset managers present in the DIFC, then there may be further moves by international banks to establish a presence in the DIFC.

### **Singapore- International Financial Centre Structural Approach**

The regulatory authority for Banking is the MAS, it was established in 1971 and acts as a defacto central bank. It primarily focuses on the ensuring effective and smooth operation of financial market in line with the national economic goals.

The banks in Singapore cater to 3 major types of clients to include individuals, corporations or government agencies. The banks are categorized into 2 major categories:

- Local Banks-6
- Foreign Banks -117 foreign banks dominate the banking sector  
The foreign Banks are further divided into
- **Full Banks:** These provide the entire range of banking business as stated under the Banking Act. The foreign banks which have been awarded as Qualifying Full Bank privileges are HSBC, Citibank, Standard Chartered, Maybank, ABN AMRO and BNP Paribas.
- **Wholesale Banks:** These perform all the full bank activities. Except Singapore Dollar retail banking activities. These operate as branches of foreign banks.
- **Offshore Banks:** Engage in the same activities as full and wholesale banks for businesses transacted through their Asian Currency Units.
- **Merchant Banks:** These provide corporate finance, issue of bonds, mergers and acquisitions, portfolio investment management, management consultancy, underwriting of share and other fee-based activities.(Monetary Authority of Singapore)

### **Activities Based Approach**

In a short duration of 4 decades Singapore Has established itself as a prosperous

financial centre of an international repute. Singapore FC offers banking, insurance, wealth management, investment banking and treasury services.

### **Recovery and Resolution**

In case of a bank becoming insolvent or become incapable of honoring obligations MAS has a great power of intervention. Under such conditions the MAS may:

- Appoint statutory adviser
- Assume control of bank's business

### **Recent Scenario**

Singapore has come up with the concept of smart regulations

- Aligning regulation with best international standards
- According to the risk profile and impact of individual institutions, regulations are intensively supervised.
- Outcome oriented regulations

Source: Jan Putnis, 2015

### **Hong Kong- International Financial Centre**

#### **Structural Approach**

The regulatory system in Hong Kong has evolved over a period of time and in line with the international trend. The principal regulator in of the banking system is the Hong Kong Monetary Authority. The HKMA was formed to ensure that central banking functions could be performed with high degree of professionalism, these functions included maintaining monetary and banking stability.

Hong Kong has a **3 tier system** of **deposit taking institutions** which includes licensed banks, restricted licensed banks and deposit taking companies.

**Licensed banks** are majorly involved into taking deposits.

**Restricted licensed banks** are mostly involved into merchant banking and capital market activities they are eligible to take deposits of any maturity of HK\$5,00,000 and above.

**Deposit-taking companies** These companies are restricted to taking deposits of HK\$100,000 or above with an original term to maturity of at least three months. The licensing criteria are subject to periodic reviews.

### Activity Based Approach

The **supervisory process** follows **risk based approach** emphasizing on evaluation of the quality of AIs internal risk management system to support and preserve the general stability and effective operation of the banking system. But this approach also provides **sufficient flexibility** for AIs to take commercial decisions. (Monetary authority of Hong Kong)

### **Recent Scenario**

The HKMA has anticipated three key areas to focus in banking regulations which includes

- 1) Study on implementation of a recovery and resolution regime
- 2) Implementation of the OTC derivatives market
- 3) Continued penetration by banks.

Source: Jan Putnis

### Activities

#### India GIFT-International Financial Services Centre (IFSC)

IFSC in India presently allows the following activities to be for the offshore banking units operating at GIFT-IFSC:

#### Commercial Banking Activities

**Buyer's Credit:** Banking units operating at IFSC provides the facility of Buyer's credit; during the year 2014-2015 the **EXIM bank**

**extended** a Buyer's credit facility aggregating to **\$499.812 Mn.** (EXIM Bank annual report 2014-15)

**Factoring and Forfaiting:** Services are provided as part of the trade finance requirements to the non- resident entities such as WOS/JVs of Indian corporate abroad.

**Deployment of Funds:** Funds are deployed to provide External Commercial Borrowings (ECBs) to the Indian entities seeking foreign currency funds as permitted under the FEMA regulations and Project financing.

**Foreign Exchange:** IFSC allows Forex activities by offshore banking units to take place.

**Raising Funds from Non Residents:** The raising of funds which can be classified as long term and short term borrowings will be carried out as follows:

The long term borrowings (> 1 year) will be mostly through:

1. Borrowings from foreign banks & other IBUs
2. Debt issuance in IFSC and international bond markets
3. Bulk deposits from foreign corporate / WOS of Indian corporate

The IBUs will also be allowed to raise short term liabilities (< 1 year) from foreign banks and IBUs

#### Retail Banking Activities

IBUs at GIFT-IFSC are at present not authorized to carry out Retail Banking activities.

### **Investment Banking Activities**

**Facilitating mergers, acquisitions and corporate reorganizations:** IBUs are authorized to carry out activities related to mergers, acquisitions and corporate restructuring.

**Treasury:** IBUs at GIFT-IFSC are at present not authorized to carry out

**Loan Syndication:** IBUs are authorized to carry out loans syndication activities. Yes Bank which is operative at GIFT-IFSC has a loan syndication Business of \$20 Mn as of January 2016.

**Dealing in derivative & structured products:** IBUs are authorized to deal in derivatives and structured products based on single or basket of securities, options, indices, debt securities, swaps, etc in the foreign and IFSC markets. IBUs will also be able to deal with Currency Derivatives listed on the exchanges in Foreign and IFSC markets.

**Wholesale Banking:** IBUs at GIFT-IFSC at present do not carry out Wholesale Banking activities.

### **Dubai- Dubai International Financial Centre (DIFC)**

Owing to the rapid growth of Dubai as leading financial centre due to growing wealth and investment activities, cross border trade Mergers and acquisitions and restructuring of the state owned enterprises large number of banks, private entities and brokerage firms have established their presence at DIFC.

### **Commercial Banking Activities**

**Buyer's Credit:** Banking units at DIFC are authorized to provide buyer's credit service to its customers.

**Factoring and Forfaiting:** Factoring and Forfaiting is accommodated at DIFC especially to cater to SMEs.

**Deployment of Funds:** Deposit taking is not significant source of funding institution in DIFC, Trade and Export Finance, Corporate and Business Banking.

**Foreign Exchange:** Forex trading is permitted and also allows retail brokers to set up shops at DIFC and operate; clients can trade with Nasdaq Dubai within DIFC or any other exchange worldwide.

**Retail Banking Activities:** These involve Accepting Deposits, Providing Fund Administration, Financing-Fixed asset, Business Property, Working Capital and Investments.

### **Investment Banking Activities**

**Facilitating mergers, acquisitions and corporate reorganizations:** Provides funding facilities and advisory service

**Treasury:** IBUs carry out treasury operations at DIFC.

**Loan Syndication:** Loan syndication is provided by banks operating at DIFC, DIFC is ranked as the fourth largest Loan syndication provider in the world.

**Dealing in derivative & structured products:** DIFC allows dealing with derivative services.

### **Wholesale Banking**

At DIFC Wholesale banking delivers key capabilities which include Capital Markets, Transactional Banking, Trade Finance, Corporate Finance, Rates and FX Transactions.

### **Others Activities**

All activities under commercial Banking which involve Project Financing, Providing Credit, Advising on Financial Products or Credit, Providing Custody, Providing and Managing Assets Trust Services, Islamic finance, Arranging Credit or Deals in Investments take place at DIFC.

### **Singapore- International Financial Centre**

Singapore has had a presence of over 200 banks with a growing number who choose to have their operational base there to service the regional group activities.

### **Commercial Banking Activities**

**Buyer's Credit:** International Financial centre at Singapore provides the authority to the offshore banks to give buyer's credit.

**Factoring and Forfaiting:** To serve the financing and treasury needs of individuals, corporates and institutions in Singapore the IBUs are allowed to carry out Factoring and Forfaiting activities.

**Deployment of Funds:** Banks in Singapore draw in non-SGD deposits globally, and deploy these funds.

**Foreign Exchange:** The forex plays a pivotal role in Singapore's vibrant and international financial markets. Singapore houses the major global FX dealers and offers a deep and liquid market for trading and hedging of G3 currencies, as well as Asian emerging market currencies.

**Raising Funds:** Funds are raised via share capital or borrowing from other banks at SIBOR by Singapore incorporated banks.

### **Retail Banking Activities**

Retail banking activities involve deposits, loans and other related activities that take

place at IBUs at Singapore International Financial Centre.

### **Investment Banking Activities**

**Facilitating mergers, acquisitions and corporate reorganizations:** IBUs at International Financial centre at Singapore are authorized to provide funding facilities and advisory services with respect to merger acquisitions and corporate reorganizations.

**Treasury:** For the purpose of corporate treasury Centres the taxes applicable for functioning are Profit tax 10%, Personal Tax-20%, Social Security-17% (subject to cap), Social Security-20%(Subject to cap) and Value added/Sales tax-7%.

**Loan Syndication:** Loan syndication services are offered by banks operating at International Financial Centre at Singapore.

**Dealing in derivative & structured products:** Deals in derivative and structured products is authorized.

**Wholesale Banking:** All activities of full banks except that they do not carry out Singapore Dollar retail banking activities are allowed to be carried out by IBUs.

**Other:** Other banking activities involve Merchant Banking, Asset management centre, Payment and cash management services.

### **Hong Kong- International Financial Centre**

#### **Commercial Banking Activities**

**Buyer's Credit:** Buyer's credit is provided at International Financial Centre at Hong Kong to importers in US\$ or other currencies at LIBOR linked rates.

**Factoring and Forfeiting:** Factoring and Forfeiting activities are permitted to be carried out by IBUs.

**Foreign Exchange:** The connection with overseas centres enables foreign exchange dealings to be carried out 24 hours a day around the world.

**Retail Banking Activities:** All the Retail Banking Activities are carried out by IBUs situated at Hong Kong International Financial Centre.

#### **Investment Banking Activities**

**Facilitating mergers, acquisitions and corporate reorganizations:** Provides funding facilities and advisory service.

**Treasury:** Hong Kong International Financial Centre recently reduce profits tax for specified treasury activities by 50% i.e. to 8.25% while Personal Tax is 15%, Social security is 5%, Value added/Sales Tax is 0%. International Financial Centre is also encouraging corporate to set up their treasury centres in Hong Kong.

**Loan Syndication:** Loan syndication is offered

**Dealing in derivative & structured products:** Deals in derivative services are authorized to be carried out by IBUs.

#### **Wholesale Banking**

Wholesale banking involves deposit taking, trade finance, treasury activities and securities, precious metal broking and trading

#### **Others Activities**

Other activities involve **Islamic finance**.

#### **Technology**

##### **India GIFT- International Financial Services Centre (IFSC)**

In order to increase revenue, enhance customer experience, optimize cost structure and manage enterprise risk Indian banks deployed technology-intensive solutions.

**Data Centres:** GIFT IFSC provides a Tata Communications Data Centre with Tier IV ready infrastructure

**Mobile and Digital Payments:** Large numbers of payment services are enabled using mobile applications.

**Authentication and Biometrics:** Voice recognition service functional on the basis of speech patterns are used to authenticate customers and allow them to execute banking transactions through the Bank's call centre in a quick, secure and convenient manner are operational.

**Cloud Computing:** Cloud is being used full fledgedly in the Banking industry.

**Big Data:** Big Data analytics plays a crucial role in understanding the customer and is being used by most of the banks.

**Learning machines:** Latest innovative technologies like e-lobbies, the unmanned self-service banking outlets that operate far beyond official banking hours, coin-vending machines are operational.

**Others:** Satellite Banking services which would allow to resolve the issues related to poor network infrastructure will be operational.

##### **Dubai- Dubai International Financial Centre (DIFC)**

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**Data Centres:** DIFC has built four state-of-the-art data centres within the DIFC campus offering hosting services tailored specifically to its prestigious financial and business requirements.

**Mobile and Digital Payments:** Large numbers of payment services are enabled using mobile applications.

**Authentication and Biometrics:** Dubai Bank has unveiled a fully automated deposit locker facility that requires customers (only to UAE residents) to register their palm impression in order to validate their identity when using the service.

**Cloud Computing:** Banks look at detailed transactional behavior at a customer level coupled with interaction history to customize product offerings with the help of cloud computing.

**Big Data:** Banks look at detailed transactional behavior of a customer in order to attain meaningful information from it using Big data analysis.

**Others:** Virtual Banking Assistant Sara to provide data driven virtual personalized experience to customers, Social branch present enabling customers to check their bank accounts and make transactions through Facebook.

#### **Singapore- International Financial Centre**

**Data Centres:** Singapore is a Data Centre Hub with several data centres. Singapore is a leading data centre hub, designed to support Depository Trust & Clearing Corporation's (DTCC's) global trade repository services 24/7.

**Mobile and Digital Payments:** The use of mobile applications and near field communication (NFC) is being used progressively more for the purpose of payments.

**Authentication and Biometrics:** Mobile applications that utilize TouchID function of the iPhone for fingerprint authentication are being increasingly used.

**Cloud Computing:** Cloud based solutions are widely being used by Financial institutions in Singapore.

**Big Data:** A large amount of investments are made in big data by financial institutions to derive useful and actionable insights.

**Learning machines:** In equity, commodity, and FX markets, some traders are using self-learning algorithms. In lending, learning machines have been used to construct models for consumer credit risk and improve the prediction of loan defaults

#### **Hong Kong- International Financial Centre**

**Data Centres:** NTT Communications Hong Kong Financial Data Centre (FDC[TM]) with Tier IV ready infrastructure, strategic location and ultra-low latency network solution is available at Hong Kong International Financial Centre.

**Mobile and Digital Payments:** Tap-and-Pay mobile payment programmes for Hang Seng Bank and HSBC credit card users with NFC-enabled Android smart phones are available.

**Authentication and Biometrics:** Proposed biometric banking system by HSBC. The system will enable customers to access their accounts – mobile app and telephone banking through unique characteristics of an individual's body, specifically voice and fingerprint, to verify an account holder's identity.

**Cloud Computing:** Cloud computing is used in banking sector.

**Big Data:** Banks and other institutions are drowning in information. Instead of acquiring more data, the focus is on simplification: developing a synthesized data aggregation process which is consumer-driven rather than bank-driven and going back to basics.

**Learning machines:** Electronic cheque (e-Cheque), a new online payment instrument is launched.

**Outlook**

Majority of the technology is associated with the retail banking activities, presently GIFT IFSC does not allow retail banking and hence this comparison is not of significant importance currently; but the comparison also reveals that India is also not left far behind and is rapidly catching the pace. The state of art infrastructure provided at GIFT IFSC also contributes to the technology in banking.

**Potential Clients**

**Banks with their branches abroad**

IFC	State Bank of India	Bank of India	Bank of Baroda	Union Bank of India	Punjab National Bank	Allahabad Bank	Indian Bank
Dubai	1	1	1	1	1	NIL	NIL
Singapore	7	1	1	NIL	NIL	NIL	1
Hong Kong	2	2	2	1	2	1	NIL

IFC	Indian Overseas Bank	UCO Bank	Canara Bank	IDBI Bank	ICICI Bank	AXIS Bank	HDFC Bank
Dubai	NIL	NIL	NIL	1	1	1	1
Singapore	1	2	NIL	NIL	3	1	NIL
Hong Kong	2	2	1	NIL	2	1	1

The above data shows the banks with their branches overseas Hong Kong has around 19 branches with Singapore having 17 branches and Dubai with 9 branches, these banks should be targeted to set up their branches at IFSC, so that the business going out remains

within the country. Also those Indian banks which do not have an offshore unit should be encouraged to open offshore units at GIFT IFSC. Foreign Banks should be encouraged to set up their offshore units at GIFT IFSC

**Competency Analysis**

**Newness:** GIFT IFSC provides a state of art infrastructure with smart transport- catering to traffic management, real time travel response, road condition system; smart buildings for offices, hotels, schools and homes; Smart Street, Landscapes and Desks which will all be controlled through a City Command and Control Centre.

**Performance -** International Financial Services Centre (IFSC) at GIFT city in just a small time span of six months crossed business transaction mark of \$250 million. In early February 2016 it crossed first mark of \$100 million . This shows that fast paced growth of the GIFT IFSC.

**Customization -** GIFT IFSC provides incubation centres for the entities willing to operate at IFSC until they have the infrastructure ready for the offices this allows the firms to enjoy the incentives provided by GIFT IFSC at an early stage and reap the benefits.

**Price & Cost Reduction:** GIFT IFSC provides a very low cost of real estate infrastructure and a lower wage cost as compared to any other eminent International Financial Centre, this can substantially reduce the operating cost thereby providing an added benefit to the firms.

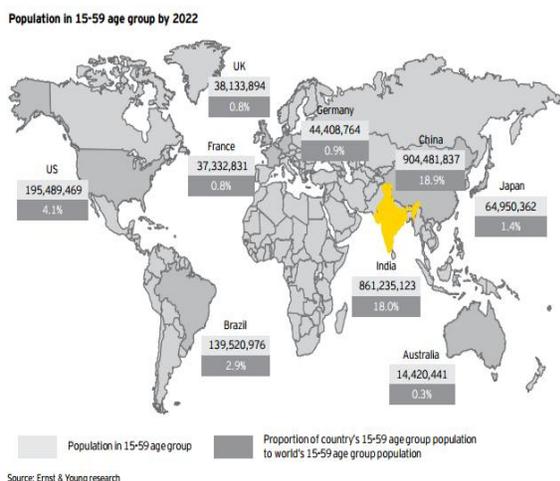
**Accessibility:** GIFT City is located 8km from the Ahmedabad airport. GIFT is regionally connected with places of importance to the

city. Considerations of Transit Oriented Development and high FAR has been taken, hence the strong connectivity through various systems have been envisaged.

**Convenience:** Single window clearance and conducive regulatory environment.

**Demographic Dividend:** The western economies faces burden of an ageing population, India has a unique majority population window of opportunity between the age of 20–25 years called the “demographic dividend.” This means that India has a higher proportion of working age population. This results in a low dependency ratio; this in turn can provide a comparative cost advantage and competitiveness to the economy.

The following charts provide a glimpse of the demographic dividend that India would be able to achieve.



The population employed in the **Finance-Insurance/Banking** sector will reach to **10 million** by 2022, thereby providing a better pool of human resources. (EY research)

**Ease of doing Business:** In India Gujarat ranks number one in ease of doing business, as per the World Bank's report on “Assessment of State Implementation of

Business Reforms”, the key initiatives implemented by Gujarat are:

- **Single window:** The details and timelines for various services across government departments are provided on a Investor Facilitation portal.
- **Labour:** For the purpose of registrations and renewal applications an online workflow-based web application is enacted; integrated inspection procedures enabling joint inspections and timely submission of reports are introduced.
- **Environment:** For the purpose of consents and authorizations including fee calculation functionality an end-to-end online system is implemented.

**Cost competitiveness:** The cost of operation is comparatively low in the GIFT IFSC as compared to the peer financial centres

- **Land:** The cost of establishing a unit at GIFT IFSC is lower than establishing it anywhere else
- **Cost of living:** Cost of living is lower in Gandhinagar as compared to other Metro cities.
- **Labour:** Lower cost of living also reduces the labour cost

**Located to serve all time zones:** The currently operating IFCs in east to include Tokyo, Hong Kong, Singapore and Sydney and in the west to include London, Paris, Amsterdam, Frankfurt and New York have a time zone difference of 8 time zones. India's location has the capability to fill this gap. Dubai, for an instance also uses this value proposition.

**Vast hinterland Economy:** In terms of PPP India is the world's fourth largest economy following the US, China and Japan. By 2012 it will be the fourth largest in nominal terms. By

2020 it will be the third largest. India’s rapid growth has resulted in a phenomenal Increase in two-way cross-border financial flows that are related to trade and investment. Those flows are inducing high growth in IFS demand.

**Single Regulatory Authority:** Makes it easier for to complete the entire process of setting up the branches or Carrying out any activity which would involve any intervention from the regulatory authority.

**Comparison between Rent, Employee Salary and Time Zone**

	India	Dubai	Singapore	Hong Kong
Rent Cost/Sq ft	Rs. 50/month	Rs. 183.37/month	Rs. 732/month	Rs. 1415.06/month
Mid level Employee Salary	Rs.8-10Lac/annum	Rs.50-55Lac/annum	30-35Lac/annum	Rs.20-25Lac/annum
Time Zone serving	GMT+5:30	GMT+4	GMT+8	GMT+8
	India	Dubai	Singapore	Hong Kong
Rent Cost/Sq ft	Rs. 50/month	Rs. 183.37/month	Rs. 732/month	Rs. 1415.06/month
Mid level Employee Salary	Rs.8-10Lac/annum	Rs.50-55Lac/annum	30-35Lac/annum	Rs.20-25Lac/annum
Time Zone serving	GMT+5:30	GMT+4	GMT+8	GMT+8

The above table show the Rent for an official space applicable at the respective International Financial Centres, this data shows that the rent offered by GIFT IFSC is the lowest when compared to the other IFCs. In terms of Mid Level Employee Salary in a Financial sector, India again has the lowest value;

The comparison shows that India is located mid way between the Global Financial centres such as New York, London situated in the Western region and Singapore, Hong Kong in situated in the Eastern region, which helps India fill a vital time-zone gap with a workday that bridges the market and

business hours of financial centres in both Asia and North America.

**Conclusion and Recommendation**

The Study of the Banking scenario at International Financial Centres at Dubai, Singapore, Hong Kong and India in terms of regulations for offshore banking units, activities undertaken by these units, technological support provided for their operation and current trends in the sector the following analysis could be done.

**Details of Banking Services and their Overseas Business**

Banking Service	Indian Banks' Overseas Branches(Rs.Bn)
Deposit Account Management Services	1.1
Credit Related Services	26.6
Financial Leasing Services	0
Trade Finance Related Services	15.1
Payment and Money Transmission Services	3.4
Fund Management Services	0
Financial Consultancy and Advisory Services	1.2
Underwriting Services	0
Clearing and Settlement Services	0.5
Derivative, Stock, Securities, Foreign Exchange trading Services	19.6
Other Financial Services	26.8
Total	94.3

Source: RBI report on International Trade

The above figures show that Services related edit, Trade Finance and Derivatives, Stock Securities, Foreign Exchange trading account for the major share of offshore activities with Rs. 26.6 Bn, Rs. 15.1Bn and Rs. 19.6 Bn respectively.

**Services related to Credit** includes fees for credit processing, late payment charges or charges for default and early redemption. Facility charges and management fees, renegotiating debt terms fees, mortgage fees, etc.

**Services related to Trade Finance** include commission or fees charged for buyers' credit, suppliers' credit, establishing/originating, standby letters of credit, letter of indemnity, lines of credit, factoring services, bankers acceptance, financial guaranty issuance, fees for commitment, trade bill handling charges.

**Services related to Foreign Exchange trading, Derivative, Stock, Securities,** include receiving in the form of commissions, margin fees, etc. for carrying out financial derivative transactions, placement services, and redemption fees. This also includes earnings from banks' own account and on behalf of customers for carrying out foreign exchange trading. Commissions and fees for foreign exchange brokerage services and explicit brokerage fees are also included.

Based on the study of the regulations, activities, technologies used in the banking sector, competitive business and the above data published by RBI it can be said that banks should strategize with an intension to tap the business shown in the above table. A total business of Rs.94.3bn can be targeted by the banks initially by operating at GIFT IFSC, majorly concentrating on services related to trade finance and derivative stocks, Credit, securities, and foreign exchange.

**Indian Bank's Overseas Branches and their respective share in Business**

Indian Banks' Overseas Branches (Rs Bn)								
Country	DAM	CRS	TFR	PMT	DER	Other Services	Total Services	All
Bahrain	0	1.9	1.5	0	0.4	1.4	5.2	
Belgium	0	0.5	0.2	0.2	0	0	0.8	
Hong Kong	0.1	3.1	3.2	0.2	0.8	0.8	8.2	
Japan	0	0.6	0.1	0	0.1	0	0.8	
Singapore	0	3.1	2.1	0.7	0.4	1	7.3	
Sri Lanka	0	0.1	0.2	0	0.1	0	0.4	
UAE	0.6	3.8	3.4	0.2	1.1	0.8	9.9	
UK	0.1	9.7	1.7	0.1	16.3	24.4	52.3	
USA	0.1	1.5	1.1	1.3	0	0.1	4.1	
Other countries	1.1	2.3	1.7	0.7	0.4	0	5.2	
<b>Total</b>	<b>1.1</b>	<b>26.6</b>	<b>15.1</b>	<b>3.4</b>	<b>19.6</b>	<b>28.5</b>	<b>94.3</b>	

Source: RBI report on International Trade

**Credit Related Services** which account for 28.2% of business has major contribution from Hong Kong (Rs. 3.1Bn), Singapore (Rs 3.1 Bn), UAE (Rs 3.8 Bn) and UK (Rs 9.7 Bn).

**Trade Finance related services** account for 16.01% of the business which majorly takes place at Hong Kong (Rs 3.2 Bn), Singapore (Rs 2.1 Bn) and UAE (Rs 3.4 Bn).

**Derivatives Foreign Exchange trading Services** accounts for 20.78% of the business which is majorly operative at Hong Kong (Rs 0.8 Bn), Singapore (Rs 0.4Bn), UAE (Rs 1.1Bn), UK (Rs 16.3Bn), Bahrain (Rs 0.4 Bn).

The above data shows the activity wise division of the business at different International Financial Centres. Based on this data Indian banks should initiate operating activities from GIFT-IFSC which generate maximum business abroad, the International Financial Centres like Dubai, Hong Kong Singapore and London are found to be generating majority of the business.

Strategies have to be developed in accordance with the objective to attract the business going abroad. The IBUs when

operative at GIFT IFSC can act as a **hub** for the international banking of particular Banks and the units located abroad can act as **spokes**. Thus it could turn out to be a winning situation for Indian Banks to set up their IBUs at GIFT-IFSC, thereby enjoying the privilege in terms of ease of operating, reduced cost and healthy regulatory environment.

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