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<u>How development in fintech can impact economic development and how it should be regulated</u>

Fintech is the combination of two words, finance and technology. Therefore it is the use of technology in delivering financial service. According to Merriam-Webster, fintech refers to "products and companies that employ newly developed digital and online technologies in the banking and financial services industries."[1] For the purpose of this essay, I have narrowed the scope of the definition of fintech to those technologies that aid in digitalization of currency, digital and electronic transactions.

The transition from analogue society where physical money was or is used, with tellers using human effort to count money, to digital economy where a person can be anywhere and transact business at the bank has positive impact on the economy and proper regulation of fintech can turn the economic fortune of the world for the betterment of now and prosperity.

Development in fintech facilitates economic growth and development. The era of digital banking has expanded the banking sector and has brought people who for various reasons may not like to use the banking hall or to hold an account with financial institutions to do so. This is made possible through the mobile money interoperability system. Now individuals' mobile money accounts are or can be linked to a bank account. The implication is that individuals will not hold physical money as they used to but that all money will be in their bank account or digital wallet and will be available when needed. This will facilitate economic growth and development in a variety of ways.
It will enhance transaction and conduct of business. One can sit at the comfort of the home and transact business in any part of the world. This also means an expansion of the market and goods could be distributed to where there is demand for it.
It saves time and resources and eliminates the risk of personal travel and holding physical cash. The saved time and resources could be used to undertake another economic venture which altogether boost economic growth and development.

[1] https://www.merriam-webster.com/dictionary/fintech, retrieved on 31st December 2022

Again, though money in its digital form may not be in an investment account, the banks and specialised deposit institutions could utilise such money in a profitable way after analysing the withdrawal pattern of the account holders, hence increasing investment which has a multiplier effect on growth and development.

The improvement in fintech will result in transition from the use of physical currency to digital currency. This has the potential of addressing the problem of national currency depreciation. countries keep on suffering from depreciation of their currency against the currencies of their major trading partners, specifically the US Dollar. So addressing the challenge of currency depreciation will have a multiplier effect on the economy, hence impacting economic growth and development positively.

The vision is that digital currency can be made universal where its value remains the same everywhere in the world. Such a currency would know no border and will not be restricted to any country and will be acceptable everywhere.
Once the currency is digital and universal, the world economy will be stabilised and inflation could only be driven by demand and supply factors. In this case, economic shocks such as the Covid 19 and Russia-Ukraine war, as most countries complain of, could not destabilise the world economy as we are witnessing today.

The development in fintech will also help economies to generate more revenue to support the government. The development in fintech has the potential of transforming economies into cashless as a result of digital banking and currency. Cashless economy implies that the government will be saved from spending resources in printing hard currency. Such saving is a real revenue that could be used for other important things for the betterment of the citizenry. Again most economic activities in analogue economies are highly informal and mostly unregulated. In such a situation, there is a high tendency of tax evasion and under taxation which deprives the government of the necessary revenue for development. So with cashless economy which emanate from improvement in fintech, every transaction, activity and payment could be monitored and due tax could be paid

Also most of government revenue in the form of tax and payment are unaccounted for due to the issue of corruption and malpractices in various departments and agencies of government. This unaccounted revenue could be checked easily under a cashless economy. So in an economy where all payments are digitised and passed through the financial institutions, authorities could monitor payment and all monies that hit an individual's account and all taxes due to the government would be paid. Also, if an individual receives an amount in his or her account which could not be accounted for, such a person could be invited to explain how he or she had such an amount. This will discourage public corruption. Again individuals who operate at the dark side of the economy, and engage in illegal activities such as internet fraud and its related activities could not operate or will find it difficult to operate, hence minimising illegal activities in the economy and sanitising the system.
So if all revenue linkages are checked, corruption and illegal activities are minimised, then the economy stands the chance of growing quickly. There will be more revenue for governments to embark on developmental agenda. The rate of borrowing by governments and its attendant stringent measures will be minimal and countries will come out of the shackles of poverty.

How fintech should be regulated

Just as development in fintech has a potential for economic growth and development, its regulations are equally important in consolidating the potential economic growth and development that fintech has to offer.

Firstly all operators of fintech or businesses that operate with financial technology(and deal with currency either digital or physical) must be licensed with the central bank or institution designated for that purpose. This should include money transfer operators and those who issue cards like credit and debit cards. This will help the regulatory authority to define the scope of operation of fintech operators, monitor their operation and to ensure their compliance to regulations.

Secondly, the regulatory authority must develop a financial technological system that will check, test and approve every financial technology that comes into the system before their operation to ascertain the security level of the new fintech and whether or not it is safe and secured for clients to use. The purpose is to prevent hackers from entering into the system and loot people's money and manipulate their data. After developing a financial technological system to check, test and approve fintech, all those fintech already in operation must be subjected to the same test and approval to ensure that they meet certain security standards.

Thirdly, all operators of fintech that deal with investment and accept deposit or payment in diverse forms must be made to prepare and report to the central bank or the regulatory authority the monthly and annual report of all transactions. This will help the regulatory authority to know and detect earlier any wrongs and non compliance on the side of fintech operators.

Again, to boost the patronage of fintech for development, the government must remove or reduce taxes on electronic and digital transactions and rather tax the profit margin of the service providers. Fintech basically thrives on money transfers and electronic transactions. Therefore if the government were to tax each transaction, it will collapse the system and the supposed development that we envision from fintech will be a mirage. So the government should rather tax the profit margin of fintech operators and not the subscribers of fintech. This will boost financial technology and increase government revenue because more people will patronise fintech because of it tax free or less charges. As more people patronise it, the profit margin of the service providers will increase hence increase in government revenue.

Further, data must be protected. Data protection is the fulcrum around which fintech thrives. Therefore there must be strict law to protect the data of all clients who subscribe to any services of fintech. The law should provide for the punishment of all fintech operators who breach the law on data protection or who allow their systems to be hacked. Again individuals who suffer in anyform as a result of providing their information to any fintech operator must be compensated equitably.

Finally, to check money laundering and other crimes that relate to fintech and financial institutions in general, all businesses that accept digital currency must develop a technology that will enable them to trace and discover the origin of money that hit an individual's account. If there is suspicion as to how a person had a certain amount in his account or the origin of the money is not genuine or doubtful, then the security agencies or the institution designated for the purpose must be informed for further investigation and necessary action. If fintech operators adopt this approach, cybercrime and it related activities will be minimised.

As fintech develops and good security measures are put in place to check its operations and cybercrimes are reduced, and activities of individuals at the dark side of the economy are brought to a halt, good names of countries will be projected at the international scene. Since investors are attracted to countries with less crime, and investment friendly environment, fintech has the potential to attract investors into domestic countries which helps in driving the development agenda of those countries.