

Committee: Economic and Financial Committee

Issue: Financing Alternatives in the New Digital Era

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Position: Chair

INTRODUCTION

As technology advances, digital financing alternatives are becoming more and more vital in today's society. By utilizing the alternatives, international financial issues can be more effectively resolved and a more stable economy may be established. Currently the world is split roughly in two; those who can utilize financing alternatives and those who are unable to. This gap is due to the difference in technological advancements between countries and this needs to be overcome in order to establish a sustainable worldwide economy.

DEFINITION OF KEY TERMS

Digital Era

Started sometime between the 1950s and '70s when there was a shift from mechanical and analogue technology to digital electronics.

Alternative Finance

Financial channels, processes, and instruments that are not part of the traditional financial system, e.g. banks and markets.

Centralized purchase

Refers to the purchase of material under a single department.

Decentralized purchase

Refers to the purchase of material under a multiple of external departments.

BACKGROUND INFORMATION

In recent years, more and more financing alternatives are being used due to rapid technological advancements. Numerous banks now opt to use these new digital alternatives because overall it is cheaper for them and more potential customers have access to them. Unfortunately, more banks have been shutting down, because of the digital advancements; however, this does not mean that they have lost substantial business, because most of it has been redirected elsewhere.

Digital lending

Established and mainly occurring in India, digital lending provides loans to people struggling to obtain them from banks, due to low credit ratings, through the digital transference of money. This business is rapidly growing and is estimated it will be worth \$100 billion by 2023. Digital lending looks at alternative financial and demographic data to determine credit scores and help give loans to people who would not typically receive them from banks. It originated as an alternative to the offline banking experience. Whereas before it was restricted to automated manual processes, now, due to faster bandwidth and the rise of digital payments, digital lending has become more popular than ever. It is one of the main contributors towards personalized financial management and software. Alternative financial lenders include: reward based crowd funding, equity based crowd funding, donation based crowd funding, invoice trading, debt based securities, and community shares and microfinance.

Peer to peer (P2P) lending is one of the most popular forms of digital lending. P2P lending companies offer the purchase of claiming rights to loans that have been given to other clients. This gives the company money that can be used to expand and develop, whilst a set interest is received. This is very often used due to its many benefits, such as a monthly payment which could be up to 14% of the initial payment, diversification, and reduced risks compared to other digital loans.



Figure 1: The estimated amount of money spent annually on P2P loans

Digital Currency

With the recent boom in digital currency, it comes to no surprise that it is one of the most widely used financial alternatives. Much like physical currency, digital currency can be used to purchase online goods. It allows for instantaneous transactions across any distance. Advantages such as these have led to a rapid increase in their use. Other advantages include zero to low cost transactions and intermediaries are not needed. Although it was originally created to be an alternative to physical payments and bank transactions, most people invest in them nowadays in the hope that their value will increase and thus increasing their financial status. Countless banks nowadays have also started to use digital currencies, mainly crypto currencies, to expand their business. For example, the Bank of England has started to use them, but they have stated that they will still continue to use physical currency as their main form of currency.

Digital currency provides many benefits; however, many people are still sceptical and worried about trusting their money in a digital format. There is a worry that their money may be “lost” or even transferred to a different, unauthorised account. Should digital currency be used more globally, people will have to be assured that their money is in safe hands; regulations will have to be set and secure networks be set up.

Digital currency is not a new concept, either. The Office of the U.S. Comptroller of the Currency and the Bank for International Settlements both had set up electronic

currencies in 1996. In the past, most electronic currency suppliers had been big central banks. That being said, non-central bank currency can be dated back to 1945.

Greater Bank Capacity

Banks can now easily expand their companies through digital financing. This is mainly done by opting to use digital currencies, as previously mentioned. Banks can now also possess more money, because there is no need to store the physical currency and in this way more money can be stored digitally in a smaller space. With banks having a greater banking capacity, the economy of a country can vastly improve due to it being able to provide more loans and be able to assist other countries. Even though digital currency is seen as a rival to central banks, in the long run it could be vital in creating a greater banking capacity.

Centralized and Decentralized Purchasing

By digitalizing centralized and decentralized purchasing, we can more effectively purchase from abroad. Stock checking can be much quicker, transactions will be faster, and it will be overall cheaper for consumers. Companies can also avoid spending their money on physical transactions and thus be more efficient without cutting costs.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

United States of America

The USA is one of the most technologically advanced countries and can therefore optimize a lot of, if not all, financial alternatives.

United Kingdom

The UK has been making great headway in technological advancements, such as introducing 5G, which can be used for faster financial transferences and easier access to personal banking information.

India

India is where digital lending was established and mainly takes place. It is one of the front-runners when it comes to the digital era due to its advancement in technology.

TIMELINE OF EVENTS

Date	Description of Event
2014	Seminars at the Spring Meetings talked about financing in the new digital era. During these seminars, it was estimated that, by the year 2020, digital solutions and new technologies will lead to great advancements for the World Bank Group.

UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS

There have currently been no UN resolutions on this topic or any treaties. Despite there not being much on digital financial alternatives, the United Nations Environment Programme (UNEP) published a report “Fintech and Sustainable Development: Assessing the Implications” which talked about how digital finance can be used for environmental gains.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

As of now, there have been no previous attempts to solve the issue, because this is a very recent topic. Overall, the topic of financing alternatives in the new digital era is not typically considered an issue that needs to be tackled, but rather a different way to optimize financing and a way to create a newer, digitalized economy.

POSSIBLE SOLUTIONS

Considering that this is not technically a problem that needs a solution, resolutions will consist of ways to optimize financial alternatives in the new digital era according to your countries capabilities.

Many less economically developed countries (LEDCs) will have to create resolutions that will help towards the advancement of their technology first and thus be able to utilize financial alternatives and be able to establish a digital economy. This can be done through P2P loans from abroad, establishing digital currency and working towards a faster and broader bandwidth. These are just some examples on how LEDCs can contribute towards this topic.

More economically developed countries (MEDCs) are able to contribute in more ways. They can expand their purchases across more countries by using decentralized means. In addition, by banks expanding their networks more towards digital currencies and looking at other digital alternatives, they can contribute. They can also invest their money and time towards researching new alternatives that can be used worldwide and therefore bridging the technology gap between LEDCs and MEDCs.

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