Southern China International MUN

Official Background Guide

Economic and Financial Committee: On measures to leverage fintech innovations for financial inclusion

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1. Description of the Issue

1.1 History of the Issue

These new innovations of **Fintech** will be an excellent tool for ensuring easy and inexpensive access to finance for the unbanked or underbanked population.[1] Financial inclusion pertains to the level up to which households and individuals have access to and utilization of different kinds of financial services, including access to accounts with a financial institution, loans, and insurance, among others.[2] In fact, financial inclusion is necessary not only for the attainment of economic growth and the eradication of poverty but also to ensure social stability and well-being for an individual.[2] The term **Fintech**, in a nutshell, is basically related to the utilization of technology in rendering financial services.[3] **Fintech** covers many types of innovation, ranging from mobile banking and **peer-to-peer lending** to blockchain. Technological innovations would be one way through which **fintech** will improve the quality of financial services. For instance, the technology behind blockchain could deliver, among others, more securely executed and transparent financial transactions. **Fintech** can also help to remove certain barriers to inclusive finance, including physical infrastructures like bank branches or high transaction costs.[4]

The history of financial inclusion dates back to the very early history of banking when banks were mainly catering to the rich. During the 20th century, governments started taking measures to promote financial inclusion, such as deposit insurance and government-sponsored banks. In recent years, **fintech** has emerged as a powerful source of financial inclusion.[5] Innovations in **fintech** might target and reach populations that are not reached by traditional banks.[1] For instance, mobile banking can be used for people who do not have access to bank services due to staying in remote locations or not holding any bank accounts.

Financial inclusion affects the people, communities, and economies that are in dire need. Those who have access to financial services can save, hence making them withstand financial shocks

and invest in the future. They can access credit to either start and/or accumulate business, purchase homes, and use it to pay for education. They can also manage risk by protecting themselves from financial losses. Indeed, it will finally allow them to join the formal economy, in which economic growth and development can be spurred on. The United Nations understands the importance of having its Sustainable Development Goals framed around financial inclusion, ending poverty, protecting the planet, and ensuring prosperity for all.[18] It has also established the Special Advocate for Inclusive Finance for Development, which is led by Her Majesty Queen Máxima of the Netherlands.[19] UNSGSA is in the position of creating awareness of the need for financial inclusion and mobilizing support for inclusive finance initiatives.

1.2 Recent Developments

Fintech innovations have the potential to revolutionize financial inclusion by making financial services more accessible and affordable to underserved populations [1]. Some of the most promising **fintech** innovations include mobile banking, digital payments, and peer-to-peer lending. Mobile banking allows people to access their bank accounts and make transactions using their mobile phones [6]. This is especially beneficial for people who live in rural areas or who do not have access to traditional bank branches. It is certainly easier and even cheaper to send and receive money electronically [8]. This benefits people who have to send money to their family and friends in other countries.

Another innovation, which is peer-to-peer lending, connects borrowers directly with the creditor—without the bank in the middle. This makes easier the process of getting loans for people who do not have a good credit history. The rise of **fintech** innovations is relatively new but has already been associated with a deep impact on financial inclusion [9]. According to a recent report by the World Bank, the number of people using mobile money services has increased from 357 million in 2014 to 1.2 billion by 2017, which is definitely an indicator of the fact that innovations in **fintech** are being adopted by people around the globe.

Besides the many benefits of these **fintech** innovations, some challenges need to be addressed. One challenge that is evident about **fintech** innovations is that they can be quite vulnerable to cyberattacks, hacking, and even data breaches. This may end up causing the users financial loss and loss of trust in using these services. There is another drawback: **fintech** innovations might not reach everyone and might not be equally beneficial to people residing in rural areas or not having access to the internet. This brings out the point of the digital divide rather strongly, whereby accessibility to technology and good internet coverage does not reach everyone [20]. Other issues

face concerns such as data collection and its usage among **fintech** companies. Strong data privacy regulations are critical for the security of consumer information and the responsible practice of data handling.

Key Terms

Regulatory Harmonization – Regulatory harmonization is the process of aligning rules, standards, and policies across jurisdictions to ensure consistency and cooperation in regulating industries like fintech. It is particularly important for addressing cross-border challenges, such as data privacy, consumer protection, and systemic financial risks, in a rapidly evolving global fintech ecosystem.

Algorithmic Bias – Algorithmic bias occurs when artificial intelligence (AI) systems or algorithms used in fintech applications inadvertently perpetuate or amplify existing societal biases, often due to biased training data. This can lead to discriminatory practices, such as unfair credit scoring or loan approvals that exclude certain demographics or communities.

Peer-to-Peer Lending (P2P Lending) – Peer-to-peer lending is a fintech innovation that allows individuals or businesses to obtain loans directly from other individuals without the involvement of traditional financial intermediaries, such as banks. This system often relies on online platforms to connect borrowers and lenders, offering reduced costs and increased accessibility.

Financial Inclusion – Financial inclusion refers to the process of ensuring that individuals and businesses, particularly those in underserved or marginalized communities, have access to affordable and useful financial products and services, including accounts, credit, insurance, and payment systems. It aims to enable economic participation, reduce poverty, and promote financial stability.

Fintech (Financial Technology) – Fintech is the amalgamation of finance and technology, focusing on the use of innovative technologies to deliver financial services more efficiently, affordably, and inclusively. Examples include mobile banking, blockchain, peer-to-peer lending, and digital payment platforms.

2. Emphasis of the Discourse

2.1 Right-Wing Approach

While there was a clear distinction between left-wing and right-wing approaches, the lines have blurred. Some politicians on the right have, in the past, been suspicious of **fintech** because of the threats it can pose to financial stability and consumer protection. They usually are very cautious

and push for regulation to minimize such risks. However, the realities of the benefits of **fintech** for financial inclusion are becoming too compelling.

The problem of using **fintech** innovations in financial inclusion is quite complicated and may be seen from different points of view. Some may include the views of conservative politicians concerned with the possible risks associated with the emergence of innovations in **fintech**, such as possible fraud, a lack of privacy, and the destruction of traditional financial institutions. The second perspective is that of a traditionalist policymaker, who is resistant to change and may like to maintain the status quo. Such a policymaker may believe that **fintech** innovations are not necessary or that they are too risky.

Most of the right-wing politicians believe that a more market-based, less regulated approach to **fintech** is the best [21]. They feel that too much regulation stifles innovation and hurts the growth of the **fintech** sector. Competition and free-market principles will bring better products and services for consumers. But this perspective also acknowledges the potential for market failures. A pure free-market approach without adequate safeguards may give rise to predatory lending, misuse of consumer data, loss of trust in consumers, and systemic risk in the financial system. Such concerns speak for a balanced approach that fosters innovation but protects the consumer and the financial stability system.

2.2 Left-Wing Approach

Therefore, liberal politicians tend to advocate policies that will increase economic growth and opportunity. They may see **fintech** as a means to achieve these goals through increased access to credit, savings, and other financial services for people. This may spur more economic activities and hence create jobs. For instance, in Kenya, the mobile money platform M-Pesa has helped millions of people gain access to financial services, including credit and savings [10]. This has, in turn, resulted in more economic activity and hence generated employment in the country.

Progressive policymakers will likely support **fintech** innovation; however, they may be more concerned about making sure it benefits everyone and not just the rich. They may support policies that help consumers, encourage competition, and prevent discrimination. For example, in the United States, the Consumer Financial Protection Bureau (CFPB) has worked with an agenda to shield consumers from predatory lending practices by **fintech** firms [11].

The benefits of a liberal approach to **fintech** innovation may range from high economic growth and employment to access to financial services for underdeveloped populations. There are those, however, that argue that it may have some costs. First, there may be increased inequality in the event that **fintech** innovation is not complemented with suitable checks. Secondly, **fintech** innovation may cut jobs in the traditional financial services industry.

There is also the issue of **algorithmic bias** in **fintech**. Algorithms used in a host of domains, including credit scoring, sometimes propagate existing biases and discriminate against certain groups [22]. For instance, where algorithms are trained on biased data, they will make discriminatory choices-for example, not giving loans to people in particular communities.

While the intention of **fintech** is to widen the net of financial inclusion, others argue that it may, as a matter of fact, cut some people out. For example, those with low digital literacy who have no or limited capacities to operate through sophisticated **fintech** platforms, and those in very remote parts where access to technologies is poor. Those potential downsides make thoughtful policymaking even more important if the benefits of **fintech** are to be shared on an equal footing and its risks curbed.

2.3 Stance of Intergovernmental Organizations

IGOs are also playing a major role in financial inclusions using **fintech** innovations [12]. These organizations offer a platform where countries collaborate and share ideas on the introduction of common standards.

Some of the most relevant IGOs in this area include the World Bank, the International Monetary Fund, and the United Nations. For instance, the World Bank has become very active in promoting **Fintech** innovations within developing nations through its programs for financial inclusion [13]. The IMF has also been conducting research and providing policy advice on **fintech** issues [14].

These will include those countries that have the highest interests in these organizations and which, on the other hand, are most affected by financial exclusion, such as developing countries or developed countries with large populations of low-income earners.

Through this approach, IGOs can leverage **fintech** innovation for financial inclusion. An example is when they provide technical assistance to other countries in terms of developing and implementing **fintech** solutions [15]. They also conduct research and disseminate information on

potential benefits and risks of **fintech** innovations. And lastly, IGOs can advocate for policies that help create an enabling environment for innovation in **fintech**.

IGOs are also a critical part of responding to the host of regulatory challenges brought by this fast-growing area in **fintech**. **Fintech** remains a global phenomenon, therefore requiring international cooperation and **regulatory harmonization** to enable fair competition and avoid regulatory arbitrage [23]. IGOs provide a convenient vehicle for sharing best practices, developing common standards, and enabling cross-border collaboration among regulators.

2.4 Stance of Developed Countries

The most developed countries provide great opportunities for the promotion of financial inclusion through **fintech** innovation. Often, these countries have only recently reached a technological frontier where they can afford to invest in research and development. Some involved developed countries are the United States, the United Kingdom, and Germany. Many reasons contribute to their interest, such as economic growth, humanitarian concerns, and geopolitical interests. Some of the most involved developed countries in these developing countries include the United States, the United Kingdom, and Germany. Several factors have driven them: economic growth, humanitarian concerns, and geopolitical interests. It is very important to mention that the interests of developed and developing countries cannot always be aligned. The developed countries may have a greater interest in promoting their own **fintech** industries, while the developing countries would be more interested in access to affordable financial services.

2.5 Stance of Developing Countries

Fintech has the potential to transform the financial inclusions of any developing country by using technology to reach out to more and more people, particularly the underbanked and unbanked. This results in economic growth, poverty reduction, and an enhancement in financial stability.

In fact, Least Developed Countries are keen to embrace **Fintech** as a means of overcoming impediments to financial inclusion. Because many developing countries have a high number of people residing in rural areas where access to more traditional banking services is limited, **Fintech** solutions can provide easy access to vital financial services, such as mobile money platforms and digital lending platforms [16].

The motivations of developing countries to leverage **fintech** are varied. Although some develop by a motivation to improve economic growth and reduce poverty, others seem driven by the passion for financial stability and reduced vulnerability of their citizens to economic shocks. Still, others have been motivated to modernize their financial systems so they can also compete in the global economy [24]. While there is a general appreciation among developing countries for leveraging **fintech** on the matter of financial inclusion, there are also some differences in their aims. Whereas for some countries, the aim is to use **fintech** to reach the unbanked population, for other countries the aim is to use **fintech** to improve access to credit and insurance.

The interests of the developing countries in leveraging fintech also do not align exactly with the interests of the developed nations. While developed countries may have a greater disposition toward using fintech to pursue their respective economic interests, such as the expansion of their financial markets, there is a similarly rising consciousness that the financial inclusions of developing countries are relevant to global economic stability.

3. <u>Possible Solutions</u>

3.1 In Favor of Developed Countries

Developed countries are keen on increasing financial inclusion in developing countries because they have an interest in trade, investment, and economic growth with them [26]. More so, the reduction of poverty and inequality across the world has become a pressing issue affecting both developed and developing countries.

These goals will be achieved only when developed countries support developing countries in closing the digital divide. That is, investing and supporting access to affordable internet and mobile phone services so as to provide equal opportunities to all populations to use digital financial services.

Other benefits of this agreement are that developed countries can provide grants and loans to developing countries to establish their own **fintech** industries. Sharing of expertise and knowledge through training programs and mentorship will also be good. The stimulation of collaboration between governments, the private sector, and nonprofit organizations involved in both developed and developing countries can foster innovative and inclusive **fintech** solutions [24]. Finally, responsible innovation is responsive to the specific needs and challenges of developing countries while ensuring data privacy, consumer protection, and financial literacy. In doing so,

developed countries would be playing a critical role in harnessing **fintech** in support of financial inclusion and improving the lives of people in developing countries.

3.2 In Favor of Developing Countries

Developing countries would thus strongly support **fintech** innovations to be able to spur financial inclusion, thus reducing poverty and creating more employment opportunities that stimulate economic growth [25]. However, in developing countries, there is often a uniqueness that they have in their way of implementing the **fintech** solution: limited access to technology and infrastructure, and low levels of financial literacy, among others.

Therefore, developing countries can endorse better internet and mobile connectivity, particularly in the countryside, coupled with digital literacy for citizens. It is also important to mention that clear and supportive regulatory frameworks for **fintech** companies have to be established, focusing a great deal on consumer protection. These are supposed to be regarding fraud issues, data breaches, and unfair lending practices.

Collaboration with international organizations and the private sector is also important to tap into expertise, funding, and best practices. Policies that promote the use of services and reduce barriers to financial inclusion, such as lack of identification documents and limited access to credit, are also important [24]. All these steps will help developing countries tap into the power of **fintech** to improve financial inclusion, reduce poverty, and boost economic growth.

4. Keep in Mind the Following

As this paper was researched, several factors have to be put into consideration that might cause a derail or loss of focus by the committee. Avoid being too technical with fin-tech without essentially considering the impacts that are social and economic. Also, consider possible risks and challenges that come along while using fin-tech; hence, taking into consideration the needs of all stakeholders like consumers, businesses, and governments. Finally, one should not assume that the financial literacy and also access to technology are at par with the most underserved.

1. *How may fintech innovation be used in order to serve excluded communities to achieve financial inclusion?*
2. *What are the possible risks and challenges associated with fintech for financial inclusion?*
3. *How may policy and regulatory decisions ensure that there is responsible implementation of fintech innovations along with ethical practices?*

4. *To what extent might this partnership of government, private sectors, and civil society advance financial inclusion through fintech?*
5. *How might the utilization of fintech address the specific needs of women and other marginalized groups?*
6. *What are the effects of leveraging fintech on long-term financial inclusion?*

5. Evaluation

History has shown that the journey of financial inclusion has been very long and arduous until all are included. **Fintech** could therefore trigger connectivity for all excluded populations to financial services through mobile banking and digital payments. The stakeholder positions hold a wide set of perceptions and interests developed and developing countries have in leveraging **fintech** [26]. Developed countries often view **fintech** as a tool for economic growth and global influence, while developing countries prioritize using **fintech** to overcome barriers to financial access and improve economic stability. It will be an interesting balancing act: to foster innovation while ensuring regulations catch up. Ultimately, the **fintech** solution must be available, affordable, and secure for all users. Possible risks-imposition in the form of cyberattacks, data privacy violations, and exclusion-should be listened to.

The collaboration of governments, the private sector, and civil society will, therefore, provide the enabling environment to allow **fintech** to help create a more inclusive and equitable financial system for all. This means committing to responsible innovation where consumer protection, data privacy, and the pursuit of financial inclusion for all come first [17].

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