  

Thursday, 02 February 2023

**To**

**Shri Shaktikanta Das**

**Governor**

**Reserve Bank of India**

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**Subject: Letter to the RBI regarding RBI’s outsourcing of AI based supervisory technology – Serious concerns regarding**

The Reserve Bank of India (RBI) has been an unrelenting champion of the interests of the Indian public and nation. It has stood up boldly against what may merely be fashionable ideas, like crypto-currencies, and foreign ideological influences, like when it kept India largely safe during the 2008 crash. At the same time, the RBI has not shied away from the needed innovations. As we enter the digital age, we are glad that the RBI is taking steps to explore AI-based supervisory technology or SupTech for its work. We refer to the “*Expression of Interest for engaging consultants for use of Advanced Analytics, Artificial Intelligence and Machine Learning for generating Supervisory Inputs*” issued by the RBI.

However, it greatly disappoints us to see the RBI shortlist seven foreign headquartered global consultancies for this purpose; particularly when (i) abundant national talent exists and (ii) data and Artificial Intelligence (AI) relating to sensitive sectors is being weaponised globally to serve extra-national agendas. Outsourcing central banking SupTech to foreigners can lead to (1) leaking India’s sensitive financial intelligence – with very serious economic and security implications, and (2) in time, outsourcing the central bank’s regulatory and supervisory sensibilities and powers themselves.

The RBI is the sovereign holder of the nation’s financial data, which is a strategic resource and a national/community asset or commons. A foreign corporation applying its AI engine on RBI data would involve the AI engine acquiring ever greater intelligence about Indian financial and macroeconomic conditions, which can and will be weaponised in the age of “intelligentisation”. In the wrong hands, such AI can be used to manipulate financial data and financial markets to increase macroeconomic instability; disrupt economic activity; create false signals to mislead investors thus adversely impacting the functioning of the real economy; interfere with the functioning of critical infrastructure; and, even launch cyber-attacks on India’s financial institutions and critical infrastructure.

Secondly, due to the ‘blackbox’ nature of AI operations, which mostly involve partly pre-trained and/or pre-configured models, it will subtly but surely introduce foreign influence, and interests, into India’s central banking. Normally difficult to recognise initially, such AI mediated influences become nearly impossible to reverse over time. As AI based systems become mainstream, these extraneous influences tend to them become stronger by the day. This is an extremely serious matter of Indian sovereignty, not unlike the crypto-currency issue where the RBI’s stand has been exceptionally strong and clear.

Thirdly, most of the listed consultancies provide business intelligence to their clients in India and across the world, including in the financial sector. While driving AI based regulatory and supervisory processes of the RBI, these foreign multinationals with privileged/free access to the central bank data of the entire national financial sector would also be offering financial intelligence services to their other clients in the Indian and foreign financial and business sectors. This creates very serious conflicts of interest. The AI algorithms of these foreign consultants will get massively enriched through access to the data treasure-house of one of the world’s biggest central banks. These foreign corporations will reap this value by developing and offering exponentially more valuable AI products domestically and abroad – especially, though not just, relating to India. This *inter alia* would displace potential Indian companies in similar lines of business, who should have a privileged use of what is essentially a national commons of financial data.

All this enables these consultancies to make tempting, low costs offers, which should be firmly resisted. While they seemingly give a service to the RBI, what immense 'value' is being taken away in return is not factored in the cost benefit analysis. In fact, we have come across cases in which government entities are later forced to pay for their own data, and their derivatives, after being trapped into signing outsourcing contracts. Once the entire financial sector data is with a foreign corporation, the RBI may have to later pay it for various needed data (e.g. enriched data) and AI. All the while, the RBI keeps becoming inextricably dependent on, and eventually may have to continually and eternally pay these foreign corporations, for AI-based financial sector regulation and supervision.

Going against the Hon’ble Prime Minister’s Atmanirbharta directive, the terms of the RBI tender seem to actually disfavour Indian entities. The call for EoI was done in an un-understandable rush, with only eight days to seek queries and then the whole process folded up in another twelve days. This suggests that some companies may already be in the know of the matter. It was not possible for this call to reach enough small and medium, or perhaps even large, domestic players in this period. Further, the turnover requirements and need for experience of five years in this exact field – a very new and emerging one – ensured that only, what look like, pre-determined foreign multinationals could be shortlisted.

RBI has also not taken the precaution of appropriately splitting up the needed tasks into sub-tasks to be contracted separately, thus ensuring that sufficient strategic and practical control is held in-house. A blanket ‘do it all for us’ approach seems to have been preferred. Such wholesale outsourcing of AI-based SupTech will lead to ongoing leakage of extremely sensitive and valuable Indian financial data and intelligence to foreign actors, and its usurpation, as also complete dependency for our central banking on foreign actors. **This, we repeat, has extremely serious economic and security implications for India.**

To enlist foreign corporations to devise, and probably run, AI based supervisory technology systems for our central banking is simply an invitation for vested interests to color and potentially distort India’s financial sector supervision and regulation, and macroeconomic policy-making.

India has considerable domestic expertise in AI-related business process engineering and tech implementation that foreign players, including foreign central banks, have also benefited from. We share some details about it in the enclosed note. Not considering these domestic capabilities for its SupTech outsourcing flies in the face of India’s Atmanirbhar Bharat initiative. Major Central Banks globally tend to prefer domestic companies for their outsourcing needs, as also look to first develop enough in-house capacity for managing such critical projects. This is much easier to do in India than most countries due to the abundant and highest quality AI technical as well as managerial expertise that is available. We also do not see RBI having taken any credible steps in this direction.

We call upon the RBI to immediately put a stop to the current process of tendering, and go back to the drawing board. It must begin anew with a clear, principled approach that is rooted in:

1. Developing enough in-house capacity and expertise, including to manage outsourcing related to extremely sensitive AI-based SuperTech;
2. Relying mostly, if not exclusively, on the domestic AI industry for its outsourcing needs;
3. Completely disabling possibilities of any leakage and usurpation of India’s sensitive and valuable financial data and intelligence – not just personal data, but also anonymised data, data patterns, enriched data insights, etc; and,
4. Most importantly, ensuring that through an unthinking use of AI-based blackbox systems, that are designed and built in foreign lands, India does not lose self-determination and sovereignty in terms of regulating and supervising its financial sector and in ensuring macroeconomic stability.

Please find enclosed a more detailed note in this regard.

We remain at your service for any further conversation or help in this regard.

Sincerely yours,

Parminder Jeet Singh

Executive Director, **IT for Change**

Sharad Sharma

Co-Founder, **iSPIRT/ India** **Stack**

Smita Purushottam

Chairperson **SITARA**