

IFSC AS INDIA'S FINANCIAL GATEWAY: FUNCTIONS, IMPACT, AND FUTURE OUTLOOK

Abstract

The International Financial Services Centres Authority (IFSCA) serves as the unified regulator for India's International Financial Services Centres (IFSCs), with GIFT City, Gujarat, as its flagship. Established under the IFSCA Act, 2019, IFSCA consolidates regulatory powers previously held by sectoral regulators such as the RBI, SEBI, IRDAI, and PFRDA. Its core mandate encompasses licensing, framing and enforcing regulations, market development, dispute resolution, and fostering international cooperation across financial sectors—banking, insurance, capital markets, asset management and fintech. By providing a single-window regulatory framework, IFSCA streamlines approvals and reduces compliance complexity, while actively promoting innovation through regulatory sandboxes and aligning local practices with global standards. This integrated approach has positioned IFSC as a dominant gateway for international financial flows, attracting global capital, supporting fintech growth, and strengthening India's integration with global markets. IFSCA's comprehensive regulatory strategy is building a robust, world-class financial ecosystem at GIFT City.

Introduction

India's ambition to become a global financial powerhouse has taken a significant leap with the establishment of the International Financial Services Centre (IFSC) at GIFT City. The IFSC is designed to bring back offshore financial transactions to India, provide world-class financial



CMA Srabani Ghosh

Faculty (Retd.)
Dept of Commerce
Seth Anandram Jaipuria College
Kolkata
srabanibuni@gmail.com

services, and serve as a bridge between India and global markets. At the heart of this initiative is the International Financial Services Centres Authority (IFSCA), a unified regulator that has transformed the regulatory landscape for international finance in India.

The regulatory functions of IFSCA are paramount to the credibility, growth, and global competitiveness of IFSC. By providing a single-window regulatory framework, IFSCA has cultivated an environment that is both business-friendly and robust in governance. This article delves into the regulatory architecture, enforcement mechanisms, innovation strategies, and the broader impact of IFSCA on India's financial sector, exploring how its integrated and progressive approach positions IFSC as a leading hub for international financial flows.

The Establishment and Mandate of IFSCA

1. Genesis of IFSCA

Before the establishment of IFSCA, financial activities in IFSCs were regulated by multiple agencies:

- ☉ The Reserve Bank of India (RBI) regulates

banking activities.

- ⊙ The Securities and Exchange Board of India (SEBI) regulates capital markets.
- ⊙ The Insurance Regulatory and Development Authority of India (IRDAI) regulates insurance.
- ⊙ The Pension Fund Regulatory and Development Authority (PFRDA) regulates pensions.

This fragmented approach created regulatory overlaps, delays, and uncertainty for businesses. Recognizing the need for a unified approach, the Government of India enacted the International Financial Services Centres Authority Act, 2019. IFSCA was constituted in April 2020 as a statutory authority, with a mandate to regulate and develop financial services, products, and institutions in IFSCs.

2. Mandate and Vision

IFSCA's vision is to develop IFSCs as world-class financial centers, comparable to London, Singapore, and Dubai. Its mandate includes:

- ⊙ **Unified Regulation:** IFSCA is the sole authority regulating banking, capital markets, insurance, fund management, and fintech within IFSCs.
- ⊙ **Market Development:** Promote innovation, new products, and global best practices.
- ⊙ **Investor Protection:** Ensure transparency, fairness, and high standards of governance.
- ⊙ **World-Class Ecosystem:** Establishing a conducive environment supported by modern infrastructure, technology, and a skilled workforce.
- ⊙ **Ease of Doing Business:** Streamline approvals, reduce compliance burdens, and foster a business-friendly environment.
- ⊙ **Dominant Gateway:** Facilitating efficient capital flows, positioning IFSCs as a key conduit for global investment.
- ⊙ **Sustainable Finance:** Encourage green finance, ESG investments, and responsible business practices.

Core Regulatory Functions of IFSCA

IFSCA's regulatory functions are broad, covering the entire spectrum of financial services. The following sections elaborate on these core functions.

1. Licensing and Registration

IFSCA is empowered to grant licenses to a wide range of financial entities, including:

- ⊙ Banks (both Indian and foreign)
- ⊙ Insurance companies
- ⊙ Capital market intermediaries
- ⊙ Fund managers (mutual funds, Alternative Investment Funds, portfolio managers)
- ⊙ Fintech startups
- ⊙ Ancillary service providers (legal, accounting, compliance, IT)

Licensing Process

The licensing process is designed to be transparent, time-bound, and efficient:

- ⊙ **Eligibility:** Applicants must meet capital adequacy, governance, and operational standards.
- ⊙ **Due Diligence:** IFSCA reviews background and business models.
- ⊙ **Approval:** Licenses granted with clear terms and compliance requirements.
- ⊙ **Renewal and Revocation:** Licenses are subject to periodic review and can be revoked for non-compliance.

Impact of Licensing

Since its inception, IFSCA has licensed over 700 entities at GIFT City, including leading Indian and global banks, insurance companies, asset managers, and fintech firms. This has positioned IFSC as a magnet for international capital and expertise.

2. Framing Regulations

IFSCA frames comprehensive regulations to govern financial activities within IFSCs:

- ⊙ **Banking:**
Sets capital adequacy and risk management standards, enforces strict anti-money laundering (AML) and Know Your Customer (KYC) norms, and ensures robust oversight for all banking operations in line with global practices.
- ⊙ **Capital Markets :**
Regulates listing, trading, and settlement of securities; sets rules for intermediaries like brokers and investment bankers; and enforces strong disclosure and investor protection

standards.

⊙ **Insurance:**

Prescribes solvency margins, product approval processes, efficient claims management, and strict corporate governance for insurers and reinsurers.

⊙ **Fund Management:**

Governs registration and operations of mutual funds, AIFs, and portfolio managers, with clear compliance, disclosure, and risk management requirements.

⊙ **Fintech:**

Encourages innovation through regulatory sandboxes, supports digital onboarding, and mandates strong cybersecurity measures for all fintech activities.

Notable Regulations

- ⊙ **IFSCA (Banking) Regulations, 2020**
- ⊙ **IFSCA (Capital Market Intermediaries) Regulations, 2021**
- ⊙ **IFSCA (Fund Management) Regulations, 2022 & 2025**
- ⊙ **IFSCA (Insurance Business) Regulations, 2021**
- ⊙ **IFSCA (FinTech Incentive Scheme) Regulations, 2022**

IFSCA regularly updates its regulations to keep pace with global trends. For example, the 2025 update to Fund Management Regulations introduced simplified onboarding, enhanced investor protection, and ESG compliance requirements.

3. Supervision and Enforcement

IFSCA ensures compliance through:

- ⊙ **Regular Inspections:** IFSCA employs a risk-based supervisory approach, monitoring regulated entities through off-site surveillance and on-site inspections.
- ⊙ **Surprise Audits:** Unannounced checks to verify operational substance.
- ⊙ **Monitoring:** Ongoing scrutiny of financial health, risk exposure, and governance.
- ⊙ **Data Protection and Cybersecurity:** With the rise of digital finance, IFSCA places a strong emphasis on robust data protection

and cybersecurity frameworks, ensuring the integrity and security of financial transactions and client information within the IFSC.

Enforcement Actions

IFSCA has a graduated enforcement framework:

- ⊙ **Advisories and Warnings:** For minor lapses or first-time non-compliance.
- ⊙ **Penalties:** Monetary fines for repeated or serious violations.
- ⊙ **License Suspension/Cancellation:** For persistent or grave breaches.
- ⊙ **Public Disclosure:** Naming and shaming of defaulters to deter misconduct.

Recent Case Studies

Ancillary Service Provider Warning (2024):

Ancillary service provider warned for serving ineligible clients and directed to rectify tax benefits claimed.

Fund Manager Warning (2025):

A fund manager was warned for a lack of key personnel during an inspection.

License Cancellation:

License cancellation for a finance company failing to meet capital requirements and for an insurance broker engaged in unauthorized business and misreporting.

Market Development and Innovation

1. Regulatory Sandboxes

IFSCA encourages innovation through regulatory sandboxes, allowing fintechs and financial institutions to test new products in a controlled environment. This approach:

- ⊙ Reduces time-to-market,
- ⊙ Identifies regulatory gaps,
- ⊙ Ensures consumer protection during experimentation.

Examples of Sandbox Innovations

- ⊙ **Blockchain-based Remittance Platforms:** Several startups have piloted blockchain remittance solutions, reducing costs and settlement times for cross-border payments.
- ⊙ **AI-driven Wealth Management:** Robo-advisory platforms have been tested and refined in the sandbox, leading to broader market adoption.

2. FinTech Incentive Schemes

IFSCA offers grants, proof-of-concept funding, and accelerator support to fintech startups, both Indian and foreign, to promote research, development, and global expansion.

3. Informal Guidance Scheme

Launched in 2024, this scheme provides clarity on legal and regulatory issues, enabling businesses to make informed decisions and reducing regulatory uncertainty.

4. Ease of Doing Business

- ⊙ **Single-Window Clearance:** Streamlined approvals for business setup.
- ⊙ **Digital Processes:** Online licensing, reporting, and compliance.
- ⊙ **Reduced Red Tape:** Simplified documentation and clear timelines.
- ⊙ **Tax Benefits:** Businesses in IFSC also benefit from attractive tax incentives, including exemptions on various income streams and long-term capital gains, making it a competitive global financial hub.

Dispute Resolution and Investor Protection

1. Dispute Resolution Mechanisms

IFSCA provides mechanisms for resolving disputes arising within IFSC, including:

- ⊙ **Arbitration and Mediation:** For contractual and commercial disputes.
- ⊙ **Ombudsman Services:** For investor grievances.
- ⊙ **Cross-Border Dispute Resolution:** In collaboration with international bodies.

2. Investor Protection

- ⊙ **Disclosure Norms:** Stringent requirements for transparency.
- ⊙ **Corporate Governance:** Board independence, audit committees, and risk management.
- ⊙ **Whistleblower Mechanisms:** Protection for reporting misconduct.
- ⊙ **Investor Education Initiatives:** IFSCA has launched investor awareness programs, online resources, and regular outreach events to educate investors about risks and rights in the IFSC ecosystem.

International Cooperation and Alignment

IFSCA actively collaborates with global regulators and international organizations to:

- ⊙ Align IFSC standards with international best practices,
- ⊙ Facilitate cross-border supervision and enforcement,
- ⊙ Promote India's IFSC as a credible and competitive global financial hub.

Recent MOUs and Global Engagements

- ⊙ **Singapore:** Collaboration on fintech innovation and regulatory best practices.
- ⊙ **UK:** Joint initiatives on green finance and ESG standards.
- ⊙ **UAE:** Cross-border investment facilitation and dispute resolution cooperation.

Impact on India's Financial Sector

1. IFSC-Specific Impact

⊙ Elevating Global Competitiveness:

IFSCA's regulatory framework matches the standards of leading financial centers, making India attractive for global financial institutions.

⊙ Attracting Global Capital:

The business-friendly environment has led to a surge in global capital inflows, with over 700 entities registered at GIFT IFSC as of 2025.

⊙ Supporting Fintech Growth:

India is now the third-largest fintech market globally, and IFSC's innovation-friendly policies have accelerated digital banking, alternative lending, and wealth-tech solutions.

⊙ Ensuring Market Integrity:

Strong supervision and transparent enforcement boost investor confidence and market integrity, ensuring only genuine, well-governed entities operate in IFSC.

⊙ Promoting Sustainable Growth:

IFSCA's focus on operational substance ensures genuine, sustainable growth.

2. Broader Sectoral Growth: Key National Indicators

India's financial sector has witnessed remarkable

growth, driven by digitalization, innovation, and regulatory reforms:

Digital Payments:

India leads the world in digital payments, with the Unified Payments Interface (UPI) alone processing **over 18 billion transactions monthly as of June 2025**. Total digital payment volume in FY 2023-24 reached 187.37 billion transactions, valued at ₹3,659 lakh crore, reflecting a 44% CAGR in volume over seven years. (Source 5, 6)

Financial Inclusion:

Significant progress is evident with the RBI's Financial Inclusion Index rising from 53.9 in March 2021 to 64.2 in March 2024, underscoring expanding access to financial services, especially in rural areas. (Source 7)

Banking Sector Performance:

Gross NPAs of banks fell to a 12-year low of 2.6% by September 2024, with profits after tax rising 22.2% year-on-year in the first half of FY25. Aggregate bank deposits grew 11.1% year-on-year as of November 2024. (Source 8).

Fintech Growth:

India stands as the third-largest fintech market globally, attracting \$889 million in funding during the first half of 2025. The sector continues its innovative expansion, driven by new business models and sustained investor confidence. (Source 9)

Capital Markets:

The investor base doubled from 4.9 crore in FY20 to 13.2 crore by end-2024, while equity and debt markets raised ₹11.1 lakh crore (April–December 2024), up 5% year-on-year. (source 8 & 10).

Challenges and the Way Forward

⊙ Balancing Innovation and Regulation

IFSCA must foster innovation without compromising financial stability. Regulatory sandboxes and continuous stakeholder engagement are key tools.

⊙ Managing Complexity

Cross-border transactions, evolving fintech

By providing a single-window regulatory framework, IFSCA positions IFSC as a leading global gateway, attracting international capital and promoting India's integration with global financial markets

models, and global standards require dynamic rule-making and robust IT infrastructure.

⊙ Ensuring Substance over Form

IFSCA must ensure that entities have genuine business operations in IFSC, not just a legal presence for regulatory or tax benefits.

⊙ Building Talent and Infrastructure

Sustained investment in world-class infrastructure and skilled professionals is essential to maintain IFSC's growth.

⊙ Adapting to Global Trends

IFSCA must stay ahead of trends in ESG (Environmental, Social, Governance), sustainable finance, and digital assets to remain globally relevant.

Future Outlook

India's IFSC, under IFSCA's guidance, is poised to become a leading global financial hub, focusing on:-

- ⊙ **Regulatory Evolution:** IFSCA will keep updating its frameworks to accommodate new financial products and technologies, adopting flexible, principle-based regulations that respond swiftly to market changes.
- ⊙ **Digital Transformation:** The focus will be on fostering fintech innovation via expanded regulatory sandboxes, enhancing digital infrastructure, and simplifying digital onboarding to attract global investors.
- ⊙ **International Cooperation:** Strengthening ties with global regulators for cross-border transactions and international standards (ESG, AML, and data privacy).
- ⊙ **Market Diversification:** IFSC will introduce new asset classes like digital assets and green finance, promote direct listings, and develop niche sectors such as aircraft leasing and bullion trading.
- ⊙ **Talent and Ecosystem Development:** Efforts to build skilled human capital and robust ancillary services will create a comprehensive

financial ecosystem.

- ⊙ **Sustainability Focus:** Promoting green finance and enforcing ESG reporting will align IFSC with global sustainability goals.
- ⊙ **Challenges:** Balancing innovation with market integrity, ensuring genuine operations, and maintaining global competitiveness.

Conclusion

The International Financial Services Centres Authority (IFSCA) has undeniably emerged as a pivotal force in establishing India's IFSCs as a dominant gateway for the nation's financial sector. Through unified regulation, proactive enforcement, and continuous innovation, IFSCA ensures that IFSC, GIFT City, offers a secure, transparent, and globally competitive environment for financial services. This regulatory strength is the foundation for IFSC's growing stature as India's bridge to the world's financial markets. As IFSC continues to evolve, IFSCA's ability to balance development and governance will be crucial in sustaining its reputation and realizing its vision of becoming a world-class financial hub. While challenges persist in a highly competitive global landscape, IFSCA's principled approach, focus on technology, and continuous pursuit of regulatory excellence position India's IFSCs at the forefront of the global financial stage, truly emerging as a critical conduit for international capital and financial innovation. **MA**

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Corporate Corner

Congratulations!!!



CMA Shashin Raval

Our heartiest congratulations to CMA Shashin Raval on being promoted to the post of Director of Pension and Provident Fund, Government of Gujarat, the highest level of Gujarat Accounts Service Cadre.

During his stint with the Government of Gujarat, he had served in various departments in various capacities (Accounts, Taxation, Budget, Policy Making etc).

We wish CMA Shashin Raval the very best for all his future endeavours.