



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)

PDF Reference URL: <https://www.drishtias.com/current-affairs-news-analysis-editorials/news-analysis/08-09-2023/print>

