

# Assessing the Effectiveness of the International Financial Services Centres Authority Act, 2019: A Survey-Based Study of IFSCA's impact in regulating financial services in India's IFSCs

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**Abstract:** The establishment of International Financial Services Centres (IFSCs) in India marks a significant milestone in the country's efforts to promote its financial services sector and attract foreign investment. The International Financial Services Centres Authority (IFSCA) Act, 2019, enacted to regulate and develop IFSCs, plays a crucial role in shaping the growth and competitiveness of these centres. This research paper aims to assess the effectiveness of the IFSCA Act in regulating financial services within India's IFSCs. Through a comprehensive survey-based approach, the study examines stakeholders' perceptions of the Act's impact on various aspects of financial services regulation, including its overall effectiveness, its influence on specific areas such as banking, insurance, and capital markets, and its role in promoting the development of new financial services. By analyzing the survey data, the research seeks to bridge the gap between the intended objectives of the IFSCA Act and its actual impact on the functioning and growth of IFSCs. The findings offer valuable insights into the strengths and weaknesses of the current regulatory framework and provide suggestions for further improvements to enhance the competitiveness of India's IFSCs in the global financial market. This study contributes to the existing literature on financial regulation and IFSCs, offering a unique perspective on the Indian context and its implications for the future of the country's financial services sector.

1. **Keywords:** International Financial Services Centres (IFSCs), International Financial Services Centres Authority (IFSCA) Act, 2019, Financial services regulation, India's financial services sector, Global competitiveness, New financial services, financial innovation

## **Objective:**

- i. To evaluate the overall effectiveness of the International Financial Services Centres Authority Act, 2019 in regulating financial services within India's international financial centres.
- ii. To assess the impact of the Act on specific areas of financial services, such as banking, insurance, and capital markets, and other new financial services within India's IFSCs.
- iii. To explore potential opportunities and suggestions for improving the regulatory framework to better achieve the objectives of the Act and enhance the competitiveness of India's IFSCs

**Introduction:** As the dynamic nature of business in the IFSCs requires a high degree

of inter-regulatory coordination within the financial sector, the IFSCA has been established as a unified regulator with a holistic vision in order to promote ease of doing business in IFSC and provide world class regulatory environment. The main objective of the IFSCA is to develop a strong global connect and focus on the needs of the Indian economy as well as to serve as an international financial platform for the entire region and the global economy as a whole. The establishment of International Financial Services Centres (IFSCs) in India has been a significant step towards promoting the country's financial services sector and attracting foreign investment. IFSCs are specially designated zones that offer a conducive environment for financial services providers to operate internationally, with benefits such as tax incentives, a favourable regulatory framework, and state-of-the-art infrastructure (International Financial Services Centres Authority, 2021). The concept of IFSCs has gained prominence globally, with successful examples like Dubai International Financial Centre and Singapore International Financial Centre (Kaur & Singh, 2021). In India, the first IFSC was established in Gujarat International Finance Tec-City (GIFT City) in 2015, marking a milestone in the country's efforts to develop its financial services sector (Gujarat International Finance Tec-City, 2021).

The regulatory framework for IFSCs in India has been a crucial factor in their development and growth. The International Financial Services Centres Authority (IFSCA) was established under the International Financial Services Centres Authority Act, 2019, to regulate and promote the development of IFSCs in the country (Ministry of Finance, Government of India, 2019). The IFSCA has been empowered to regulate various financial services, including banking, insurance, and capital markets, within the IFSCs (Patel, 2019). The Reserve Bank of India, Securities and Exchange Board of India, and Insurance Regulatory and Development Authority of India have also issued guidelines and regulations specific to the functioning of IFSCs (Reserve Bank of India, 2015; Securities and Exchange Board of India, 2015; Insurance Regulatory and Development Authority of India, 2017).

The primary objectives of establishing IFSCs in India are to attract foreign investment, promote financial services exports, and create employment opportunities (Agarwal & Agarwal, 2020). By providing a global platform for financial services providers, IFSCs aim to enhance the competitiveness of India's financial sector and facilitate its integration with the global financial system. The benefits of IFSCs extend beyond the financial sector, as they have the potential to contribute to the overall growth and development of the Indian economy through increased foreign exchange earnings and job creation (Gopalan & Rajan, 2016).

Since the establishment of GIFT City, India's first IFSC, the country has witnessed significant growth and progress in this domain. The number of registered entities in GIFT City has been steadily increasing, with over 200 companies operating across various financial services sectors (Gujarat International Finance Tec-City, 2021). The government has also proposed the development of additional IFSCs in Mumbai and Gandhinagar, highlighting the growing interest and potential for IFSCs in India (Kaur & Singh, 2021). As IFSCs continue to expand and attract more international participants, they are expected to play a vital role in shaping the future of India's financial services sector and contributing to the country's economic growth and development.

**Literature review:** Previous The literature review on the International Financial Services Centres Authority Act, 2019, and the effectiveness of financial regulatory frameworks reveals a diverse range of perspectives and findings. Previous research has extensively examined the role of regulatory frameworks in ensuring the stability and

growth of financial markets, as well as the challenges in designing and implementing effective regulations.

Agarwal and Agarwal (2020) delved into the opportunities and challenges associated with the establishment of International Financial Services Centres (IFSCs) in India. The study highlighted the potential of IFSCs in attracting foreign investment and promoting financial services exports, while also identifying the need for a robust regulatory framework to support their development. Similarly, Patel (2019) conducted an in-depth analysis of the regulatory framework for IFSCs in India, focusing on the key features and objectives of the International Financial Services Centres Authority Act, 2019. The study emphasized the importance of the Act in establishing a unified regulator for IFSCs and creating a conducive environment for their growth.

Kaur and Singh (2021) provided a comparative analysis of the IFSCs in Dubai and Gujarat, highlighting the critical role of regulatory frameworks in shaping the competitiveness and attractiveness of financial centres. The study identified the need for further empirical research to assess the effectiveness of the IFSCA Act, 2019, in regulating financial services within India's IFSCs. This finding is echoed by Gopalan and Rajan (2016), who examined the relationship between foreign bank entry and financial development, emphasizing the importance of considering country-specific factors and regulatory environments in evaluating the impact of financial liberalization.

The literature also sheds light on the broader context of financial regulatory frameworks and their effectiveness. Acharya et al. (2009) emphasize the importance of effective regulations in the wake of the global financial crisis, arguing for a comprehensive approach to regulating complex financial institutions and markets. Their study highlights the need for regulatory frameworks to adapt to the evolving nature of financial markets and the potential risks associated with financial innovation. Barth et al. (2013) provide a comprehensive overview of bank regulation and supervision practices across 180 countries, highlighting the challenges in designing and implementing effective financial regulations. Their findings suggest that while stringent regulations can contribute to financial stability, they may also hinder the efficiency and competitiveness of financial institutions.

Furthermore, Karray and Chichti (2013) examine the impact of regulatory frameworks on the competitiveness and efficiency of financial centres. Their study suggests that a balanced approach to regulation is necessary to foster innovation and growth while maintaining stability. The authors argue that excessive regulation can stifle the development of financial markets, while insufficient regulation can lead to increased risks and vulnerabilities.

Despite the extensive literature on financial regulatory frameworks and their effectiveness, there remains a notable gap in the existing research on the specific impact of the IFSCA Act, 2019, on the development of IFSCs in India. While studies have explored the broader context of financial regulation and its implications, there is limited empirical evidence on the outcomes and implementation of the IFSCA Act, 2019. This lack of research underscores the significance of the current study, which aims to provide a comprehensive evaluation of the Act's effectiveness in regulating financial services within India's IFSCs. By examining the objectives, implementation, and outcomes of the IFSCA Act, 2019, this study seeks to bridge the gap in the literature and contribute to a deeper understanding of the role of regulatory frameworks in fostering the growth and competitiveness of IFSCs in India.

**Research Methodology:** This study employs a survey-based approach to assess the effectiveness of the International Financial Services Centres Authority Act, 2019 in regulating financial services within India's International Financial Services Centres (IFSCs). The survey questionnaire, designed using a 5-point Likert scale, consists of six questions that align with the research objectives. Two questions each focus on evaluating the overall effectiveness of the IFSCA Act, assessing its impact on specific areas of financial services, and exploring opportunities for improving the regulatory framework to enhance the competitiveness of India's IFSCs. The survey targets a diverse sample of stakeholders involved in IFSCs, including financial institutions, regulatory authorities, and industry experts. By collecting and analyzing data on respondents' perceptions and opinions, this research aims to bridge the gap between the intended objectives of the IFSCA Act and its actual impact on the functioning and growth of IFSCs in India. The findings will provide valuable insights into the strengths and weaknesses of the current regulatory framework and offer suggestions for further improvements to bolster the competitiveness of India's IFSCs in the global financial market.

**Data Analysis:** Data analysis transcends the mere manipulation of numbers, revealing profound insights and value within vast datasets. The journey commences with rigorous data collection, akin to piecing together a complex puzzle from diverse sources. Subsequently, the critical phase of cleaning and transforming the data ensues, ensuring precision and consistency – mirroring the meticulous restoration of unearthed artifacts. Armed with prepared data, exploration unfolds. Visualizations, statistical summaries, and data mining techniques become the tools of the trade, unveiling concealed patterns and trends – resembling the deciphering of enigmatic symbols on ancient artifacts. Statistical models and machine learning algorithms serve as advanced technologies, shedding light on the data's deeper significance and historical context. The culmination of this process involves translating these insights into tangible outcomes. Reports, dashboards, and compelling visualizations effectively convey the extracted value to stakeholders – much like presenting restored artifacts and narrating their captivating narratives to the world.

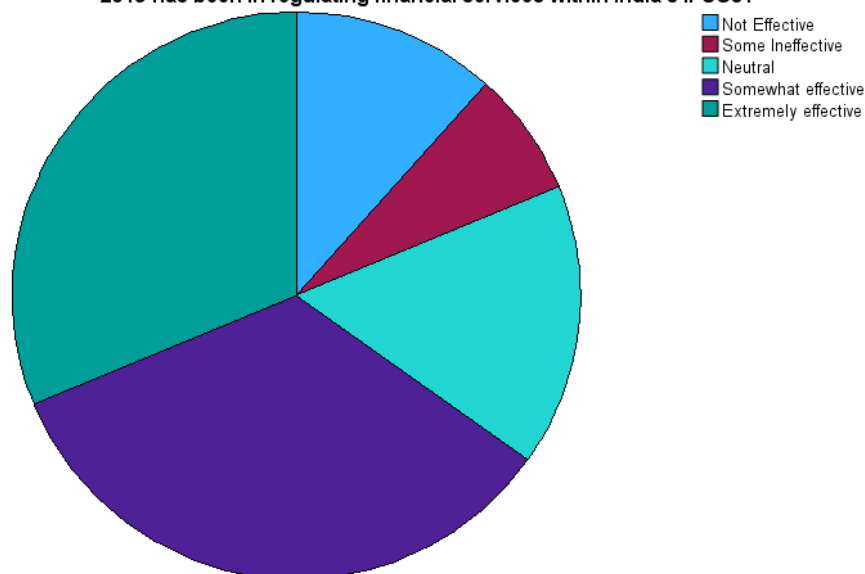
## Data Interpretation

### ➤ *Regulatory Impact*

**On a scale of 1 to 5, how effective do you believe the International Financial Services Centres Authority Act, 2019 has been in regulating financial services within India's IFSCs?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Effective	13	11.6	11.6	11.6
	Some Ineffective	8	7.1	7.1	18.8
	Neutral	18	16.1	16.1	34.8
	Somewhat effective	38	33.9	33.9	68.8
	Extremely effective	35	31.3	31.3	100.0
	Total	112	100.0	100.0	

On a scale of 1 to 5, how effective do you believe the International Financial Services Centres Authority Act, 2019 has been in regulating financial services within India's IFSCs?

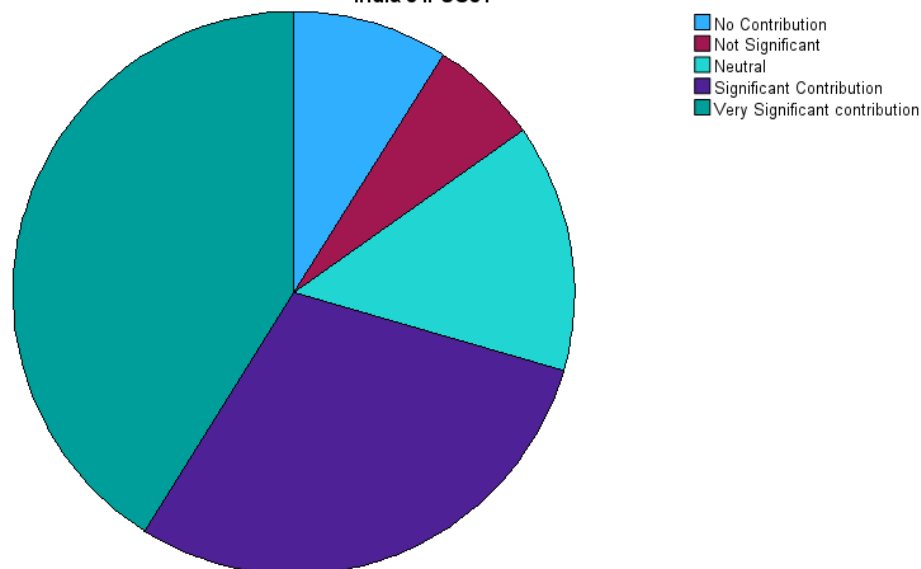


**Interpretation:** The pie chart illustrates the perceived effectiveness of the International Financial Services Centres Authority Act, 2019, in regulating financial services within India's IFSCs, based on a survey allowing respondents to rate its impact on a scale from 1 to 5. The largest slice, representing 33.9% of respondents, found the Act to be "Somewhat effective" in its regulatory capacity. This is closely followed by 31.3% who deemed the Act "Extremely effective," making these two categories the most prevalent perceptions. A notable 16.1% remained "Neutral" on the Act's efficacy. However, a minority of 18.8% expressed concerns, with 11.6% viewing the Act as "Not Effective" and 7.1% citing it as "Some Ineffective" in regulating financial services within IFSCs. While the data indicates a generally positive assessment, with 65.2% finding the Act effective to some degree, the presence of a dissenting voice questioning its regulatory impact is also evident.

**In your opinion, to what extent has the IFSCA Act, 2019 contributed to the overall development and growth of India's IFSCs?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No Contribution	10	8.9	8.9	8.9
	Not Significant	7	6.3	6.3	15.2
	Neutral	16	14.3	14.3	29.5
	Significant Contribution	33	29.5	29.5	58.9
	Very Significant contribution	46	41.1	41.1	100.0
Total		112	100.0	100.0	

In your opinion, to what extent has the IFSCA Act, 2019 contributed to the overall development and growth of India's IFSCs?



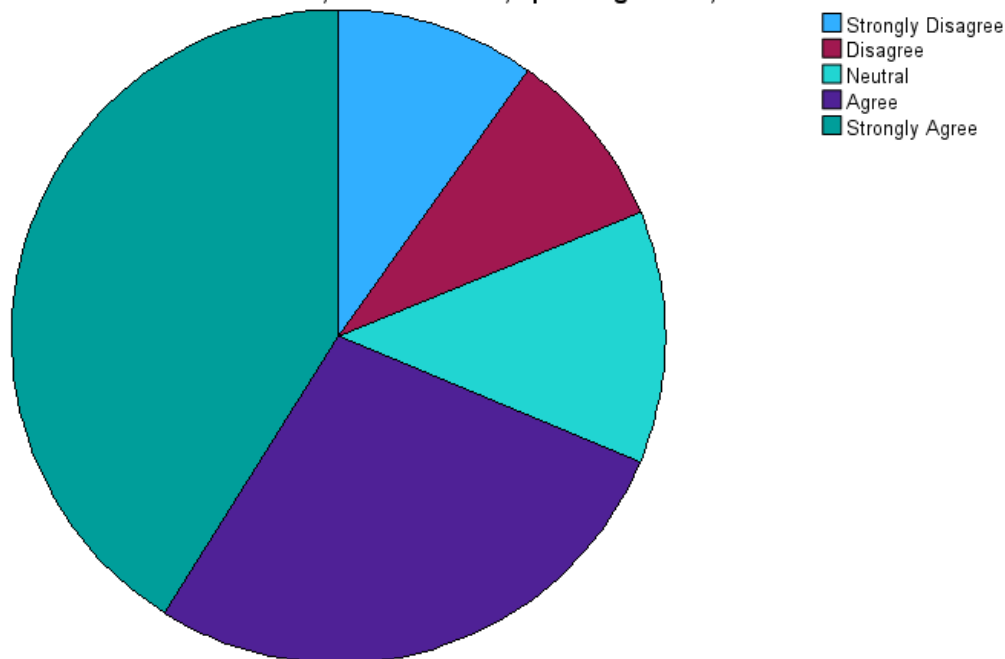
**Interpretation:** The survey results depict a largely encouraging assessment of the International Financial Services Centres Authority (IFSCA) Act, 2019's role in catalyzing the development and growth trajectory of India's IFSCs. With a substantial 70.6% of respondents acknowledging either a "Significant Contribution" (29.5%) or "Very Significant Contribution" (41.1%) from the legislative measure, the data underscores the Act's positive impact in nurturing a conducive ecosystem for IFSCs to thrive. Nonetheless, the presence of a minority contingent (15.2%) deeming the contribution insignificant or non-existent, coupled with a 14.3% neutral stance, suggests areas for further improvement and stakeholder engagement. By capitalizing on the Act's strengths in establishing a robust regulatory framework, while addressing residual concerns through targeted policy initiatives and industry collaboration, the Indian government can reinforce the IFSCA Act's effectiveness in propelling IFSCs towards sustainable growth and global competitiveness.

### *Impact on Specific areas of financial services*

**To what extent do you agree with the following statement: "The IFSCA Act, 2019 has created a conducive environment for the growth and development of new financial services (such as airplane leases, bullion services, credit services, operating leases, and**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	11	9.8	9.8	9.8
	Disagree	10	8.9	8.9	18.8
	Neutral	14	12.5	12.5	31.3
	Agree	31	27.7	27.7	58.9
	Strongly Agree	46	41.1	41.1	100.0
Total		112	100.0	100.0	

To what extent do you agree with the following statement: "The IFSCA Act, 2019 has created a conducive environment for the growth and development of new financial services (such as airplane leases, bullion services, credit services, operating leases, and

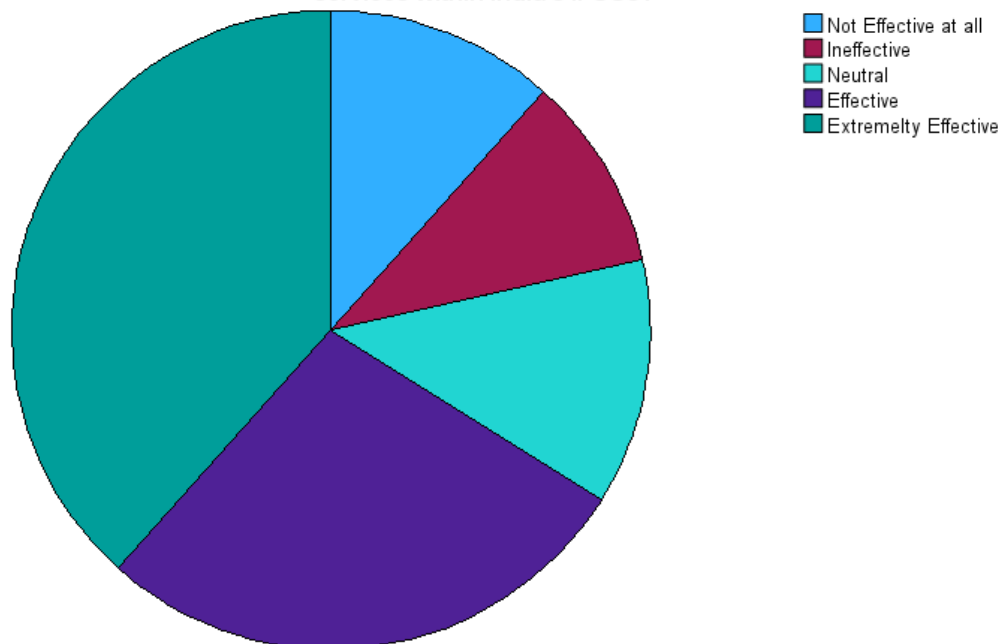


**Interpretation:** The survey findings reveal a predominantly positive sentiment towards the IFSCA Act's role in fostering an enabling environment for the proliferation of nascent financial services like aircraft leasing, bullion services, credit facilities, and operating leases within India's IFSCs. A resounding 68.8% of respondents expressed agreement, with 41.1% firmly endorsing the statement and 27.7% indicating moderate concurrence. This robust approval underscores the Act's perceived effectiveness in catalyzing sectoral growth and diversification. However, the presence of a dissenting minority of 18.7% who either strongly disagreed (9.8%) or disagreed (8.9%), coupled with a noteworthy 12.5% maintaining neutrality, suggests opportunities for further strengthening the regulatory framework. By closely examining the factors contributing to this residual skepticism and addressing potential gaps through targeted policy interventions, the government can amplify the Act's impact and bolster stakeholder confidence in its ability to nurture an ecosystem primed for the sustained development of innovative financial offerings within IFSCs.

**How would you rate the effectiveness of the IFSCA Act, 2019 in promoting collaboration and coordination among different regulatory authorities (such as RBI, SEBI, and IRDAI) for the smooth functioning of financial services within India's IFSCs?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Effective at all	13	11.6	11.6	11.6
	Ineffective	11	9.8	9.8	21.4
	Neutral	14	12.5	12.5	33.9
	Effective	31	27.7	27.7	61.6
	Extremelty Effective	43	38.4	38.4	100.0
	Total	112	100.0	100.0	

How would you rate the effectiveness of the IFSCA Act, 2019 in promoting collaboration and coordination among different regulatory authorities (such as RBI, SEBI, and IRDAI) for the smooth functioning of financial services within India's IFSCs?



**Interpretation:** Based on the data presented, the IFSCA Act 2019 aimed at promoting collaboration and coordination among different regulatory authorities (such as RBI, SEBI, and IRDAI, PFRDA) for the smooth functioning of financial services within India's IFSCs. The survey results indicate a mixed perception of the Act's effectiveness. A significant portion, 38.4%, found the Act to be "Extremely Effective" in achieving its goals. Additionally, 27.7% perceived it as "Effective." However, there were also notable segments that viewed the Act as "Not Effective at all" (11.6%) or "Ineffective" (9.8%). The "Neutral" stance accounted for 12.5% of the responses. This diverse range of opinions suggests that while the Act has made strides in enhancing regulatory coordination, there may be room for further improvements or clarifications to address the concerns of those who found it ineffective or remained neutral. A comprehensive analysis of the factors influencing these varied perceptions could provide valuable insights for refining and optimizing the implementation of the Act to better align with its intended objectives.

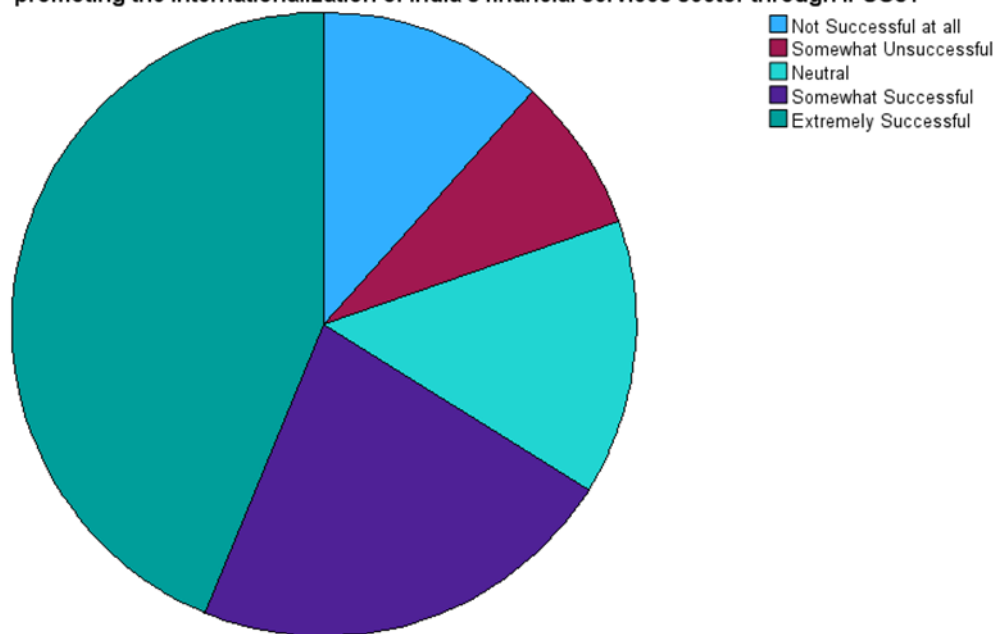
### *Potential opportunities and suggestion*

**In your opinion, to what extent has the IFSCA Act, 2019 been successful in attracting foreign investment and promoting the internationalization of India's financial services sector through IFSCs?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Successful at all	13	11.6	11.6	11.6
	Somewhat Unsuccessful	9	8.0	8.0	19.6
	Neutral	16	14.3	14.3	33.9
	Somewhat Successful	25	22.3	22.3	56.3
	Extremely Successful	49	43.8	43.8	100.0
	Total	112	100.0	100.0	



In your opinion, to what extent has the IFSCA Act, 2019 been successful in attracting foreign investment and promoting the internationalization of India's financial services sector through IFSCs?

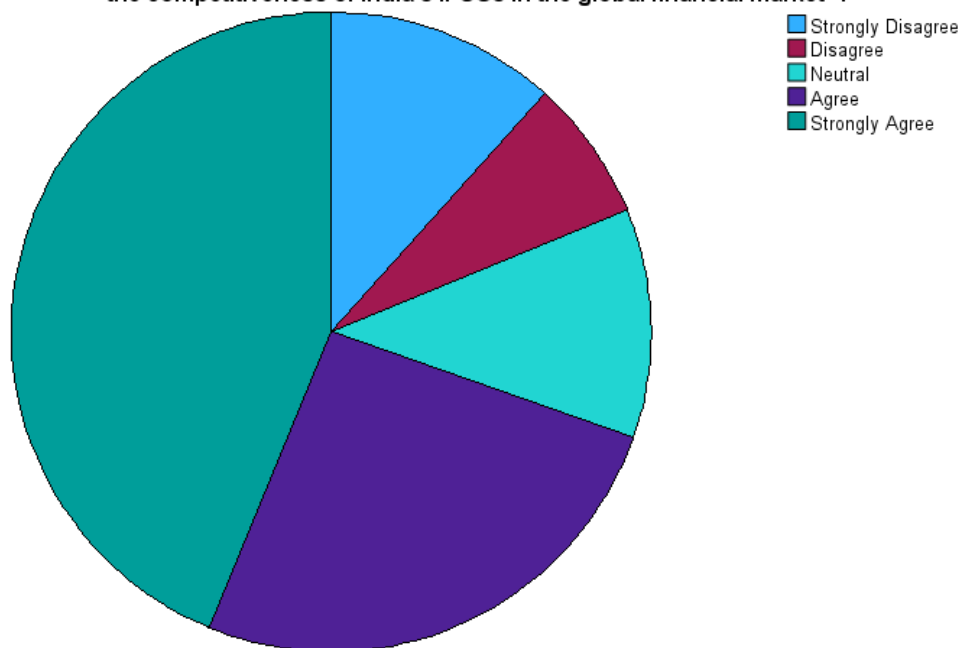


**Interpretation:** The IFSCA Act 2019 aimed to attract foreign investment and promote the internationalization of India's financial services sector through IFSCs. The survey results reveal a range of perspectives on the Act's success in achieving these objectives. A significant portion, 43.8%, considered the Act to be "Extremely Successful" in this regard. Additionally, 22.3% found it to be "Somewhat Successful." However, there were also respondents who viewed the Act as "Not Successful at all" (11.6%) or "Somewhat Unsuccessful" (8.0%). The "Neutral" stance accounted for 14.3% of the responses. This diversity of opinions suggests that while the Act has made strides in attracting foreign investment and promoting internationalization, there are areas for further improvement or clarification to address the concerns of those who found it unsuccessful or remained neutral. A comprehensive analysis of the factors influencing these varied perceptions, coupled with stakeholder feedback, could provide valuable insights for refining and optimizing the implementation of the Act to enhance its effectiveness in achieving its stated objectives.

**On a scale of 1 to 5, how much do you agree with the following statement: "The IFSCA Act, 2019 has enhanced the competitiveness of India's IFSCs in the global financial market"?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	13	11.6	11.6	11.6
	Disagree	8	7.1	7.1	18.8
	Neutral	13	11.6	11.6	30.4
	Agree	29	25.9	25.9	56.3
	Strongly Agree	49	43.8	43.8	100.0
	Total	112	100.0	100.0	

On a scale of 1 to 5, how much do you agree with the following statement: "The IFSCA Act, 2019 has enhanced the competitiveness of India's IFSCs in the global financial market"?



**Interpretation:** Based on the data presented in the table and pie chart, a significant portion of the respondents agreed or strongly agreed that the IFSCA Act, 2019 has enhanced the competitiveness of India's IFSCs (International Financial Services Centres) in the global financial market. Specifically, 25.9% agreed and 43.8% strongly agreed with the statement, totaling 69.7% of respondents who expressed a positive view. On the other hand, 11.6% strongly disagreed and 7.1% disagreed, indicating that around 18.7% held a negative perception about the Act's impact on IFSCs' competitiveness. Another 11.6% remained neutral. The data suggests that a majority of respondents believe the IFSCA Act has positively impacted the competitive positioning of India's IFSCs globally, while a smaller proportion either disagrees or holds a neutral stance on the matter.

**Conclusion:** The survey-based study on the effectiveness of the International Financial Services Centres Authority (IFSCA) Act, 2019 in regulating financial services within India's International Financial Services Centres (IFSCs) reveals a generally positive perception of the Act's impact. The majority of respondents found the Act to be effective in regulating financial services, contributing to the development and growth of IFSCs, creating a conducive environment for new financial services, promoting collaboration among regulatory authorities, attracting foreign investment, and enhancing the global competitiveness of India's IFSCs. However, the presence of dissenting opinions and neutral stances across various aspects of the Act's implementation suggests room for improvement. To further strengthen the regulatory framework and achieve the Act's objectives, policymakers should consider addressing the concerns raised by stakeholders, engaging in targeted initiatives to bolster the Act's effectiveness, and fostering greater collaboration between regulatory authorities and industry participants. By proactively addressing these areas and leveraging the Act's strengths, India can solidify its position as a global financial hub and unlock the full potential of its IFSCs.

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