

A Study of Impact of Digitalization on Financial Sector

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Abstract

The Covid-19 epidemic has hastened the transformation of finance sector. The financial landscape is altering even more as a result of technological development (AI, Block-chain, Chatbolt etc.) a shift towards sustainable goals, and as increase in investment in innovation. Keeping up with emerging financial theories, models and trends may be challenging, even for financial experts at the top of their game.

This chapter emphasis on how digitalization or new innovative technologies redefine the finance sector i.e. Emerging trends in Finance due to digitalization.

Key-Words: Digitalization, Finance, Fin Tech, Emerging trends.

Introduction

The world of finance is changing dramatically moving more quickly than ever, from Crypto to DeFi. The COVID-19 epidemic has hastened the transformation of financial services i.e. wealth management, lending, payments, insurance, and lending that is being wrought by Digitalization ((Yadgarov et al. 2019). Even if this is hurting financial services in many economies then to organizations and institutions are evaluating whether their present tools are the best ones to utilise moving forward and are thinking more strategically about digitalization. Financial Management as a field is seeing a massive and ongoing focus on digitalization and the use of new and emerging technologies to bring in operational efficiencies and promote outstanding customer experiences. The application of artificial intelligence, big data analytics, and machine learning to finance is revolutionising the field of finance.

The landscape of finance industry has also seen a significant transformation as result of digital trends, forcing organizations to modify how they operate and giving new impetus to seamless digital services.²

The development of digital identification systems, cybersecurity plans, and data protection by financial agencies and governments is crucial as the all nations migrate to a digital economy (Artemenko and Zenchenko 2021).

Digital Transformation of Finance pave the way towards Digital Economy

Digitalization of finance sector is no longer a technology upgrade but a key business growth policy. Customer expect the best in terms of simplicity, choice, and 24*7 instant service, in addition to industry trends. According to a survey conducted on online payments in India in 2020, 31 percent of the households stated that they had mobile banking apps in their smartphones. However, 32 percent of the households stated that they used digital payments in their everyday life¹.

About 22% of customers prefer and use net banking and mobile apps for all of their banking needs — 10 times or more per month.

The use of technology to reconstruct effective operational systems and processes within the finance industry without displacing existing systems is known as digital transformation of finance. Although firms must undergo digitally-led financial transformation, many financial institutions are still undergoing transition as a result of numerous obstacles.

With these changes in mind, followings are several emerging trends and opportunities, finance personnel should be aware of in order to be relevant and efficient workforce for any organization.

1. Emergence of Financial Technology: DeFi

An emerging Financial Technology Decentralized Finance (DeFi) which is based on secure distributed ledger Decentralized finance, or DeFi, uses emerging technology to remove third parties and centralized institutions from financial transactions. The components of DeFi are stable-coins, software, and hardware that enables the development of applications. The infrastructure for DeFi and its regulation are constantly evolving.

DeFi puts an end to the usage fees that banks and other financial institutions impose on customers. Anyone with an internet connection can use DeFi, and users can hold their money in a safe digital wallet and transfer money quickly.

Decentralized finance excludes middlemen by enabling individuals, merchants and businesses to conduct financial transactions using emerging technology. DeFi employs security protocols, connectivity, software and hardware advancements via peer-to-peer financial networks.³

2. Digital Finance & Digital Money: FinTech

Digital finance and digital money (DFDM) are the recent trends. In simple terms, 'Fin Tech', 'digital finance', or 'financial technology' all these terms refer to the use of technology to revolutionize and innovate the delivery of financial services. DFDM encompasses a slew of new financial products, financial businesses finance related software and new forms of customer communication and interaction, all of which are provided by Fin Tech firms and innovative financial service providers.

These Fin Tech companies use emerging technologies such as cloud computing, block chain, AI, machine learning and data analytics, and robotics to provide financial services at a lower cost and provide a better value proposition.

Many banks and traditional insurance companies are now facing competition from Fin Tech companies, which launch new products and services almost every month.

3. The Financial Services Industry Embraces Blockchain: Synonym for Cryptocurrency

A blockchain is a distributed database or ledger that is shared among computer network nodes. A blockchain, like a database, stores information electronically in digital format. Blockchains are best known for their critical role in cryptocurrency systems like Bitcoin, where they keep a secure and decentralized record of transactions. The blockchain's innovation is that it ensures the fidelity and security of a data and generates trust without the need for a trusted third party.

Another emerging trend is the growing number of corporations and consumers shifting to blockchain-based transactions and financial services, also known as cryptocurrency. The digital & virtual currency that is encrypted, making it nearly impossible to counterfeit or double-spend (spend more than once). Cryptocurrencies like Bitcoin, Ethereum, and Ripple, which are supported by blockchain technology, are gaining traction as business question the need for cash. A blockchain financial system could many opportunities for business growth. According to some analysis, global spending on blockchain solutions will reach \$1b billion on by 2023.

More banks are transitioning to cloud-based banking in 2023, and blockchain will no doubt play a role in this. For example:

- HSBC and Wells Fargo already use blockchain technology to settle forex trades.
- Paypal, Mastercard, and JP Morgan all allow users to make payments on their networks using blockchain currencies.
- This involves cryptocurrency, of course, but it shows banks' willingness to embrace blockchain.
- It's not just banks incorporating blockchain, either.
- AXA, the French multinational insurance company, uses blockchain technology when insuring clients against flight delays.
- An Ethereum blockchain then connects both the insurance contract and air traffic data.
- As soon as a flight is over two hours late, the system takes notices and automatically triggers the insurance payout.

It can also be used to handle peer-to-peer lending, an industry that could see a growth of up to \$150 billion by 2025.

As a result, future finance professionals will need to be familiar with cryptocurrency and blockchain technology.

4. Reporting and Data Analytics

Reporting is faster and more easily accessible with recent digital tools. Technological advances are enabling investors to gain real-time access to data, thanks to advanced analytics.

It's nothing new for financial businesses to use data analytics to help clients gain valuable insights, identify process improvements or help companies manage risk better. But now, companies can use artificial intelligence (AI) and machine learning (ML) capabilities to enable enhanced data to support more advanced analytics and data visualization tools to deliver insights in real time.

Because of this growing need for reporting, the demand for graduates with experience in data analytics will soar.

5. Digital & Mobile Banking: A New Normal

The future of finance is digital and mobile based. The increase in consumer demand for digital banking service has resulted in numerous technological advancements within financial institutions. The rise of banking as a service (Baas) promotes digital services, as more legacy banks open up their application programming interface (APIs) for Fin Tech and third-party app development. Digital and mobile banking will continue to grow in popularity, with activities ranging from budget queries to report production. Eventually smart agents will learn what kinds of business information an individual needs and deliver that information proactively. Over time, data in spreadsheets will be replaced by visually rich information that is accessible and easy to use.

6. The rise of finance apps: Digital Wallets

Mobile payment apps or digital wallets are typically app-based services that allow users to pay for things (for example, through contactless payments) and transfer money to others- are facilitating this new wave of digital money. What's really significant about this trend is that many of these apps and services provided by tech giants and digital native start-ups rather than traditional banks, such as Apple, Google, Samsung and PayPal. This new breed of Fin Tech providers,

powered by data and AI capabilities, is threatening the long established monopoly that traditional banks and financial service providers have over money & payments. Apps are also beginning to enter the world of unsecured lending, with services like Klarna, a buy-now-pay-later digital payment system popular with millennials. This again will take market share from high street banks and other lenders.⁴

New risks and challenges for Digital transformation in Finance Industry

Finance professionals will a plethora of new risks as a result of technology enabled finance industry, the most serious of which may be external security risks. As a result, they must be aware of, and constantly update themselves on, the risks and challenges posed by Fin Tech. With technology playing such an important role in finance industry, new risks and challenges are becoming more common. Regulatory bodies create new regulations on the fly to address and mitigate risks.

New legal regulations brought by Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development.

According to Chen Ku Te, following are the changes which has occurred during digital transformation of finance industry:⁵-

Biz-Tech Synergy: In developing, connecting and operating, the financial industry needs to break the traditional organizational boundaries to make business teams and technology teams highly coordinated and integrated to ensure the efficiency of digital operations.

Cost: During the transformation, the financial industry needs to ensure the production and operation of traditional systems, while promoting digital transformation. The cost will be high, which is why the key is to find efficient ways for the transformation and the iteration of old and new systems to control costs.

Strategy and Execution: Management teams need to develop clear and feasible strategies, and have the determination and ability to execute firmly. Strategic ambiguity and indecision are often the main reasons for the failure to achieve digital transformation.

Cloud Transformation: This transformation focuses on creating customer-centered products and services, innovative user experience and inventive business models. The success of cloud transformation is determined by the way micro services remould scenario services, the way big data platforms and AI are used, and the way data security and regulatory compliance are ensured, which are the key to realizing business agility.

Human Resource Portfolio: The portfolio indeed needs to be built through employee recruitment and training. For digital transformation, a majority of employees should be capable of digital design, operation and tools, including cloud computing, mobilization, big data, AI technology and user experience (UX) design. One of the main challenges is incorporating technology talents into business teams.

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