



## Safeguarding the Global Financial Ecosystem

**For Prelims:** [Fintech industry](#), [Crypto Threats](#), [Cyber Threats](#), [Tax Havens](#) and [Evasion](#)

**For Mains:** Major threats faced by the global financial ecosystem, Significance of global cooperation in addressing the crypto-threats and cyber threats.

[Source: TH](#)

### Why in News?

Recently, the Union Finance & Corporate Affairs Minister addressed the **Global Fintech Fest 2023** in Mumbai.

- The importance of **global cooperation in addressing threats to the Global Financial Ecosystem** is highlighted.
- India Under the [G20 Presidency](#) has sought for global cooperation and collaboration in the areas where we have continued challenges.

### What is Global Fintech Fest (GFF)?

- It is the **largest fintech conference**, jointly organized by the [National Payments Corporation of India \(NPCI\)](#), the **Payments Council of India (PCI)**, and the **Fintech Convergence Council (FCC)**.
- Aim is to provide a **singular platform for fintech leaders to foster collaborations** and develop a blueprint for the future of the industry.
- GFF is a platform where policymakers, regulators, industry leaders, academics, and all major FinTech ecosystem stakeholders converge once a year to exchange ideas, share insights, and drive innovation.
- **GFF'23 Theme:**
  - Global Collaboration for a Responsible Financial Ecosystem.
  - The theme of GFF 2023 highlights the critical need for global collaboration to build a financial ecosystem that is **inclusive, resilient, and sustainable**.

### Note:

- **Payments Council of India (PCI):** PCI is a body representing **over 85% of the non-Bank companies in the Payments ecosystem** and was formed to effectively cater to the needs of the digital payments industry.
  - **PCI comprises the following sub-committees:**
    - Payment Aggregators / Payment Gateways
    - Prepaid Payments Issuers (PPI)
    - Payments Networks

- Payments Bank
  - Bharat Bill Payments Operating Units Committee (BBPOU)
  - [United Payment Interface \(UPI\)](#)
  - International Remittances and Trade Committee
  - Technology Enablers
- **Fintech Convergence Council (FCC):** Setup in 2017 as a fintech committee, **FCC** was later converted into an independent council with an independent governing board, with over 70 members.
    - The FCC represents various players in the fintech, banking, financial services, and technology space.

## What is Fintech?

- Fintech (Financial technology) is used to describe new technology that seeks to **improve and automate the delivery and use of financial services.**
  - The key segments within the FinTech space include **Digital Payments, Digital Lending, BankTech, and Cryptocurrency.**
- FinTech spans various sectors, including education, retail banking, fundraising, nonprofit, and investment management, making it a rapidly growing industry with significant business expansion and job creation.
  - Additionally, FinTech plays a crucial role in advancing financial inclusion goals.

## What Threats Does the Global Financial Ecosystem Face?

- **Crypto Threats:**
  - **Cybersecurity:**
    - Cryptocurrencies are vulnerable to **cyberattacks, hacking, theft, fraud, and scams** due to their anonymity and decentralization.
  - **Regulation:**
    - **Crypto** faces regulatory challenges globally, leading to uncertainty and inconsistency in approaches and standards among countries.
  - **Stability:**
    - Cryptocurrency prices are **highly volatile, impacting user confidence and business investments.**
  - **Sustainability:**
    - Crypto mining consumes **excessive energy and generates electronic waste**, raising environmental concerns.
- **Cyber Threats:**
  - **Phishing:**
    - Fraudulent emails and messages trick users into revealing sensitive information, compromising financial institutions.
  - **Ransomware:**
    - Malware encrypts victim files and demands ransom, targeting financial services for extortion.
  - **Data Breaches:**
    - Unauthorized access to **confidential data can compromise the privacy, identity, and assets of financial entities and individuals.**
  - **Supply Chain Attacks:**
    - Hackers **infiltrate suppliers of financial institutions** to compromise their systems and services.
- **Drug Wars and Mafias:**
  - Drug traffickers and mafias use **money laundering** to integrate illegal funds into the legitimate financial system.
- **Tax Havens and Evasion:**
  - A **tax haven** is a **country or jurisdiction that offers foreign individuals and businesses little or no tax liability.**

- **Tax evasion** is the **illegal avoidance or reduction of taxes by concealing or misreporting income or assets.**
- **Major threats Posed by Tax Havens and Evasion:**
  - **Revenue Loss:**
    - **Tax havens** and evasion result in significant revenue loss for governments, especially in developing countries.
  - **Inequality:**
    - Tax havens and evasion worsen inequality by benefiting the wealthy at the expense of the poor.
  - **Corruption:**
    - These practices facilitate corruption by providing safe havens for illicit financial flows and tax fraud.

## Why is Global Collaboration Essential for the Security of the Global Financial Ecosystem?

- **Complexity of Threats:**
  - Threats to the global financial ecosystem, such as cyberattacks, crypto challenges, and drug mafias, are **multifaceted and transcend national boundaries.**
    - A global collaborative effort is needed to counter these challenges and work together to create a responsible, inclusive, resilient, and **sustainable financial ecosystem.**
- **Cross-Border Nature:**
  - Many financial threats, like **cyberattacks and money laundering, originate in one country but impact institutions and individuals across the world.**
    - Collaboration is necessary to track and mitigate these threats effectively.
- **Consistency in Regulation:**
  - Inconsistent regulations across countries create opportunities for criminals to exploit regulatory gaps.
    - Global collaboration can help establish uniform standards and regulations, reducing the risk of regulatory arbitrage.
- **Information Sharing:**
  - **Collaboration enables information sharing, expertise development, and unified regulations** to mitigate threats effectively. It also allows proactive identification and prevention of potential financial crises through shared intelligence.

## How Can Fintech Address Global Financial Ecosystem Threats?

- Fintech companies can invest heavily in **robust security measures** utilizing advanced encryption and other measures to protect user data and financial transactions.
- Fintechs use innovative solutions like **machine learning** and **blockchain** to bolster **cybersecurity and deter malicious activities.**
- Fintechs can promote financial inclusion by offering underserved populations access to services that boost **economic well-being and reduce financial vulnerability.**
- Fintechs can also play a crucial role in **developing and implementing regulatory frameworks for emerging technologies like crypto assets,** which can help mitigate the risks associated with these assets while promoting innovation and growth in the financial sector.

### UPSC Civil Services Examination, Previous Year Questions (PYQs)

**Q. With reference to India, consider the following: (2010)**

1. Nationalisation of Banks
2. Formation of Regional Rural Banks
3. Adoption of village by Bank Branches

**Which of the above can be considered as steps taken to achieve the “financial inclusion” in**

**India?**

**(a)** 1 and 2 only

**(b)** 2 and 3 only

**(c)** 3 only

**(d)** 1, 2 and 3

**Ans: (d)**

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