



# COMPLIANCE 3.0

BEYOND ACCIDENTAL COMPLIANCE

[www.teamleaseregtech.com](http://www.teamleaseregtech.com)



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# Executive Summary

'Compliance 3.0 - Beyond Accidental Compliance' provides an overview of the business regulatory framework in India, its extant challenges, and how digital transformation is the way forward. A typical firm playing its business in the country is required to comply with provisions under 1,536 Acts, fulfil 69,233 compliances, and complete 6,618 filings at the central, state, and local government levels. These compliances, which include licenses, registrations, permissions, returns, and displays, extend across areas as diverse as labour protection, finance and taxation, health and safety (EHS), Environmental, social, and corporate governance (ESG), and industry-specific compliances.

India overtook the UK to become the fifth-largest economy in the world, however, much work remains to be done to improve the per capita income. Over the past decade, efforts have been sustained to improve the ease of doing business (EoDB) in the country to attract investors and promote entrepreneurship. COVID-19 saw India being recognised as the 'Pharmacy to the World' with high technical and production abilities. In addition, we also saw Digital Public Infrastructure (DPI) being leveraged to develop CoWIN and Aarogya Setu to digitise contact tracing and the vaccination process. It allowed people to book online appointments and generate digital certificates. Over the past decade, significant headways have been made in the pursuit of 'Make in India' to facilitate India's rise as the 'Factory to the World'. From Production Linked Initiatives (PLI) to GST, the codification of labour laws, and the introduction of the Jan Vishwas Act, the government has taken great strides in facilitating EoDB.

The past few years have also seen widespread adoption and adaptation of technology and digital solutions as organisations struggled to function and create a remote working ecosystem. It led to the rapid advancement in digital solutions, facilitating communication, collaboration, and coordination within companies.

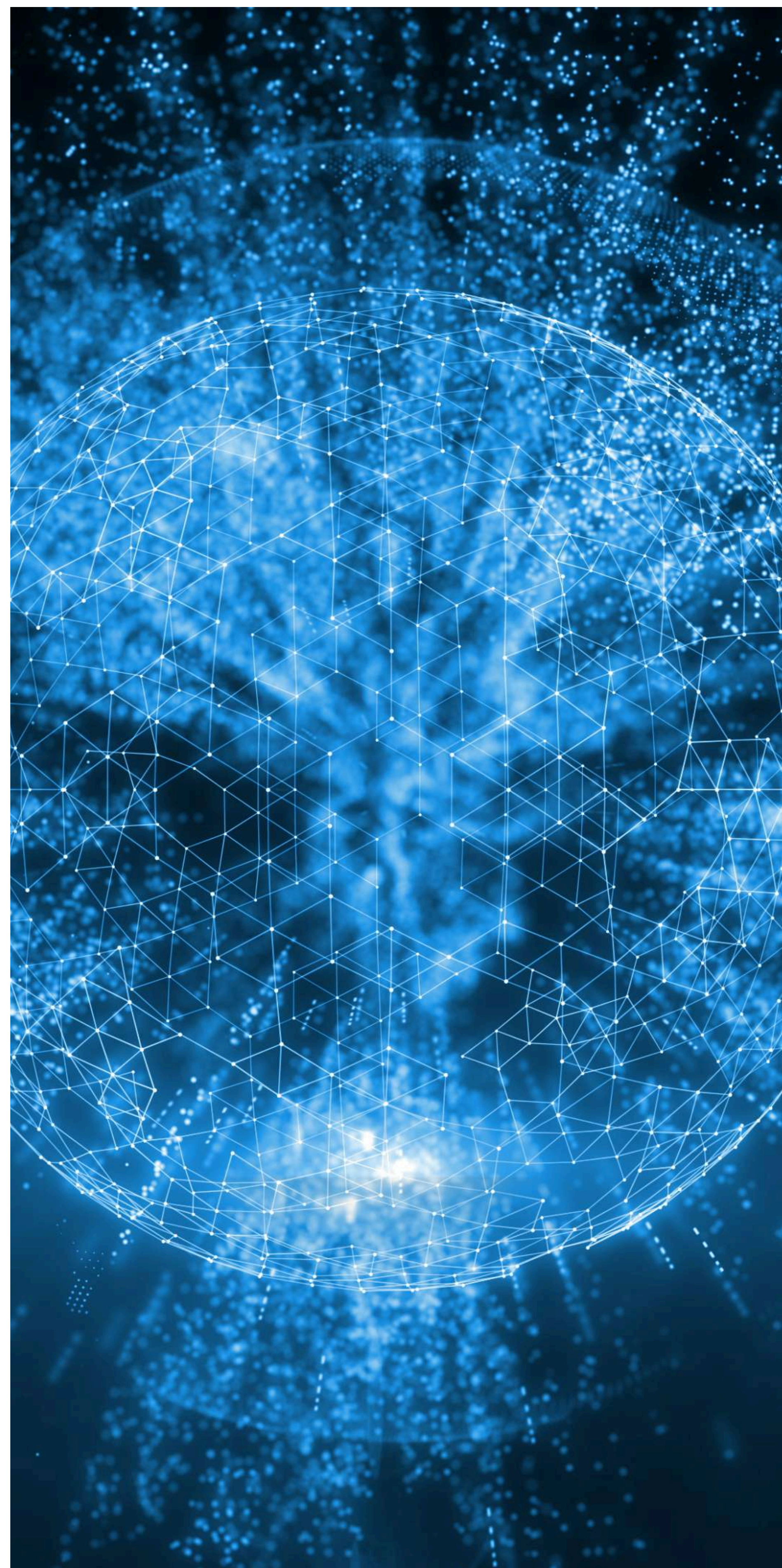


From HR solutions to digitising attendance and payroll management to SaaS offerings that digitised and streamlined workflows, businesses saw a major level up in their technology levels. The incorporation of RegTech is but the next logical step of this transformation. New-age business models are structured around the UN Sustainable Development Goals (SDGs) with a renewed focus on Environmental, Social, and Corporate Governance standards. As more and more shareholders, investors, and customers emphasise the importance of sustainability, both in terms of business models and day-to-day business operations, there has been an upward movement of compliance in terms of priority and importance. Gone are the days of anecdotal compliance wherein sub-standard compliance processes were the norm. Modern Key Managerial Personnel (KMPs) are now driving the compliance agenda and setting the tone from the top. With Board members being responsible for the compliance status of the organisation, companies are seeing a paradigm shift with the introduction of a culture of compliance. However, compliance itself is a non-trivial task with its associated complexities and challenges.

The number of compliance applicable to a business can go from hundreds to thousands, depending on the size of the enterprise. At the inception stage alone, a firm has to obtain ~70 licenses and permits at the state level. Once they begin operations, a small plant must meet 750+ compliances, a medium plant must file 5,500+ compliances, and a large plant must file 9,500+ compliances. Every year, these regulations undergo over 4,000 updates, and in order to keep track of these, a firm has to navigate over 2,000 government websites. The prevalent manual compliance processes are paper-based and fraught with instances of lapses, delays, and defaults. Although ensuring accurate and time-bound compliance is an essential component of business, it has become quite a complicated and time-consuming process with the added disadvantage of high penalties and imprisonment for non-adherence.

This report presents instances of compliance complexities that exist in a few industries/ sectors

and delves into the cause of accidental non-compliance. It also covers recent developments in the regulatory ecosystem and how the compliance environment is evolving. Policy interventions and smart digital solutions have made this evolution possible. It is here that TeamLease RegTech employs its digital platforms to aid businesses in navigating the complex regulatory terrain. The report is the result of TLRegTech's understanding of the intricacies of the business regulatory framework and an insight into what the present offers and what the future holds for the RegTech transformation of businesses.





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# Foreword



**Manish Sabharwal**

*Vice Chairman of TeamLease Services*

It was not God's will that it should take 72 years for 1.3 billion Indians to cross the GDP of 66 million Britishers. India did that in 2019 and will soon cross Japan and Germany to become the third largest economy in the world measured by GDP. But we rank 138th in the world in per capita GDP. And Covid has reminded us that per capita GDP is a more important metric of productivity, resources and prosperity. Poverty is about productivity and our nation's productivity depends largely on the productivity of our firms. It is our case that creating 100 million new formal jobs is the key to putting poverty in the museum it belongs.

The India Compliance Report 2020 is the first in an annual series that will inventory India's compliance regime, propose reforms, and chronicle recent reforms. It stems from our belief that India's capital is handicapped without capital and our capital is handicapped without labour for many reasons but one of them is surely excessive compliance cholesterol that is not pro-citizen, pro-employer or pr-employee but pro-corruption.

This investments, scale, and productivity of Indian firms; there is a 24 times difference between the productivity of our largest and smallest manufacturing firms ranked by size, manufacturing employment is stuck at 12% of total employment, and non-farm employment is stuck at 55% of total employment.

Our case is hardly the absence of compliance or regulations; if the absence of a state is what mattered for job creation than the SWAT valley in Afghanistan or Waziristan in Pakistan would be hotbeds of entrepreneurial activity. But the design of current compliances creates huge transmission losses between how the law is written, interpreted, practiced and enforced. It is time for a time bound central and state program for simplifying, rationalizing, decriminalizing, and digitising our compliance universe.

India is the only large country in the world which has 25 years of high growth ahead of us. The world economy confronts an extended period with a punishing combination of poor demographics, capital glut, and weak growth. Over the last few years policy is systematically tackling our challenges with reforms that include GST, Bankruptcy, Labour Law Codification, Agriculture market liberation, New Education Policy, and Banking Competition. A wonderful addition to this powerful inventory would be Compliance Reform.

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# Introduction



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## Introducing Employer Compliance in India

In April 2023, India overtook China to become the most populous country in the world. At the same time, the economy also reported steady growth of 7.2% during fiscal year 22-23, which has taken us past the \$3.3 trillion mark. As we set our goal towards achieving the \$10 trillion milestone by the end of the decade, we must strive to leverage the capabilities of our demographic dividend. The working-age population can deliver results only when it is provided with the opportunities to be involved in economic activities. Similarly, without a business-conducive environment that promotes productivity, innovation, and transparency, employers cannot be expected to deliver well on the promise of 'Amrit Kaal'. The 37-year period of peak demographic dividend will continue till 2055. However, to fully reap the benefits of a young population, India needs to create at least 100 million more jobs by 2030 ([Ghani, 2020](#)).

Unfortunately, mass manufacturing has largely remained a 'missing middle' in India's structural transformation story. While the agriculture sector contributes 16.5% to the country's total Gross Value Added (GVA), it employs 44% of the workforce ([Gupta, 2019](#)). For an economy to grow in a sustained and inclusive manner, the aggregate productivity of the economy has to increase, which necessitates a reduction in the number of people engaged in agriculture ([Islam and Iversen, 2018](#)). India needs to create jobs through a manufacturing revolution so that the underemployed farm workforce can become part of the prosperity story ([Malhan, Manchanda and Bhatia, 2019](#)).

Job creation on a mass scale directly depends on the environment for conducting business for enterprises. The biggest roadblocks for an entrepreneur are the presence of regulatory cholesterol and license-permit-inspector raj. The difference in an entrepreneur's experience in top and bottom-performing economies is discernible. Entrepreneurs in a low-income economy typically spend about 50% of their per capita income to launch a company, compared to just 4.2% in a high-income economy (World Bank, 2020).



Unfortunately, for much too long, the Indian state has made it hard for entrepreneurs to start businesses, grow them, and create jobs for millions in the process. Compounding complexity and fluidity in regulations have made it hard for entrepreneurs to stay up-to-date with regulations. Compliances can be prohibitively expensive, lapses can land an entrepreneur in jail, and regulatory confusion can stall business operations. Most importantly, the unwieldy compliance universe has fueled corruption and rent-seeking behaviour.





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## Size of the ecosystem

India's business ecosystem is governed by 1,536 acts and rules, 69,233 compliances, and 6,618 filings. While the framework ensures that corrupt actors are held accountable, it has also resulted in an overabundance of regulation, creating a massive underground economy.

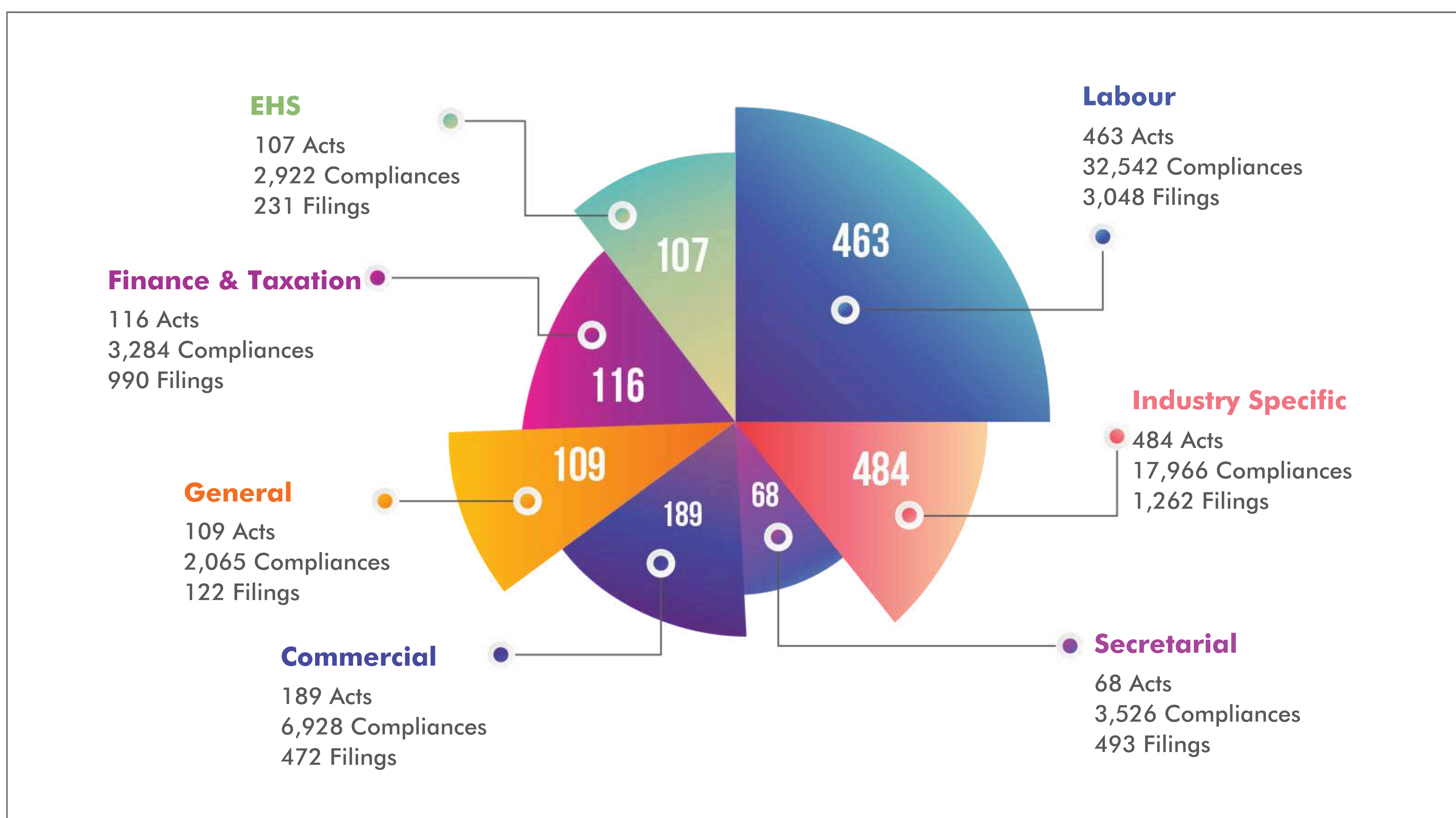
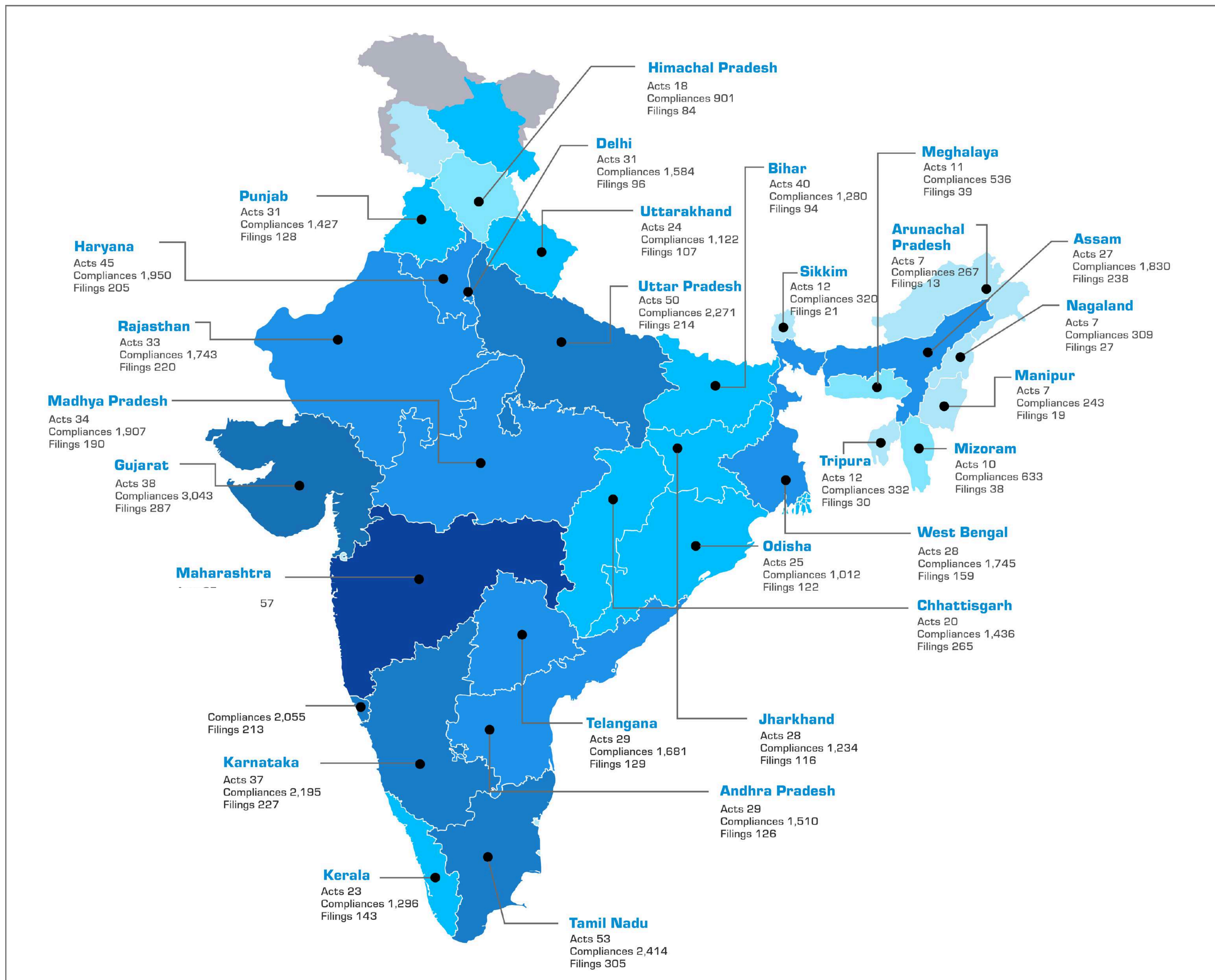
Moreover, regular regulatory updates are published on 2,233 government websites, resulting in a highly fluid and dynamic regulatory ecosystem. This overregulation has spawned economic dwarfs who choose to fly under the regulatory radar even though it restricts their access to institutional capital and superior talent and weakens their resilience in the face of economic vulnerabilities.

The recurrent nature of compliance updates and the sheer volume of regulations further amplifies the intricacy of regulatory compliance. For instance, an MSME with a single manufacturing unit must adhere to approximately fifty display requirements on an ongoing basis. This includes, among other things, the display of registrations, legislative summaries, standing orders, employee-related social security rules, safety sign boards, markings on hazardous substances, and equipment identification marks. Additionally, this enterprise must maintain at least 40 other distinct registers in various formats, including wage registers, muster rolls, leave and attendance registers, temperature registers, and refuse disposal records.

This regulatory burden increases as the establishment's scale increases. A small plant must comply with 750 or more regulations, a medium plant with 5,500 or more, and a large plant with 9,500 or more regulations. The universe of compliance encompasses licenses, registrations, authorisations, consent orders, returns, displays, registers, challans, payments, notices, and renewals.



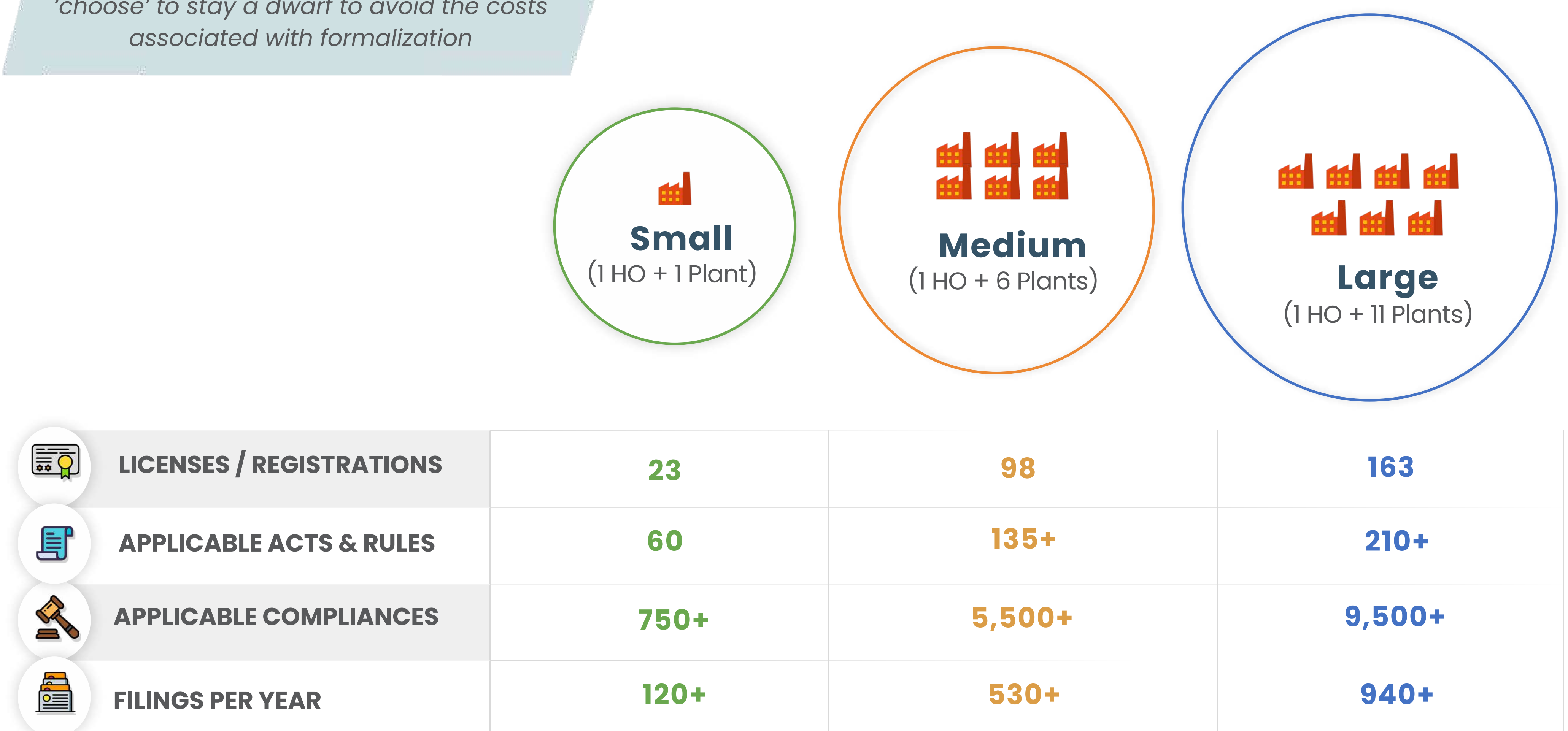
Fig. 1 India's Regulatory Universe





**Fig. 2 High Compliance Burden**

The regulatory burden only increases as a firm grows in size. Thus, many enterprises 'choose' to stay a dwarf to avoid the costs associated with formalization



Above table is actual Compliance data of Pvt. Ltd. clients of TeamLease RegTech in manufacturing



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## Types and Categories of Compliance

For most organisations, compliance requirements can be grouped into seven fundamental categories: labour, environment, health and safety (EHS), finance and taxation, corporate, commercial, industry-specific, and general. Depending on the organisation's size, nature, and operations, each category contains a diverse array of acts, rules, and regulations with differing degrees of applicability.

### > Labour

Labour is the subject of 32,542 compliances (47% of the 69,233 compliances) and 3,048 filings (46% of 6,618). There are 31,605 compliances at the state level and 937 at the union level, with 72% of all state-level compliances being labour regulations.

This category includes 29 central laws (which have now been condensed into four labour codes). Being a concurrent subject, the States further legislate upon labour laws, and each parent Act is accompanied by a host of state legislations alongside the central and state rules.

#### **The acts covered under this category are:**

- The Factories Act, 1948
- The Mines Act, 1952
- The Payment of Wages Act, 1936
- The Minimum Wages Act, 1948
- The Payment of Bonus Act, 1965
- The Equal Remuneration Act, 1976
- The Inter-State Migrant Workmen (Regulation of Employment & Conditions of Service) Act, 1979
- The Contract Labour (Regulation and Abolition) Act, 1970
- The Maternity Benefit Act, 1961
- The Payment of Gratuity Act, 1972
- The Employees' State Insurance Act, 1948
- The Employees Provident Fund and Miscellaneous Provisions Act, 1952
- The Employees' Compensation Act, 1923
- The Industrial Disputes Act, 1947



- The Trade Unions Act, 1926
- The Industrial Employment (Standing Orders) Act, 1946
- The Plantations Labour Act, 1951
- The Working Journalists and Other Newspaper Employees (Conditions of Service) and Miscellaneous Provisions Act, 1955
- The Working Journalists (Fixation of Rates of Wages) Act, 1958
- The Motor Transport Workers Act, 1961
- The Beedi and Cigar Workers (Conditions of Employment) Act, 1966
- The Sales Promotion Employees (Conditions of Service) Act, 1976
- The Cine-Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981
- The Dock Workers (Safety, Health and Welfare) Act, 1986
- The Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996
- The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
- The Cine Workers Welfare Fund Act, 1981
- The Building and Other Construction Workers Welfare Cess Act, 1996
- The Unorganised Workers' Social Security Act, 2008

### > Environment, Health and Safety (EHS)

It covers all aspects of the environment, including pollution, waste management, and discharge of hazardous substances. Most compliances are contained in the Environment (Protection) Act, 1986, and its allied rules.

#### The acts covered under this category are:

- Battery Waste Management Rules, 2022
- E-Waste (Management) Rules, 2022
- Environment (Protection) Rules, 1986
- Noise Pollution (Regulation And Control) Rules, 2000

- Plastic Waste Management Rules, 2016
- Solid Waste Management Rules, 2016

### > Commercial

The commercial compliance category includes all laws overseeing the production and trade of goods and services.

#### An illustrative list is provided here:

- Boilers Act, 1923 and Boiler Regulations, 1950
- Bureau of Indian Standards Act, 2016, and Bureau of Indian Standard Rules, 1987
- Collection of Statistics Act, 2008 and Collection of Statistics (Central) Rules, 1959
- Food Safety and Standards Act, 2006 and Food Safety and Standards (Licensing and Registration of Food Businesses) Regulations, 2011
- Legal Metrology Act, 2009 and Legal Metrology (Packaged Commodities) Rules, 2011
- Motor Vehicles Act, 1988 and Central Motor Vehicle Rules, 1989

### > Secretarial

It covers all laws on corporate governance and risk management. The primary legislation is the Companies Act, 2013, accompanied by various rules.

#### An illustrative list of these rules is provided here:

- The Companies (Acceptance of Deposits) Rules, 2014
- Companies (Accounts) Rules, 2014
- Companies (Appointment and Qualification of Directors) Rules, 2014
- Companies (Audit and Auditors) Rules, 2014
- Companies (Corporate Social Responsibility) Rules, 2014
- Companies (Meetings of Board and its Powers) Rules, 2014



- Companies (Registration of Charges) Rules, 2014
- Companies (Share Capital and Debentures) Rules, 2014
- Companies (Significant Beneficial Owners) Rules, 2018

### > Finance and Taxation

This category includes laws on direct taxes such as income tax, property tax, and corporate tax; indirect taxes such as goods and services tax (GST); and customs duty.

**An illustrative list is provided here:**

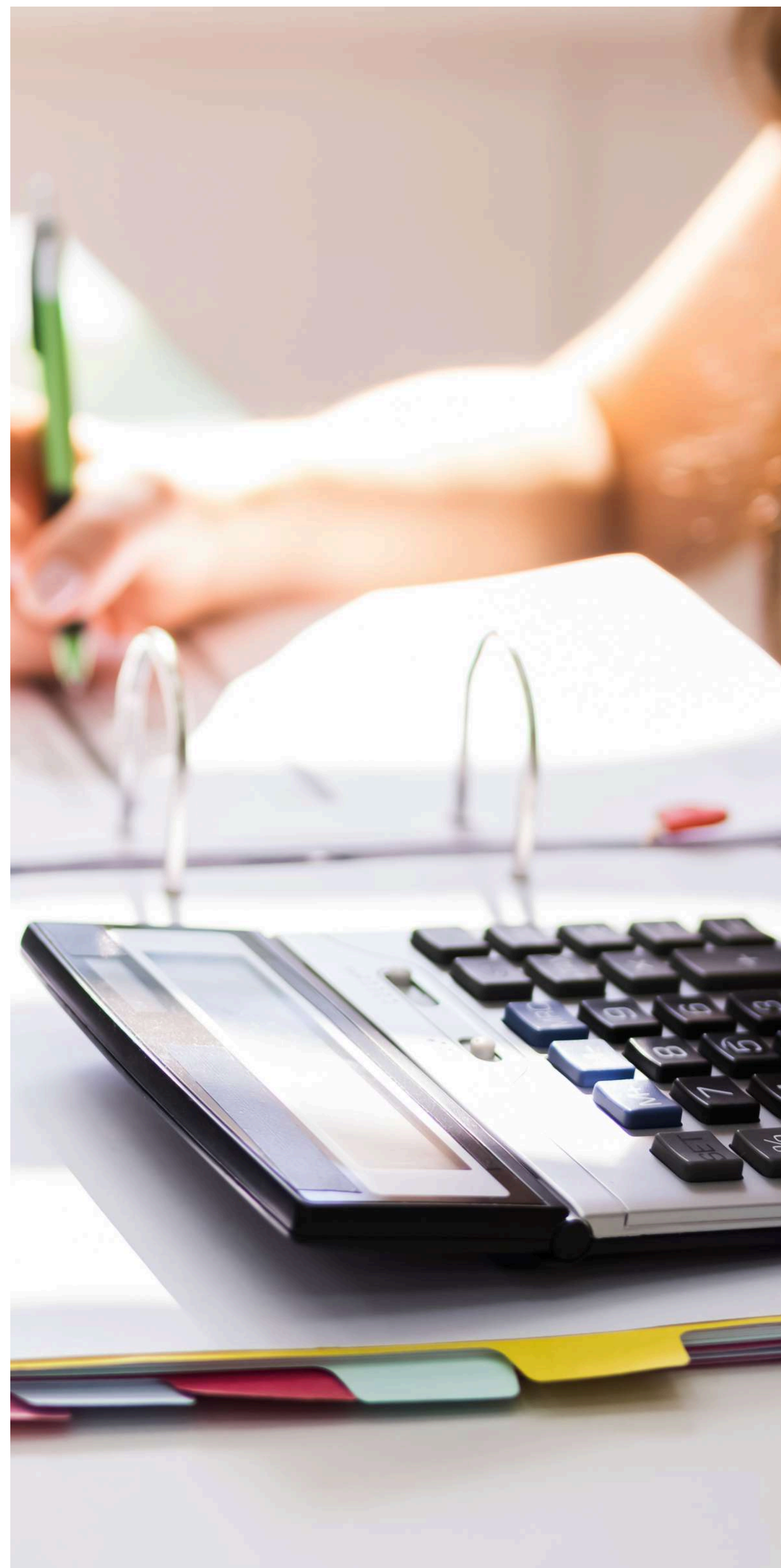
- Income Tax Act, 1961 and Income Tax Rules, 1962
- Central GST Act, 2017 and Central GST Rules, 2017
- State-specific laws for taxes on professions, trades, callings, and employment

### > Industry-Specific

There are a variety of industry-specific legislations that apply to different industries. For instance, the Drugs and Cosmetics Act, 1940 and its related rules and schedules, such as the Schedule on Good Manufacturing Practices and Requirements of Premises, Plants, and Equipment for Pharmaceutical Products, govern the import, manufacture, distribution, and sale of drugs and cosmetics in India. For the mining industry, the Mines Act, 1952 read with the Mines Rules, 1955 governs measures relating to the health, safety, and welfare of workers in coal, metalliferous, and oil mines, whereas the Mines and Minerals (Development and Regulation) Act, 1957 has been enacted to regulate the development and exploitation of minerals and the operation of mines in India.

**An illustrative list of such legislation is provided here:**

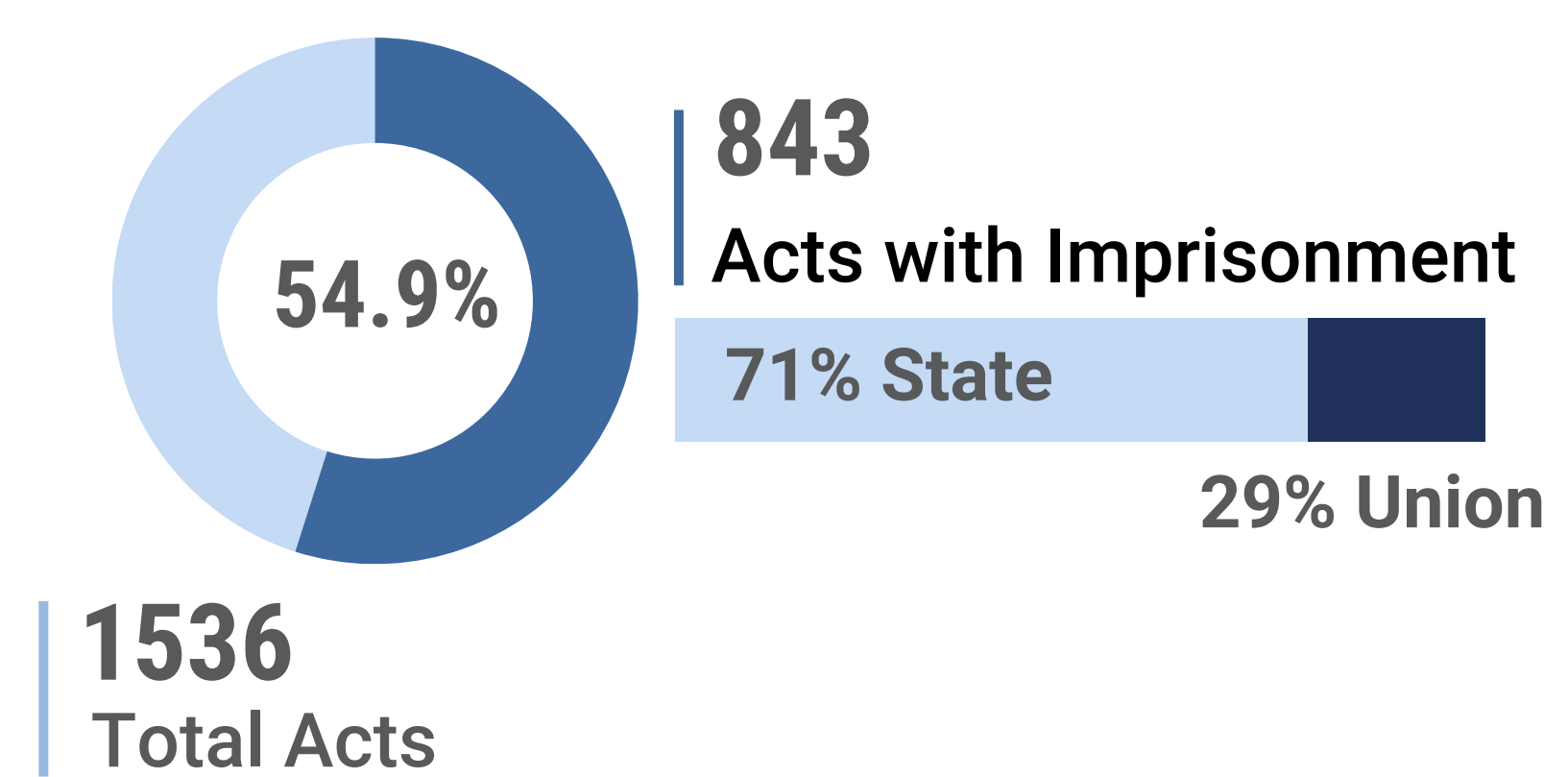
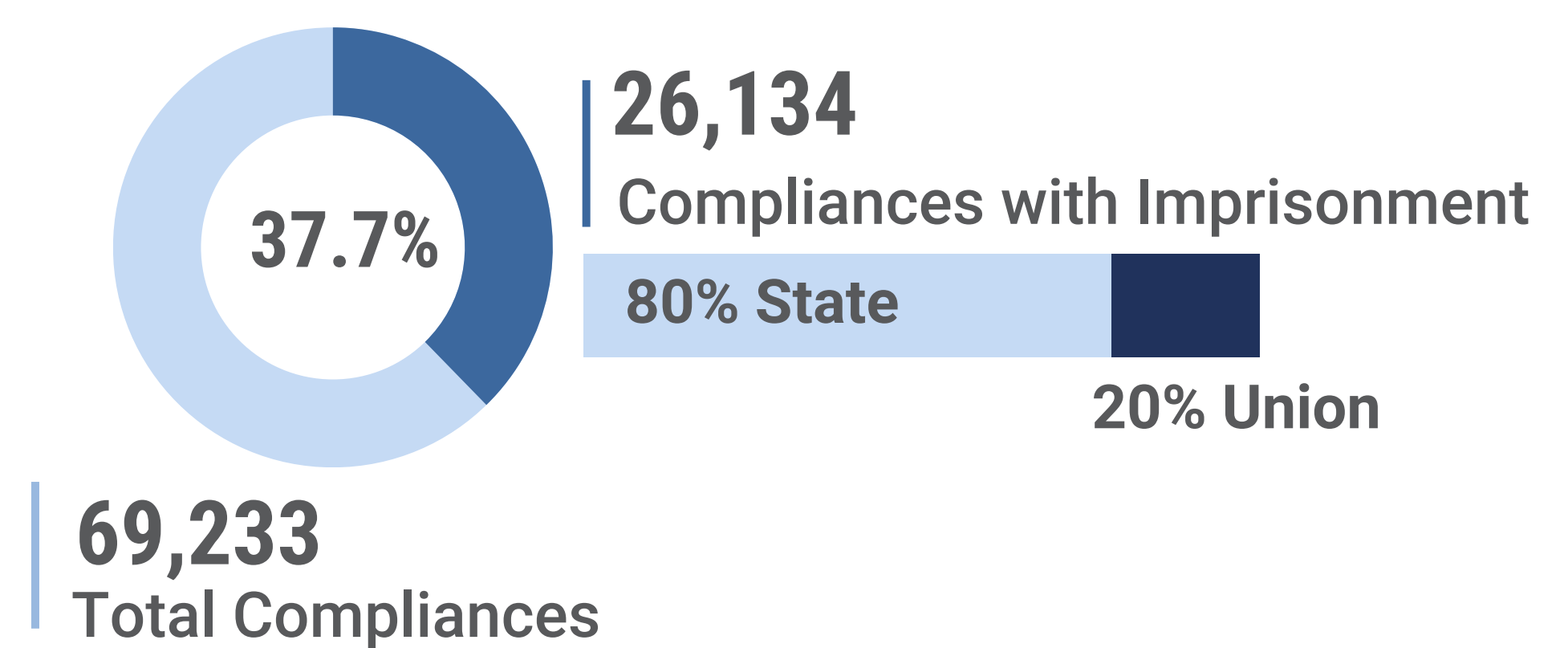
- The Reserve Bank of India Act, 1934 and periodic RBI circulars for the banking sector
- The Food Safety and Standards Act, 2006 and the Food Safety and Standards (Food Products Standards and Food Additives) Regulations, 2011
- Chemical Weapons Convention Act, 2000 and Chemical Weapons Convention Rules, 2016





## Level of Criminalization in India's Employer Compliance

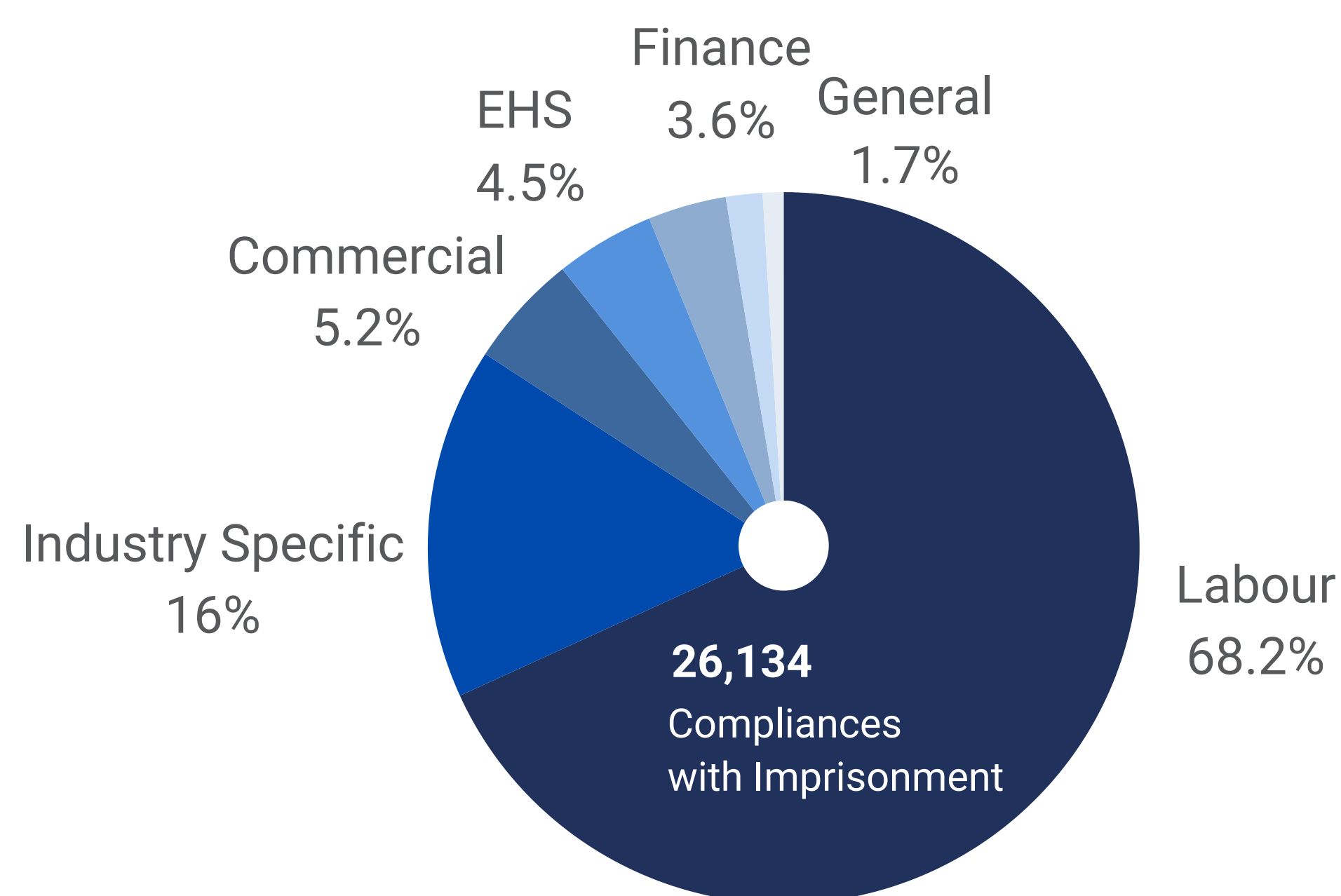
India has an enormous number of rules and regulations that can delay innovation, prevent investment, and suffocate it. The extensive array of rules and regulations regulating doing business in India might stifle innovation, slow down investment, and discourage entrepreneurship. There are 26,134 imprisonment provisions in the 843 economic laws, rules, and regulations that govern and impact business in the country. In reality, 38% of clauses—or nearly two out of every five—contain sentences of imprisonment as penalties. More than half, or 55%, of the laws have imprisonment clauses.



State governments house nearly four out of every five, or 80% compliance with imprisonment terms. The jail terms contained in these clauses range from less than three months to more than 10 years. Almost two out of every five clauses, or 42%, have imprisonments ranging from one to three years. More than four out of every five clauses, or 87%, carry imprisonments of less than three years. One-eighth of the clauses, or 13%, contain jail terms of between three and ten years. The number of clauses that carry imprisonment for more than 10 years is 207, or 0.8%.



## IMPRISONMENT CLAUSES ACROSS COMPLIANCE CATEGORIES



The most significant compliance challenges are in the labour category; nearly 7 out of 10 imprisonment clauses, or 68%, fall into this category. In other words, imprisonment clauses under labour laws exceed those in the other five categories combined, accounting for three times more than commercial laws; 4.5 times more than environment, health, and safety laws; seven times more than finance and taxation laws; and over 17 times more than secretarial laws. Labour, being on the concurrent list, has the greatest unique compliance among the Union government, state governments, and union territories and is subject to criminal penalties leading to jail terms. The Factories Act, 1948, and related rules contribute most of the provisions containing criminal clauses.





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## Labour Compliance Complexities

Labour is included in the concurrent list of the Constitution of India, which means that both the Centre and the states have the authority to enact laws regarding it. Schedule 7 of the Constitution includes within the concurrent list of subjects the regulation of labour and safety in mines and oilfields, trade unions and labour disputes, and labour welfare. Article 254 (2) of the Constitution states that if there is a conflict between union and state law on a concurrent subject, the state law prevails if it was passed after the union law and received presidential approval. After the Union government approves, states may amend or reform their labour laws.

After the Industrial Revolution in the early 1800s, the plight of the workers prompted the enactment of several labour laws in Britain. In 1833, the very first Factory Act was enacted. Almost a century later, the Industrial Revolution engulfed India. In 1854, the first cotton textile factory was established in Bombay. Then, within fifteen years, factories arose in Bombay, Nagpur, Kanpur, and Chennai. In 1881, more than 5,000 power looms were in operation in Bengal. Textile mills in India began competing with those in Great Britain.

As a result, mill owners got worried and alleged that inferior labour standards prevailed in Indian mills, resulting in lower production costs. So, they demanded raising the labour standards in India to stay competitive. Consequently, the Factories Act, 1881 was legislated with the joint efforts of philanthropists and social workers in India and Great Britain.

The 1881 Act laid the foundation for working hours and age restrictions for employing children in factories. It prohibited the employment of children under the age of 7 in factories and restricted the work hours of children above the age of 7 to 9 hours per day. Furthermore, it mandated the fencing of hazardous machinery on the factory premises and led to the appointment of inspectors to oversee the implementation of the Act.

In 1928, the Royal Commission on Labour appointed H. H. Whitley as the chairman and N. M. Joshi and Dewan Chaman Lal as members. Based on the recommendations of the commission, the Factories Act, 1934 was passed.



It introduced the concept of seasonal and perennial factories. The act categorised factory workers into four categories: adult male, adult female, adolescent (15-17 years), and children (12-15 years). It reduced work hours and defined maximum work hours for each category.

Post-Independence, the first National Commission on Labour was set up on 24th December 1966 under the Chairmanship of Justice P.B. Gajendragadkar. The recommendations covered recruitment agencies and practices, training and workers' education, working conditions, labour welfare, housing, social security, wages and earnings, wage policy, bonuses, workers/employers organisations, and industrial relations machinery.

**India's employer compliance universe has 1,536 acts that apply to businesses, and 463 (30.1%) of those are labour-related. 32,542 compliances (47% of the total) and 3,048 filings (46% of the total) related to the subject of labour. There are 31,605 state-level compliances and 937 union-level compliances. Labour-related regulations are involved in 72% of all state-level compliances. The Jailed for Doing Business Monograph states that 68% (17,819) of all violations that resulted in an imprisonment term were labour law violations.**

There is no centrally available exhaustive list of compliances to be filled by an entrepreneur, little information on the procedural timelines, and no regular updates on changes in laws and compliances. For instance, approximately 517 regulatory updates were published in FY 22-23 alone. The regulatory updates include revisions to forms, addition/ subtraction of compliance items, and changes in penalties. In addition, there is a multiplicity, duplicity, and overlap in the number of registers and records an establishment needs to maintain. Complying with the requirements of a complex regulatory structure requires hiring company secretaries and labour lawyers to interpret the language of the laws, ensure timely filings, and track updates.

A pharmaceutical MSME with a single corporate office and a single manufacturing facility in the state of Maharashtra has to obtain 4 licences and registrations and comply with 49 displays and 72 registers and records requirements related to labour obligations. In addition, it has to manage 97 employee safety and welfare compliances. A logistics and supply-chain MSME with a single corporate office and a single warehouse in the state of Maharashtra has to obtain 17 licences and registrations and comply with 61 displays and 64 registers and records requirements related to labour obligations. In addition, it has to manage 49 employee safety and welfare compliances.





Fig. 3 Timeline of Labour Reforms

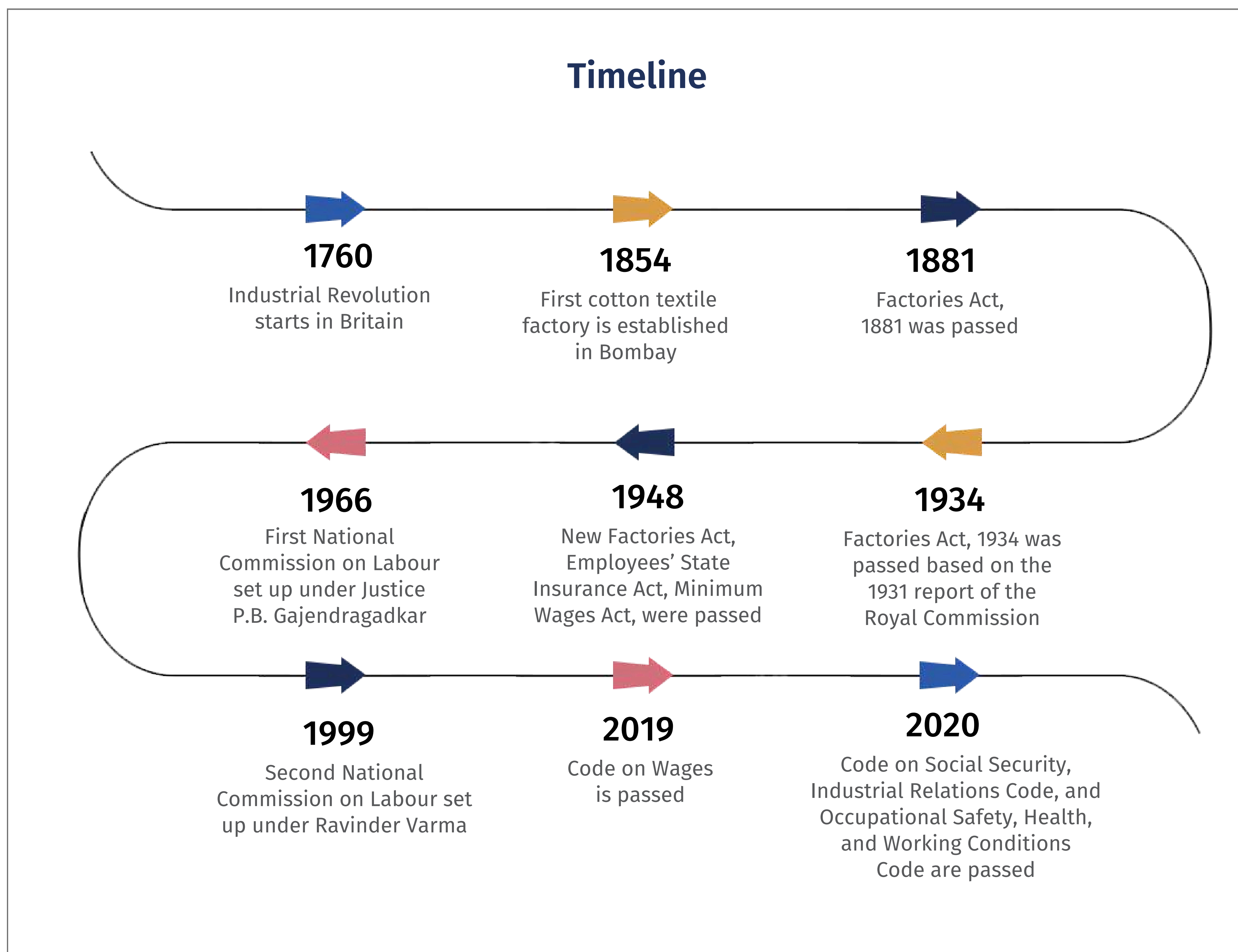
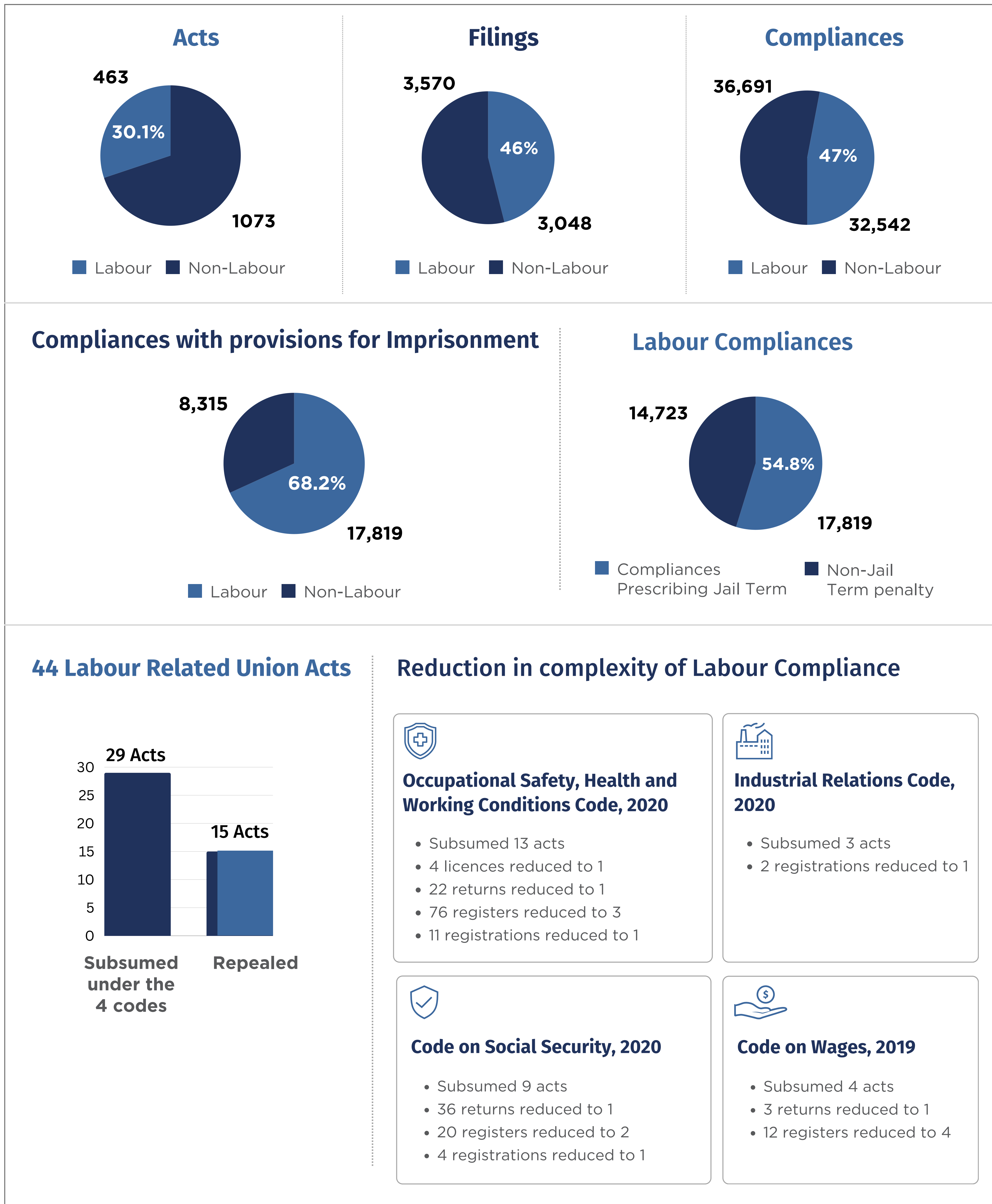




Fig. 4 Decoding India's labour compliance framework





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# Compliance Challenges in the current environment



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## Provisions for criminal proceedings and imprisonment

Of the 1,536 laws that govern doing business in India, more than half carry imprisonment clauses. Two out of every five of the 69,233 compliances applicable to businesses carry imprisonment clauses. Over half the clauses requiring imprisonment carry a sentence of at least one year. Several of these provisions criminalise process violations, while others punish inadvertent or minor lapses instead of deliberate attempts to cause damage, defraud, or evade. Unfortunately, under certain laws, late or incorrect filing constitutes an offence for which the Indian Penal Code, 1860 equates the punishment to that of murder and grievous hurt. Five states have more than 1,000 imprisonment clauses in their business laws: Gujarat (1,469); Punjab (1,273); Maharashtra (1,210); Karnataka (1,175); and Tamil Nadu (1,043).

Furthermore, labour laws contain the most criminal provisions, with 17,819 imprisonment provisions spread across 352 laws. It is anticipated that the four labour codes enacted last year will provide some relief to entrepreneurs, but the criminality issue itself will require our policymakers' attention.

The category of industry-specific laws consists of 4,179 clauses in 205 laws that carry the possibility of imprisonment. Several of these provisions, which govern areas such as Chemical Weapons, Drugs and Cosmetics, Food Safety and Standards, and the associated regulations, impose imprisonment terms exceeding ten years. Nearly one hundred provisions across eight industry-specific statutes are punishable by imprisonment.

Under the commercial category of laws, which includes but is not limited to boiler regulations, legal metrology, food safety, etc., there are 1,346 clauses in 106 laws that carry imprisonment sentences. The Legal Metrology Act, 2009 contains the most imprisonment clauses, with 391.

Under environment, health, and safety, there are 78 statutes containing 1,179 imprisonment-inducing provisions. While the environment, health, and safety are sensitive areas in which strict compliance is required, there are times when the law takes an unjustifiably hostile posture toward the entrepreneur. Under the Environmental Protection Act, 1986 and related regulations, failure to submit and update annual reports and provide information to relevant authorities can result in a 5-year sentence.

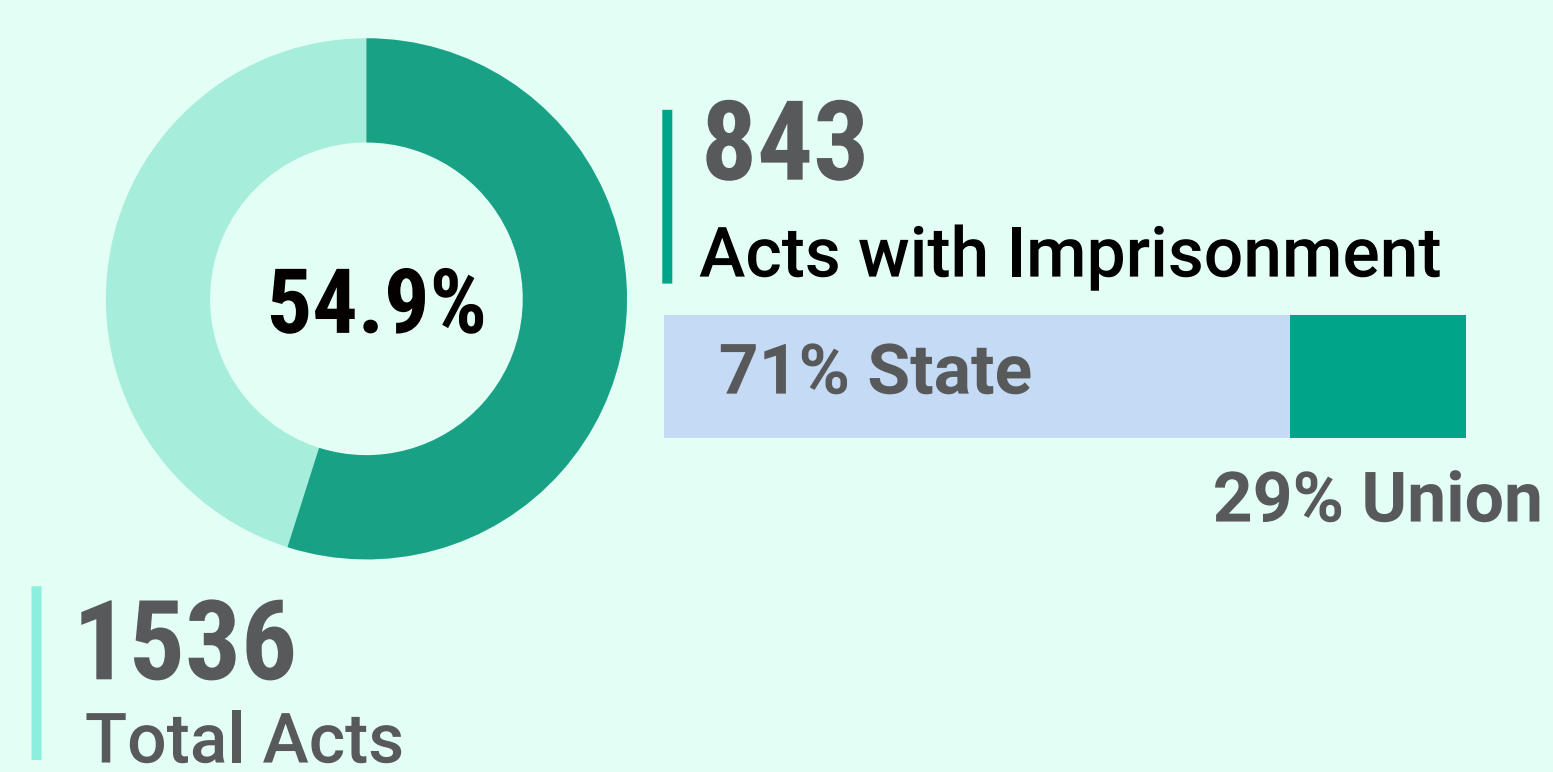
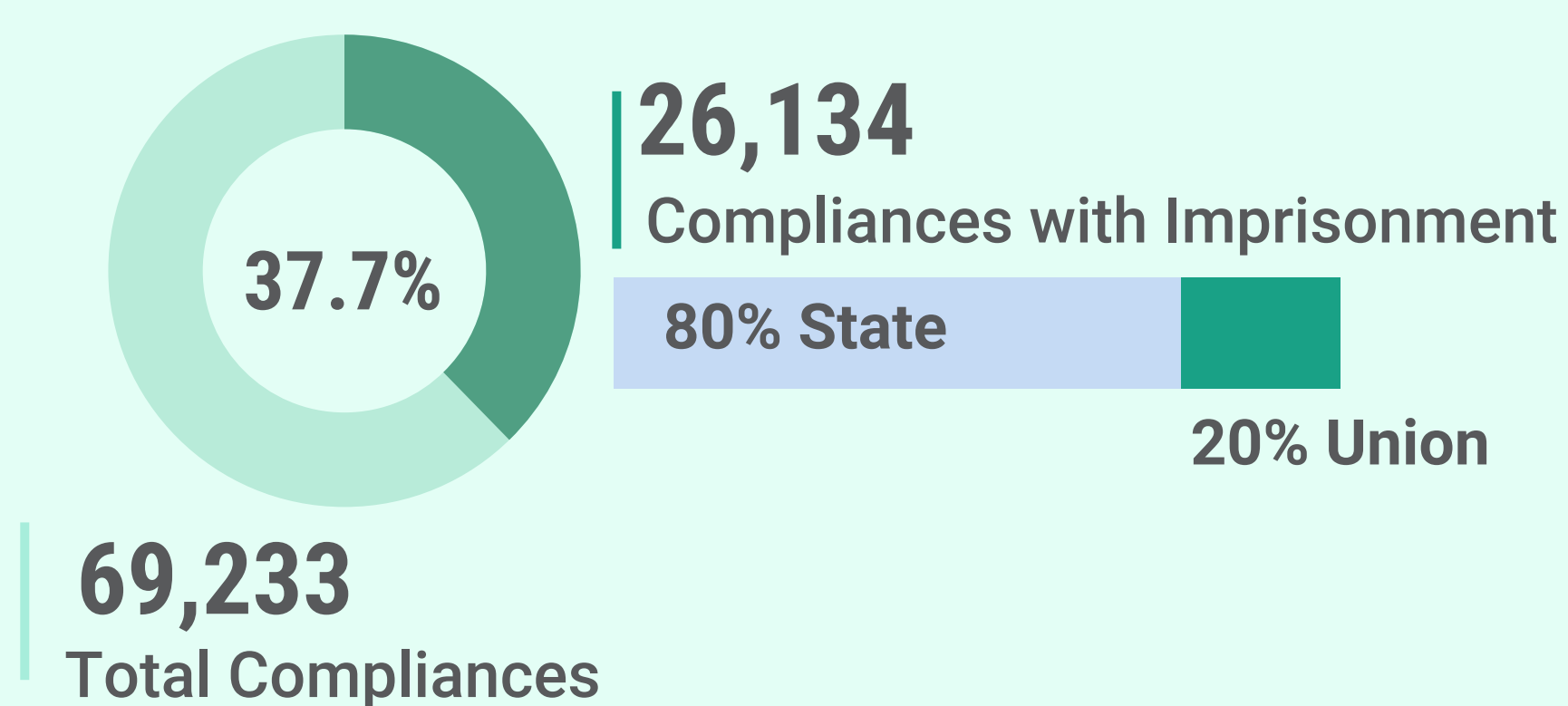


# STATE OF CRIMINALISATION IN India's employer compliances

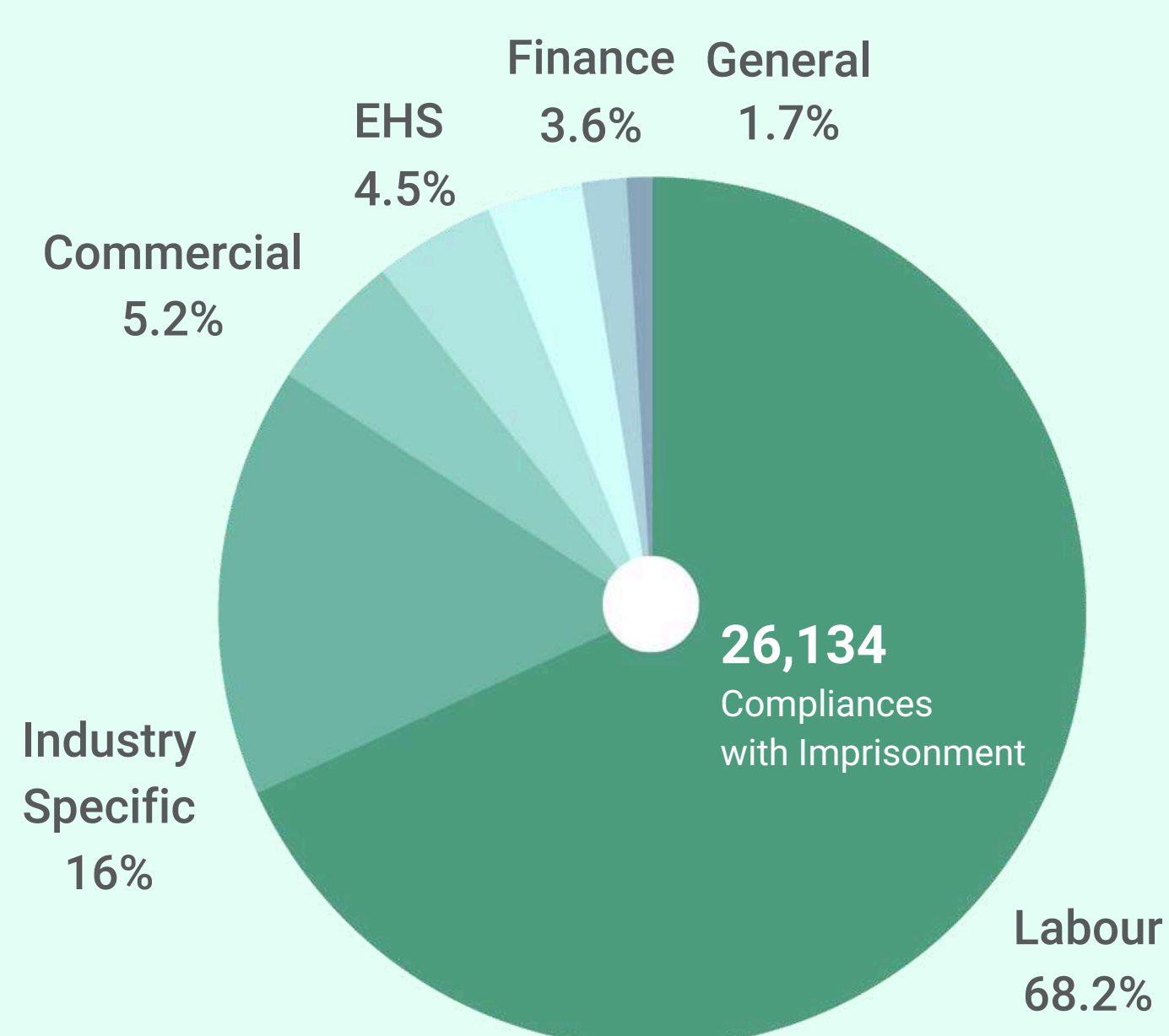
## HIGHLIGHTS OF THE REPORT

- 55% of the laws in India's business regulatory universe have imprisonment clauses
- 2 out of every 5 compliances carry imprisonment clauses
- 3 out of every 5 imprisonment clauses prescribe a jail term of more than 1 year
- 68% of the imprisonment clauses are from labour laws
- Nearly half (49%) of imprisonment clauses among labour laws are from the Factories Act, 1948 and state rules
- Five states have more than 1,000 imprisonment clauses in their business laws: Gujarat, Punjab, Maharashtra, Karnataka and Tamil Nadu

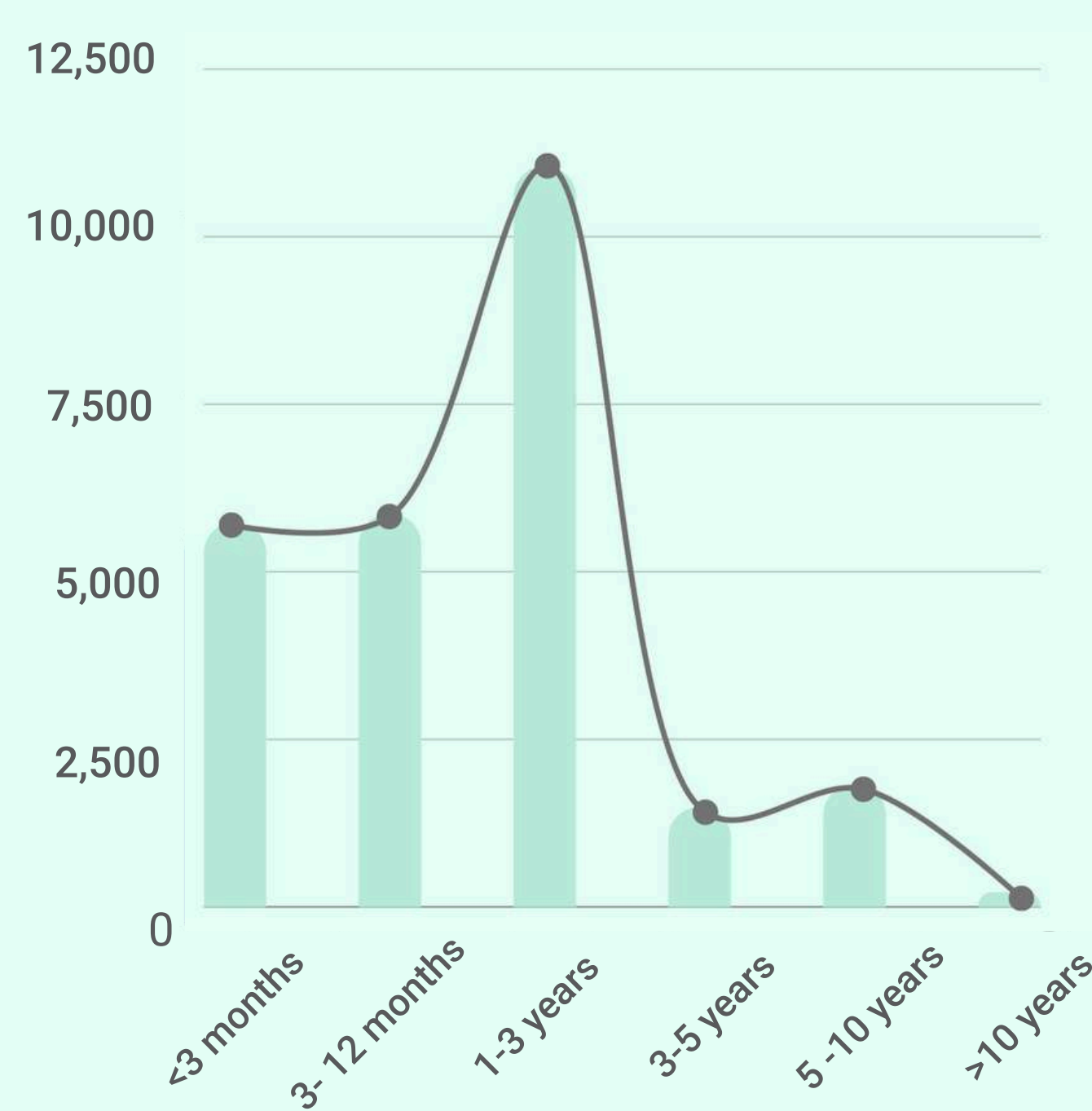
## IMPRISONMENT CLAUSED & THEIR DISTRIBUTION IN INDIA'S BUSINESS REGULATORY UNIVERSE



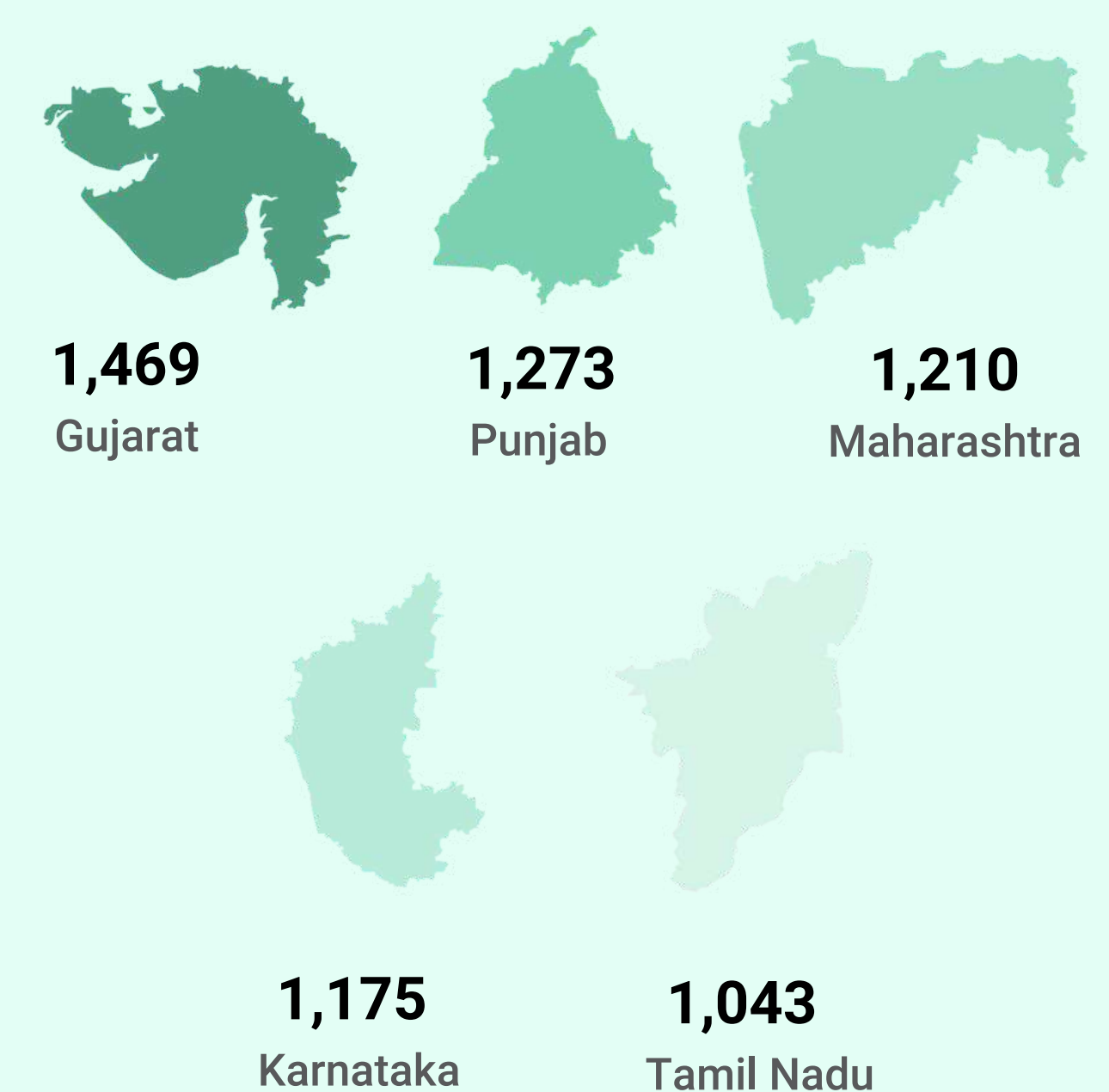
## IMPRISONMENT CLAUSES ACROSS COMPLIANCE CATEGORIES



## DEGREE OF IMPRISONMENT TERMS



## STATES WITH HIGHEST IMPRISONMENT CLAUSES



## PATHS TO REFORMS: 10 RECOMMENDATIONS

- Introduce sunset clauses
- Reform with one legislation
- Define standards for legal drafting
- Reform the way policies are designed
- Create alternative mechanisms and frameworks
- End the criminalisation of all compliance procedures
- Use criminal penalties in business laws with extreme restraint
- Involve all independent economic regulators in compliance reforms
- Infuse dignity to entrepreneurs, businesspersons and wealth creators
- Constitute a regulatory impact assessment committee within the Law Commission of India



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## Complexities of Compliance

### > Pharmaceutical Industry

While the sector has seen sustained growth, regulatory hurdles have blunted the pace of progress. To illustrate, a mid-sized pharmaceutical company with a factory in just one state faces 998 compliances involving at least 70 one-time registrations and approvals. These compliances run into several thousand as the company expands its operational capacity and geographical footprint. The sheer number of regulatory updates makes the compliance universe all the more fluid and unpredictable.

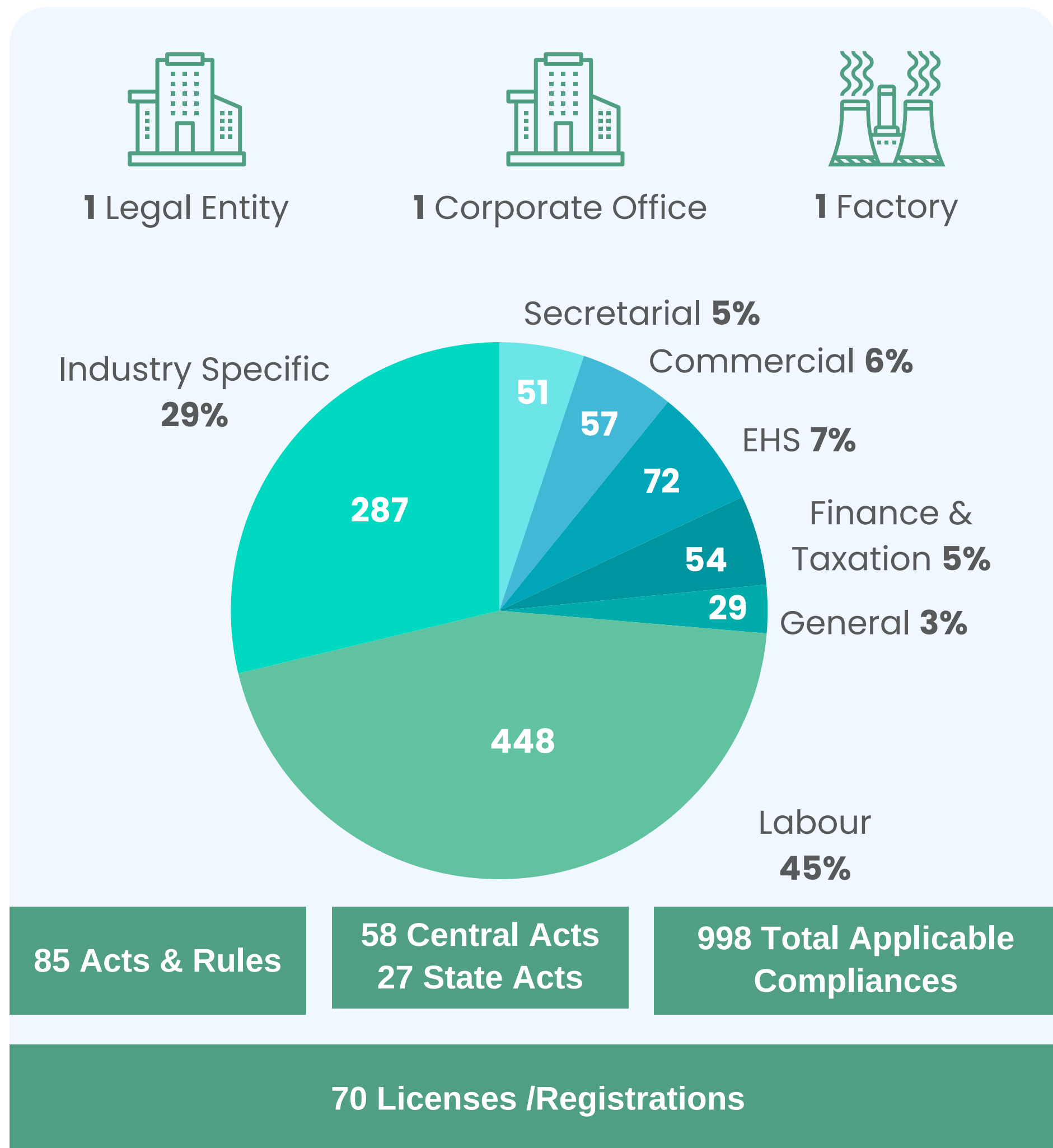
These are accompanied by a plethora of industry-specific compliances such as obtaining licences under the Drugs and Cosmetics Act, 1940, submitting quarterly returns as per the Narcotic Drugs and Psychotropic Substances Act, 1940 and instituting pricing mechanisms in accordance with the Drugs Price Control Order, 2013. The ICMR Code - Ethical Guidelines for Biomedical Research on Human Participants also prescribes a host of compliances, including registering with the National Apex Committee for Stem Cell Research, providing compensation for subjects of medical trials and giving notifications to the Ethics Committees in case of termination or suspension of trials.

**Below is an illustrative list of Pharmaceutical Industry regulations:**

- Drugs and Cosmetics Act, 1940 and its associated rules
- Schedule on Good Manufacturing Practices and Requirements of Premises, Plant and Equipment for Pharmaceutical Products.
- Drugs and Magic Remedies (Objectionable Advertisement) Act, 1954 and Drugs and Magic Remedies (Objectionable Advertisements) Rules, 1955
- Essential Commodities Act, 1955
- Drugs (Price Control) Order, 2013



**Fig. 6 Pharmaceutical Industry**



The Drugs Controller General of India (DCGI) under the Central Drugs Standard Control Organization (CDSCO) highly regulated the pharmaceutical industry in India. But as companies look to fulfil their export ambitions, they are confronted by extensive regulatory norms imposed by other countries. For instance, the United States (U.S.) has enacted the Health Insurance Portability and Accountability Act (HIPAA), which sets out numerous compliance requirements for healthcare entities to protect sensitive patient data. Drug controllers worldwide, such as the U.S. Food and Drug Administration, the European Medicines Agency, the Federal Drug Control Service of Russia and the South African Medicines Control Council, also have their procedures, documentation and controls. These regulations become critical as they dictate the conditions for the production, storage, and transportation of pharmaceutical exports from India.

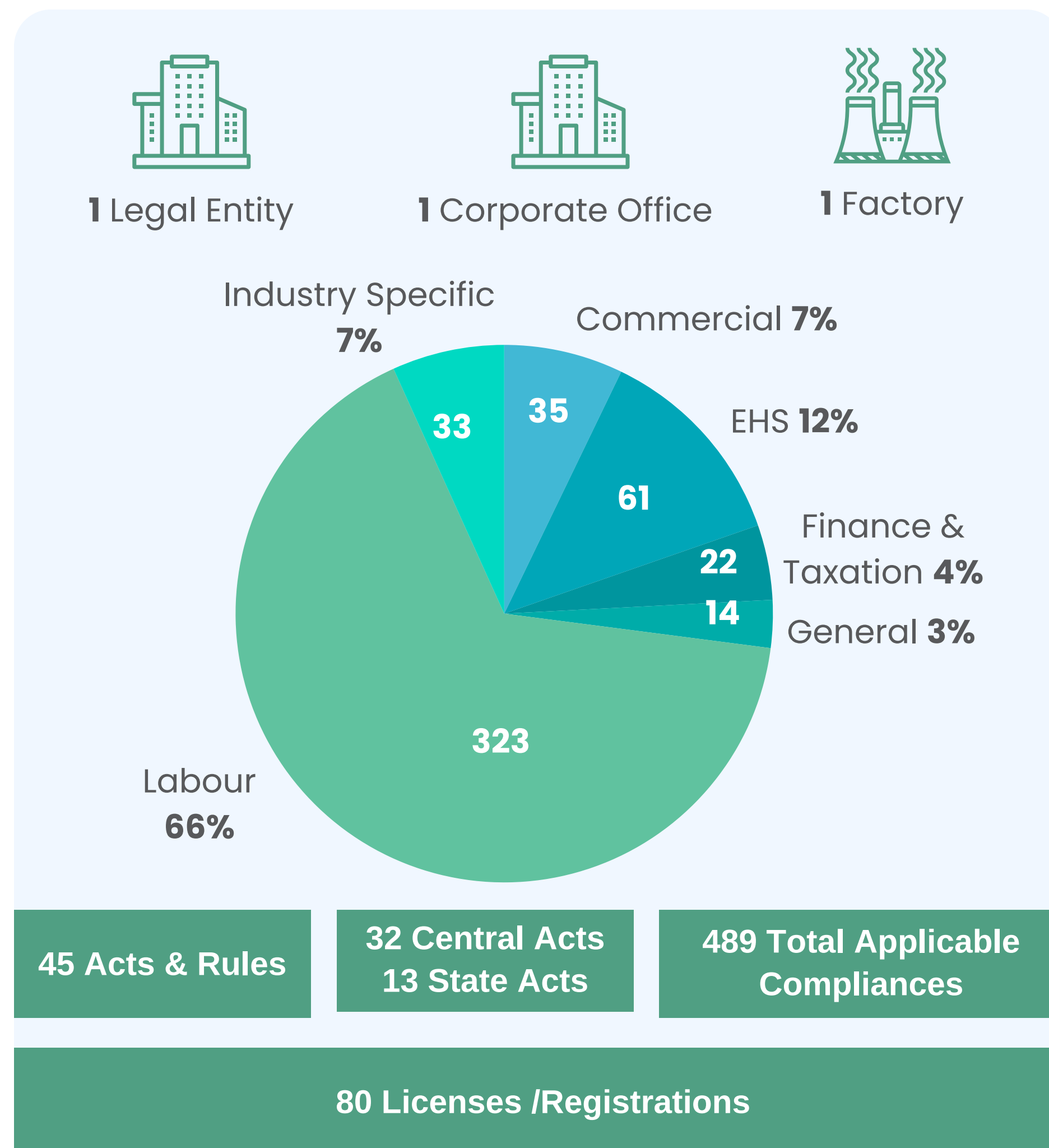
At the same time, pharmaceutical companies' business environment faces regulatory hostility in the form of imprisonment clauses. Of the 998 compliances a pharmaceutical MSME deals, close to 50% prescribe jail terms for violations. A sizable portion of them criminalises procedural violations and technical lapses rather than serious offences involving willful harm. 3 out of every 5 imprisonment clauses prescribe jail terms exceeding 1 year, highlighting the severe implications for non-compliance in the sector.

The cost of poor compliance is simply too high, and thus, effective compliance management has become a business imperative.

> **Automobile Industry**

India is fast emerging as a formidable player in the global automobile market. It has positioned itself as the world's fourth-largest motor vehicle producer, having overtaken auto giants like South Korea and Germany over the past year. Despite its bullish prospects, India's automobile segment is saddled with numerous regulatory challenges that are slowing the pace of its progress. A typical mid-sized automobile manufacturing company deals with a few thousand compliances annually. Around 50-100 people from different departments, including Human Resources, Finance & Tax, Company Secretarial, Administration, Environment Health & Safety, Warehouse, Research and development, are usually involved directly in day-to-day compliance functions.

**Fig. 7 Automobile Industry**



Even a small automobile manufacturing company operating in a single Indian state deals with at least 489 one-time and ongoing compliance requirements in a year. The number of compliances grows as the company expands its geographical footprint. A significant chunk of compliances come from the Factories Act, 1948 and its associated rules that are enacted by



every state. These rules add a number of time-based, event-based, and complete checklists of compliance.

In addition, Automobile companies must comply with industry-specific compliance requirements such as obtaining a licence/certificate of conformity under the Bureau of Indian Standards Act, 2016 and Conformity Assessment Regulations, 2018. For every factory, there are specific compliance requirements related to the storage of petroleum under the Petroleum Act, 1934 and Petroleum Rules, 2002. They also need to furnish quarterly filings related to the use of solvents, raffinates, slops and other such chemicals. This is in addition to the licensing requirements for acquiring, storing, and disposing of solvents under the Essential Commodities Act, 1955.

**Below is an illustrative list of industry-specific regulations:**

- Bureau of Indian Standards Act, 2016 & Bureau of Indian Standards (Conformity Assessment) Regulations, 2018
- Industries (Development and Regulation) Act, 1951 & Registration and Licensing of Industrial Undertakings Rules, 1952
- General Operating Guidelines for Registration of OEMs and Vehicles Models, File No. F 21(37)/NAB/DIDM/2014/ dated 9th April, 2015
- The Motor Vehicles Act, 1988 & Central Motor Vehicle Rules, 1989
- The Petroleum Act, 1934 and Petroleum Rules, 2002

To stay on the right side of the law, automobile companies often deal with the challenge of tracking the applicability of the compliances and their status. These compliances include displaying a notice of danger on every installation of voltage exceeding 250V under the CEA (Measures Relating to Safety and Electric Supply) Regulations, 2010; marking the capacity of storage tanks under the Petroleum Rules, 2004; displaying a 'No Smoking' sign at the entrance of a public area as per the Prohibition of Smoking in Public Places Rules, 2008. The manufacturers must also comply with the recently notified BS VI phase 2 regulations that provide stricter emission standards.

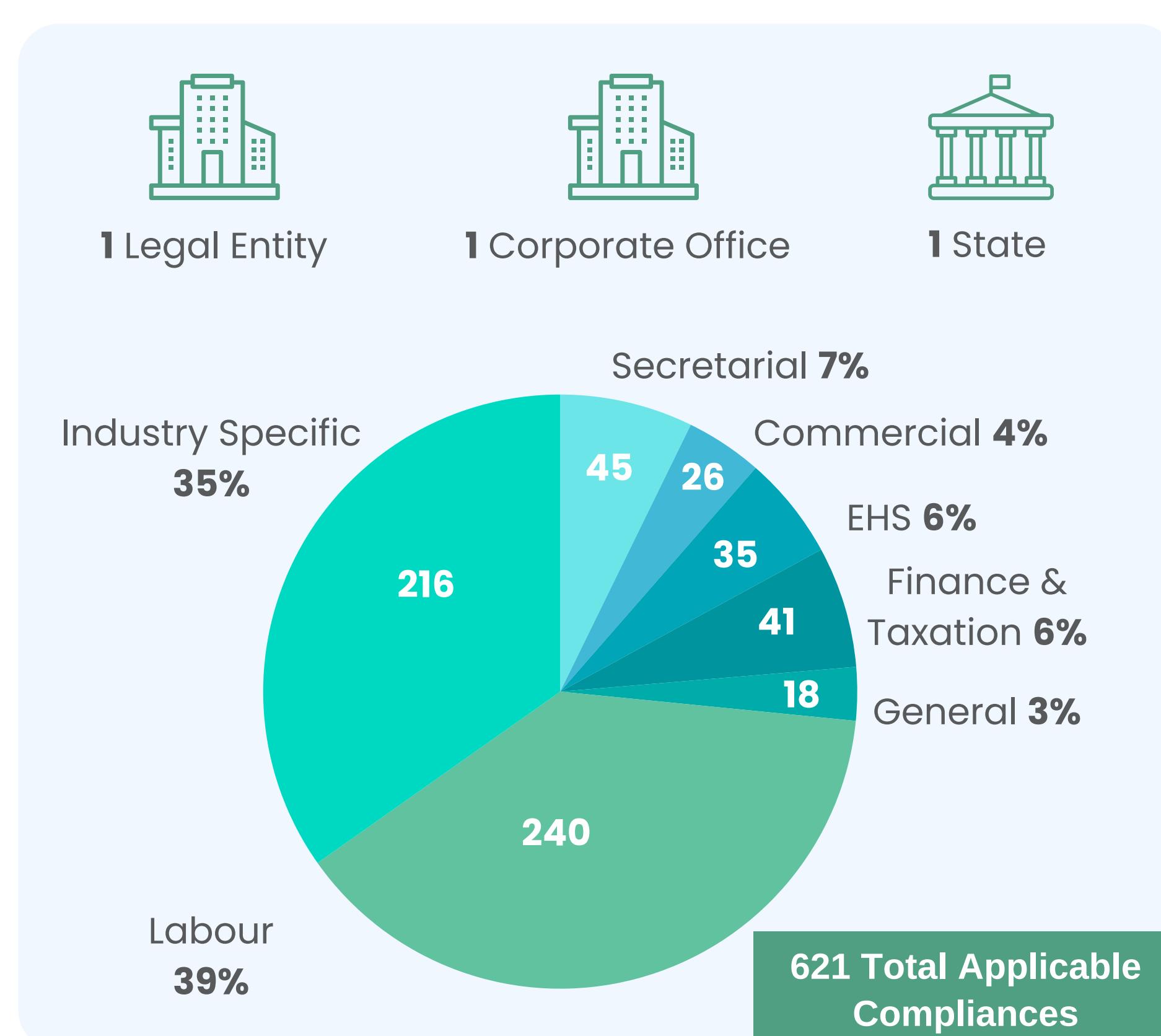
The new regulations mandate that vehicles have to be fitted with a self-diagnostic device that continuously monitors the vehicle's emission levels. Furthermore, the new vehicles must also be equipped with programmed fuel injectors.

An automobile company also has to deal with several types of safety audits, environmental audits, and fire drills, such as segregation and storage of waste generated into 3 separate streams under the Solid Waste Management Rules, 2016. If these ongoing compliances are not adhered to, it can lead to poor compliance, resulting in hefty penalties. Manually tracking and managing the applicable licenses for the automobile industry can be tedious.

### > NBFCs

From gold to microfinance loans and personal to vehicle finance loans, Non-Banking Financial Companies (NBFCs) have been pivotal in promoting credit growth in the economy's unorganised, unbanked, and under-banked sections. Typically, growth in NBFCs is tightly coupled with a larger geographic branch footprint. The more the number of branches, the higher the reach and, subsequently, the higher the AUM (Asset under management). Unfortunately, the business growth leads to a significant rise in compliance obligations at Union, state and local levels. An NBFC operating in a single state at one location has to comply with at least 621 unique compliances in a year with at least 35 one-time registrations and approvals.

**Fig. 8 NBFCs**





NBFCs must adhere to Master Directions and Master Circulars issued by RBI under the Reserve Bank of India Act, 1934. They must also adhere to Fair Practice Guidelines and publish fair practices code on their website. In addition, the borrowers must be informed in vernacular language about the terms and conditions of their loans. The staff must be trained to refrain from coercive actions during loan recovery. The corporations are required to appoint an internal Ombudsman, with quarterly and annual submissions of the complaints received and the decisions taken. In addition, all NBFCs must comply with the various V-CIP (Video Customer Identification Process) compliance requirements as well.

**Below is an illustrative list of industry-specific regulations:**

- Reserve Bank of India, Act 1934
- Master Direction – Information Technology Framework for the NBFC Sector, 2017
- Master Direction – Know Your Customer (KYC) Direction, 2016
- Master Circular – Non-Banking Financial Company – Micro Finance Institutions, 2015
- RBI Guidelines on Fair Practices Code
- Prevention of Money Laundering Act, 2002 and Prevention of Money Laundering (Maintenance of Records) Rules, 2005
- National Housing Bank Act, 1987

In addition, NBFCs are required to maintain records and file returns under the Prevention of Money Laundering Act, 2002 and Prevention of Money Laundering (Maintenance of Records) Rules, 2005. Similar requirements are there under the RBI Guidelines on Fair Practices Code and some other significant regulations as well. The sector is highly regulated, and the companies must comply with RBI regulations and follow the regulations issued by the Ministry of Corporate Affairs. Each regulation comes with its own set of procedures, documentation, filings and penalties.

The sector went through a major regulatory overhaul in 2021, when RBI notified the 'Scale Regulation (SBR): A Revised Regulatory Framework for NBFCs' to align the regulatory requirements for NBFCs because of the change in their risk profiles and their evolution in terms of size and complexity.

The framework came into effect this October and has reclassified NBFCs under 4 layers – Base Layer, Middle Layer, Upper Layer, and Top Layer. This classification brings into its fold all Micro-Finance Institutions, Gold Loan Companies, and Vehicle Financing Companies, to name a few. The scale-based regulations determine which level an NBFC will belong to based on whether the company accepts deposits and whether they are systemically important.

The base layer consists of all systematically important and non-systematically important non-deposit-taking NBFCs with asset sizes under 1000 crores. It also has peer-to-peer lending platforms, account aggregators, and non-operative financial holding companies, among others. The middle layer, on the other hand, is made up of all systematically important and non-systematically important deposit-taking NBFCs and non-deposit-taking NBFCs with asset sizes over 1000 crores. Infrastructure debt funds, credit investment companies, housing finance companies, and infrastructure finance companies, among others, are also part of the middle layer.

RBI holds the authority to move NBFCs into the top 2 layers based on certain parameters set by them occasionally. In addition, the top 10 eligible NBFCs in terms of asset size will always remain in the Upper Layer regardless of any other factor. The Top layer is inhabited by upper-layer NBFCs that see a substantial increase in their potential systemic risk. NBFCs in the Base Layer must put in place a Board-approved policy on the grant of loans to directors, senior officers, and relatives of directors. NBFCs that get put into the Upper Layer must determine internal exposure limits on important sectors to which credit is extended.

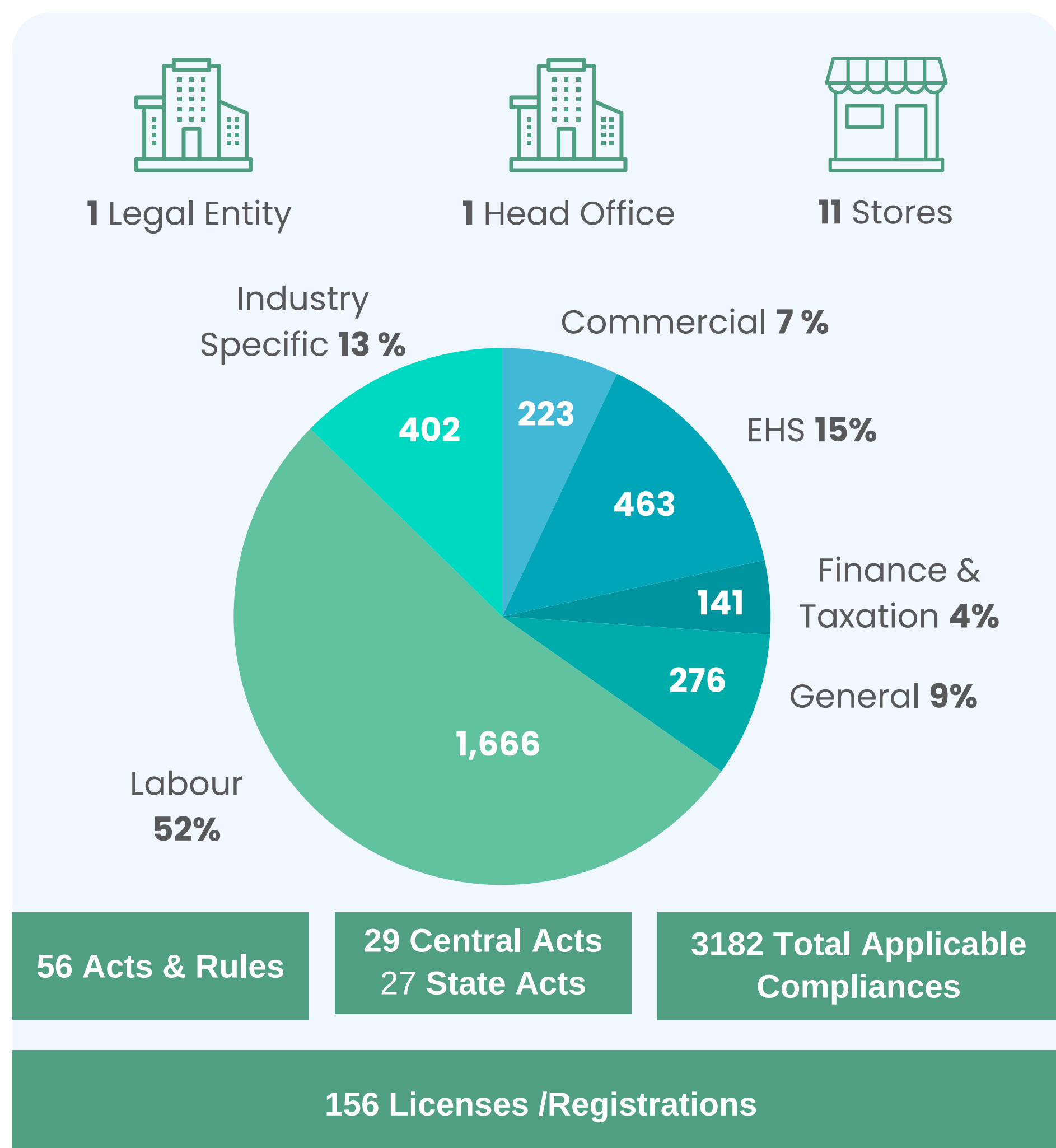
Housing Finance Companies have to deal with a plethora of returns and filings that have to be submitted to the National Housing Board (NHB), which can be quarterly (SARFAESI return, 20-Major exposure return, Schedule-IV return etc.), half-yearly (FDI norms compliance certificate), or annual (Statutory Auditor Certificate). MFIs are required to maintain margin caps not exceeding 10% and ensure that the total indebtedness of a rural borrower does not exceed INR 1,00,000. Gold Loan Companies are required to implement board-approved policies related to the storage of jewellery as well as the auction of jewellery in case of non-repayment to ensure transparency with adequate prior notice to the borrower.



> **Retail Industry**

The retail industry has witnessed remarkable growth in recent years, becoming one of the most dynamic and fast-paced industries. It encompasses several businesses, including department stores, bookstores, grocery stores, and other establishments catering to the general public's home and personal needs. The emergence of e-commerce platforms and digital innovations has also had a profound impact on the industry, resulting in exponential growth and significant market disruption. However, despite these advancements, employers are still hamstrung by the sheer volume and complexity of regulatory requirements.

**Fig. 9 Retail Industry**



For instance, a retail company with a single corporate office and a single retail outlet in just one city must comply with at least 185 checklisted compliances. On the other hand, A retail chain with a presence in multiple cities and across state borders needs to keep track of 3,182 compliances. Of these, 2,108 are checklisted, 948 are function-based, and 126 are time-based. The overlapping distribution of legislative powers among the union and the states has added a layer of complexity to the regulatory framework. Retail stores are obligated to display a framed plan showing the location of fire extinguishers and other useful information near the entrance of the premises under the Indian Standard - Selection, Installation and Maintenance of First-

Aid Fire Extinguishers - Code of Practice. In addition, the fire extinguishers must be inspected annually. They are also required to segregate sanitary waste into dry or non-biodegradable waste under the Solid Waste Management Rules. Failure to comply for over a year carries a penalty of imprisonment for up to 7 years.

Furthermore, Enterprises are required to obtain registrations and certificates under the Contract Labour (Regulation and Abolition) Act, 1970 and consequent State rules such as the Maharashtra Contract Labour (Regulation and Abolition) Rules, 1971; Employees State Insurance Act, 1948 & Employees State Insurance (General) Regulations, 1950 & Employees State Insurance (Central) Rules, 1950; Central Goods and Services Tax Act, 2017 and Central Goods and Services Tax Rules, 2017; Maharashtra Goods and Services Tax Act, 2017 and Maharashtra Goods and Services Tax Rules, 2017. In addition, a PPL/ ISRA/ IPRS licence is required for stores to play music inside the premises under the Copyright Act, 1957 and Copyright Rules, 2013.

**Below is an illustrative list of industry-specific regulations:**

- Food Safety & Standards Act, 2006 and Food Safety & Standard Rules, 2011
- Food Safety & Standards Act, 2006 and Food Safety and Standards (Licensing and Registration of Food Businesses) Regulations, 2011
- Food Safety and Standards Act, 2006 and Food Safety and Standards (Packaging) Regulations, 2018
- Insecticides Act, 1968 and Insecticides Rules, 1971

Under the present compliance framework, retail outlets have to deal with duplication, overlap, and redundancies in filings, reports, and maintenance of registers. One must maintain over 40 registers, each with a different format, under different acts, rules, and regulations. Stores are further required to make half-yearly filings to the local police for using CCTV under state laws such as the Karnataka Public Safety (Measures) Enforcement Act, 2017. They are also required to follow the regulations under the Indecent Representation of Women (Prohibition) Act, 1986 and the local municipal compliances in advertisements.



Shops using weights and measures must keep up with the labelling and licensing requirements.

Furthermore, there are state-specific regulations for using lifts and escalators, along with consent forms required for using Diesel Generator sets. Enterprises are also required to take environmental clearance approvals, infrastructure and construction approvals, as well as electricity-related approvals from appropriate authorities. The compliance framework for retail chains is fraught with provisions prescribing imprisonment for contraventions. Of the 3,182 compliances a retail chain must deal with in a year, 1192 (or 37%) contain imprisonment clauses. Approximately 77% of these clauses are in state laws, while the rest are within Union laws.

### > **Alco-Beverages Industry**

Alco-Beverage is one of India's most underappreciated industries, employing over 20 million people directly or indirectly with a market size of over \$50 billion. An estimated 300 million individuals consume alco-beverages in the country, making it the third-largest market in the world.

For an entrepreneur looking to start from scratch with his/her own manufacturing facility in the state of Maharashtra, he/she needs to obtain at least 99 licenses and permissions spread across four stages (setting up the business, pre-commissioning stage, post-commissioning stage, and post-production stage) before commencing operations. Of these 99, the enterprise needs to renew 35 periodically. The approval timeline for these licenses and permissions also varies, with some being granted within 15 days and some taking more than 60 days. About 40% of these have no defined approval timeline and can take however much time as directed by the issuing authority. Consequently, it can take an average of 3-4 years for an enterprise to obtain all required licenses.

Once the business is up and running, it must adhere to 986 regulatory requirements under 156 acts. Furthermore, these requirements have varying levels of frequency for their compliance. Around 202 of these filings need to be made on a monthly basis, creating 2,424 obligations in a year, whereas 736 need to be complied with once a year.

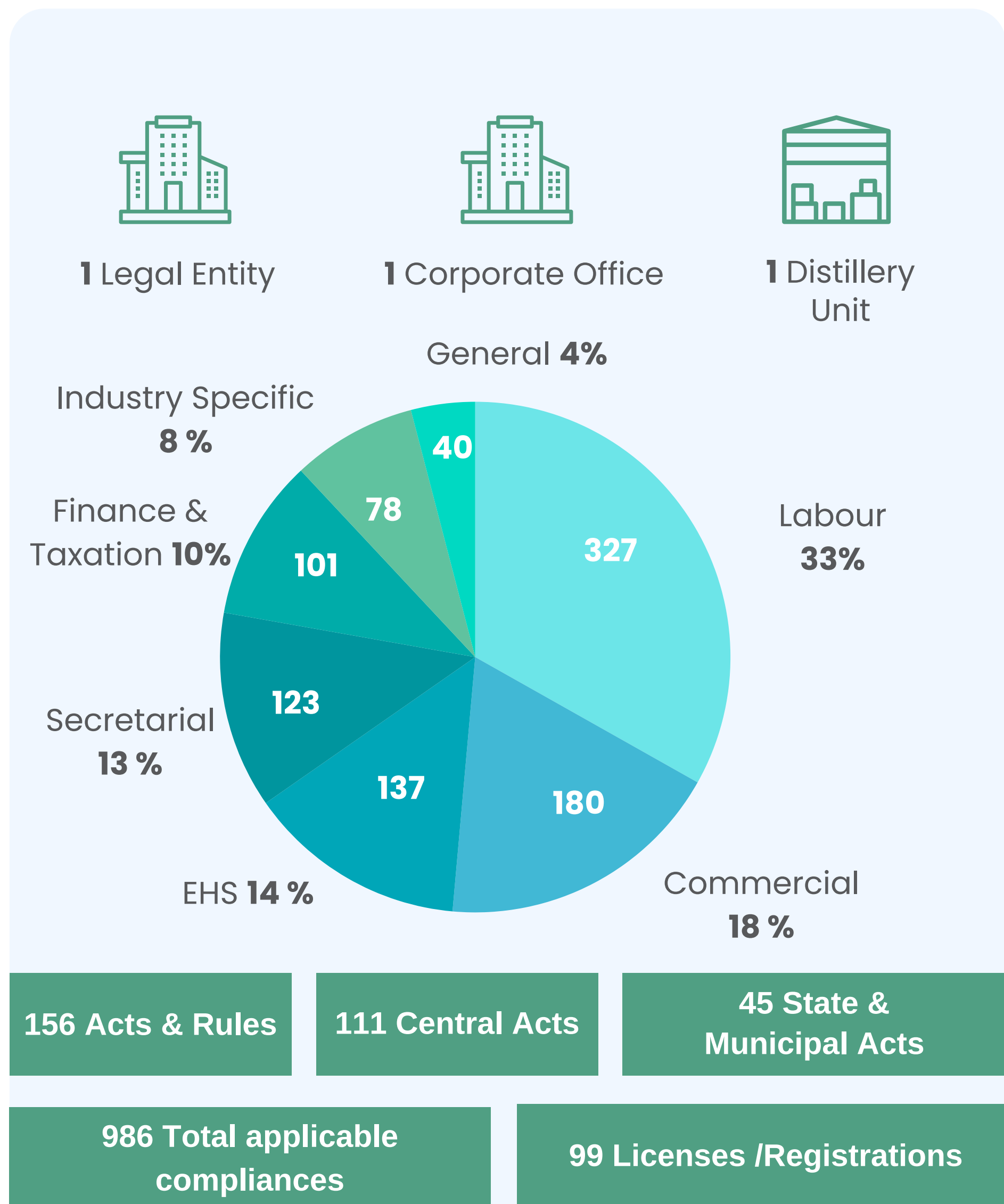
Breaking down these requirements on the basis of types, we find that they consist of 127 returns/submissions per year, 168 different forms and records, over 30 statutory payments, and more than 118 display obligations. In addition, there are requirements related to the appointment of specific professionals, such as a safety officer, a medical officer, and a food safety advisor, among others; the creation of specific committees; periodic examinations, inspections, and tests of machinery; and providing for the safety and welfare of employees in the form of canteens, creches, first aid kits, and break rooms to name a few. Enterprises engaged in storing and distributing alco-beverage in Maharashtra are again required to obtain 8 licenses. In contrast, those engaged in retail sales can need 9-13 licenses, depending on their business model.

**Below is an illustrative list of industry-specific regulations:**

- Food Safety and Standards (Licensing and Registration of Food Businesses) Regulations, 2011
- Food Safety and Standards (Packaging and Labelling) Regulations, 2011
- Prevention of Food Adulteration Act, 1954 and Prevention of Food Adulteration Rules, 1955
- Food Safety and Standards (Food Recall Procedure) Regulations, 2017
- Food Safety and Standard Rules, 2011
- State Excise Policies
- FSSAI Advisory on Disposal of food products unfit for human consumption; File No: RCD11003/3/2021-Regulatory-FSSAI; Dated: 30th September 2021



Fig. 10 Alco-Beverages Industry

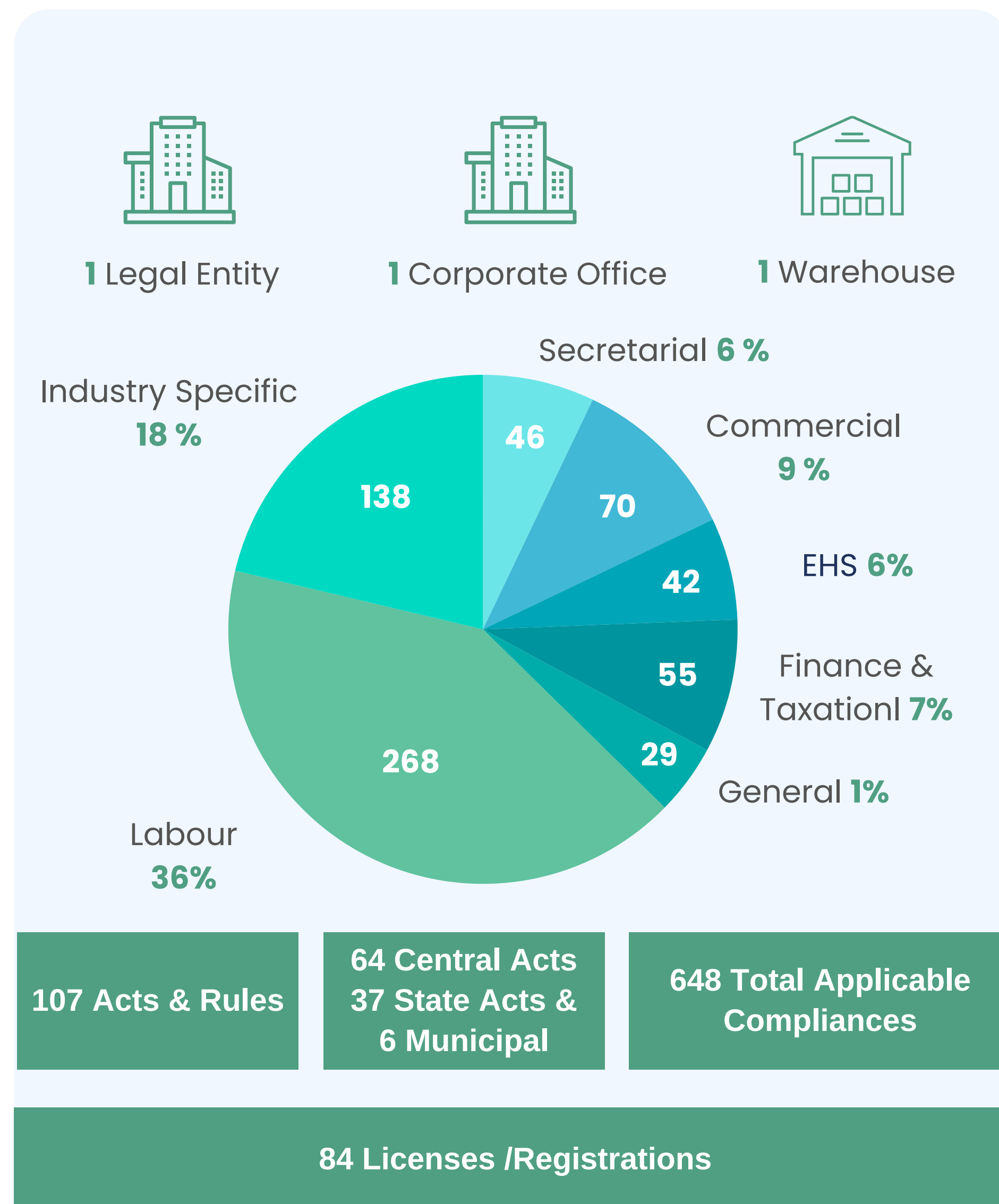


Varying models of governance and pricing dominate the regulatory framework for Alcohol across states. Since Alcohol is listed under the State list of the Seventh Schedule and kept out of the ambit of GST, each state has its own set of policies, acts, rules, and regulations that control the entire supply chain. There are wide variations in State-wise policies in terms of requirements, frequency & timelines for policy revisions, the turn-around time for grant/renewal of licenses, and adoption of technology, among others. Consequently, enterprises have to weather the frequent and ad-hoc changes in policy and regulations. There is a heightened sense of uncertainty in the industry that has become an entry barrier for new players. Even for the enterprises operating in the market, the need for uniformity and the dynamic nature of the regulatory ecosystem affect their compliance management capabilities. This effectively discourages and prevents enterprises from planning long-term investments and strategies. Because of the disparities in regulatory regimes between states, India has been segmented into more than 30 heterogeneous markets rather than a single market.

> Logistics and Supply Chain Industry

Despite the tremendous growth in the logistics and supply chain industry, the complexity of compliance has slowed down its progress. An MSME, with a single warehouse and corporate office in a single state, deals with 648 compliances in a year. Among them, 226 (or 34.8%) compliances contain imprisonment clauses. Approximately 54% of these clauses are contained in state laws, while the rest are within Union laws. There is a multiplicity of necessary documents, such as registrations, approvals, licences, permissions, consent orders, and certifications, among others, leading to complex and overlapping documentation.

Fig. 11 Logistics and Supply Chain Industry



Regulations that apply to a logistics warehousing facility include various quarterly disclosures to the WDRA (Warehousing Development and Regulatory Authority), insurance coverage against the various risks associated with the goods deposited in the warehouse, maintaining the quality and quantity of goods stored in the warehouse, maintaining complete and accurate records and accounts of all transactions, painting of walls and ceilings of the warehouse every 3 years and daily cleaning of the warehouse and



operating a physical analysis laboratory in the warehouse if agricultural commodities/goods are being stored among others.

**Below is an illustrative list of industry-specific regulations:**

- Warehousing (Development and Regulation) Act, 2007 and Warehousing (Development and Regulation) Registration of Warehouses Rules, 2017
- Warehouse Manual for Operationalising of Warehousing (Development & Regulation) Act, 2007
- The Carriage by Road Act, 2007 and Carriage by Road Rules, 2011
- Electricity Act, 2003 and Central Electricity Authority (Measures Relating to Safety and Electric Supply) Regulations, 2010
- Foreign Trade (Development and Regulation) Act, 1992 & Foreign Trade (Regulation) Rules, 1993
- Legal Metrology (Packaged Commodities) Rules, 2011

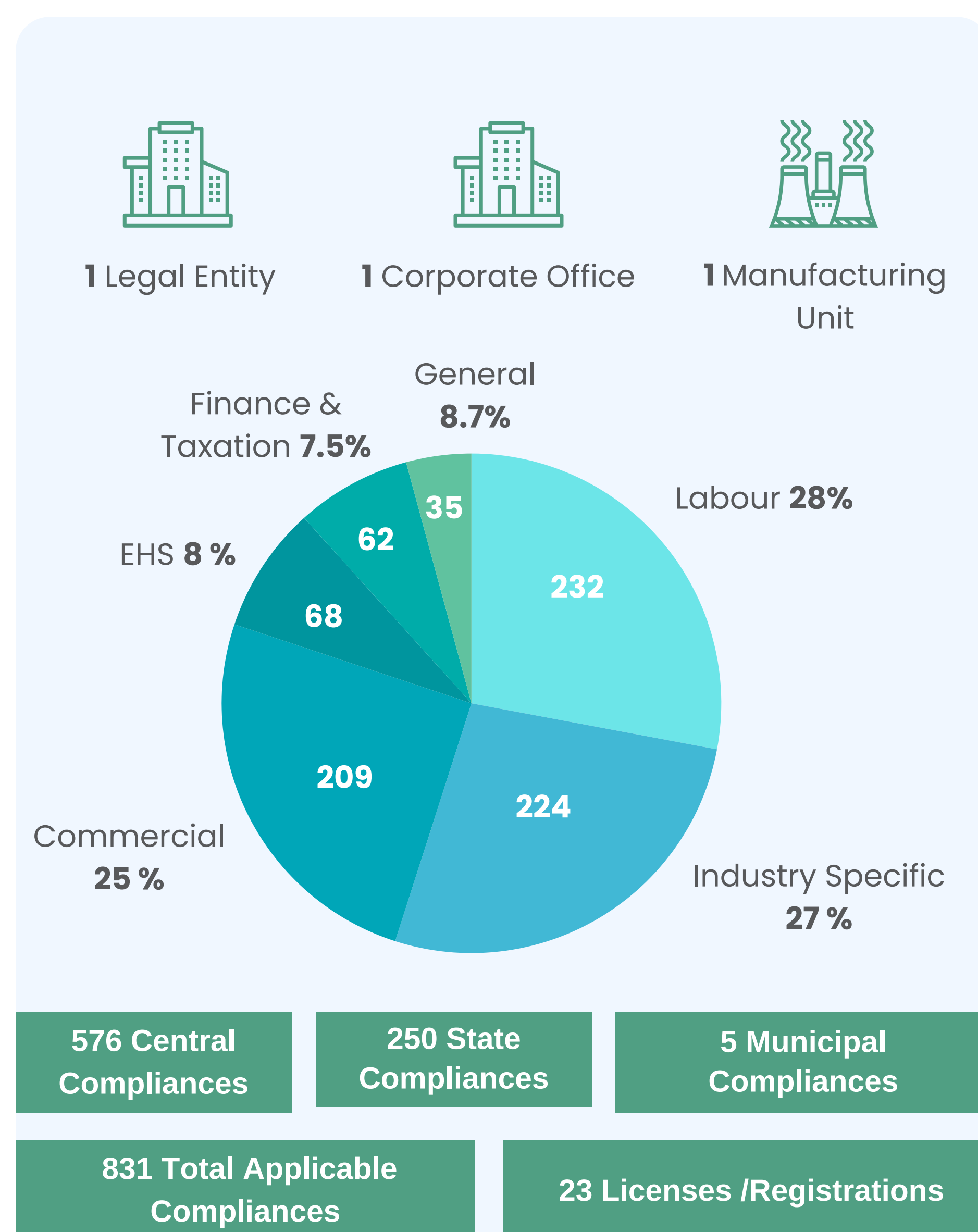
There are also one-time industry-specific approvals that an enterprise must acquire. These include the Import Export Code (IEC) Certificate under the Foreign Trade (Development and Regulation) Act, 1992 & Foreign Trade (Regulation) Rules, 1993, registration as a packer under the Legal Metrology (Packaged Commodities) Rules, 2011, and approvals related to labour safety and health among others.

## > FMCG Sector

Fast Moving Consumer Goods (FMCG) is the fourth-largest sector and is responsible for employing over 3 million people. The sector is going through a period of sustained growth, thanks to the rise in consumption in tier 2 and 3 cities, semi-urban and rural areas. While increasing awareness, accessibility, and lifestyle transformation have been the key growth drivers, ignorance of regulatory obligations, intricacies of compliance processes, and the sheer volume of updates have complicated the sector's regulatory framework.

For instance, in Maharashtra, an enterprise involved in producing agricultural and dairy products is required to obtain 23 licenses, permissions, and approvals before it can start operations. These include registration as a food business operator (FBO), factory license, fire compliance certificate, approval for sewage discharge, municipal corporation license, PPL, IPRS, and ISRA, and a license to purchase produce directly from farmers.

**Fig. 12 FMCG**



In addition, separate licenses have to be obtained for every unit wherein it manufactures, stores, sells, or exhibits food items for sale. All the raw materials, ingredients, and water used in the process must be approved and certified annually by an FSSAI-approved laboratory. Such an Enterprise is responsible for abiding by 831 regulatory requirements, of which 576 are enforced at the Union level and 250 are State-enforced. Furthermore, if the enterprise operates warehouses for storage and distribution, it must adhere to 421 additional compliance obligations. Deconstructing these requirements on the basis of compliance categories reveals that labour (232), industry-specific (224), and commercial (209) obligations make up the majority (80%) of applicable regulations for an agricultural and dairy product enterprise.



These three categories also account for 84% of the compliances applicable to warehousing operations.

**Below is an illustrative list of industry-specific regulations:**

- Essential Commodities Act, 1955
- Export (Quality Control and Inspection) Act, 1963 and Voluntary Certification Scheme on Food Commodities, 2007
- Food Safety & Standards Act, 2006 & Food Safety and Standards (Contaminants, toxins and Residues) Regulations, 2011
- Food Safety and Standards Act, 2006 and Food Safety and Standards (Advertising and Claims) Regulations, 2018
- Food Safety and Standards Act, 2006 and Food Safety and Standards (Food Recall Procedure) Regulations, 2017
- FSSAI Advisory on Disposal of food products unfit for human consumption, 2021

The regulations extensively cover all aspects of the production process, including preparation of raw materials/ ingredients, processing, packaging, labelling, storage, and distribution spread across production and storage units. For production, the enterprise must ensure that the packaging and labelling of its food products conform to the various packaging and labelling requirements. This includes specifying the ingredients, their measurements, dosage in case of nutraceuticals, special dietary foods, and health supplements, hygiene ratings, prohibition on misleading advertisements, ensuring that the food product is free of contaminants and adulteration, and appropriate measures for the production and packaging of vegan food items among others. It must also ensure the training of all its units and employees under the Food Safety Training and Certification (FoSTaC). The regulations call for the business to offer a guarantee on food articles to the vendors in writing, maintain food distribution records, maintain an updated food recall plan, operate a separate storage facility for recalled food products and maintain a record of the recovered food items as well as a record of their disposal, submit the details of the food recall to the concerned authority and a post-recall report,

and ensure that the material in contact with the food item is of food-grade quality among other requirements.

Even then, this does not capture the complete picture of the complexity of compliance for such FMCGs, as a major part of these have varying frequencies. Corporations need to ensure that they remain compliant in each cycle, from monthly to quarterly to annual compliance calendars.





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### **Lack of a list of all applicable compliances (licenses, registrations, NOCs, returns, registers, challans, payments etc.)**

The list of applicable compliances differs based on the scale, geographical footprint, and location of the company in question. For instance, a small retail company operating in a single state in India deals with at least 490 compliances in a year. Similarly, a small logistics and supply chain company operating in a single state in India deals with at least 648 compliances in a year. An MSME pharmaceutical company with one manufacturing facility in a single state must ensure compliance with 998 obligations, whereas an NBFC operating in a single state has to obey 621 regulations.

As enterprises expand their geographical footprint, the number of applicable compliances multiplies significantly. These compliances are at three levels - union, state, and municipal. In addition, they are in seven compliance categories - labour, finance and taxation, commercial, secretarial, environment, health and safety (EHS), industry-specific, and general. Identification of applicable compliances for a retail company requires deep expertise.

The applicability of compliance changes based on the company's location (industrial areas, export-oriented units, gram panchayats, special economic zones) and the quantity and privacy pertaining to personal data and sensitive information, given the involvement of multiple stakeholders/IoT users. There are also many challenges with respect to the ever-changing threshold quantity and its notification to the concerned authority.

Due to these foregoing factors, most organisations in India find it challenging to track compliance. The lack of a comprehensive and accurate list of applicable compliances adds to the difficulty of keeping up with the compliance requirements.



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## Fluid Regulatory Environment (Impact of regulatory changes on corporate statutory responsibilities)

The regulatory framework in India is highly fluid, with 2,233 union, state, and municipal government websites publishing over 3,000 updates each year (over 4,800 in 2022). On average, this amounts to 10 new regulations being added each day. There is no easy way for an employer to get pertinent real-time notifications of regulatory changes. These updates are in various forms (notifications, gazettes, circulars, ordinances, master circulars, press releases, etc.) and lead to changes in formats, dates, timeframes, frequency, penalties, interest rate computations, application threshold values, and the wording of the legislation. Due to the time-sensitive nature of these amendments, prompt interpretation and application are essential. TeamLease Regtech conducted a study and concluded that across all industries and sectors, there were more than 300 regulatory modifications that could impact Micro, Small, and Medium Enterprises (MSME). A typical MSME with over 150 employees confronts 500-900 compliances that cost INR 12-18 lac annually.

However, there is no central platform that publishes up-to-date information on national, real-time, thorough, and customised updates on all regulatory changes that affect the employer compliance burden. As such, it has become a routine practice for compliance officers to check hundreds of websites for new information manually.



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## Paper-based, people-dependent Compliance program

In India, compliance and documentation go hand in hand. Numerous documents, including applications, acknowledgements, forms, receipts, licences, and registers, that are central to compliance were managed manually in physical forms. Consequently, compliance functions relied on ad hoc, paper-based, and people-dependent processes for decades. The proverb 'to err is human' also applies to compliance management. When an organisation's compliance lifecycle is entirely people-dependent, there is a significant margin for errors, omissions, and postponements. This results in unintended delays, defaults, and lapses, which pose financial and reputational risks. Every minor non-compliance has the possibility of affecting the reputation of a corporation, questioning its corporate governance, and thereby impacting share prices. The costs of poor compliance are simply too high as governments push for greater corporate accountability through stringent oversight and hefty penalties. Additionally, as a company expands, these compliance obligations multiply exponentially.

The manual method of compliance is time-consuming because every record and piece of data must be manually retrieved, processed, and filed in the correct format. The majority of the compliance workflow relies on spreadsheets, which are incompatible with an automated workflow. In many cases, such compliance processes result in multiple spreadsheets with no audit trail that enables transparency or accountability. Additionally, the overwhelming volume of data entries makes it difficult to locate and extract relevant data.

Furthermore, compliance requirements undergo frequent changes, which add to the complexity. In FY 2022-23, 5,986 regulatory updates were published on 2,000+ government websites. At an average of 16 updates per day, there are continuous modifications in deadlines, procedures, penalties, and calculations. Presuming these changes are applicable immediately, they require time-sensitive implementation, which adds further strain to the compliance program. Thus, in the era of Compliance 1.0, there was no effective manual way for an employer to stay on top of all applicable compliance and regulatory updates.





Take, for instance, the case of a corporation that is outsourcing several essential business processes and operations to contractors and third-party vendors in an effort to rationalise costs and improve efficiency. It can have anywhere from 10 to 50 contractors on board who are responsible for services such as security, housekeeping, canteen, skilled engineering works, IT, waste management, manpower, and consultants, among others. While these contractors are required to fulfil their regulatory requirements, as the principal employer, corporations are also held liable and responsible. With each contractor itself required to keep up with over 50 compliance obligations, it is challenging for a principal employer to manually keep track of all applicable, pending, and completed compliances, related compliance documents, and any changes that may transpire as a result of the regulatory updates.



03

**What causes  
accidental  
non-compliance?**



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# What causes accidental non-compliance

### > Missed date for license renewals

Corporations have to obtain tens and hundreds of licenses, registrations, permissions, approvals, certificates, etc., before and during the course of carrying out their business. For instance, a medium FMCG enterprise involved in agricultural and dairy production with a single manufacturing unit needs to obtain 23 licenses, permissions, etc., before it can start operations. An MSME logistics company with a single warehouse and single corporate office needs to obtain 35 certificates and licenses. A pharmaceutical enterprise with a single manufacturing unit in a single state needs to obtain about 70 one-time registrations and approvals before beginning operations. The number of required licenses can go into thousands for companies that are larger in scale, size of operations, and geographical footprint. Consequently, it is easy for compliance teams to lose track of license renewal dates among the thousands of other pending and ongoing compliances.

### > Maintenance of records and registers in the prescribed format

In addition to various licenses, registrations, permissions, approvals, certificates, etc., corporations also need to maintain records and registers in the prescribed formats. For instance, a NBFC (Non-Banking Financial Corporation) needs to maintain over 100 registers and records. A logistics company with a presence in just a single state must maintain over 135 registers, and a pharmaceutical manufacturer must keep track of at least 40 registers. The sheer volume of records and registers, all with unique formats, makes it extremely difficult for organisations to keep up with their record-keeping compliances.

### > Lack of awareness of various ongoing compliances

It is a commonly seen phenomenon that the Key Management Personnel (KMPs) have a poor understanding of the compliance obligations of their organisation. A small pharmaceutical company can easily accrue 900-1,000 ongoing compliances just to operate in a single state.



For a company active in the logistics and supply chain industry, ongoing compliances can make up 2 out of every 3 compliance obligations. Similarly, for the retail industry, 9 out of 10 compliances are ongoing in nature. In addition to a lack of awareness at the management level, most compliance teams lack the technology to track and manage ongoing obligations adequately. Consequently, they are forced to deal with them on an ad-hoc basis. Losing track of any of the ongoing compliances can result in a high cost of poor compliance in the form of penalties.

### > **Missed regulatory changes**

The Indian business regulatory environment is fluid. There are 2,233 government websites at all three levels of government that publish regulatory updates. These can be through notifications, circulars, directions, press releases, and ordinances, among others. These updates are often related to changes in forms, dates, timelines, frequencies, fines, interest rate calculations, applicability threshold values, and clarification on the letter of the law, among others. These updates ordinarily come into effect within a short timeframe and require time-sensitive interpretation and implementation. In FY22-23, 5,986 regulatory updates were published. In FY23-24, there have already been 4,926 updates (October, 2023).

### > **Periodic introduction of new laws and serious compliance obligations**

The business regulatory environment is highly dynamic with various new laws, rules, and regulations being continuously introduced. The regulators and government bodies are in a continuous state of fine-tuning the regulatory framework to ensure there are no loopholes or grey areas. Law and policy are evolving fields, and as such, it is pertinent that the authorities keep up with new developments and technologies that can create areas of regulatory arbitrage. The advent of the internet and digital platforms such as social media and even online gaming platforms have constantly pushed boundaries. Regulations often lag behind these paradigm shifts, and as such, regulators are continuously introducing new laws and compliance obligations to ensure that there are adequate guardrails.

### > **Inaccurate calculation of statutory liabilities**

Corporations are subject to a host of statutory payment requirements and liabilities. These can be related to social security or tax liabilities. For instance, a single-unit alco-beverage distillery needs to adhere to over 30 statutory payment obligations. In addition, there are more than 25 payment requirements related to employee payments. Various municipal and state laws also prescribe statutory payments to be made for property tax, advertising permit fees, Labour Welfare Board contributions and electricity consumption tax, among others. An inaccurate calculation can lead to the business defaulting on its liabilities and can end up getting the company inspected, audited and even penalised.

### > **Poor oversight of contractor's compliance**

There is an increasing trend among current businesses to delegate and outsource certain business operations to contractors. This allows businesses to access individuals with specific skill sets and expertise without providing long-term employment. Principal employers rely on independent contractors so that their businesses can remain flexible and efficient and respond immediately to shifting market demands. However, maintaining contractor compliance duties is a non-trivial task for principal employers. They are responsible for the compliance obligations of their contractors in the event of contravention and will be liable. Taking into consideration a principal employer engaged in the manufacture of automobile components with a single manufacturing unit. Each contractor is required to obtain six different licenses and registrations. They also need to furnish six annual returns, two quarterly, one half-yearly, and one monthly return. If a contractor fails to maintain registers under the Contract Labour (Regulation and Abolition) Act, 1970, the principal employer becomes liable for a jail term of up to 3 months. Failure to maintain the register under the Maternity Benefits Act, 1961 can land the employer in jail for up to 2 years.



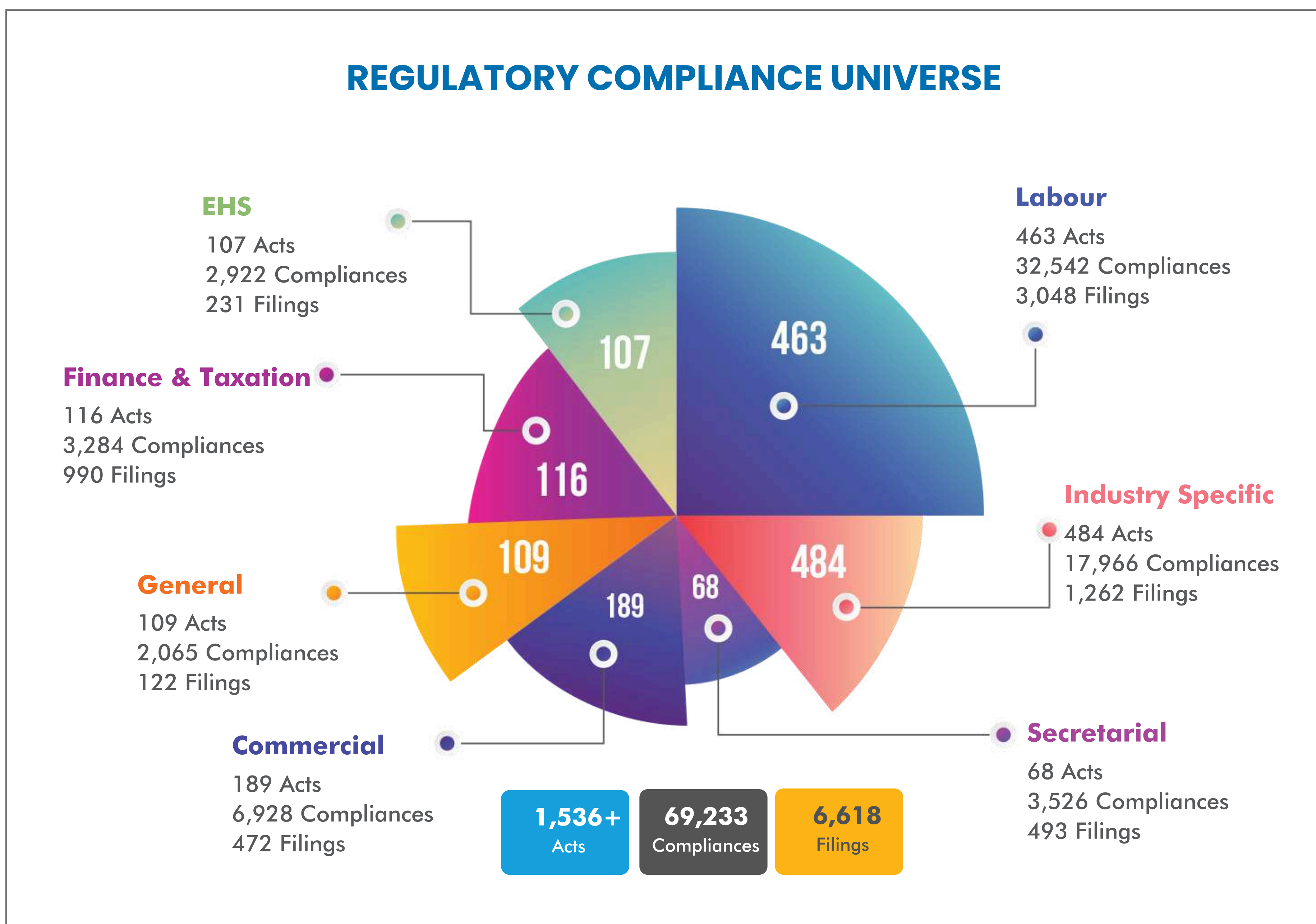
04

# How TL RegTech helps Corporations Stay Compliant



# Compliance 2.0 - RegTech

In recent years, technology has revolutionised how corporations approach compliance. Digital compliance management solutions that harness the power of the web, mobile, cloud, and analytics have become the talk of the town. They provide employers with intelligent, productive, and efficient means to meet their individual compliance requirements. In addition, they enable enterprises to make a seamless transition from 'reactive' to 'dynamic' compliance, keeping up with the ever-evolving regulatory landscape. Consequently, an increasing number of businesses across the nation are aggressively digitising their compliance processes. This RegTech disruption has made it simpler for businesses to monitor event-based and ongoing compliances and manage relevant licenses and registrations. It has enabled employers to remain abreast with changes and modifications in applicable compliance requirements and regulatory frameworks.





## RegTrack

Effective compliance management is essential for organizational growth and sustainability. However, the compliance environment in India is complex, with frequent changes and numerous registrations, returns, and other compliances. Traditional manual tracking can lead to ad-hoc, paper-based systems resulting in missed or incorrect compliances and severe penalties or reputation loss. RegTrack is a digital compliance management system trusted by over 1,500 entities across 45 different industries in India. The platform brings the power of Cloud, Mobile & Analytics deeply integrated with India's best and most reliable compliance database.

### REGTRACK - AT A GLANCE

Track and manage all your compliances

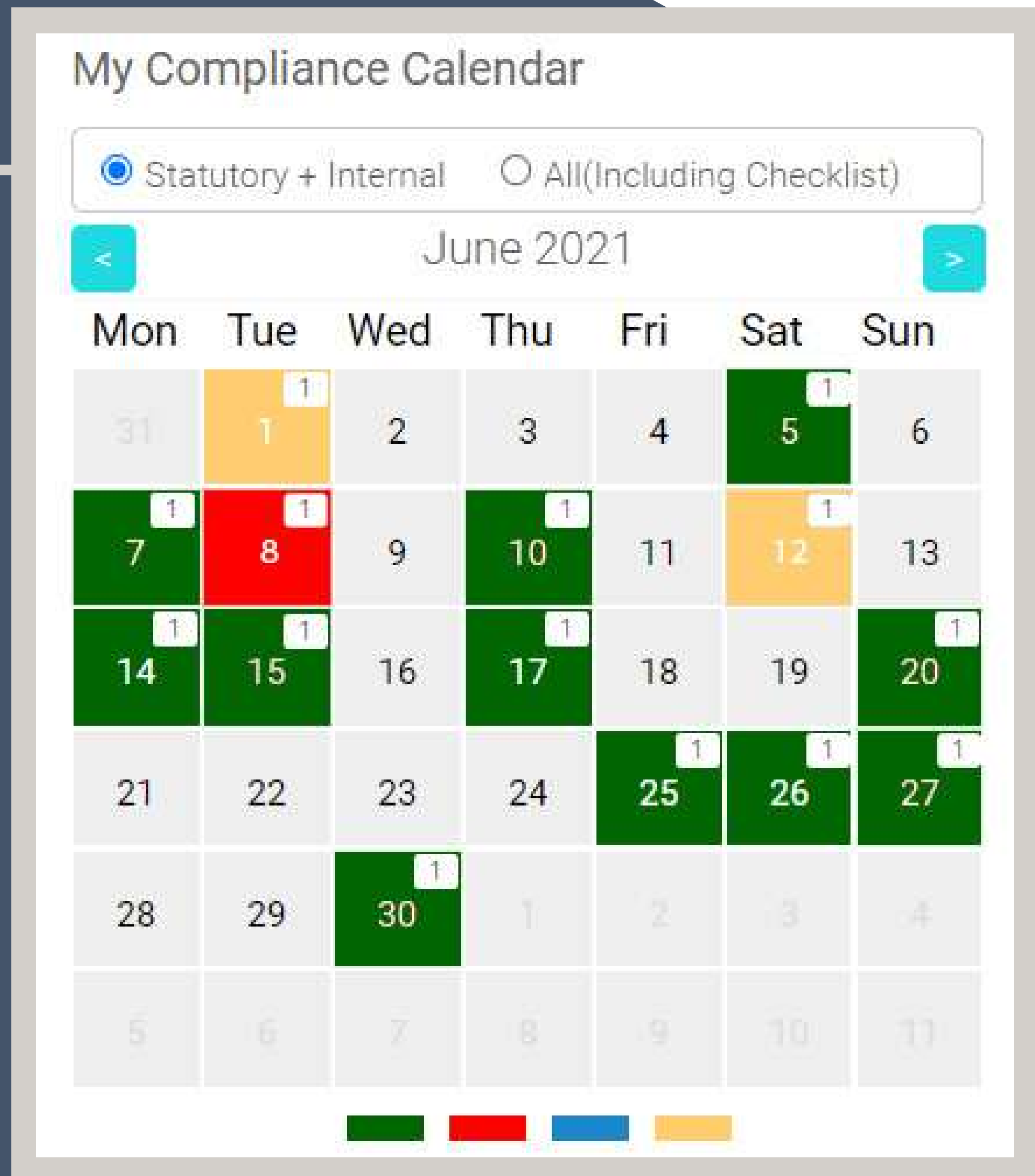
	<p><b>Automate Compliance Tracking &amp; Management</b></p>	<ul style="list-style-type: none"> <li>• India's leading compliance automation solution trusted by over 2,500 entities &amp; 30,000+ enterprise users</li> <li>• Deployments across listed and private limited across 50+ industries</li> </ul>
	<p><b>Quick &amp; Easy Deployment</b></p>	<ul style="list-style-type: none"> <li>• Comprehensive assessment of compliance applicability &amp; gap analysis for your business</li> <li>• Go live as quickly as in 3-4 weeks</li> <li>• Highly configurable and personalised to suit your Business &amp; Industry needs</li> </ul>
	<p><b>Cloud &amp; Mobile based SAAS Platform</b></p>	<ul style="list-style-type: none"> <li>• Web / iOS / Android based access 24*7*365</li> <li>• No capital expenditure on IT Infrastructure</li> </ul>
	<p><b>Integrated Compliance Database</b></p>	<ul style="list-style-type: none"> <li>• Coverage for over 1,536 Acts, 69,233 Compliances, 6,618 Filings across 28 States, 8 Union Territories covering Central, State &amp; Local Laws</li> </ul>
	<p><b>Real Time &amp; Personalized Legal Updates</b></p>	<ul style="list-style-type: none"> <li>• Use of AI, ML and OCR proprietary technologies to track over 2200+ Central, State and Local level websites</li> </ul>
	<p><b>Advanced Analytics and Reporting Capabilities</b></p>	<ul style="list-style-type: none"> <li>• Comprehensive standard &amp; on-demand reporting capabilities configurable</li> <li>• Notification engine for automated and timely reminders &amp; escalations</li> </ul>



## Smart Dashboards

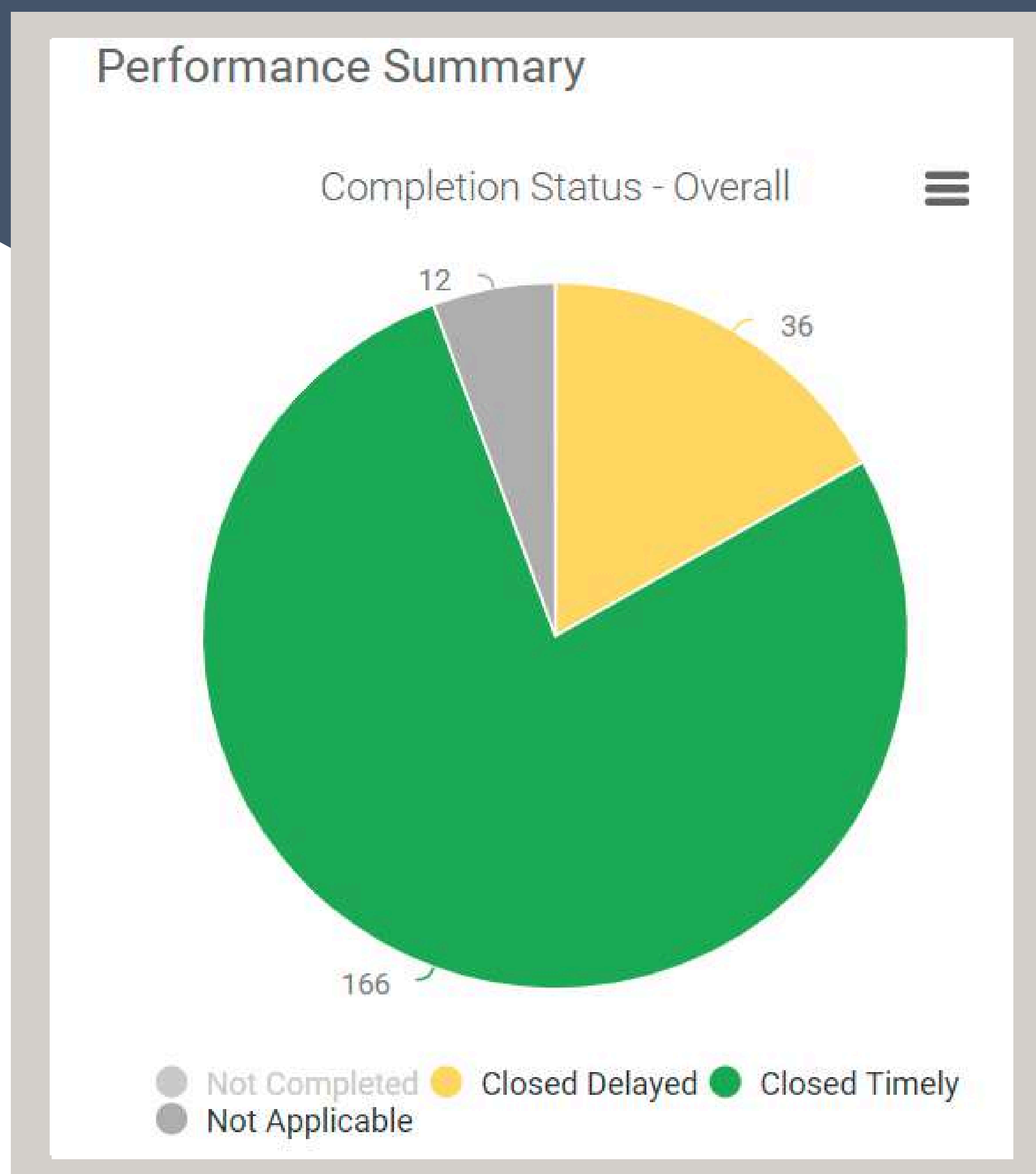
### Compliance Calendar

So you know what's coming



### Performance Summary

What gets measured, gets managed



## Highlights

### Color Coded Drill Down Capabilities

Highly intuitive, real time updated, personalised by user configuration

### Tracking 72+ parameters real time

Provides enhanced visibility, transparency & control for timely interventions

### Highly Configurable

Views by Financial year, Entity / Locations, Periods, User, Act & Risk

### Compliance Status by

Risk, user, entity/Location, category & Role

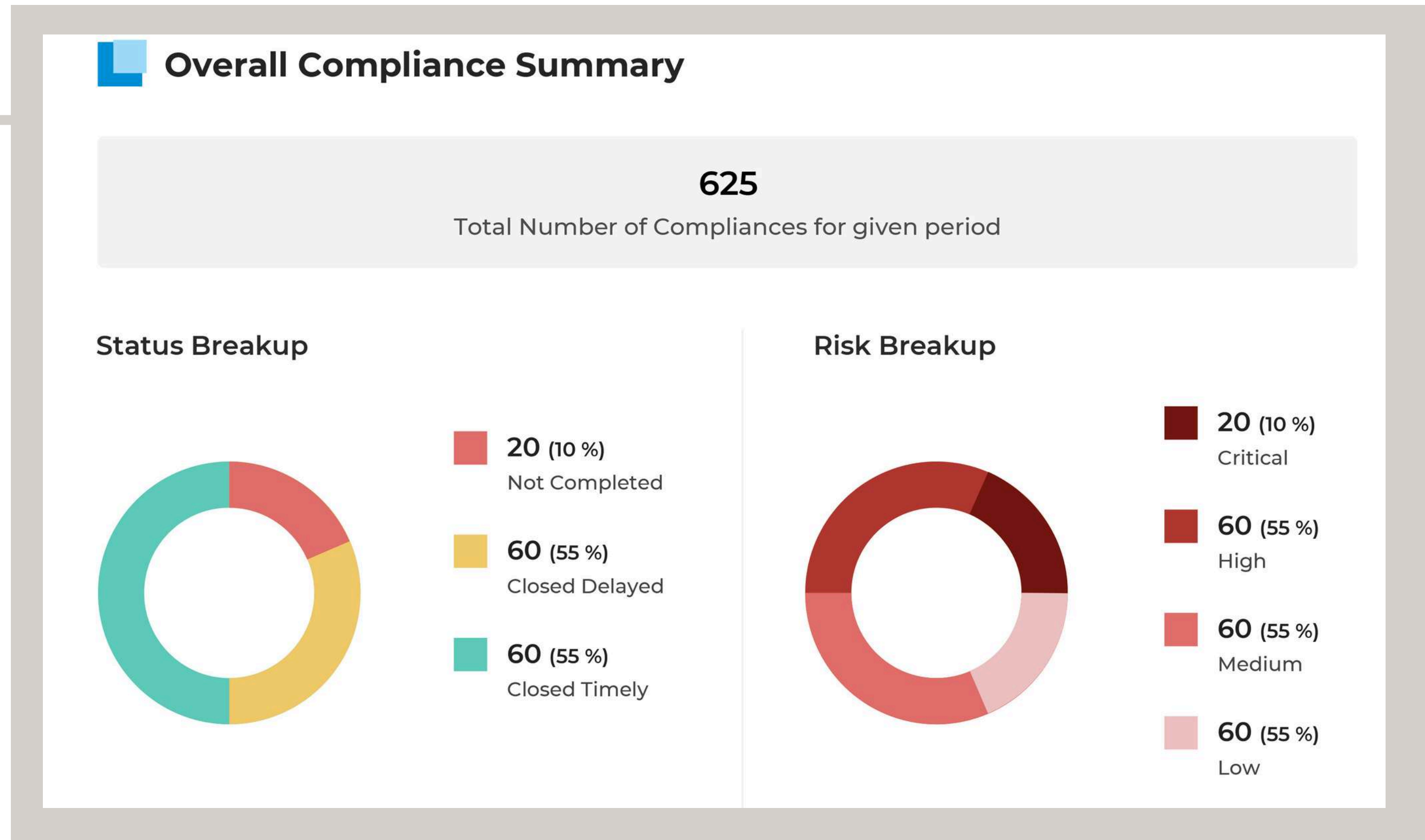
### Capabilities to make queries / comments

Address comment to specific users & track them to closure

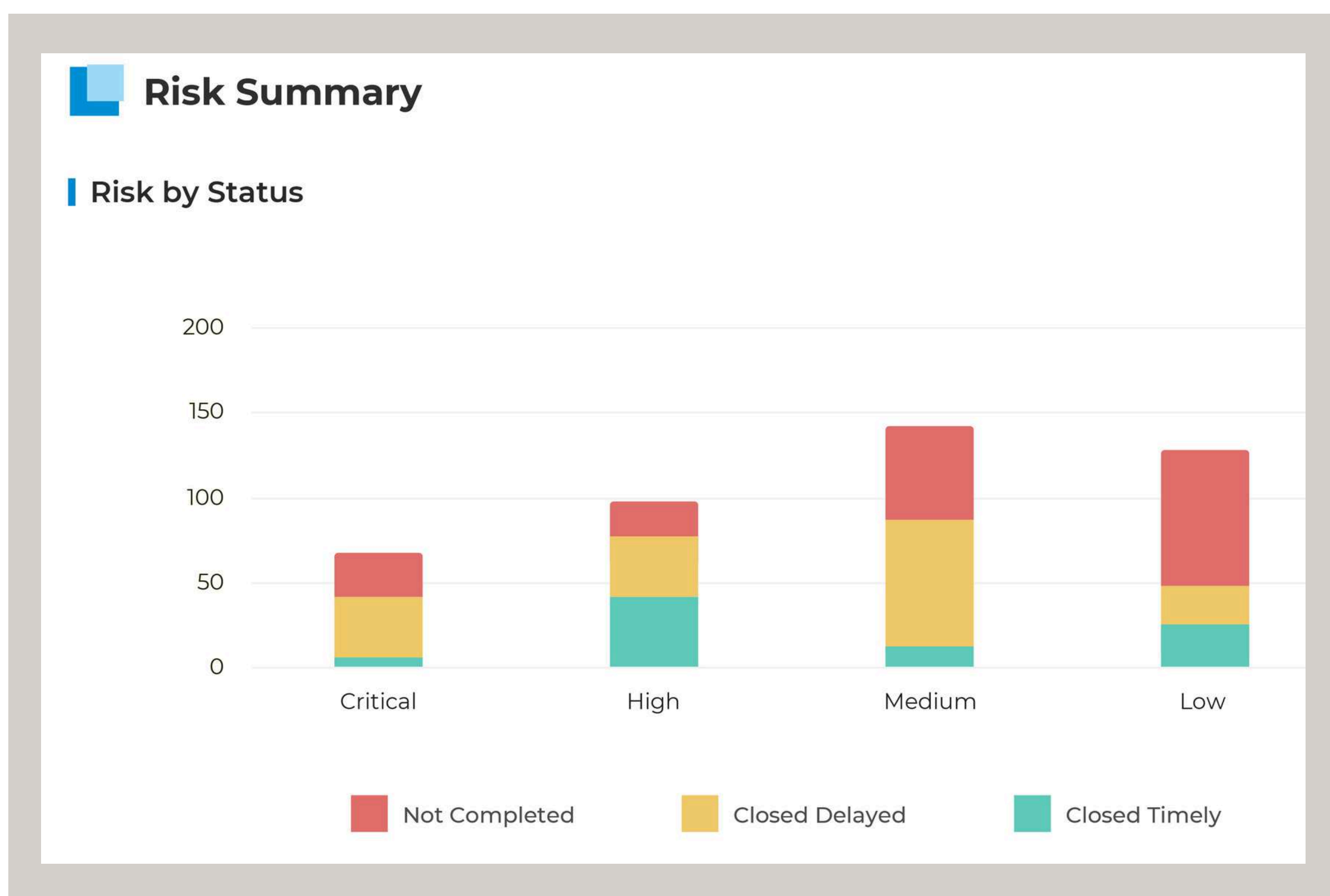


## Reports with Advanced Analytics

Data driven decision making



Allowing you to focus



## Highlights

### Comprehensive Standard Reports

Six types of comprehensive & auto generated reports

### Custom Reports / Query Builder

Capability to generate on demand reports & 10+ parameters such as entity, location, user, risk, category, period among others

### Scheduled Reminders & Notifications

Available on email, web platform, mobile App

### Customisation Capability

Personalise alerts / reminders / escalations based on specific needs



## RegTrack Contractor

### Overview

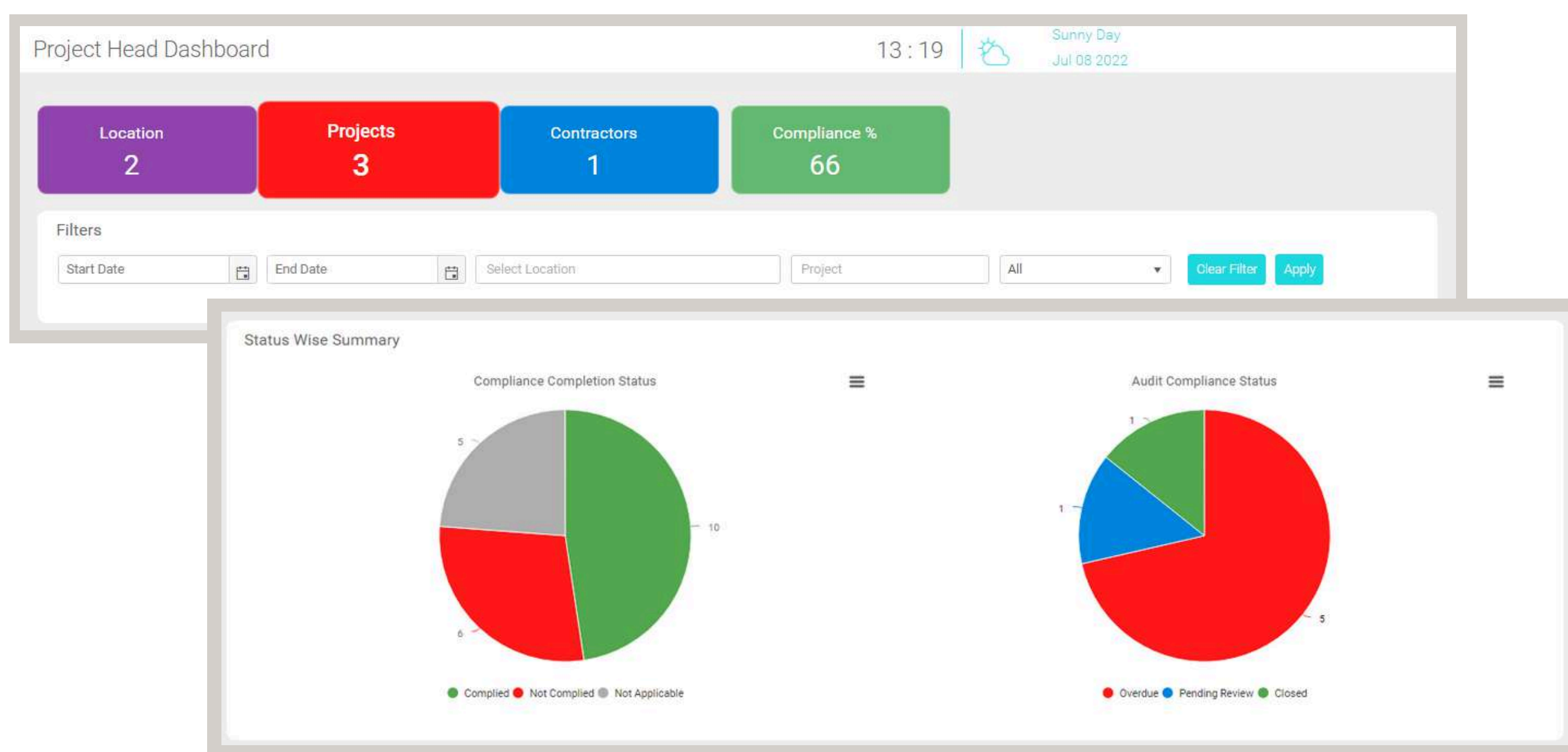
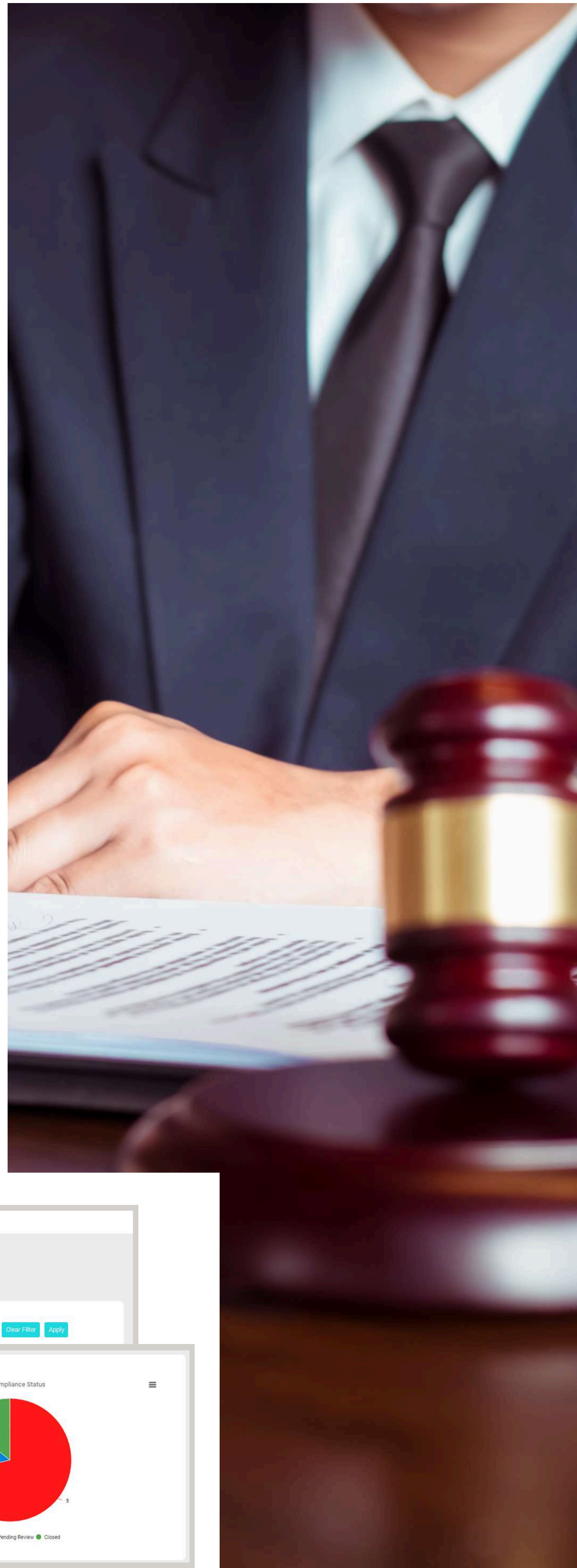
While the benefits of a temp and contract model are many, the partners working with the principal employer need to be well versed with all laws and regulations, non adherence of clauses may get the principal employer in trouble.

These are some of the critical statutory requirements that are to be met by the principal employer.

1. Contract Labour (Regulation & Abolition) Act, 1970 & Rules 1971
2. Payment of Statutory liabilities under EPF, ESIC, PT and LWF
3. Maintenance of Statutory registers and filing periodical returns
4. Statutory License requirements under various regulations

### TeamLease Offering

TeamLease vendor compliance management product helps corporates create a digital process to facilitate effective management of compliances related to its contractors. Our product provides a real-time view of the overall compliance status for all the contractors.



Additionally, we also offer a comprehensive compliance framework for contractors, with individual accesses to customer employees and contractors. This services includes identification, an finalization of compliance list along with monthly review and a GAP report of contractor compliances



## Product Features

	<p><b>Cloud based SAAS Platform</b></p>	<ul style="list-style-type: none"> <li>• Web based access 24*7*365</li> <li>• No capital expenditure on IT Infrastructure</li> </ul>
	<p><b>Compliance Submission and Flow</b></p>	<ul style="list-style-type: none"> <li>• Easy to adapt utility for contractors</li> <li>• To &amp; Fro utility between contractors and employers</li> <li>• Complete audit trail of all communications</li> </ul>
	<p><b>Smart Dashboards</b></p>	<ul style="list-style-type: none"> <li>• Highly intuitive, colour coded, real time &amp; personalized</li> <li>• View compliance status across location and contractor types</li> <li>• Dashboard view to all key stakeholders customer's/employers management, auditors &amp; contractors</li> </ul>
	<p><b>Notification Engine</b></p>	<ul style="list-style-type: none"> <li>• Automated reminders to contractors for periodic compliance submission</li> <li>• Reminders and escalations sent on official emails with notifications on the platform</li> <li>• Reminder email has links to individual compliance items for ease of navigation</li> </ul>
	<p><b>Integrated Document Management</b></p>	<ul style="list-style-type: none"> <li>• Central repository for all compliance documents for contractors</li> <li>• East to store and retrieve documents for employer and contractor</li> </ul>
	<p><b>Highly Configurable</b></p>	<ul style="list-style-type: none"> <li>• Easy to create all masters (Locations, contractors, acts &amp; compliances, etc.)</li> <li>• Easy to configure</li> <li>• Highly customisable</li> </ul>
	<p><b>Reports and Analytics</b></p>	<ul style="list-style-type: none"> <li>• Generate reports for parameters like contractor type, location / projects, contractor, status, etc.</li> <li>• Facility to configure report formats as per your requirements</li> <li>• Analytics to drive data-driven decision making</li> </ul>
	<p><b>Access &amp; Support</b></p>	<ul style="list-style-type: none"> <li>• Provides access to each contractor and their sub-contractors</li> <li>• Captures all license details and support renewal tracking</li> <li>• Visibility of status and actions items to contractors SPOC</li> <li>• Supports compliance monitoring for sub- contractors as well</li> </ul>



## RegAuto Labour

### Introduction

TeamLease RegTech is India's leading Regulatory Technology (RegTech) solutions company helping Corporates to manage their Statutory Compliances more efficiently and Practitioners to automate their delivery capabilities and help them enhance their profitability. Currently, our products are utilized by over 1,500 legal entities across 28 States and 9 Union Territories.

TeamLease RegTech offers a self-service portal with automation layers with capabilities to process and automatically generate 'Returns, Registers and Challans' under various Labour Laws. The Platform has algorithms for design and calculation of the required compliance documents and making it simple and easy-to-use with simple excel uploads.

Junior employees can easily use the platform and upload the basic files like salary and attendance to generate the required returns and registers.

TeamLease RegTech has been recognized by Start Up India and DPIIT and has won EODB Grand Challenge 2019 award for Labour Compliance Automation.

### Product Offering



#### Payroll Compliances

Provident Fund (PF), Employee State Insurance (ESI), Professional Tax (PT) & Labour Welfare Fund (LWF)



#### Shops & Establishment Compliances

Shops & Establishment, Minimum Wages, Payment of Wages, Payment of Bonus, Maternity Benefit, Mines, Equal Remuneration Act, etc.



#### Factory Compliances

Factories Act and Rules



#### CLRA Compliances







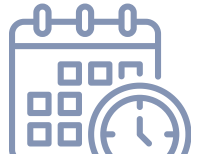

Contract Labour (Regulation and Abolition)

### How does it Work?

TL RegTech has deep digital capabilities to manage all the labour compliance complexity and state-specific requirements in its Labour Compliance Automation Platform. A simple 'Excel upload' and generate returns, registers and challans. Service Providers do not need to deploy experienced and skilled employees to operate the Platform. Smart junior staff with limited knowledge and good excel skills can use the Platform with ease.

Most of the Compliance documents can be generated with Salary and Attendance files directly. The Platform has the capabilities to integrate with Payroll System thereby extracting most of the required information directly from Payroll Systems eliminating the need to manually upload these in excel formats.

### Some of the Inputs uploaded in the Platform in excel formats are as follows:

- |  |   |
|--|---|
|  <b>Salary Register</b>       |  <b>Overtime Details</b> |
|  <b>Holiday Calendar</b>      |  <b>Attendance</b>       |
|  <b>Fines &amp; Deduction</b> |  <b>Gratuity Details</b> |
|  <b>Leaves</b>                |  <b>Maternity</b>        |



## Features of Labour Compliance Automation Platform

Auto generation of returns, challans and registers



Periodic Data Upload Capability



Auto Generated Compliance Calendar



Centralised Document Repository



Integrated Legal Updates



Workflow Management

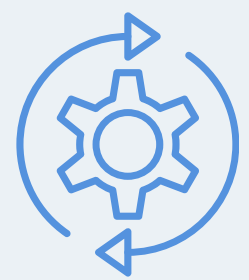
## Benefits of Practice Digitization



Technology-led delivery capabilities provides greater confidence to Customers on accuracy, error-free outputs and data confidentiality



Customer Portals increases transparency, visibility, and high retention rates



Automation layers improves employees' productivity, TAT and overall profitability



Increases Service Provider's competitiveness and better access to large Customers



Offers centralized compliance document repository



Digitizes most of the Back-Office operations offering Entrepreneurs to focus on customer acquisition



## RegAuto-Secretarial

Companies Act 2013 has significantly enhanced the disclosure requirement by companies and its Directors to Shareholders and various statutory authorities. There are 4 board meetings, close to 16 committee meetings, and an AGM in a single year. Effectively a company secretary is putting in more than 30 working days just in compiling the agenda papers among other documents for Board Meeting Management. All these requirements are complex and require in-depth understanding and expertise. Currently, these complex requirements are managed by Companies Secretarial departments manually with no compliance and board meeting management tool or platform.

Secretarial compliances can be broadly classified into meeting specific, company specific, agenda specific, and director specific compliances. AVASEC enables transparent and timely flow of information between management and the board. It enhances the quality of communication and collaboration through a web and mobile dashboard. It enables businesses to effectively manage their compliances, compliance documents, and board meetings.

### Compliance Management

#### Procedural Requirements

- List of procedural requirements
- List of good practices

#### Compliance Requirements

- Company specific
- Meeting and agenda specific
- Director Specific

#### Legal Updates

- Regulatory changes/Legal updates
- Available on mobile, web, platform, and email

#### Master Data

- Master details of
  - Entity, Directors, Committees
  - Avoid duplication of effort during record preparation

#### Compliance Status Updates

- Compliance Status Reports
- Both Meeting and Agenda Specific

#### Compliance Calendars and Sync Options

- Auto population of compliance calendar
- Updation of user personal calendar

### Document Management

#### Auto Generation of Records & Compliance Documents

- Records
- E-Forms
- Registers
- In both statutory and non- statutory formats

#### Templatized Repository

- Ready to use editable formats
- Company type and agenda wise
  - Notices
  - Agendas
  - Resolution
  - Minutes
  - Certified true copies

#### Centralized Document Repository

- All records, compliance documents
  - Easy to search
  - Sort & Filter
- Version Control
- Tamper Proofing

### Meetings Management

#### Board & Committees Meeting Management

- Scheduling
- Auto creation of notices
- Sharing of notices
- Agenda Preparation
- Minutes Preparation

#### Agenda Discussion

- Directors can make personal notes digitally
- Seek explanation on specific items in agenda

#### Video Conferencing

- Integrated video conferencing facility for the board & CS
- Auto-storage of the recording of the meeting

### Management View

#### ATRs & Task Management Module

- Create Tasks
- Assign Tasks
- Define Timelines
- Access to Directors and CS

#### Configurable Reminders, Escalations & Chats

- Auto emails to user profiles for
  - Reminders, escalations
  - Compliances
  - Due dates
  - CS and Directors can initiate private and public chats

#### Smart Dashboard

- Colour coded graphical representation
- Intuitive dashboards
- User specific dashboards
- Update on a real time basis



## RegAudit

RegAudit aids a business in assessing whether it is complying with all the relevant acts and compliances; including obtaining all the right licenses, registrations, and permissions, filing timely returns and challans, maintaining registers and records in the correct formats. A compliance audit service that comes with deep expertise to understand and interpret the statutory requirements can help enterprises avoid missed filings, non-maintenance of critical documents, delays, inaccuracies, and data inconsistencies, thereby reducing legal notices, regulatory prosecution, penalties and fines.

## TeamLease Offering

### Periodic & One-time Compliance Health Check Services

- Detailed understanding of the Customer's business activities
- Comprehensive assessment of acts and compliances
- Finalization of following lists applicable to the customer
  - Acts & Compliance under Central, State, UT, Local Government
  - Industry Specific compliances
  - Licenses, Registration, Consent orders, Permissions
- Review of compliances & provide a GAP Report

### Vendor Audit

- Services for creating a comprehensive Compliance Framework for vendors
- Thorough review of applicable compliances for Corporate Vendors
- Periodic monitoring and reporting of compliance status of vendors across location

### Compliance Framework Audit

- Compliance program review w.r.t. coverage, applicability and correctness
- GAP Reporting of missing compliances
- Review of performance of Product's existing features
- Product's Usage and identification of root cause for low product usage
- Report of existing User mapping against the current user profiles
- Verification of documents uploaded in the Product

## Business Discovery Framework

	<p><b>Nature of Establishment</b></p> <p>Plant / Factory, Office (Head, Regional &amp; Branch Office) Leading the requirement of licence, Registration, Consent orders, Permissions</p>
<p><b>Nature of Incorporation</b></p> <p>Listed, Public limited, Private Limited, OPC, LLP</p>	
	<p><b>Nature of Business</b></p> <p>Manufacturing / Service</p>
<p><b>Industry</b></p> <p>Automobile, Banking, Healthcare</p>	
	<p><b>Geographies of Operations</b></p> <p>(States / UTs / Panchayats / Zila parishads)</p>
<p><b>Staffing</b></p> <p>On Roll and Off Roll Employee, Contract Labours</p>	
	<p><b>Machines/Equipment</b></p> <p>(Boilers, Pressure Vessels, Gas Cylinders, Lifts and Hoists, DG Sets, diesel Storage Tanks)</p>
<p><b>Market Service</b></p> <p>Domestic (State / UTs / Cities), International</p>	



## Case Studies

### Pharmaceutical Sector

TLRegTech onboarded a leading multinational pharmaceutical company which is a leading API (Active Pharmaceutical Ingredients) manufacturer. The corporation has a presence in 60 countries and over 43,000 employees and has a geographical spread of 12 offices in India. In addition to Indian domestic regulations, the client is also subject to the regulatory requirements of the US Food and Drug Administration (USFDA) and the European Medicines Agency (EMA).

#### The client was faced with several issues:

- 3 Legal Entities, 8 Plants, and 1 R&D Center across 6 States in India resulting in a highly complex compliance environment. The client was using spreadsheets and emails to manage their compliance
- Poor understanding of various industry-specific acts especially the Drugs and Cosmetics Act and various other acts related to Clinical Research
- Lack of clarity on a comprehensive list of applicable licenses, registrations, permissions, approvals, consent orders and their current status
- Manual search for applicable Legal Updates across Central and 5 States
- No Central document repository of all Compliance documents
- Several instances of financial penalties on account of delays and missed compliances
- Multiple instances of missed display compliances
- Lot of time spent on getting status of compliances across the company

The company needed a compliance automation solution which could help them bring greater control over applicability, legal updates and real-time status tracking. TLRegTech engaged with the client in June 2018 with a team of 3 Compliance subject matter experts visiting their Mumbai-based head office for a period of 1 week to conduct a thorough review of their business presence across India. The onboarding process was split into 3 phases: Business Discovery, Compliance Applicability Assessment, and Implementation.

#### Phase 1 – Discovery

This phase of the project focussed on understanding their business to establish the applicability of Acts and Compliances. Comprehensive information was collected via in-person interviews/meetings/discussions with the Board & Management, individual department heads, and other representatives of the company. The following items were collated:

- Business Set up (Group, Entities, Locations, clients, number and nature of establishments, Industry, export)
- Products (API Manufacturing)
- Equipment & Machines (Boilers, Pressure Vessels, Gas Holders, Chimneys etc)
- Establishment Types (Factories, R&D Center, Corporate Office etc)
- Mandatory repeatable items driven from their global headquarters
- Internal Compliances (FDA, EMA, ISO Certifications etc)

#### Phase 2 – Compliance Applicability Assessment

Several Boilers, Pressure Vessels, Hoists and Lifts, Lifting tools and tackles, Gas Cylinders, Static and Mobile Pressure Vessels, Petroleum Storage Tanks, Chemical tanks, ETP (Effluent Treatment plant) & STP(Sewage Treatment Plant) among others, located in various plants across 8 locations were identified. A total of 140 applicable acts with over 5,275 applicable compliances were determined.



### Phase 3 – Implementation

A 4 member team of subject matter experts were assigned to work with the client. An 3-month long implementation plan was developed including physical visits to 8 cities in 6 states. The team then:

- Mapped the Client Organisation (Group, Entities, Sub-Entities, Locations, Departments)
- Reviewed identified applicable Acts and Compliances with respective department heads
- Discussed the identified gaps with department heads and compliance head
- Mapped Compliances to specific users based on their roles
- Conducted hands-on training sessions with user groups based on their locations and roles
- System activation was set for a predetermined go-live date

A total of 263 users were mapped and trained over a period of 12 weeks for Performer, Reviewer, Approver and Management Roles. Consequently, the company has seen over 50% reduction in missed compliances. In addition, the Compliance officer now has access to real-time status of over 5,000 compliances without spending any non-productive time on follow-ups. There has been a tangible reduction in their penalties and interest expenses arising out of delays. The client is now on top of all the legal and regulatory changes within 24 hours of the release of the notification.



### Automobile Industry

**The client is one of the top 5 automobile manufacturers in the country with 17 offices across a 22-state operation. The company has over 14,000 employees and produces 2,000 vehicles per day.**

### The issues affecting the client were challenges around:

- Applicable Acts and Compliances
- Timely and relevant Legal Updates
- Penalties on account of delays
- Lot of time spent on getting status of compliances across the company

- Poor visibility into residual risks
- Missed compliances on account of human errors
- Ad-hoc, People dependent and Manual tracking
- Poor awareness of risks arising out of non-compliance



The company needed a solution which could help them improve visibility into their compliances. The solution should be able to help them bring greater control, visibility and efficiency into compliance management. In addition, the system was needed to be able to support internal compliance. TeamLease Regtech engaged with the client in Jan 2018 with a team of Compliance subject matter experts who visited their headquarters for a period of 1 week. The onboarding process was split into 3 phases: Business Discovery, Compliance Applicability Assessment, and Implementation.

### Phase 1 – Business Discovery

This phase of the project was focused on understanding their business to establish the applicability of Acts/compliances. Comprehensive information was collated via in-person interviews/meetings/discussions with key stakeholders in the company. The following items were collated:

- Business Set up (Group, Entities, Sub-Entities, Locations, number and nature of establishments, Industry)
- Products & Services (Type of Products / Services, Equipment and Machinery set up etc)
- Mandatory repeatable items driven from their global headquarters
- Legal Notice & Legal Case configurations including specific data fields to capture model numbers and vehicle description

### Phase 2 – Compliance Applicability Assessment

TLRegtech team analysed all the information gathered and created a comprehensive list of applicable Acts and compliances by:

- Entity / Sub-Entity
- Compliance Category (Labour, Finance & Taxation, EHS, Commercial, Secretarial, Industry Specific & Other Local Laws)
- Equipment
- Establishment

The team identified over 100 lifting tools and tackles. In addition, there were 4 paint shops, hundreds of compressors and weighing instruments, variety of chemicals including hazardous materials and waste.

There were over 14,000 employees categorised into skilled, semi-skilled and unskilled, full-time, part-time and contract labour. Over 100 Acts with more than 4500 applicable compliances were identified. These included several hundred permissions, licenses, returns, and over a thousand different types of registers and displays every month. 95 different users identified were mapped to performers, reviewers, approvers and management roles.

### Phase 3 – Implementation

A 5-member team of subject matter experts was assigned to work with the client with a 4-week-long process. The team was successful in:

- Mapping the Client Organisation (Group, Entities, Sub-Entities, Locations, Departments)
- Reviewing the identified applicable Acts and Compliances with respective department heads
- Discussing identified gaps with department heads and compliance heads
- Mapping Compliances to specific users along with their roles
- Hands-on training sessions with user groups based on their locations and roles
- Activating the system for a predetermined go-live date

During the course of the next year, several review meetings were conducted to resolve specific post-implementation issues. TeamLease Regtech conducted additional training sessions for newly inducted staff on a need basis. The client has migrated from an ad-hoc, people-dependent and paper-based compliance program to a predictable, process-based and digital compliance program. The Compliance officer is enabled with real-time dashboards empowering her with a comprehensive view of the status of compliance-based risks across their organisation in India. This has enabled her to make appropriate interventions to contain risks arising out of non-compliance resulting in improvement in on-time compliance. In addition, her ability to provide more transparent assurance to the board has improved drastically. Since then the client has also implemented the Litigation Management Module covering all their statutory notices and cases across the country.



## NBFCs

**TLRegTech onboarded a debt-listed finance company and registered NBFC under the National Housing Bank (NHB). The company has 352 branches across 25 states with over 1,300 employees. The client was managing their compliances using spreadsheets, emails and paper folders.**

### The client faced several challenges:

- Lack of confidence in the list of applicable Acts and Compliances. No baseline review and gap analysis had been done for years
- Highly distributed compliance environment with no central visibility and control
- Penalties on account of delayed Filings due to human errors
- Highly manual and time-intensive search for applicable Legal Updates
- Lack of clarity on State Rules and State Wise applicable Compliances
- Highly manual and spreadsheet system for tracking the status of various compliances
- Lack of clarity on industry-specific compliances including ALM, NBS and Branch Info Returns
- Several statutory notices on account of missed compliances
- Business risks arising out of missed license renewals
- Irregular tracking of vendor and supplier agreements leading to financial implications

The client needed a compliance automation solution which could help them bring greater control over applicability, legal updates and real-time status tracking. TLRegtech engaged with the client in the first quarter of 2017. A team of 3 subject matter experts visited their South India-based head office for a period of 1 week. The implementation of RegTrack was subsequently initiated in June 2017 and completed in August 2017. The onboarding process was split into 3 phases: Business Discovery, Compliance Applicability Assessment, and Implementation.

### Phase 1 – Business Discovery

In this phase, the TLRegTech team focused on creating an understanding of the business to determine applicable acts and compliances.

Comprehensive information was collected via in-person interviews/meetings/discussions with the Board & Management, individual department heads, and other representatives of the company. The following items were collated:

- Business Set up (Group, Entities, Locations, number and nature of establishments, Client, Industry)
- Products (Housing Finance)

### Phase 2 – Compliance Applicability Assessment

Over the 352 operational branches in 25 states, over 68 applicable acts and more than 4,280 applicable compliances were identified. 60 event-based compliances under the Secretarial category were alone responsible for 1,020 compliances.

### Phase 3 – Implementation

A 2-member team was assigned to work with the client and a 2+ month implementation plan was developed and involved visitations to key branch offices. During this phase, the team successfully:

- Mapped the Client Organisation (Entities, Sub-Entities, Branches, Locations, Departments)
- Reviewed the identified applicable Acts and Compliances with respective department heads
- Discussed the identified gaps with department heads and compliance head
- Mapped Compliances to specific users based on their roles
- Conducted hands-on training sessions with user groups based on their locations and roles
- Activated the system for a predetermined go-live date
- A total of 128 users were mapped and trained over a period of 6 weeks for Performer, Reviewer, Approver and Management Roles



The Compliance officer has much greater control over their organisation's compliance. The level of awareness and sensitivity to statutory liabilities across the organisation has improved dramatically. He is able to identify risks and issues in real-time and plan necessary interventions. The management now reviews the Management Dashboard in RegTrack during every board meeting. There is greater visibility, transparency and accountability in the system. The cost of poor compliances arising out of delays and missed compliances was reduced by 90% in the first year.



### Logistics and Supply Chain Industry

**The client is a logistics company with over 200 branches across 7 states and a fleet of more than 200 trucks specialised in parcel transportation. The client lacked an online document tracking system which would cover all the branch and operational offices around India. The challenges faced by the client were various and numerous, including:**

- No online document tracking system
- Lack of centralised document management repository
- Delay filings which created a legal exposure
- Less transparency in management review of the penalties and interest paid
- Not receiving timely and relevant Legal Updates
- Lot of time spent on getting status of compliances across the company
- Poor awareness of risks arising out of non-compliance among stakeholders.

The client needed a solution to automate the entire audit life cycle and ensure standardisation, transparency and consistency in the audit approach. A cloud-hosted solution which was easy to implement and did not need any further technology investments was requested by the company.

TLRegTech engaged the client in 2017 and thoroughly analysed business activities, entities and locations. A team of subject matter experts discussed the list of applicable laws and compliances with the department head and CXOs.

The team spent one week at their headquarters based in western India and interviewed their leadership to understand their business and requirements better. The onboarding process was split into 3 phases: Business Discovery, Compliance Applicability Assessment, and Implementation.

#### Phase 1 – Business Discovery

In this phase, the TLRegTech team focused on creating an understanding of the business to determine applicable acts and compliances. Comprehensive information was collected via in-person interviews/meetings/discussions with the Board & Management, individual department heads, and other representatives of the company. The phase allowed the implementation team to collate necessary information around:

- Business Set up (Group, Entities, Locations, clients, number and nature of establishments, Industry)
- Products (Type of Products)
- Equipment & Machines
- Internal Compliances



### Phase 2 – Compliance Applicability Assessment

Several hoists, lifts, weighing equipment, cranes, and racks, among others were identified that required proper safety assurance and compliance requirements thereby leading to applicability of different Acts and Compliances. With over 62 applicable Acts accounting for more than 2,300, applicable compliances were identified, including time-based and ongoing compliances. An additional 750 event-based compliances were also found applicable. Over a hundred licenses, registrations, permissions, consent to operate orders, and approvals were identified. A gap assessment was done, and it uncovered several critical gaps between statutory requirements and actual requirements which were to be met by the company.

### Phase 3 – Implementation

TLRegTech assigned a 4-member team of subject matter experts to lead this 4-week phase and accomplished:

- Mapping of the Client Organisation (Group, Entities, Sub-Entities, Locations, Departments)
- Review of identified applicable Acts and Compliances with respective department heads
- Discussion on identified gaps with department heads and compliance head
- Mapping of Compliances to specific users along with their roles
- Hands-on training sessions with user groups based on their locations and roles
- Activation of the system for a predetermined go-live date

Since this industry has grown rapidly, so has the compliance requirements. Often, there is no dedicated compliance officer for mid-size companies in the logistics industry. The CXO plays the role of a compliance officer as well. As a result, the understanding of the applicability of Acts and Compliance is low, and they need greater support and assistance in timely and accurate compliance. Employees who would be the users of this system and play various roles such as Performer, Reviewer, Approver and Management were also identified.

All the users receive automated reminders, alerts and escalations for the respective compliance allotted to them before the due date. TeamLease Regtech provided an internal compliance facility to capture internal compliances relating to the renewal of various agreements with various vendors. It helps our client to streamline internal compliance & client migrate from ad-hoc, people-dependent and paper-based processes to an Automated programmatic compliance approach.





### FMCG Sector

TLRegTech onboarded a client who is one of India's leading FMCG and Ayurvedic manufacturing companies. The client has over 36 locations, including its factories and offices and employs over 5,500 people, including contract staff. The company sells through a strong national network of over 45 lakh retail outlets and 3,200 distributors. They have 8 plants, 4 regional offices, 1 international unit, 11 overseas subsidiaries, and 31 distribution centres across India. The client was faced with multiple challenges, such as meeting strict safety and compliance requirements related to the raw materials, and processes adopted in manufacturing and packaging among others. These challenges included:

- Highly distributed compliance environment with no central visibility and control
- Lack of confidence in the list of applicable Acts and Compliances. No baseline review and gap analysis had been done for years
- Highly manual and spreadsheet system for tracking the status of various compliances
- Penalties on account of delayed Filings due to human errors
- Lack of clarity on compliance obligations under various industry-specific acts including Drugs and Cosmetics Act, Schedule M of Good Manufacturing Practices and Requirements of Premises, Plants and Equipments for Pharmaceuticals Products, Explosives Act, 1884, Legal Metrology Act, 2009; and various other related acts and standards laid down under FSSAI
- Highly manual and time intensive search for applicable Legal Updates
- Several statutory notices on account of missed compliances
- Lack of clarity on State Rules and State Wise applicable Compliances
- Business risks arising out of missed license renewals

The client needed a compliance automation solution that could help them bring greater control in their risk and compliance program. The requirements included increased accountability at lower levels, better transparency, centralised reporting, greater assurance and lower costs. The client was looking for a solution that could be implemented in a few weeks and did not require any new technology expenditure. The solution further needed to be accessible and available to all their office locations with ease.

TLRegTech engaged with the client in June 2018 and finished the entire implementation process in 8 weeks. A team of 3 subject matter experts were assigned to the client to work with their compliance officer and the general counsel. The onboarding process was split into 3 phases: Business Discovery, Compliance Applicability Assessment, and Implementation.

#### Phase 1 - Business Discovery

The team focused on understanding their business, markets, raw materials and machines/equipment used. This enabled the team of experts to understand the applicability of various acts, notifications and circulars issued by the govt. in this regard to establish. Comprehensive information was collected via in-person interviews/meetings/discussions with the Board & Management, individual department heads, regional heads and other representatives of the company. The following information was collated:

- Business Setup (Group, Entities, Locations, clients, number and nature of establishments, Industry, export)
- Products (Healthcare, Household products, Cosmetics etc)
- Equipment, Machines and Raw Materials
- Mandatory repeatable items driven by ISO and other standards
- Statutory Compliances (Drugs and Cosmetics Act, Legal Metrology Act, Explosives Acts and other specified rules), meeting regulatory compliances of FSSAI



## Phase 2 - Compliance Applicability Assessment

Several diesel generators, Pressure Vessels, Hoists and Lifts, Lifting tools and tackles, Gas Cylinders, and Chemical tanks, among others were identified in various plants based in all the manufacturing units spread across 30+ locations in the country leading to the applicability of different Acts, guidelines and Compliances. Since the client was also actively involved in exports, it had to comply with global standards of protection.

## Phase 3 - Implementation

An 8-member team was assigned for the phase which worked with the client in various offices located across the country as well as the manufacturing plants.

- Review of identified applicable Acts and Compliances with various key stakeholders
- Discussion on identified gaps with CXOs, Regional Heads and Compliance Head
- Creation of the Group and all the entities based on establishment types and locations
- Mapping of Compliances to specific users along with their roles
- Hands-on training sessions with user groups based on their locations and roles
- Dashboards were created and provided to the users, having automated reminders, alerts

A total of 6,700+ compliances were identified from over 158 applicable acts across 36 locations. 156 users (including 18 management users) were mapped and trained.

Within 4 weeks, the compliance officer had much greater control over their organisation's compliance. He is able to identify risks and issues in real-time and plan necessary interventions. His ability to provide assurance to his management has shot up significantly. There is greater visibility, transparency and accountability in the system. The cost of poor compliances arising out of delays and missed compliances is likely to reduce by 80% in the first year.





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# How Technology is Transforming Compliance

The regulatory landscape in India is dynamic and intricate. Employers are faced with a complex network of regulatory requirements that necessitate extensive knowledge, prompt response, and efficient coordination. Compliance functions have been dependent on ad hoc, manual, and paper-based procedures for several decades. As the adage goes, "to err is human" also applies to compliance management. The reliance of an organisation on its personnel throughout the entire compliance lifecycle creates a substantial margin for errors, lapses, and delays. As governments increasingly enforce strict oversight and impose severe penalties to ensure corporate accountability, non-compliance simply does not justify the expense incurred.

In recent years, however, technological advancements have revolutionised the way in which employers approach compliance. Leveraging the capabilities of the web, mobile, cloud, and analytics, digital compliance management solutions equip organisations with employers with intelligent, productive, and efficient approaches to meet their specific compliance requirements. Additionally, they facilitate a smooth transition for organisations from "reactive" compliance to "dynamic" compliance, which aligns with the ever-changing regulatory environment. As a result, an increasing number of businesses throughout the nation are currently digitising their compliance processes aggressively. The benefits of digital compliance management solutions in surmounting the intricate obstacles of India's regulatory landscape are emphasised in this article.

The regulatory updates are published on more than 2,000 government websites and pertain, among other things, to significant modifications in dates, procedures, penalties, and calculations. Frequently, these modifications take immediate effect, necessitating implementation that is time-sensitive. A manual method that enables employers to remain informed about these regulatory changes is currently ineffective.

### Timely Regulatory Updates

The dynamic nature of compliance requirements exacerbates the inherent unpredictability of business operations. A total of 4,880 regulatory changes were implemented in 2022, which corresponds to an average of 13 changes per day.



The regulatory updates are published on more than 2,000 government websites and pertain, among other things, to significant modifications in dates, procedures, penalties, and calculations. Frequently, these modifications take immediate effect, necessitating implementation that is time-sensitive. A manual method that enables employers to remain informed about these regulatory changes is currently ineffective.

In contrast, digital compliance platforms have the capability to monitor regulatory modifications on thousands of websites instantaneously and provide the pertinent updates, usually within twenty-four hours of receiving the notification. By utilising automated compliance management, employers can prevent the omission of crucial updates and promptly address them.

### Integrated document management

Documentation and compliance are inextricably linked in India. Compliance is predicated on paperwork including, but not limited to, applications, acknowledgements, forms, receipts, licences, and registers. Sadly, a substantial portion of the nation's compliance documentation remains on paper and has minimal or no digital functionality. Employers face significant challenges in the manual management of documentation due to the substantial volume of paperwork involved.

Digital compliance software provides innovative solutions for managing the entire documentation process in order to address such concerns. It initially establishes a centralised repository containing digital, tamper-proof, and verified copies of all compliance paperwork. Moreover, it functions as a central location for all active files. The digital document repository functions as a centralised location where documents can be organised and retrieved. Digitally integrated document management enables employers to reallocate their attention to higher-priority tasks by conserving valuable time, energy, and resources.

### Smart Tools and Features

Digital compliance platforms provide an assortment of distinctive attributes that manual processes are inherently inadequate to compete with.

#### • Smart dashboards

These facilitate instantaneous monitoring of multiple parameters and present an accurate depiction of the remaining compliance risk. Drill-down capabilities are provided by elements such as colour coding, smart widgets, and click-through charts, which enable users to access compliance status by various criteria including Act, Entity, Location, Function, Department, User, or Risk.

#### • Personalised Workflows and Analytics

These components enable organisations to tailor their compliance workflows to the specific requirements of their operations. Furthermore, in accordance with the specific compliance needs of the organisation, they offer reporting and analytics capabilities that are available as needed to identify compliance risks.

#### • Alerts, Reminders, and Escalations

They furnish timely reminders for time-sensitive compliances and prompt alerts regarding regulatory updates. Employers are no longer required to be concerned about forgetting crucial dates. Even if a user fails to meet a deadline, escalations are initiated in order to facilitate the implementation of corrective measures.

### Cost savings in compliance

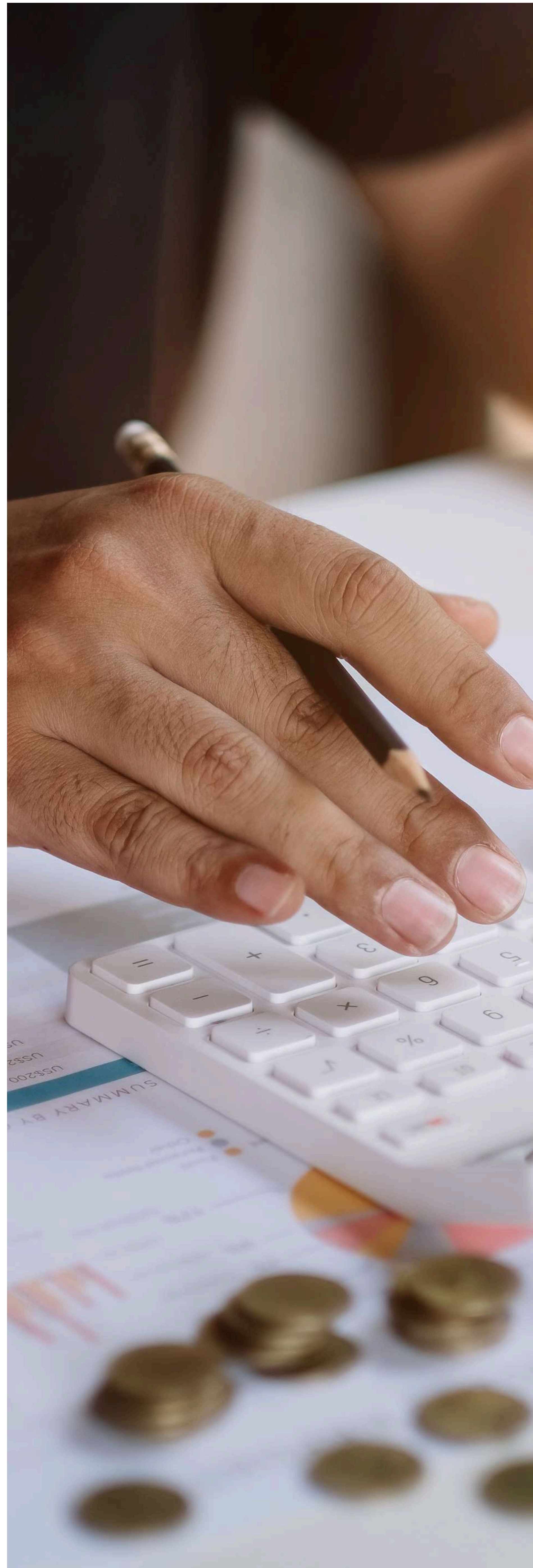
Large corporations have the financial means to employ a specialised group of compliance officers; however, small and medium-sized businesses lack the means to establish an internal compliance department. The oversight of compliance is frequently dispersed among multiple departments, which leads to inefficiency and redundant endeavours. Company secretaries and solicitors typically undertake the supplementary responsibility of compliance management.

In most cases, the implementation expense for digital compliance software is less than that of a junior compliance officer.



Adoption is rapid and uncomplicated, and no supplementary investments in IT infrastructure are necessary. A software with a user-friendly interface enables personnel with diverse proficiencies, backgrounds, and technological acumen to seamlessly integrate without necessitating training expenses for the employer.

In the contemporary regulatory landscape of India, manual compliance stands out as a conspicuous anomaly. With the government intensifying enforcement measures, employers are obligated to enhance their adherence to compliance standards. As demonstrated previously, digitization is the optimal response to these emerging compliance requirements. As organisations strive to achieve enhanced visibility and control over their compliance operations, manual compliance processes are rapidly being phased out. The adoption of automated compliance enables businesses to expand their operations without concern for the efficient administration of their compliance responsibilities. Compliance that is precise, timely, transparent, and accountable requires a transition to digital.





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# Creating a Culture of Compliance



## 3 Cs of Compliance



### Control

Business success in a dynamic market requires control and visibility over compliance processes in the complex regulatory landscape and industry standards. Organisations must start by meticulously compiling a list of applicable compliances to establish and maintain such control. This involves reviewing local, regional, and international regulations related to the company's industry and operations.

> Create a Comprehensive List of Applicable Compliances reviewed periodically

> Establish a company level compliance calendar at an Entity, sub entity, location, department, categorised across functions and types

> Periodic Management Review of compliance Status across departments, locations and functions

> Periodic review meetings on overdue, delayed, upcoming compliances

> Periodic comprehensive compliance Risk Assessments

- Review of applicability
- Quantitative and qualitative assessment
- Assessment for financial and non-financial penalties
- Risk based categorization of non compliances; keeping in mind criminality associated compliances

> A robust and reliable framework to stay on top of all applicable

- Awareness of new acts, bills and their implications on corporate compliance

> A framework to stay on top of all notices

> Compliance Certificate

A comprehensive compliance calendar is the next crucial step after understanding the compliance landscape. This strategic tool underpins systematic compliance management. The calendar should include regulatory deadlines and periodic reviews of the organisation's compliance.



Regular assessments identify potential non-compliance, allowing for timely corrective actions and reducing regulatory penalties.

The compliance calendar also promotes departmental coordination. As a hub, it promotes collaboration between legal, regulatory affairs, and operational teams to meet compliance goals. This collaboration helps avoid siloed compliance approaches that can cause oversights and adherence gaps.

In addition to periodic reviews, technology can improve compliance control and visibility. Custom compliance management software automates tasks, tracks regulatory changes, and generates real-time reports. This technology simplifies compliance and centralises data management. This helps businesses make informed decisions based on accurate and current data, improving governance and risk management.

By creating a comprehensive compliance list, implementing a proactive compliance calendar, encouraging collaboration, and adopting technology, businesses can gain the control and visibility needed to navigate regulatory compliance. This protects the company from legal and financial issues and establishes it as a trustworthy and responsible company to customers, investors, and other stakeholders.

### Commitment

In fostering a culture of accountability and responsibility among employees regarding the compliance status of the company, it becomes imperative for businesses to establish a robust framework that not only encourages adherence to regulatory standards but also actively discourages non-compliance. One effective strategy involves instituting a system of reward and recognition for exemplary compliance behaviour. Recognising and appreciating individuals or teams who consistently uphold compliance standards can serve as a powerful motivator, instilling a sense of pride and ownership in their roles. This recognition can take various forms, including employee of the month awards, public acknowledgment, or even career advancement opportunities, creating a positive reinforcement loop that reinforces the importance of compliance in the organisational fabric.

> A process to store and maintain centralised records and document repositories with a digital copy

> Program to issue reminders for annual and semi-annual compliances

- Process to track and manage compliance across the law of the land
- Process to ensure third party vendor compliance
- Allocating resources for compliance audits every 6 months
- Training on compliance updates, processes and procedures
- Resources/processes to store and maintain centralised records and document repositories with a digital copy

On the flip side, to address instances of non-compliance or negligent behaviour, it becomes crucial to establish clear penalties. A fair and transparent disciplinary system ensures that employees are aware of the consequences of violating compliance standards. These penalties should be proportionate to the severity of the infraction and consistently applied across all levels of the organisation. By clearly outlining the repercussions of non-compliance, businesses send a strong message that such behavior is unacceptable and will not be tolerated. This not only acts as a deterrent but also emphasises the gravity of compliance as a non-negotiable aspect of the corporate culture.

### Culture

A compliance-centric tone from the top is crucial to building a compliance culture in a business. The board and senior management must promote ethical and regulatory compliance. These key decision-makers help create a corporate culture where compliance is not just a box-checking exercise but a core value.

Top management must consistently communicate and demonstrate their commitment to compliance to achieve this. This involves emphasising compliance with laws, regulations, and industry standards and actively incorporating compliance into strategic decision-making. The Board must show the company that ethics is a core value by prioritising compliance in discussions, resource allocations, and goal-setting.



- > Tone from the Top
  - Framework of Compliance status checks to become an Integral part of boardroom meetings
- > Periodic HR intervention – HR Goals
- > Data backed compliance assurances
- > Framework of Compliance status checks to become an Integral part of boardroom meetings
- > Reward and recognition, incentive system, bad behaviour need to be penalised

The board and senior management must establish continuous monitoring and assessment. Regular, thorough reports and audits help here. At various organisational levels, these evaluations should examine both outcomes and compliance processes. Leadership ensures compliance is an ongoing and evolving part of business operations by implementing a cyclical and comprehensive review system.

In addition to formal audits, top management should promote departmental self-assessment and reporting. This encourages employees at all levels to actively participate in compliance, fostering collective ownership. Transparent communication channels should allow employees to voice concerns, seek clarification, and report compliance issues without repercussions.





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## Global trends

The world of technology is evolving continuously. What may be seen as insignificant stand-alone innovations can have widespread and revolutionary downstream implications. No one could have predicted that the discovery of neurons communicating via eclectic pulses would one day lead to the creation of artificial intelligence (AI). In the modern era, the field of AI and Machine Learning (ML) has emerged as the cutting edge of research and innovation. With AI/ML finding applications across sectors, sub-sectors, and industries, the growth in its capabilities is discernible.

Today, AI/ML is accelerating the transformation of business processes, and compliance automation has not been immune. Regulatory Technology Companies (RegTechs) are employing AI to expedite and simplify compliance processes. What we get are reduced compliance costs and enhanced risk mitigation capabilities for businesses. AI and ML are further strengthening automation capabilities, allowing businesses to generate over 3,000 registers and challans in state-specific formats. At its current potential, it can predict future compliance risks, identify gaps based on past performance, and pick out inadequacies in documentation. It is already improving the efficacy of compliance processes, and in the future, it can also help determine the applicability of compliance obligations on a business.

Not long ago, the onset of COVID-19 disrupted global supply and value chains, leaving companies scampering for digital solutions to keep business operations running. Corporations had to adapt to digital technologies and integrate them into their business processes and organisational workflows at short notice and with almost no preparation. This led to an accelerated adoption of automation and digitisation as remote work became the norm. Recalibrated business processes that relied on digital technologies to remain functional became the norm. Following this trend of rapid adoption of automation in business processes, the time is ripe to adopt fully automated compliance processes using RegTech solutions.



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## Changing Demands of Government, Regulators, Shareholders, and Board Members

In the evolving landscape of international trade, the assessment of corporate governance and compliance has gained prominence, particularly in the context of foreign investments and market accessibility. Historically, navigating the intricate web of India's business regulatory ecosystem has been riddled with challenges. However, the expanding economy is now attracting foreign investments. As such, there is a pressing need to cultivate a business-friendly environment centred around facilitating ease of doing business. The government's strategic approach involves the three-vector framework of rationalisation, digitisation, and decriminalisation to propel these efforts. Simultaneously, businesses play a crucial role in contributing to this environment by streamlining their compliance processes. To do so, they need to turn to technology, as has been the case with every other business process.

The integration of digital technologies carries a transformative force, leading to substantial enhancements in transparency, accountability, and timeliness of compliance functions. A notable shift in the tone from the top is now perceivable, with Board Members actively advocating for comprehensive regulatory compliance and stringent compliance standards within the enterprise. Board meetings now allocate a significant portion of time to address the status of pending, ongoing, and upcoming compliances. All in an effort to mitigate anecdotal compliance instances and minimise the costs associated with poor or non-compliance. Shareholders and creditors alike have started recognising the profound impact of non-compliance on business reputation and share prices. As such, they continuously scrutinise companies' compliance statuses. This heightened scrutiny is prompting investors to exercise caution, hesitating to inject funds into businesses with a history of penalties and fines. Consequently, there is a growing demand for increased transparency regarding a company's compliance status as investors become more discerning about the potential risks associated with non-compliant entities.



06

# **Future of Compliance**



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# Digitise

## API, the Rise of DPI, and the creation of public goods

Public infrastructure has been and continues to be crucial to the development of human society and national economies. The underlying public infrastructure has always supported innovation, and the same holds true for the digital public infrastructure. Digital public infrastructure (DPI) serves as the fundamental framework upon which the expansion and progress of the digital economy lie. Adopting open access, interoperability, and scalability principles establishes an equitable playing field. The JAM (Jan Dhan, Aadhaar, and Mobile) trinity has established the groundwork for advancing digital inclusion. The 800 million internet users in India now have access to the digital economy via 5G-enabled handsets, thanks to the dissemination of digital payments endorsed by the DPI. Digital portals, Aadhaar, and Single Window systems have significantly transformed how critical government services are provided.

No longer are individuals required to wait in lengthy lines for hours on end in order to register for a government service while carrying a mountain of paperwork. Consequently, these documents required authentication and verification. Furthermore, a prevalent issue was the absence of understanding regarding the requisite documentation to access a specific service. The implementation of DPI has been instrumental in addressing information asymmetry and enhancing the accessibility, accountability, and transparency of essential service delivery.

Identity, payments, and data layers comprise the DPI foundation. As digital building blocks, they can be utilised to promote innovation and inclusion. DPI is not limited to the delivery of services through digital channels; rather, it permits others to utilise the infrastructure to create and innovate their own applications and programs. It also incorporates the 'Security-by-design' and 'privacy-by-design' principles to ensure the security of processed and shared data. The infrastructure incorporates access control, encryption, and anonymisation. It ensures that data is collected for a specific purpose and with the user's informed consent in terms of privacy.



Additionally, the stack ensures compliance with applicable data regulation laws. The Digital Personal Data Protection Act of 2022 aims to develop regulations that can keep pace with the evolution of digital technologies. A robust data privacy and protection regulatory framework coupled with DPI's use of secure data-sharing protocols ensures that sensitive information remains inaccessible to malicious actors.

In the corporate setting, DPI will expedite the delivery of services, such as enterprises' access to instant credit. Financial institutions can access the complete financial and operational history of a business in order to assess its risk profile and financial health. It will generate a composite corporate profile that can be used to evaluate creditworthiness, regulatory compliance, and fraudulent behaviour. The existence of this business profile will significantly reduce physical interactions between government officials and businesses. By employing sanctions and penalties, regulators will be able to easily and swiftly identify and resolve instances of fraud, unfair trade practices, and financial misconduct. Additionally, corporations will be able to approach regulators and relevant authorities for faster resolution of their questions and complaints.

Thanks to open access, interoperability, and scalability, DPI has become an inclusive and adaptable digital ecosystem. Governance consists of a delicate balance of policies, regulations, and institutional frameworks and is at the core of the DPI. As the DPI ecosystem operates digitally, regulators have the opportunity to embed legal obligations directly into the infrastructure's design, ensuring that participants comply with the law simply by interacting with the system.

India is the global leader in the development of DPI and is using it to implement widespread adoption of digital payments, data exchange, and industrial expansion. The advancements of DPI have helped strengthen domestic small businesses by facilitating the replacement of humans and paper with code. 463 million low-cost bank accounts have been opened as a result of DPI, with 56% of account holders being female. Since its inception in 2017, India's formal financial system has expanded substantially, with financial inclusion increasing at a compound annual growth rate of over 5%.

Furthermore, enterprises can also gain the capability to access critical government services through single window systems and portals that leverage the foundational elements of DPI to guarantee prompt and effective service provision. Entrepreneurs are not required to submit a mountain of paperwork and endure waiting periods of days in order to have their identities and the legitimacy of their enterprises validated. It has increased the availability and accessibility of vital financial services, including insurance, credit, and deposits, for marginalised and indigent segments of society. An increasing number of micro and small enterprises are transitioning to the formal sector as a result of the services provided by utilising DPI's capabilities.

For compliance to be incorporated into India's DPI, employers must possess an Aadhaar equivalent. At present, Indian businesses are required to manage numerous identities (including PF, ESIC, PAN, CIN, and TAN) that have been issued by various central and state departments. This causes redundant efforts and places superfluous administrative responsibilities on businesses. A Unique Enterprise Number (UEN), analogous to the 12-digit Aadhaar, will serve as the foundation for all digital transactions involving the government, regulators, and employers and provide all corporations with a singular identity. It will establish a Single Authentication Ecosystem that facilitates the development of a comprehensive corporate profile suitable for compliance, credit and risk assessment, and governance.

The Enterprise DigiLocker will serve as a centralised repository for legitimate documents, including but not limited to licences, registrations, permissions, NOCs, and consent orders. Subsequently, these genuine digital documents may be employed in compliance and verification procedures. By granting consent to service providers, organisations can streamline the approval, registration, and clearance processes, among others. Additional support for the document's authenticity can be obtained by implementing a transparent, verifiable, and tamper-proof storage system.



This will substantially diminish the occurrences of fraudulent activities involving falsified and counterfeit documents to acquire licences, registrations, and approvals.

The use of open APIs by the government and entrepreneurs will facilitate the seamless and secure passage of information. It will empower the entrepreneurs to complete filings expeditiously, remit statutory payments, and provide, among other things, returns, registrations, and challans. Conversely, it will enable the government to administer licences, registrations, and acknowledgements while also guaranteeing an uninterrupted stream of regulatory updates pertaining to the enterprises' pertinent compliance obligations. The three of them will form a triumvirate resembling that of JAM, thereby reducing the amount of physical contact between government inspectors and corporations. It will establish a cashless, paperless, and presence-less compliance framework in digital India, thereby eradicating the Inspector Raj menace.

By facilitating the exchange of information between enterprises and regulators, information asymmetry pertaining to compliance-related details (e.g., deadlines, formats, and revisions) can be entirely eradicated. The resulting framework will be open, user-friendly, and quick, thereby facilitating business operations and assisting organisations in adhering to legal regulations.

Open APIs will serve as the final component to integrate RegTech into India's DPI as part of a National Open Compliance Grid (NOCG); they will enable a network of empanelled RegTechs to facilitate a seamless exchange of information between entrepreneurs and the government at the central, state, and local levels. The grid will facilitate the exchange of information via APIs for a variety of purposes, including the issuance of licences, registrations, permissions, NOCs, and Consent Orders directly into the Digi vault by the authorities and the submission of periodic returns through authorised regtechs.

DPI will expedite the delivery of services, including immediate credit access for businesses.

Financial institutions will have the capability to obtain comprehensive access to the financial and operational records of an enterprise in order to assess the organisation's financial health and risk profile. A composite profile of corporations will be generated, which can be utilised for the purpose of evaluating creditworthiness, compliance with regulatory obligations, and detection of fraudulent activities. The implementation of this corporate profile will substantially mitigate the need for in-person meetings between governmental entities and businesses. Through punishments and penalties, regulators will be capable of promptly and easily identifying and resolving instances of fraud, unethical business practices, and financial misconduct. In addition, corporations will have the ability to contact regulators and relevant authorities directly in order to receive prompt resolutions to their inquiries and complaints.





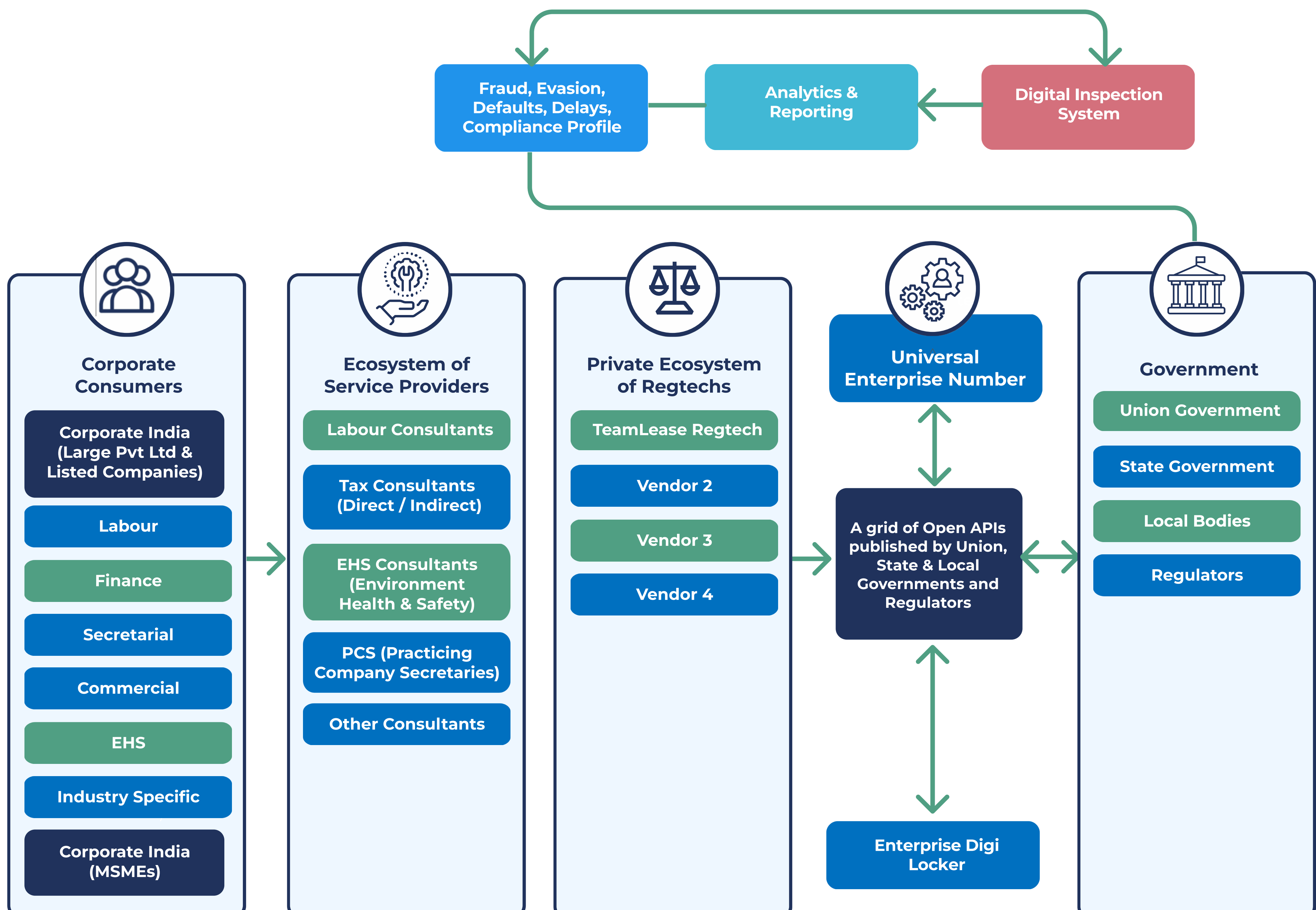
### Establishing a National Open Compliance Grid (NOCG)

There are over 2,300 websites that publish regulatory updates in India. Each website has its own layout, design, features and online capabilities. There is no standard way of publishing and consuming regulatory information. Hence, it is recommended that a National Open Compliance Grid be created to facilitate smooth exchange of information between entrepreneurs and government at union, state and local levels via a network of RegTechs.

The grid will enable API-based exchange of information for the following purposes:

- Online filing of first-time as well as renewal applications for licences, registrations, permissions, approvals, NOCs and consent orders.
- Status tracking of all applications along with capabilities to respond to request for information from the concerned authorities
- Automated notifications for all applicable compliances for upcoming and overdue compliances
- Seamless filing of periodic returns via one of the empanelled RegTech players
- Management of online requests for information to facilitate faceless and digital inspection requests

Fig. 13 A high-level block diagram of the proposed NOCG is given below





## Blockchain in RegTech

A term that was previously merely a catchphrase to describe the inner workings of cryptocurrencies has now become a focal point of digital advancements. Blockchain, at its essence, functions as a decentralised virtual ledger capable of documenting and authenticating digital transactions. The immutability of the stored data is guaranteed by the decentralised nature of blockchain, wherein each node possesses a duplicate of the virtual ledger. In order to modify a blockchain entry, it is necessary to amend every succeeding transaction across all nodes. This obviates the necessity for data reconciliation and verification. In 2021, blockchain-based firms raised \$25.2 billion, representing an increase of 713% year-over-year. Gartner projects that by the end of the decade, the technology will have generated \$3.1 trillion in new business value. With the capacity to propel India towards cashless, paperless, and presenceless compliance, this disruptive technology holds promise.

Entrepreneurs in India operate within a complex ecosystem. The regulatory landscape is dynamic, undergoing modifications more than 4,000 times annually. In addition to influencing employer compliance obligations in numerous ways, these modifications also affect penalties, duties, interests, and dates. OMs (official memorandums), notifications, government orders, gazettes, and circulars are utilised to disseminate the modifications across 2,233 distinct regulatory websites operating at the municipal, state, and federal levels.

Employers are required to peruse the foundational Act in addition to countless pertinent amendments that have been published over an extended period of time in various documents that are not contained in a centralised repository. Consequently, the task of ascertaining the regulatory responsibilities of a business is challenging. By storing all regulatory documents on a public blockchain, an official, centralised, verified, and chronological database will be created that is accessible to all parties for the purpose of determining their compliance obligations.

In the next era, it is imperative that all legislative documents, encompassing diverse draughts, public input, feedback, numerous iterations, ultimate enactment, pertinent regulations, and later modifications, be readily accessible and amenable for utilisation on the blockchain.

Due to the high regulatory compliance obligations that can be aptly termed as the formalisation tax, Indian entrepreneurs are incentivised to maintain a modest, informal presence. The expansion of these enterprises will require a streamlined and digitalised compliance ecosystem. Recent projections indicate that India's digital economy will soon reach one trillion dollars. Although the nation has established a robust framework for its digital future, regulatory capacity will rapidly emerge as an impediment to economic expansion. Presenceless, cashless, and paperless compliance will be crucial. The transition from analogue to digital will be a challenging one. Establishing a robust framework for the dependable, verifiable, and tamper-proof administration of regulatory documentation will be essential. It is necessary to immutably record the date, time, ownership, and content of vital regulatory documentation.

Blockchain technology presents a rational resolution for ensuring that digital documents maintain their integrity. All licences, registrations, permissions, consent orders, returns, inventories, challans, payments, and notices can be digitally maintained and exchanged in accordance with a UEN (Unique Enterprise Number) as part of India's 21st-century compliance. The use of a blockchain ledger to store these documents can establish their authenticity and foster confidence among the involved parties.

Presently, in order for an entrepreneur to establish a new factory in any state, they are required to print and submit a minimum of 5,000 pages of mandatory documentation. As required by regulation, this documentation must be self-attested, notarised, and stamped to establish its authenticity. This procedure is extraordinarily inefficient and costly to the environment. By storing all government approvals in a digital ledger, the data can be rendered extremely accessible, transparent, instantaneous, and secure. This will eliminate the necessity for tangible paper to be utilised as a means of communication.



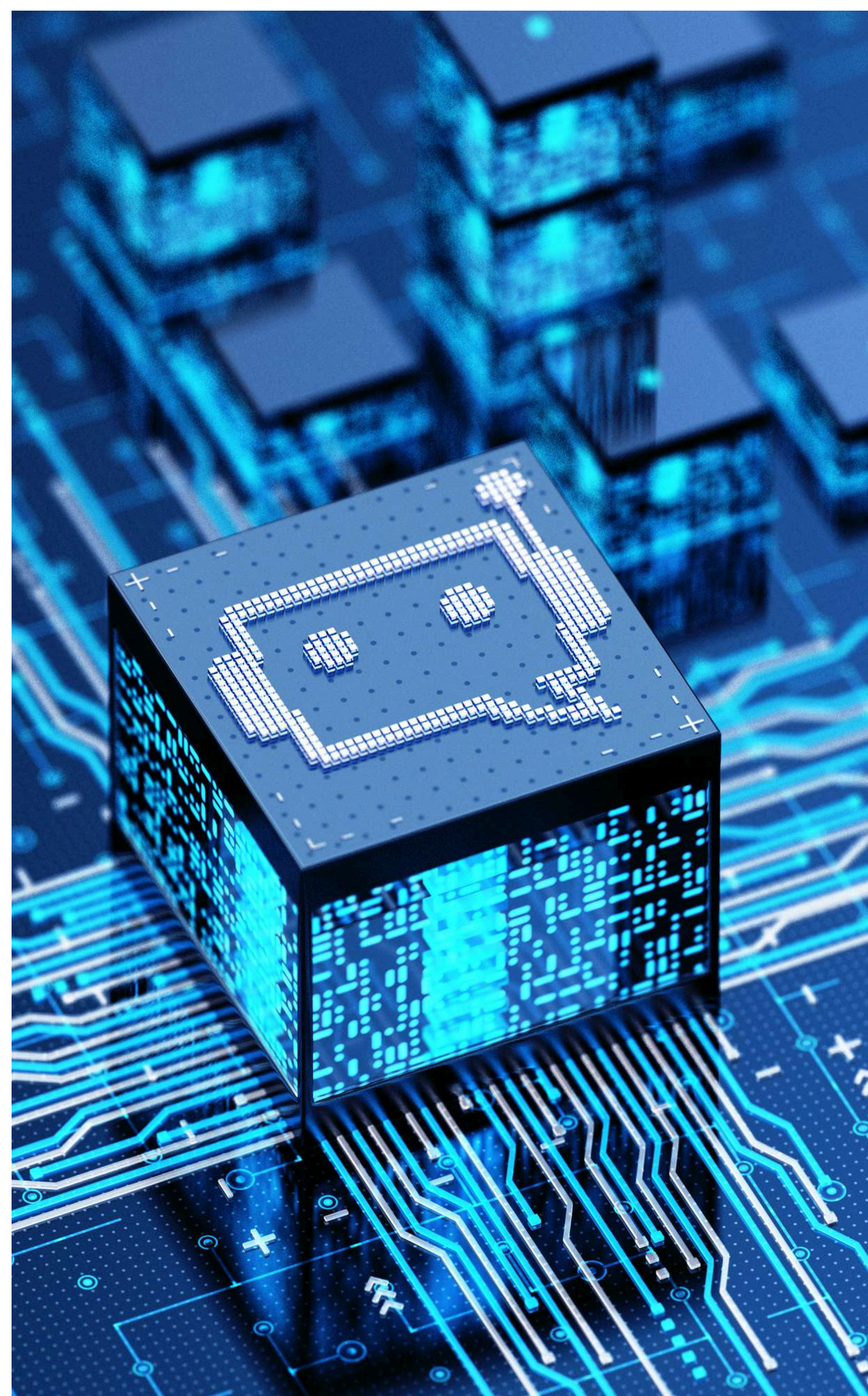
Furthermore, the pertinent regulatory authorities will have access to these documents to facilitate renewals, reviews, and inspections, thereby streamlining, expediting, and simplifying the enforcement process. Regulatory agencies have the capability to retain access to secure data pertaining to compliance in close proximity to real-time. This approach would enable regulatory bodies to assess information proactively rather than conducting post-hoc analyses.

A proficient implementation of Blockchain technology has the potential to significantly diminish the duration, expenditure, and exertion devoted to regulatory reporting while concurrently enhancing the process's quality, precision, and assurance. This system will provide an immutable audit trail for all compliance actions and enhance data visibility. Every ledger entry on the blockchain will encompass comprehensive information, including the change's author, the time and date of its creation, and the change's contents. The digital signature will aid in verifying that the individual who possesses the private key is, in fact, the author of the transaction. The verification of data authenticity and integrity during retrieval can be effectively conducted by the regulatory office or the compliance officer inside the organisation. Any instances of data corruption can be detected and rectified in an instant.

It is imperative that Corporate India initiate investments in private blockchains, both internally and externally. It is recommended that they allocate resources towards the development of technological infrastructure to facilitate the establishment and administration of numerous blockchain networks, while also ensuring the implementation of appropriate access control measures. A National Open Compliance Grid will be established through the creation and collaboration of digital compliance documents by regulators and enterprises in the midst of the digital transition.

### ChatGPT in RegTech

The introduction of AI and ML has had visible effects in the realm of Natural Language Processing (NLP). Programs such as ChatGPT and GPT4 have become capable of understanding and deconstructing complex human sentences and commands. This has enabled these tools to 'converse' intelligently and in real-time with humans. Users are able to extract useful information based on a set of sources or even the internet, depending on the database available to the 'chatbot'. As such, future RegTech applications will enable compliance professionals to simply type in a query to find pending and upcoming compliances. They will be able to use such chatbots to quickly filter through a mountain of data and compliances to find specific information. For instance, a compliance officer can ask the chatbot to find all compliances that prescribe penalties of monetary fines over 5 lac and the bot will present the results from the compliance database for that business.





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## Rationalise

The business regulatory framework is spread across over 1,500 acts and more than 69,000 compliances. In this, there is a lot of duplication, redundancy, and overlap among obligations. The list of compliances needs to be classified into items that can be amended via executive orders. In the present manual compliance processes, there is little transparency and accountability. It is about time that inspection processes were reviewed. There are increasing calls for a risk-based, faceless, presence-less, and cashless inspection process. As such, digital interfaces for new license applications, license renewals, return filings, and inspection requests, among others must be developed. Allowing enterprises to self-certify and undergo third-party inspections will further improve the ease of doing business.

In the pursuit of rationalisation, much legwork has already been done by the Union government. The drafting of labour codes has substantially reduced the complexity of the labour framework. Similarly, the implementation of GST has transformed the country's indirect tax regime.



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## Decriminalise

According to the report on Accelerating MSME growth by the Global Alliance for Mass Entrepreneurship, 14% of the total compliances (8,682) were associated with a penitentiary sentence— 69% (5,952) of the compliances with a prison sentence involved labour. Teamlease Regtech's analysis reveals that 352 Labour Acts/Rules contain 17,819 provisions for imprisonment. For instance, under the Maharashtra Factories Rules, 1963, failure or lapse in sustaining certain lighting standards, the quantity of drinking water, and reconstituting the canteen committee once every two years can result in up to two years of imprisonment.

The prospect of indictment compels companies to negotiate with inspectors, as bribes are a price worth paying to avoid disruption of production schedules or loss of staff time, which would result from additional visits. The legal objective of penalising corporations or business owners should be deterrence, not retribution. Except for a few willful offences, all business punishments must be monetary. If an entrepreneur violates the law to earn ill-gotten gains, the appropriate policy response should be to seize those gains and more.

Furthermore, all imprisonment clauses must be reviewed by the legislature at least once every five years. For this, sunset clauses can be introduced in the legislative process to ensure either the renewal or termination of imprisonment clauses depending on their need and relevance in light of the evolving business climate. The recent passage of the Jan Vishwas (Amendment of Provisions) Act, 2023 was another milestone in the quest for decriminalisation. 183 provisions were decriminalised allowing businesses to pay an appropriate monetary penalty. Similar initiatives are required to continue the trend of decriminalisation and consequently ease of doing business in the country.



07

# **Evolving Regulatory Ecosystem**



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## Codification of Labour Laws

Labour is a critical component among land, labour, entrepreneurship, and capital production factors. It is included in the concurrent list of the Constitution of India, which means that both the Centre and the states have the authority to enact laws regarding it. Schedule 7 of the Constitution includes within the concurrent list of subjects the regulation of labour and safety in mines and oilfields, trade unions and labour disputes, and labour welfare. As such, of the 1,563 laws applicable to businesses across India, 30.1% are labour-related. The subject of labour had 463 Acts (30.1% of the total), 32,542 compliances (47% of the total) and 3,048 filings (46% of the total) associated with it. The complex and burdensome regulatory structure imposes an implicit 'formalisation tax' on enterprises. Complying with the requirements of a complex regulatory structure requires hiring company secretaries and labour lawyers to interpret the language of the laws, ensure timely filings, and track updates.

The 2nd National Commission on Labour (SNCL), under the chairmanship of Ravinder Varma was set up in 1999. The need for constituting the SNCL was felt as three decades had passed since the submission of the report of the First National Commission on Labour, and the 1991 reforms changed the Indian industrial climate, which needed to be supplemented by labour market reforms. The agenda of the SNCL was to rationalise existing labour laws and incorporate their provisions into a comprehensive code. The Commission constituted 6 study groups and considered their recommendations in their Report. The Report recommended simplifying laws, covering all aspects of employment, curbing inspector raj, and balancing the industry's and workers' needs.

In 2014, the Government of India introduced procedural reforms in labour laws, including a single-window labour compliance process and a new inspection scheme, which included a computerised system that identified companies to be inspected using unbiased, objective criteria. The Government intended to improve the Ease of Doing Business and stimulate the growth of the manufacturing sector to boost its 'Make in India' campaign. Of the original 44 labour laws, 29 were redrafted into four codes: the Occupational Safety, Health, and Working Conditions Code, 2020; the Industrial Relations Code, 2020; the Code of Social Security, 2020; and the Code on Wages, 2019, and 15 were repealed.



These codes also extended the coverage of the labour regulatory framework to the informal sector.

Under the Code of Wages, the provisions of the Minimum Wages Act that initially applied only to employees engaged in scheduled employment and drawing wages less than Rs. 18,000/- will apply to all employees (Ministry of Labour & Employment 2015). Under the Code on Social Security, the ESIC facility, which was provided in 566 districts only, would now be provided in all 740 districts. EPFO's coverage would apply to all establishments with 20 workers, which was applicable only to establishments included in the Schedule. The 'Social Security Fund' provision for 40 crore unorganised workers will help in universal Social Security coverage.

With changing technology and the working environment, newer forms of employment have developed. The labour codes bring these newer forms of employment, like 'platform worker or gig worker', into social security. Schemes for linking the unorganised sector and Gig workers with ESIC schemes and for bringing Self-employed workers under the aegis of EPFO are also in process.

The Code on Social Security also establishes the National Social Security Board to recommend and monitor schemes for gig and platform workers. For the first time, a Fixed-term Employee working for a determined period on contract has been given the right to social security like a regular employee. The OSH&WC Code 2020 has also updated its definitions to align with the working conditions of industrial or other establishments. They also provide for the creation of a national database for unorganised workers and inter-state migrant labour. A helpline facility for the redressal of problems of migrant workers will also be set up.

The OSH&WC Code, 2020 has brought uniformity in the definition of employee and workman. It has reduced four licences and 22 returns to one each. Under the acts the Code covers, the employer must maintain 76 registers. These include records of whitewashing, accident and dangerous occurrences, humidity registers, inspection books, etc. The number of registers required to be maintained by employers has now been reduced to 2-3 and can be reduced to 1 register. It also reduces 11 different registrations covered under the 13 different Acts to 1.

Similarly, The Industrial Relations Code, 2020 subsumed 3 acts and increased the applicability threshold. It has reduced the two registrations required by the trade unions to one. The Code on Social Security, 2020 subsumed 9 acts and increased the coverage of social security programs. It reduced the 36 annual returns under the 9 Acts to one. The previous regime required 12 Remittances, 24 Returns under PF, four returns under Employment Exchanges (ERI), and two under ESI.

The Code on Wages, 2019 subsumed 4 acts and introduced new provisions regarding mode, time, and disqualification of wages and bonuses payments. 'Wages' was defined under ten separate acts, now replaced by the universal definition under the Code on Wages. It has reduced the 3 annual returns to be filed by the employer under the Minimum Wages Act, 1948; Payment of Wages Act, 1936; and Payment of Bonus Act, 1965 to one consolidated annual return.

Earlier, the employer had to maintain 12 different registers, which included particulars related to work performed by the employees, fines, deductions made from the wages of the employees, bonuses, wages, and other particulars that may be prescribed. The Code on Wages reduces the number of registers from 12 to 4. These 4 registers can further be reduced to 1.





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## Decriminalisation of Business Laws – Jan Vishwas (Amendment of Provisions) Act, 2023

Entrepreneurs operating in post-colonial India have historically faced significant challenges due to the intricate regulations imposed by the business regulatory framework. The framework pertaining to employer compliance has exhibited a lack of progress, as it continues to adhere to practices and principles that originated in the 19th and 20th centuries. The existing regulatory framework is structured in a manner that holds employers accountable for potential imprisonment, even in cases involving minor infractions arising from procedural irregularities and technical oversights.

Over 50% of the 1,536 business laws contain provisions for imprisonment, with 40% of compliance requirements stipulating the possibility of incarceration for non-compliance. Consider, for example, a micro, small, and medium-sized enterprise (MSME) operating in the pharmaceutical industry with a focus on manufacturing. The adherence to 998 compliance obligations is mandatory, with a notable provision in which 486 instances (equivalent to 48.7% of the total) stipulate imprisonment as a punitive measure for failure to comply.

The prevalence of criminalisation within business laws can be ascribed to the indiscriminate application of criminal sanctions without due regard for the principles of necessity and proportionality. The lack of trust towards entrepreneurs has hindered the natural progression of innovation, job creation, value generation, and economic prosperity.

The monograph titled 'Jailed for Doing Business' provides further insight into the utilisation of imprisonment as a means of exerting control over employers. The analysis focuses on macro-level data and reveals that more than half of business laws contain a total of 26,134 provisions related to imprisonment. A significant proportion, specifically 40%, of the clauses encompassed within the business regulatory framework prescribe imprisonment as a punitive measure. A significant majority of these clauses, amounting to 87%, have the potential to result in a maximum jail term of three years.



At the state level, the situation is equally concerning. Five states, specifically Gujarat, Punjab, Maharashtra, Karnataka, and Tamil Nadu, have more than 1,000 provisions containing imprisonment clauses within their respective business legislations. Among these five states, four are considered to be among the largest in India in terms of their Gross State Domestic Product (GSDP), with each state contributing an amount exceeding \$200 billion. The rationalisation and decriminalisation of state-level compliances have the potential to propel them towards the significant milestone of \$1 trillion.

The Jan Vishwas (Amendment of Provisions) Act, 2023 represents a significant achievement in the ongoing efforts to enhance the ease of conducting business by simplifying the regulatory framework governing businesses within the nation. The establishment of a framework is instrumental in facilitating the analysis of the decriminalisation of employer compliance. Although the decriminalisation of only 183 out of the extensive 26,134 provisions may not have a substantial impact, it does set a precedence for future reforms. Approximately 68.2% (17,819 instances) of employer compliance violations pertain to labour laws.

In addition, the labour laws are poised to undergo a comprehensive restructuring, as the four labour codes are scheduled for implementation. The implementation of this codification is anticipated to result in a significant reduction, potentially up to 80%, in persistent criminal behaviour. This legislation addresses the problem of criminality head-on and eliminates provisions that prescribe both imprisonment and fines as forms of punishment.

Additionally, it stipulates a 10% increment in fines and penalties every three years. While the elimination of incarceration as a potential consequence is a notable aspect, the inclusion of fines remains intact. Additionally, the potential for compounding offences in specific situations has been introduced. The methodology employed bears resemblance to that utilised in the process of decriminalising the Companies Act, 2013 (Companies Act).

The Companies Act was decriminalised by the Ministry of Corporate Affairs (MCA) through subsequent amendments in 2019 and 2020.

The amendments resulted in the decriminalisation of the regulatory framework through the implementation of four key aspects. The offences were reclassified into distinct categories for various types of offences, shifting from compoundable to in-house adjudication mechanisms.

This reclassification eliminated the possibility of imprisonment, making fines the sole form of punishment. Additionally, penalties were reduced, penal provisions were removed, and alternative mechanisms were prescribed. Companies have acquired the capacity to address their errors through the imposition of fines, while courts have shifted their focus primarily towards grave crimes and offences. The decriminalisation measure facilitated a sense of security and commercial opportunities for entrepreneurs, while the elimination of criminal responsibility associated with compliance matters resulted in a notable increase in foreign direct investment (FDI) within the nation.

At a granular level, enterprises must possess knowledge of relevant regulatory obligations pertaining to their entire range of business operations. For instance, a typical service sector company of moderate size requires a maximum of 20 unique licences, registrations, permissions, and certifications. The aforementioned items include trade licences, pollution certificates, fire safety certificates, authorisations for outdoor advertising, and motor vehicle registrations. Subsequently, corporations are obligated to conform consistently to a wide range of regulatory obligations.

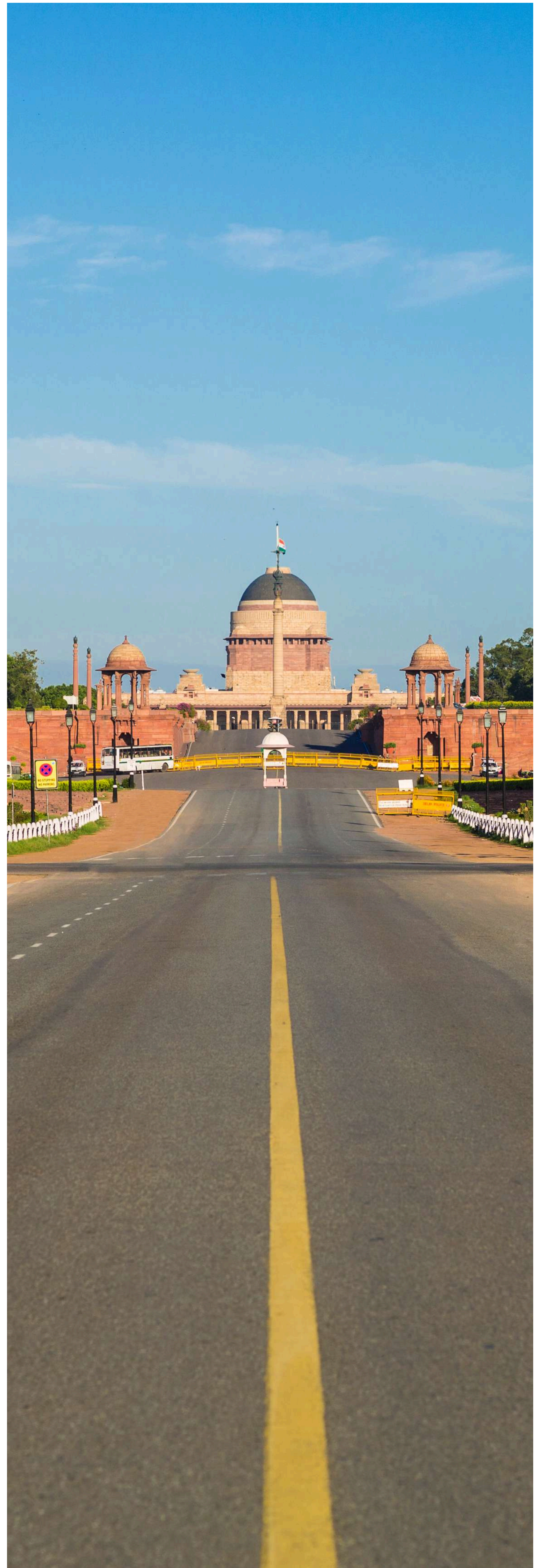
In the context of a particular jurisdiction, a company that operates from a singular premise is confronted with more than 50 obligations pertaining to submitting tax returns, providing information, and issuing notifications. Therefore, it is challenging for a startup to effectively monitor and manage its various obligations, particularly when non-compliance may result in incarceration.

The decriminalisation of minor offences will afford entrepreneurs increased flexibility and confidence in their business decision-making. Consequently, the elimination of the fear of imprisonment when operating a business will create opportunities for the expansion of emerging companies and individuals pursuing entrepreneurial endeavours.



In order to fully actualise India's economic potential, it is crucial to accord entrepreneurs with a sense of dignity. The primary focus should be on prioritising the decriminalisation of the regulatory ecosystem, beginning with the elimination of criminal responsibility for non-compliance resulting from procedural and technical errors.

The utilisation of incarceration should be limited to serious offences accompanied by criminal intent, while monetary fines should be prioritised as the principal means of deterrence. The achievement of effective implementation of the three-vector framework, which includes Rationalisation, Digitisation, and Decriminalisation, with the aim of improving Ease of Doing Business (EoDB), will require unwavering commitment and determination.





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## Digital Personal Data Protection Act, 2023

The proliferation of entrepreneurial drive has led to a significant surge in digital and technology-based enterprises, which was facilitated by the progress made in digital public infrastructure (DPI). The emergence of data has become crucial in the contemporary digital economy, serving as the fundamental component for the development of data-centric products and services. The confluence of enhanced accessibility, disposal personal income, and purchasing power has engendered a conducive environment for entrepreneurs to engage in innovation, establish novel markets, and perturb established markets.

The JAM (Jan Dhan, Aadhaar, Mobile) trinity has emerged as a fundamental pillar supporting efficient digital solutions and facilitating the rapid delivery of innovative products and services. This advent of online platforms has revolutionised the accessibility and purchase of a wide range of services and goods, encompassing travel and accommodation reservations, movie tickets, shopping and groceries, and credits and loans. A substantial volume of data is generated and disseminated within the digital realm minute-by-minute. As a result, enterprises are collecting, processing, sharing, and storing sensitive personal data, including Personal Identifiable Information (PII) and financial information, in order to facilitate the provision of their services and goods. The disclosure of personal data to service providers, whether it be for online movie ticket purchases or online bill payments, exposes end-users to potential vulnerabilities.

Furthermore, the implementation of Digital India is also impacted by this factor. The DigiLocker initiative, implemented by the Indian Government, currently boasts a user base of more than 187 million individuals and has successfully issued over 6.27 billion digital documents. The system has the capacity to store a total of 631 distinct categories of documents that are issued by a comprehensive range of 1,684 governmental institutions. Given the fact that approximately 900 million individuals are currently connected to the internet, the extent of personal data that businesses possess is beyond comprehension.

In order to safeguard the confidentiality and integrity of sensitive personal information during its transmission, storage, and processing, it became imperative to establish a robust plumbing infrastructure within the existing system.



Consequently, the Digital Personal Data Protection Act, 2023 becomes a logical step in this context. The legislation delineates the entitlements of individuals referred to as 'Data Principals' (users/customers), who possess ownership of the data, as well as the responsibilities and legal responsibilities of entities known as 'Data Fiduciaries' (businesses/enterprises/start-ups), which gather, retain, and manipulate the data. Data fiduciaries who neglect to implement adequate measures to safeguard user data may be subject to severe penalties amounting to hundreds of crores. It lays down several obligations on businesses while handling personal data. Some of these compliances have been listed here:

- Enterprises are required to Issue a notice of request for consent to the user for the processing of specified personal data
- They must also inform the data principal of the procedure to withdraw consent, the ease of which must be similar to that of giving consent
- Once the user withdraws its consent, the business must cease the processing of the personal data of the user as soon as possible and ensure that its data processor (third-party vendor/ contractor) does the same
- Businesses recognised as consent managers have to be registered with the data protection board
- Fiduciaries are required to protect the data in their possession/ control by taking suitable security measures to prevent a personal data breach
- In the event of a data breach, the breach must be intimated to the Board and affected user
- Enterprises must erase the personal data of the user once the user withdraws consent or the purpose is fulfilled unless required otherwise by any other law
- Corporations that are designated as 'significant data fiduciaries' are required to:
  - Appoint a data protection officer who is based in India and is accountable to the board of directors/ governing body of the organisation

- Appoint an independent data auditor who is responsible for evaluating the compliance of the Significant Data Fiduciary
- Undertake periodic data protection impact assessments and periodic audits

Moreover, it is imperative for businesses to maintain awareness of the rights bestowed upon users by the Act. These encompass the right to acquire the overview of personal data that is undergoing processing by a fiduciary, along with the processing activities associated with said data.

Furthermore, individuals call for revealing the identities of all additional Data Fiduciaries and Data Processors with whom the enterprise has shared the aforementioned personal data, as well as a description of the shared data. Additionally, individuals retain the right to rectify, supplement, update, and delete their personal data, provided that consent was granted, among various other rights.

There has been significant engagement by malevolent entities in the illicit trade of personal information to the most lucrative buyers, as well as in perpetrating data breaches. In the contemporary landscape, data has emerged as a valuable resource akin to crude oil. In light of this, enterprises leverage their unrestricted access and discretionary powers to generate customer profiles, exhibit tailored advertisements, and inundate users with unsolicited messages.

The legislation has effectively imposed limitations and fostered accountability within the business ecosystem. Enterprises will now need to exhibit heightened awareness of their responsibilities and demonstrate increased sensitivity towards adherence to procedural frameworks, operational systems, and regulatory requirements. These responsibilities result in increased operational expenses for these enterprises as well. The costs associated with technology development are expected to rise due to the incorporation of supplementary security measures, such as data masking and encryption, into the application.



Moreover, the implementation of additional security measures, such as firewalls and network security protocols, will result in an increase in the expenses associated with hosting. Businesses will be required to engage in penetration testing and obtain certification from relevant certification agencies to ensure the security of their systems. This will result in a notable increase in the expenses associated with maintenance.

Furthermore, the involvement of third-party and external consultants will be imperative in order to comprehend the suitability of the requirements established by the Act. In the event of a data breach, individuals must understand their liabilities and the corresponding reporting mechanism comprehensively. The implementation of the Act has resulted in heightened scrutiny and regulation pertaining to data protection and privacy. Consequently, businesses are now required to comply with these stringent measures prior to the launch of their products and services.

The DPDP Act introduces regulatory measures that corporations must consider, including supplementary technical prerequisites. Although implementing these requirements will lead to an escalation in development expenses, they concurrently impose upon employers the obligation to guarantee the security of users' data.

The gravity of a secure and protected data ecosystem cannot be understated for a digital economy to succeed. The enactment of this legislation has established the fundamental framework for establishing a data protection system characterised by responsibility, accountability, and resilience.





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## Changing Landscape of Financial Services

The financial sector went through a major regulatory overhaul in 2021 when RBI notified the “Scale Regulation (SBR): A Revised Regulatory Framework for NBFCs” to align the regulatory requirements for NBFCs because of the change in their risk profiles and their evolution in terms of size and complexity. The framework reclassified NBFCs into 4 layers - Base Layer (BL), Middle Layer (ML), Upper Layer (UL), and Top Layer (TL). RBI holds the authority to move NBFCs into the top 2 layers based on certain parameters they set from time to time.

In addition, the top 10 eligible NBFCs, in terms of their asset size, will always remain in the UL regardless of any other factor. The TL will consist of companies from the UL that have seen a substantial increase in their potential systemic risk.

NBFC-BLs are required to put in place a Board-approved policy on the grant of loans to directors, senior officers, and relatives of directors. They must now also make disclosures related to their types of exposure, related party transactions, loans to Directors/ Senior Officers and customer complaints. NBFCs in the BL, ML, and UL are required to make disclosure on their exposure in specific fields in their annual financial statements. NBFC-ULs must determine internal exposure limits on important sectors to which credit is extended.

These institutions are also required to maintain Common Equity Tier 1 Capital of at least 9% of the Risk Weighted Assets. There needs to be a Board approved policy in place for the adoption of the enhanced regulatory framework with an implementation plan. The implementation plan has to be shared with RBI. In addition, both UL and ML institutions are required to put a compliance function in place and appoint a chief compliance officer.

Furthermore, NBFCs must also adhere to the RBI Guidelines on Fair Practices Code for NBFCs, Appointment of Internal Ombudsman by NBFCs, the Integrated Ombudsman Scheme, and the RBI (Regulatory Framework for Microfinance Loans) Directions, 2022 together provide for the framework of ethical and fair practice guidelines for NBFCs. These guidelines require the companies to mention the penal interest for late repayment in bold letters in the loan agreement.



In addition, the fair practices code must be published on the company website. The borrowers must be informed in vernacular language about the terms and conditions, interest, and amount of loan sanctioned. Any changes in the terms and conditions must also be notified to the borrowers. Companies are also required to train the field staff on the appropriate debt recovery behaviour towards borrowers. The field staff must also not harass the borrowers by using muscle power and/ or bothering/calling borrowers at odd hours, among other things.

The regulations provide for the appointment of an internal ombudsman (IO) every 5 years, with the IO responsible for all complaints examined by the company. The IO is required to do quarterly reporting to the RBI on the total number of complaints received and the number of complaints partly or wholly rejected.

RBI has also issued guidelines for the recovery of microfinance loans under the RBI (Regulatory Framework for Microfinance Loans) Directions, 2022. The guideline provides for the NBFCs to put in place mechanisms to identify borrowers facing difficulties with loan repayment and guide them on the available recourses. As such, recovery of the loan can only be made at a designated place. If the borrower fails to appear on two or more successive occasions, field staff can make a recovery from the borrower's place of residence or work. Even then, the field staff or any loan recovery agent of the institution is not allowed to engage in coercive/ harsh methods for recovery. They cannot use threatening or abusive language or harass the borrower with persistent calling or calling at odd hours. Use or threat of violence as well as misleading the borrower on the consequences of non-repayment, is also barred.

In addition, the companies are required to provide the details of recovery agents to the borrower when the recovery process is initiated. Harassing the relatives, friends or co-workers of the borrowers, as well as harming their reputation, is also not allowed by the guidelines.

Moreover, the RBI Master Direction - Know Your Customer (KYC) Directions, 2016 provides critical provisions to direct the KYC processes for NBFCs. These directions mandate the formulation of a policy to adopt a risk-based approach for periodic updation of KYC.

This approach needs to be approved by the Board of Directors and added to the institution's internal KYC policy.

In addition, the companies need to conduct tests of the V-CIP (Video Customer Identification Process) application software and its relevant APIs before it can be used for the KYC process. As part of the requirements for operating a V-CIP software, companies need to formulate a clear flow and standard operating procedures (SOP) and ensure variability in the sequence and types of questions during video interactions.





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# Impact of digital technologies on corporate compliance

In today's swiftly evolving business world, digital transformation has become a must rather than an option for businesses across industries. The digital revolution has resulted in substantial changes in how organisations function, communicate, and connect with their stakeholders. Corporate compliance is one such area that has seen significant transformations as a result of digitalisation.

There are several benefits to embracing digital transformation in corporate governance and compliance.

Firstly, it promotes better accountability and openness. Real-time reporting, data analytics, and improved communication are made possible by digital tools and technology, which make it simpler for businesses to monitor and report on their governance and compliance initiatives.

Secondly, digital transformation advances production and efficiency. Process automation, workflow optimisation, and the use of digital technologies may greatly minimise human errors, save time, and boost overall operational effectiveness. This encourages businesses to concentrate on critical goals and deploy resources more wisely.

Finally, digital transformation renders better risk management. Companies may get insightful information about possible hazards and take proactive measures to reduce them by utilising sophisticated analytics and artificial intelligence. This reduces legal and financial risks while also protecting the company's brand and assisting in assuring compliance.

Organisations must adopt a strategic and comprehensive strategy in order to successfully execute digital transformation in corporate compliance. A clear strategy and roadmap for digital transformation are crucial. This entails determining the precise aims and objectives as well as the crucial areas that need transformation. Organisations should also make the appropriate technological and digital tool investments. This involves integrating automation, artificial intelligence, data analytics, and cloud computing.



It is also crucial to choose solutions that are secure, scalable, and compliant with the organisation's regulations.

Moreover, organisations should prioritise change management and employee engagement. Overcoming these obstacles may be facilitated by offering staff training and assistance, encouraging an innovative and collaborative culture, and clearly conveying the advantages of the digital transition.

Ensuring compliance in the digital age necessitates a proactive and all-encompassing strategy. In the digital era, ensuring compliance requires a proactive and comprehensive approach, which is time-consuming and demands a better approach to resource management. It necessitates regular assessments and updates of compliance policies to align with evolving regulations and industry standards, the implementation of robust data protection measures and cybersecurity protocols to safeguard sensitive information, and conducting regular internal audits and risk assessments to identify potential compliance gaps and address them promptly. This fosters a culture of ethics and integrity, emphasising the importance of compliance at all levels, establishing clear communication channels, and providing training and resources to employees to enhance their understanding of compliance requirements. Additionally, leverage technology solutions such as compliance management software and automated reporting tools to streamline compliance processes and ensure accuracy periodically.

TeamLease RegTech offers an all-encompassing compliance solution, including digital compliance management tools that leverage the power of the web, mobile, cloud, and analytics. The brand-new technologically supported compliance management systems offer complete automation, which includes tracking and management, data processing, statutory file preparation, digital record maintenance, and automatic flagging of any non-compliance.

With the use of these technologies, businesses may digitise all of their data and operational processes. These solutions also incorporate regulatory updates to guarantee prompt and accurate compliance by automatically detecting defaults and delays. They offer centralised document upload, document generation, approval, and preservation capabilities in compliance with the necessary standards and laws. Enterprises may be able to consistently remain vigilant, informed, and in the lead thanks to smart and automated compliance management. Businesses must use intelligent, automated compliance solutions that improve control and visibility over compliance-related activities.





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## Technology empowerment of compliance service provider business

Technological innovations and digital technology platforms have always been welcomed with open arms in the business world. In the area of compliance management, businesses are using tracking, automation, and straight-through filings to support their compliance functions and are eagerly awaiting new developments.

Compliance officers have to run from post to post to keep up with all the changes to regulations that are posted on more than 2,000 government websites. This shows how complicated the business regulatory framework is. Businesses that use ad-hoc, paper-based, and people-dependent processes to manage their compliances can't keep up as the business grows in size and scope of operations and the number of places it operates.

In the case of GST, which supports API-based straight-through filings, the compliance processes are already being streamlined for finance-related obligations. GSTN has approved private players to integrate their platforms with the regulatory portal to facilitate automatic filings and has also empanelled intermediaries to operate invoice registration portals. HR departments around the world are enlisting the aid of digital solutions to manage payroll and related compliances.

These compliance management solutions have automated compliance processes by utilising the functionalities of the two layers, namely the tracking and management layer and the automation layer. The tracking and management layer consists of a comprehensive compliance database containing all the 69,000+ different compliances mentioned above. After being onboarded, organisations can see a list of all applicable regulatory obligations, the deadlines by which they must comply or face fines, and any pending filings that have yet to be submitted. They are equipped with an automatic detection system for defaults and delays.

As an added bonus, these solutions are always up-to-date with the latest regulations, guaranteeing timely and precise conformity. In addition, they come loaded with features like customisable checklists, real-time regulatory updates, notifications, and reports.



This helps establish a culture where compliance processes are transparent, accountable, timely, and traceable. The record-generation layer produces a verifiable, auditable, and tamper-proof database of compliance records. Depending on the standards, formats, and laws in place, it can facilitate centralised document uploading as well as document development, approval, and archiving.

Today, corporations are outsourcing several essential business processes and operations to contractors in an effort to rationalise costs and improve efficiency. On average, medium to large enterprises have 40-50 contractors on board who handle a variety of services, including security, housekeeping, canteen, skilled engineering work, IT, waste management, manpower, and consultants, among others.

While these contractors are required to fulfil their regulatory requirements, as the principal employer, corporations are also held liable and responsible. Organisations are now required to keep tabs on the compliance status of their contractors. With each contractor required to undertake over 50 compliance obligations, it is challenging for a principal employer to manually keep track of all applicable, pending, and completed compliances, related compliance documents, and any changes that may transpire as a result of regulatory updates. A central digital platform allowing contractors to upload details and documents that can be reconciled and verified instantly is god-sent for compliance officers.

Adopting digital technology enables employers to mitigate instances of inadequate adherence and non-compliance resulting from lapses, delays, or failures. Intelligent and automated compliance management systems enable businesses to maintain constant vigilance, awareness, and up-to-date information.

The adoption of RegTech in India is expected to play a pivotal role in fulfilling the country's objective of alleviating the regulatory compliance challenges faced by businesses and enhancing the overall business environment.

The integration of RegTechs into digital public infrastructure (DPI), the implementation of Unique Enterprise Number (UEN), Enterprise DigiLocker, and the utilisation of API-enabled straight-through filings are expected to reshape the regulatory landscape significantly. This action can potentially be a significant milestone in addressing the ongoing regulatory burdens and streamlining compliance processes.





# Conclusion

Compliance management is a non-trivial task that cannot be left to ad-hoc, manual processes. Missed compliances affect the reputation, legal standing, and performance of the business. Consequently, it is imperative that corporations adopt and adapt to the 3 'Cs' of digital compliance management to stay on the right side of the law. The 3 Cs enable businesses to maintain complete visibility over their compliance functions. Control, culture, and commitment are interdependent. As such, without embracing all of them, businesses cannot leverage any of them.

Control allow businesses to achieve success in a volatile market. It necessitates a multifaceted approach to compliance management. The foundation is built by meticulously compiling a comprehensive list of applicable compliances and creating a proactive compliance calendar. This calendar not only ensures systematic compliance management, but it also encourages cross-departmental collaboration, preventing siloed approaches that may lead to oversights. Integrating technology improves control and visibility, allowing businesses to navigate regulatory landscapes more effectively.

Companies need to ensure that its employees are committed towards the common goal of being compliant.

They must go beyond processes to implement a framework that encourages adherence to regulatory standards in order to fortify a culture of accountability and responsibility. Recognising and rewarding exemplary compliance behaviour through various means, such as employee awards or opportunities for advancement, instills a sense of pride and ownership. Concurrently, clear penalties for noncompliance serve as a deterrent and emphasise the importance of adhering to standards.

Furthermore, creating a compliance culture necessitates a top-down approach. The board of directors and senior management are critical in promoting ethical and regulatory compliance. Their consistent communication, demonstration of compliance commitment, and integration of compliance into strategic decision-making set the tone for the entire organisation. Compliance is continually monitored and assessed, both formally and informally, to ensure that it remains an evolving and integral part of business operations. Encouragement of departmental self-assessment and open communication channels empower employees at all levels to actively participate in compliance, making ethical behaviour a shared responsibility. In essence, this comprehensive approach protects businesses not only from legal and financial issues, but also establishes them as trustworthy and responsible entities in the eyes of customers, investors, and other stakeholders.





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